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Points of departure for shaping Hungary's international development policy

An approach from the perspective of multilateral development policy

It is a welcome fact that international development co-operation policy is no longer looked upon as being exclusively a government task in Hungary. Studies of high standard even in international comparison are now published which aim at completeness and throw a light on the problems associated with our (re)emerging donor status. Civil organisations and scientific circles alike identify themselves more and more with this topic (see, among others : Kiss, 2007; Paragi – Szent-Iványi – Vári, 2007). This essay is therefore not trying to present basic ideas, rather, it

- *intends to draw attention to the direct precedents of economic history and economics which even today determine international development policy;*
- *highlights the most characteristic current international trends of the subject area;*
- *wishes to present the problems confronting international development policy in Hungary, and where possible, attempts to offer possible answers based on international empirical evidence.*

This paper provides an overview of the current Hungarian implications of global and European development policy in the light of its most recent features and trends. When examining the interim fulfilment of international ODA (Official Development Aid) commitments, the perspectives (the chance of implementing the objectives) and the challenges (the tasks to be done for implementation) can be identified and they may serve as guidelines at global, regional and local level.

TRENDS AND TENDENCIES IN THE PAST

The first wave of the economic theory setting out the direction of economic development after World War Two regarded physical capital accumulation a factor of key importance from the 1940s until the early 1960s (Harrod-Domar-model, Lewis-model). In the historical phase to follow, the role of human capital was placed in the centre, while in the next period, from the beginning of the 1970s, the emphasis was laid on shaping the economic policy environment which had an impact on the volume of investments and dominated the production level of investments (Little, Scitovsky, Scott, Balassa, 1970). The "recipe" outlined in the 1980s and developed in the 1990s, later named as the Washington Consensus, attempted to summarise the conclusion of earlier debates which had a positive impact on economic development. During the collapse of the two-

* The views set out in this paper represent the opinion of the author and do not necessarily correspond to the official position of the Ministry of Finance. The manuscript was closed in January 2008.

pole world order, institutional development which has a dominant role in the shift towards market economy came into focus. Its importance was further reinforced by the symptoms of the decade's financial crisis (institutions built on wrong fundaments or malfunctioning institutions may undermine otherwise well-functioning policies). The Post-Washington economic era beginning at the millennium – now enriched with the experience of recent economic reforms – can also focus on development co-operation aimed at eradicating global poverty and at economic growth with a more balanced distribution than in the past.

Reflections on the Washington Consensus and the problems of its applicability

The term "Washington Consensus" was introduced by *John Williamson* in 1989, signifying at the outset a self-confident agreement[1] of the American Department of Finance, the IMF and the World Bank (i.e. the Washington-based institutions) on the framework conditions under which the economies of Latin-American countries can be reformed.[2] According to this concept, a change in the macro-economic environment will automatically create the conditions for effective allocation of resources, and as a result, long-term fast economic growth and well-functioning market economies can evolve. The financial crises in the 1990s have put an end to this apparently over-simplified distinction and compelled Washington policy makers – including the American-dominated Bretton Woods institutions – to conduct a re-examination. While the goal of the original Bretton Woods system was "to drive usurious money lenders from the temple of international finance" (State Intervention by Henry Morgenthau, published in 1944), the Washington Consensus meant, in economic policy terms, the triumph of the right-wing, conservative course in the policies of the Bretton Woods institutions which expressly advocated the reduced role of the state and the predominance of market conditions.

At the same time, the neo-liberal "consensus recipe", which worked very well in the United States, raised the question of how its applicability[3] can be tested in the developing and transitions economies of the world: South-East Asia, Africa, Latin-America as well as Central and Eastern Europe. *Stiglitz*' and *Soros's* conclusions (at least, in relation to the globalised international financial market) point in the same direction: if the laws of the market can prevail freely without any limitation and if there are no international regulations with institutional guarantees, then the rules of market competition cannot function, and this may destruct the global capitalist system. While in the United States, from the end of World War Two right until the monetarist and free trade policies gaining ground, domestic (national) markets[4] were supported by protectionist economic policy in respect of commodity exchanges and money markets, transition economies – including Central and Eastern Europe – and developing countries were practically prompted to adopt the neo-liberal economic policy with "immediate effect", without economic transition. In one of his presentations in Geneva in 1999, Stiglitz spoke about a sort of "double standard" according to which rich countries that advocate capital liberalisation are using protectionist measures (with almost full employment level and with an appropriate social safety net) to help their citizens who are adversely affected by globalisation (Stiglitz, 1999).

The financial crises of the 1980s and 1990s in Latin-America, Mexico, South-East Asia, Russia, Brazil as well as the high level of indebtedness in the world's developing countries have directed attention to the sustainability problem of the economic policy instruments applied so far and triggered a clear re-assessment by the international institutions which have a role in shaping policies worldwide. It has become clear that the Post-Washington Consensus (Stiglitz, 1998; Burki – Perry, 1998), launched around 1998, beyond the reforms set out in the original consensus, was trying to identify the steps that eliminate or at least mitigate vulnerability and add to the set of development policy instruments, i.e. reduce global poverty. According to the criticism voiced, instead of an adjustment triggered by external pressure leading to high indebtedness, it is essential that the given country should be an active player in shaping the processes *(ownership)* and civil organisations and the society should be involved in shaping the changes *(partnership)*.[5] The essence of criticisms against the Washington Consensus can be summarised, in brief, as follows: they all highlight the absence of institutional-social dimensions.

Renewing the financial architecture

The financial crises affecting several regions of the world in recent years have evidently raised the active role of US policy makers, as a result of which an additional funding of USD 18 billion was approved for IMF in November 1998. Contemporaneously, the Congress has set up the Advisory Commission to examine the future role of international financial institutions. The recommendations of the report,[6] issued by the Commission functioning under the chairmanship of *Allan H. Meltzer* over six months until March 2000 according to the rules of the American Department of Finance, dominated in the past period the further rethinking of the financial architecture.

It is a matter of fact that the volume of private credits and capital investments is continuously on the rise, and the set of goals to be accomplished by multilateral financial institutions is broadening, and yet there is a huge gap between the renewed commitments aimed at poverty reduction and the actual results. The proposals, without exception, stress the necessity of changes towards effectiveness and cost reduction, accountability and transparency, and emphasise the need to eliminate urgently the existing overlaps and duplications in responsibilities.

Since its foundation, the IMF has become the long-term lender to developing and transitions economies from a provider of short-term resources to finance balance of payment deficits under pegged exchange rates. The main motive for setting up the World Bank has been to provide sufficient funds for reconstruction and to finance the economies of the developing world with guarantees of the member countries – instead of and in addition to private resources which seemed insufficient at the time. The development of financial and capital markets that accompanies globalisation has however multiplied the resources provided by the private sector and also made them cheaper.

By considering the lessons of the financial crises in the 1980s and 1990s and by assessing the initial institutional goals (global economic growth, political stability, poverty reduction in the developing world), the Meltzer Report comes to the conclusion that the Bretton Woods-i institutions

- fail to devote enough attention to developing the financial markets of developing countries;
- their short-term crisis management techniques are too costly;
- are slow in formulating their crisis resolution policies;
- their recommendations are often wrong;
- their influencing capacity relating to the policy to be applied and to implementation is yet to be improved.

The Commission's recommendation sets out that the IMF should continue its crisis management activity within well-defined and distinct competence, in accordance with new rules enhancing the safety and reliability of the member countries' financial systems. The World Bank and the other multilateral development institutions should focus on the quality of poverty reduction and development policies rather than on lending measured by volume. The main reason behind that is: the terms laid down at the time of its foundation have changed to a great extent as the former large borrowing countries (such as China, Mexico, Brazil, etc.) are now capable of raising funds even at the capital markets. The bank's former significant role in the brokerage of funds has thus considerably diminished, and in order to avoid impacts acting against the market the bank should shift its lending activity to areas in which the competitive sector is inactive and in which it can promote its products by offering lower rates. After drawing the lessons of the financial crises, the Bretton Woods institutions laid down the structure of the renewed financial system on the following three pillars:

- prevention;
- response (crisis management);
- safety (social) net.

THE PRESENTDAY INTERNATIONAL DEVELOPMENT POLICY

The well-defined objectives of development policy were drafted by 199 countries of the world, in 2000, in New York, under the auspices of the UN, with the title of Millennium Development Goals (MDG). The commitments of the countries concerned were reaffirmed in Doha in 2001 and in Monterrey in 2002. The Monterrey Consensus aims at cooperation among the states, the market stakeholders, the industrialised and developing countries and the multilateral institutions.

The novel elements and mechanisms of the Bretton Woods institutional systems are expected to be applied in order to resolve the potential crises affecting mankind as a whole:

- by 2025, the total population of the world will increase by an additional 3 billion;
- by 2030, the number of people living in cities is expected to show a threefold increase;
- by 2025, 2 billion people are expected to face a permanent shortage of drinking water;
- by 2030, food production is expected to double.

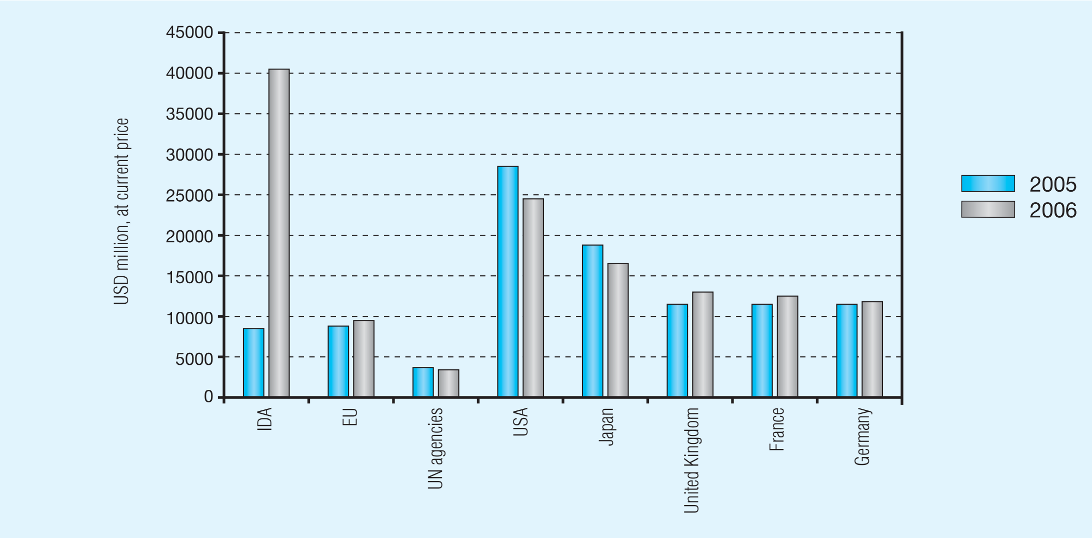
The role of the Bretton Woods institutions in development policy

Although no clear consensus has been reached so far about the effects of the operation of the Bretton Woods institutions, the view can perhaps be shared that, due to their supranational nature, the institutions are, in principle, capable of responding to the impacts of globalisation. *(See Chart 1)*

In an ideal case, this response would naturally mitigate, perhaps prevent the unfavourable impacts, and reinforce and promote the positive ones. It cannot be disputed that the IMF and the World Bank may be a tool for managing the unfavourable impacts of globalisation.[7] It is however an open question whether the world will lose these tools in the fight against poverty – an unfortunate "side effect" of globalisation – when providing an uncertain commitment framework for institutions in connection with the cancellation of full multilateral debts. The question may be raised whether the issue is that operations supported by legally unenforceable letters of intent are meant to gradually weaken the bank-like operation of the institutions and to create an institution similar to the UN aid agencies with a profile to be defined later (Mallaby, 2005).

Chart 1

THE WORLD'S MAJOR CONCESSIONAL AID PROVIDERS (GROSS)



Source: OECD DAC-database

By overviewing the World Bank Group's bank-like operation it can be seen that it is principally involved in two types of lending activity. It performs commercial-type lending activity *(commercial window)* within traditional frameworks (its institutions include the International Bank for Reconstruction and Development and the International Finance Corporation), i.e. (due to its excellent credit rating) it can obtain funds from savings of the international capital markets at a very low rate, which it can use for further lending with an appropriate premium to medium-income countries or to their enterprises (for example, China, India, Turkey, emerging economies, etc.). The objective of subsidised outsourcing of funds *(subsidized/soft window)* is to guarantee the financial and capital positions of the International Development Association (IDA) by using a permanent fund regularly replenished by the developed nations, a fund which offers credit or financial aid on favourable terms to developing countries. The administrative costs of the bank are covered by the premiums and fees charged for commercial-type and subsidised credits as well as by the income on invested capital.

Debt cancellations

The governments of donor countries are often criticised that the figures concerning the actual amounts of funding for official development aid are often manipulated, magnified and inflated by various techniques (Concord, 2007; Kiss, 2007). One way of doing this – according to the critics – is to account for debt cancellations as ODA. In the author's view, this criticism can be challenged here because, on the one part, the expenditures allocated to debt cancellations as real transfer of funds are recorded as actual and additional budgetary expenditure in the budget of donor countries and, on the other, they make it possible for the recipient country's economy to develop under healthy conditions.[8]

The first initiative to restructure the debt stock of developing countries was in the case of Argentina, more than 50 years ago. Bilateral negotiations began in 1956 within the framework of the Paris Club, specifically set up for this purpose. Debt relief mechanisms took a new form forty years later, in 1996, with the HIPC-Initiative,[9] launched by the IMF and the World Bank as well as by developed and industrial countries. The involvement of multilateral institutions created the opportunity to find a way out of the debt spiral by developing countries offering and implementing a viable and sustainable economic policy in return for debt relief. *(See Chart 2)*

The Millennium Development Goals, drafted in 2000 under the auspices of the UN, provided a new framework for debt reduction policies which required new and effective actions from the developed countries and multilateral institutions. *(See Table 1)*

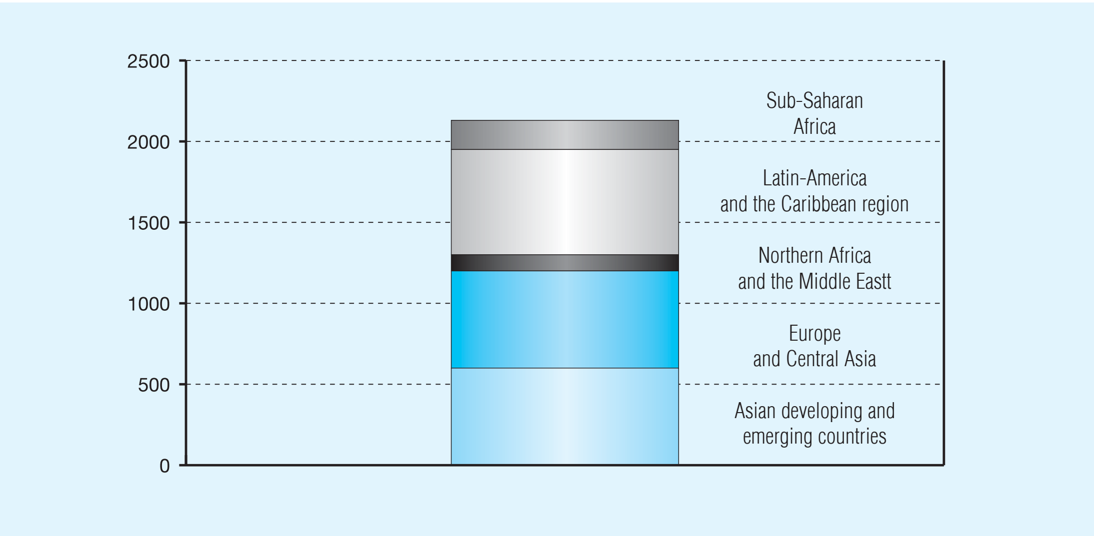
However, the failure of the developing countries to design and follow a development policy which enables them to repay their favourable debts represented a constant and growing concern within the framework of the above presented financial structure. As a temporary solution until 1996 – in fact, to hide the problem – new credits were approved in order to repay the old ones (debt spiral), and the bulk of the repayments was covered from the bilateral aid of developed countries *(hidden subsidy)*. In addition, the credit provider institution itself has also used its own resources to relax the debt burden of countries in need, financing it from its income coming (primarily) from (commercial-type) lending. (It should be noted that the costs of the basic replenishments needed due to increased funding requirements will finally end up again with developed donor countries.) As a matter of course, this mechanism could not work as an overall solution, so bowing to the requirements of civil organisations and to the growing anti-globalisation sentiments in the second half of the 1990s, the HIPC Initiative was launched in 1996 with the aim of granting debt reduction to developing countries and was complemented by bilateral and multilateral funding elements by the turn of the millennium.

At the tenth anniversary of the inception of the HIPC Initiative, at the initiative of G8

Chart 2

MEDIUM AND LONG-TERM DEBT STOCK OF DEVELOPING AND EMERGING COUNTRIES

(2004, USD billion)



Source: World Bank, Global Develpment Finance
(In: Conjuncture/Alby, Letilly, 2006)

Table 1

HIPC-COUNTRIES ELIGIBLE FOR DEBT CANCELLATION

(December 2007)

Eligible countries (22)	Conditionally eligible countries (19)[10]
Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Cameroon, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, Zambia	Afghanistan, Burundi, Comores, Chad, Cote d'Ivoire, Eritrea, Gambia, Guinea, Guinea-Bissau, Haiti, Kyrgyzstan, the Democratic Republic of the Congo, the Republic of the Congo, Central African Republic, Liberia, Nepal, Somalia, Sudan, Togo

Source: World Bank, IMF

countries, the total amount of multilateral debts of eligible developing countries, representing almost USD 57 billion, was cancelled vis-a-vis the World Bank, the IMF and the African Development Fund.[11] The IMF has decided to finance debt cancellation within its own authority with respect to countries whose per capita income is less than USD 380 per year, while the development banks required the authorisation of the member countries. In the case of IDA, an affiliate of the World Bank Group, the debt of developing countries eligible for debt reduction is cancelled[12] in order to make them capable of implementing the Millennium Development Goals through resources released in their economies. The amount of debt cancellation represented USD 37 billion when it was approved, the financing of which has been undertaken by developed donor countries within a timeframe of 40 years in the form of irrevocable commitments (for about 5–10 years) and partly conditional commitments (for about 10–40 years).[13] *(See Table 2)*

Risks

There are still a great deal of uncertainties concerning the HIPC Initiative with respect to the medium and long-term sustainability of the national debt stock: for instance, debt dynamics are affected in the long run by new investments which are designed to help reach the Millennium Goals and which, in the majority of cases, generate further debts (See also the section on emerging donors). *(See Table 3)*.

The main risk associated with debt reduction is (1) the conditional commitment from the perspective of the above outlined financing breakdown of the World Bank Group,

Table 2

EXTERNAL PUBLIC DEBT

(percentage of GDP)

Country	Before completion point	After completion point (year)	End 2004
Mozambique	149	102 (2001)	72
Ghana	98	75 (2004)	75
Uganda	65	59 (2000)	61
Benin	56	44 (2003)	43
Mali	90	75 (2003)	69

Source: Fitch (In: Conjuncture/Alby, Letilly, 2006)

Table 3

BREAKDOWN OF ODA IN OECD MEMBER COUNTRIES
(percent)

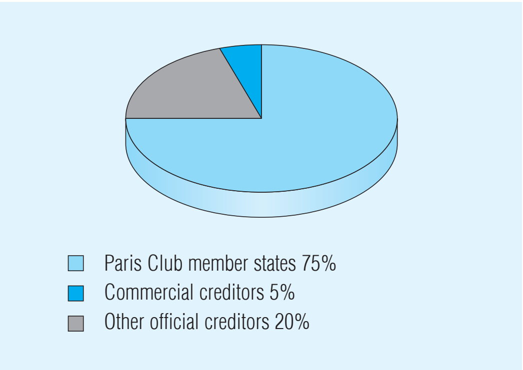
	1990–1996	1997–2000	2001–2004
Aid programme and project	79.0	72.4	57.2
Humanitarian aid and restructuring	4.1	6.7	9.1
Debt reduction	16.9	20.9	33.7

Source: OECD DAC-database (In: Conjuncture/Alby, Letilly, 2006)

financial sustainability and capital positions, which deserve special attention especially because the IDA plays a key role in development funding in terms of volumes and quality. A further element of uncertainty in the Initiative is whether (2) the amount allocated to financing debt cancellation will in actual fact represent additional funding in the overall development funding system or the increased expenditures of developed countries will be compensated by cutting other expenditures of similar purpose, thus endangering the achievement of the Millennium Goals. The problem can be well illustrated by the fact that the share of debt reduction costs within total ODA has doubled over the past period.[14] In addition to the above, (3) non-HIPC developing countries may request equal treatment which would require additional resources. The gradually increasing demand for the grant element in IDA's provision of aid[15] (4) may pose further risks for financial sustainability (see the section dealing with the recommendations of the Meltzer Report), which, in the long run, will also weaken the institution's financial independence and capability to obtain funds in the market, and it may operate more like the UN agencies. The bank-like operation is also directly influenced (5) by how the lending policy towards medium-income countries

Chart 3

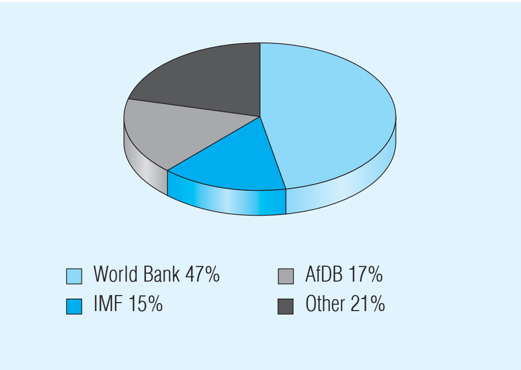
SHARE OF THE COSTS OF BILATERAL OFFICIAL AND PRIVATE CREDITORS ALLOCATED TO DEBT CANCELLATION
(2004, %, total USD 18,4 bn NPV)



Source: IMF, World Bank (In: Conjuncture/Alby, Letilly, 2006)

Chart 4

SHARE OF THE COSTS OF MULTILATERAL CREDITORS ALLOCATED TO DEBT CANCELLATION
(2004, %, total USD 19,9 bn NPV)



Source: IMF, World Bank (In: Conjuncture/Alby, Letilly, 2006) will be shaped (stagnation and reduction of credit volumes). *(See Charts 3 and 4)*

Complexities of aid architecture

The complexity of the official development aid system can be demonstrated by several terms. This paper will deal with the degree of donor coordination, the degree of aid effectiveness and the new initiatives aimed at enhancing co-operation.

Donor coordination

The introduction of the Poverty Reduction Strategy Paper (PRSP) by IMF in 1999 has been one of the first steps in declaring the necessity of donor coordination and its intensification in low-income countries. The document was based on the recognition that the positive impact of aid is the function of even aid flows (Bulíř – Hamann, 2007). To achieve that, it is necessary to strengthen the co-ordination among donors and to improve the design and implementation of financial aid programmes. However, the empirical analyses based on processing the statistical figures between 2000–2003 did not support the expectations for fundamental changes. According to the analyses:

- compared to the analyses conducted in the late 1990s (Bulíř – Hamann, 2003), the volatility of aid grew at the beginning of the new decade;
- aid disbursement is pro-cyclical, i.e. it almost changes proportionately to the output and to the change of domestic income (it has no anti-cyclical effect);
- the information content of donors' long-term aid commitments has diminished, i.e. predictability has worsened *(See Chart 5)*.

As a result of all the above, the donor contributions received have not furthered sufficiently the elimination of macro-economic imbalances in low-income countries. Beyond the problem of predictability, it has been found that aid transfers show a declining tendency just when they would be most needed due to the absence of other resources and revenues.

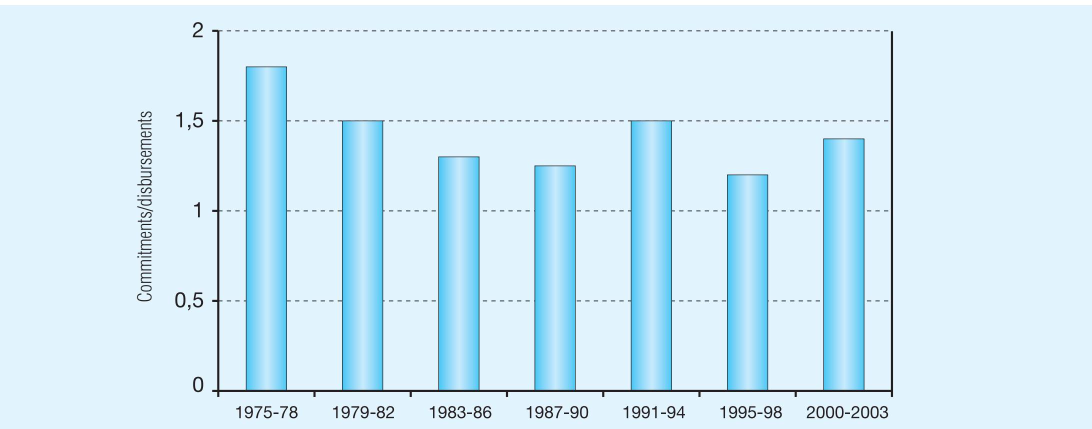
Aid effectiveness

The complexities of global aid architecture and its degree of effectiveness can basically be described by two terms: fragmentation and

Chart 5

DONORS' COMMITMENTS IN 76 LOW-INCOME COUNTRIES

(measured in USD/per capita, at constant price)



Source: Bulíř – Hamann, 2007

proliferation. Empirical tests (Knack – Rahman, 2004) have shown that the presence of many donors, each with a small share of aid (competing donors), has a negative effect on the administrative capacity of beneficiary countries, since donors are trying to maximise their own (project) results which does not necessarily contribute to raising and ensuring the funds needed for the given country's long-term development. This also means that the presence of dominant donor shares causes less damage to the public administration of the recipient country and has a more favourable impact on its operation. Therefore, there is room for further co-ordination and specialisation among donors. The latter can also be done at geographical or sectoral level, and there are already a number of positive examples to illustrate that: Japan's donor activity is more and more directed towards Eastern Asia and the Pacific region and towards infrastructure developments and economic sectors, while European donors concentrate their efforts on Africa and on social, governmental and human rights issues.

Aid intensity – or in other words, aid dependency (Montes, 2007) – is the value of official development aid as a percentage of GNI. Based on empirical tests, higher aid intensity is not necessarily accompanied by higher fragmentation (existing donors increase the amount of aid), the value of correlation between the two variables shows a very low rate over the 1982–2000 period. The empirical tests (Knack, 2001) have come to a surprising conclusion as regards the correlation between the index indicating aid intensity and bureaucratic quality. Based on a sample encompassing a period of 25 years, it was found that higher aid levels were associated with declines in the quality of governance (as measured by an index of corruption, rules of law and other variables), i.e. no evidence was found that higher aid levels automatically promoted democratisation. *(See Table 4)*

The need for donor coordination is well demonstrated by the survey of the World Bank conducted with the involvement of 34 recipient countries (Hall – Quesnel, 2007) analysing the number of individual and coordinated donor missions. The analysis shows that the number of donor missions per year per recipient country varies from about 80 to 800. In the surveyed period, the number of co-ordinated donor missions surpassed 25 per cent in two countries, while in another four a quarter of the missions surveyed was co-ordinated, whereas in 28 countries the proportion of co-ordinated missions was below 25 per cent.

New initiatives

The initiative aimed at enhancing aid effectiveness was signed in March 2005, in Paris, by 35 donor countries, 56 partner (recipient) countries, 26 multilateral donors and 14 civil society observers. The document adopted in Paris

Table 4

CORRELATIONS BETWEEN AID INTENSITY AND DONOR FRAGMENTATION

	1960-s	1970-s	1980-s	1990-s
Developing countries				
ODA/GNP, %	2.0	3.00	5.0	6.00
donor fragmentation	n.a.	0.56	n.a.	0.69
Sub-Saharan Africa				
ODA/GNP, %	3.0	7.50	11.2	15.30
donor fragmentation	n.a.	0.69	n.a.	0.83

Source: Knack – Rahman (2004)

(Paris Declaration) declared that beyond an increase in funds, there is also a need to enhance aid effectiveness. In view of this, 56 special commitments, targets and 12 indicators were put forward. The achievement of the indictors is from time to time assessed by the participating countries (donor and partner countries together). The Paris Declaration on aid effectiveness can be summarised by five key principles.

◗ *Ownership:* Recipient countries exercise leadership in drafting and implementing development policies and strategies. Strategies are determined within medium-term expenditure frameworks which are reflected in the annual budgets.

◗ *Alignment:* Donor countries align on recipient countries' strategies, adjust to certain country-specific systems and institutions.

◗ *Harmonization:* Donors harmonise their activities by increasing co-ordination and minimising various transaction costs.

◗ *Managing for Development Results:* Donors and partner countries adopt result-oriented techniques with the fundamental aim to ensure that developing countries really benefit from the aid provided. Ongoing monitoring and assessment serve to measure the achievement or approximation of the set targets and desired results.

◗ *Mutual Accountability:* Donor and partner countries have joint responsibility in the utilisation of aid and in the accomplishment of results.

The effects of the Paris Declaration were first surveyed as early as 2006, the second year of its existence, with the participation of 34 countries. It can be established that significant efforts are yet to be made to improve the leadership of partner countries, as it was achieved only in one of every six countries. Approximately 40 per cent of the donor countries use their own public finance management (PFM) and procurement systems to receive international aid. A prerequisite of improving the situation is that the recipient country should exercise effective leadership over the formulation and implementation of their development strategies. The number of programme and project implementation units (PIUs) is extremely high (more than 1800, an average 61 per country, and above 100 in four countries).

The analysis brought relatively good results in harmonisation for about 43 per cent of the aid is programme-based, of which 19 per cent was allocated to recipients as budget support. It should be added that so far in only five of the surveyed countries does the proportion of programme-based aid exceed 50 per cent. Only 1750 of the 10 500 donor missions in recipient countries are co-ordinated (16 per cent). The results of country analytical work were more promising with almost 40 per cent being a joint initiative. With regard to result-orientation, data quality needs to be improved and feedback to be used more effectively in strategy and policy making. As far as accountability is concerned, 14 countries have a mutual framework for managing responsibilities.

The first official survey of the results of the Paris Declaration will take place in 2008, in Accra, capital of the Republic of Ghana, with the participation of donor and partner countries. *(See Table 5)* The first informal survey makes it clear that the results need to be improved by donors, first of all, in the following main areas:

- providing program-based and untied aid more and more through using the partners' budgets, and increased and more effective utilisation of the recipient countries' systems and capacities;
- improving aid transparency and predictability;
- enhancing division of labour and co-operation among donors, reducing the number of programme and project implementation units, joint initiatives.

Table 5

FIRST SURVEY OF THE RESULTS OF THE PARIS DECLARATION (2006)

Indicator	Global baselines 2005 Averages	Minimum and maximum ranges	2010 target
OWNERSHIP			
Ownership	17% of countries meeting creteria	–	At least 75%
ALIGNMENT			
Quality of the PFM systems	31%	–	50% increases their scores
Quality of the public procurement systems	n.a.	–	Art least one-third increases their scores
Aid reported on budget	88%	0–99%	94%
Coordinated capacity development, TA	**47%**	3–95%	50%
Use of country PFM systems	**39%**	2–67%	80%, or a one-third reduction of the amounts used in non-country specific system
Use of country procurement systems	39%	2–64%	80%
Parallel implementation units	**1828**	–	609
In-year predictability	**73%**	0–96%	87%, or cut by half aid not disbursed on schedule
HARMONISATION			
United aid	75%	16–99%	Above 75%
Use of program-based approaches	**43%**	5–61%	66%
Coordinated missions	**16%**	3–38%	40%
Coordinated country analytic work	**40%**	15–75%	66%
MANAGING FOR RESULTS			
Sound performance assessment framework	7%	–	38%
MUTUAL ACCOUNTABILITY			
Mutual accountablitiy	38%	–	100%

Source: Hall – Quesnel, 2007

From the perspective of partner countries efforts should be directed at the following areas:

- strengthening leadership in formulating development policies with greater involvement of the society and representation organisations;
- more effectively integrating development concepts into national budgets.

For new donor countries the implementation of the principals of the Paris Declaration through improving aid effectiveness may mean the following in bilateral context:

- a place for influencing strategies within the framework of partner country-based dialogues ;
- greater mobilising effect through joint participation with other donors in program-based financing;
- clear objectives based on recipient countries' priorities;
- strong geographical and sectoral concentration which also helps keep transaction costs under control;
- strong staff expertise and interest of partnership;
- increased use of monitoring, feedback and independent assessments.

Emerging donors, fight for Africa

As a result of the increased choice of donors, low-income countries can choose from more financing channels. Although on the basis on the statistical figures, the proportion of OECD DAC *(Development Assistance Committee)* members countries continues to remain high within to total ODA, the emergence of new donor countries carries a significant risk in terms the integrity of the established assistance systems. The main risks are:

- deterioration of the country's debt structure and prospects in case of raising funds under inappropriate terms;
- soft aid terms, i.e. the recipient country is not bound to carry out the otherwise necessary adjustments;
- wasting resources on implementing unproductive capital projects.

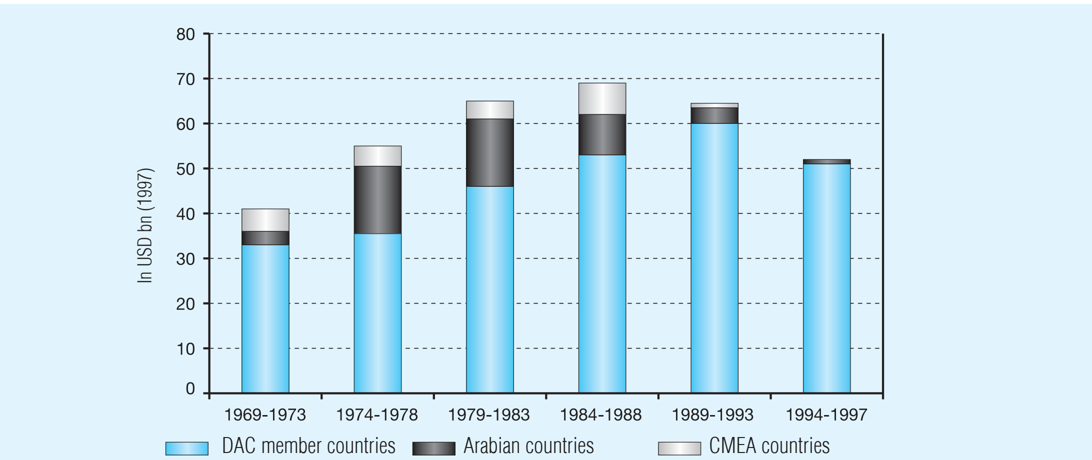
Based on the above, it is of utmost importance for DAC member countries and other bilateral donors to conduct constructive dialogues. As shown on *Chart 6*, the DAC comprising traditional donor countries had an almost 90 per cent share, on average, in the amount of net ODA flows over two decades from the 1960s, and by the end of the last decade it further increased this proportion to a level of about 95 per cent. In nominal terms, development aid amounting to nearly USD 52 billion at the turn of the century was in four years doubled by OECD DAC member countries to a sum of USD 104 billion . More than half of the aid resources are provided by DAC EU members, representing an average 0.11 per cent difference per year since 1989 in the proportion of economic performance capacity in favour of EU DAC members. It is yet to be seen what impact the emerging donor groups will have on the system of assistance and how it will influence the situation of developing countries.

Non-DAC donor countries are classified into four groups.

❶ OECD member countries that are not part of DAC (for instance, Turkey, Korea, Mexico, Czech Republic, Hungary, Poland, Slovakia) are expected to at least double their official development aid provided in the middle of the decade, and thus the overall amount will have exceeded USD 1 billion by the end of the decade. In 2005, EU members of the group committed to try to reach a GNI share of 0.17 per cent by 2010 and 0.33 per cent by 2015.

Chart 6

NET ODA BY MAIN DONOR GROUPS, 1969–1997



Source: Manning, 2006

❷ EU member countries that are not part of OECD have also undertaken to meets their 2010 and 2015 commitments.

❸ Middle-East and OPEC countries and their funds. It was basically the oil revenues that have made it possible for countries of the region to become donors. The donor group has provided USD 2–3 billion in aid over the recent period with Saudi-Arabia being the largest provider.

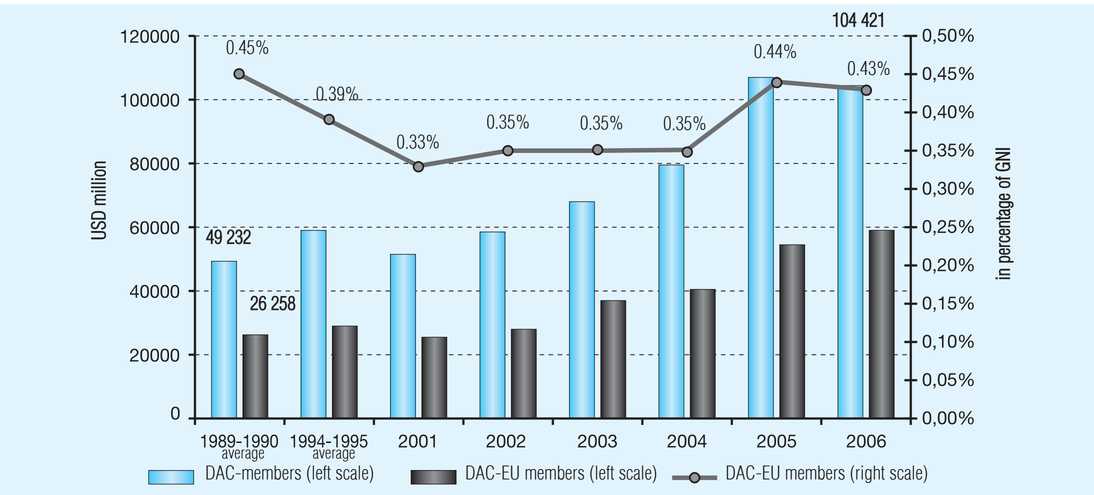
❹ Other donor countries that are not part of OECD (Brazil, India, China, Russia, Venezuela, Chile, Southern Africa, Malaysia, Thailand, etc.).

The DAC rules practically represent examples and references to be followed by the members of the first two groups. There is some more time needed by these countries to carry out certain recommendations, including the tied aid terms and the reform of technical co-operation forms tied to investments to meet the conditions of membership. These country groupings practically meet the spirit of the Paris Declaration which put forward the "norms of conduct" for donor countries and the harmonisation and coordination tasks, and shape the various forms of co-operation accordingly. Country priorities are mainly targeted at the Balkans and the region of the Soviet successor states. The third donor group consists of countries with strong cohesion which even surpass DAC members in terms of harmonisation. In addition, these countries – in most cases – also satisfy the untied aid terms. A large part of their resources are provided in the form of credits, mainly targeted at the Muslim world and Africa. The dividing line starts with the difference in interpretation of the official development assistance (group 4) between OECD DAC member countries and countries that are not part of OECD DAC but accept the guidelines to a great extent and other, non-OECD members. *(See Chart 7)*

As a consequence of China's agreement with some African and Latin-American countries, in return for the loans provided to them, China may gradually raise claim to the above-mentioned countries' raw material stock and energy carriers. To illustrate how the donor and partner country role has changed we can quote the example of China as an emerging donor or the

Chart 7

NET ODA-CONTRIBUTIONS OF DAC-MEMBERS (1989–2006)



Source: OECD DAC database

developing countries' utilisation, at relatively low costs, of international market resources that are free from development policy commitments (for instance, Ghana issued bonds in the amount of USD 500 million in 2007). An important component in the realignment of the global power structure is Africa, which is becoming one of the major strategic areas and also the subject of some kind of "re-colonisation", basically due to the following reasons (Szerencsi, 2008):

- 10 per cent of the world's oil resources are to be found in Africa;
- the amount of exploited crude oil is expected to double in the coming 20 years;
- beyond oil, the continent has huge copper, iron ore and natural gas deposits.

China pursues a very active donor activity in Africa, being present in 50 countries with nearly 700 enterprises, and thus it is Africa's second largest commercial partner and expected to become the number one investor in the continent's raw material market by 2010. One-third of China's raw material needs are supplied by Africa: China's state-run companies conclude long-term development agreements with African governments (keeping ideology and economic interest strictly separate).

Pursuant to the agreements, local mining companies exploit raw materials in exchange for which China builds hospitals, schools, roads and power plants. In addition to China and the Far-East, Russia is also very active in Africa and so is the United States. The European Union (whose member states were former colonisers of the continent) which took quite a long time to wake up to the realities suffers losses in the region: recently at the EU–Africa Summit in Lisbon, the representatives of Africa did not sign the economic partnership agreements on free trade, and thus compelling the EU to start new talks on possible wider concessions .

ABOUT THE CONTEXT OF HUNGARY'S INTERNATIONAL DEVELOPMENT POLICY

Our participation in the international development policy

International development policy is preceded by events in Hungary in the years before the change of the political system, when international assistance was provided mainly on political and ideological grounds (our total bilateral debt cancellations today represent the deletion of the loans granted to friendly nations before the political changes). Apart from this, since 1985, we have contributed almost HUF 10 billion (approximately USD 50 million) to assist developing countries through multilateral channels, via the World Bank Group (IDA). Since 2000, we have been taking part in the multilateral trust fund of an initiative launched by the IMF and the World Bank in support of the world's heavily indebted poor countries (HIPC): we deposited nearly HUF 2.5 billion (approximately in the value of 9 million SDR) at the IMF until 2018, the interest of which will be used by the IMF for aid purposes. We joined the bilateral initiative of the HIPC aid programme in 2001, under which we committed ourselves, first, to a 90 per cent debt cancellation vis-a-vis the countries concerned and, then from 2004, to a total debt cancellation in accordance with the initiative of the European Union.

The management system of Hungary's international development co-operation policy is decentralised (resources are allocated in the budgets of ministries by sectors) co-ordinated by the foreign minister. The co-ordination, institutionalised since 2003, is done through inter-departmental and governmental committees, expert working groups and a social advisory body. The operational principles of our international development policy is in conformity with the OECD DAC guidelines, and data supply enabling even international comparison is according to the DAC criteria.

International development co-operation is a Community policy with shared competencies in the European Union, and thus Hungary's international development co-operation policy – taking also account of domestic interests – is in conformity with the EU's strategic objectives.[16] With our accession to the European Union, we have also made a political commitment to assist developing countries. The new member states' commitment is conditional for they strive to reach the targeted proportion in conformity with the budgetary capacities of the individual countries to accept further burden. Moreover, the new members are also confronted with significant capacity problems beyond the substantial budget burden when trying to ensure the existing growth rate of funds allocated to development financing. In other words, beyond increasing financial resources, it is necessary to widen the system and human capacities in order to increase aid effectiveness. The selection of effective structures requires regular evaluation, and (re)emerging donors must decide on the selection of aid channels (the share of bilateral and multilateral channels). *(See Table 6)*

Looking at the practice of some European countries

International comparison can serve as a tool to compare our relative position with the position of similar (re)emerging donor countries and to examine the practice of the old EU and DAC member countries which can offer guidance in medium and long-term strategic issues. International experience may help fine-tune certain stereotypes and summary opinions.

Institutional and legal frameworks in the Visegrád countries and Slovenia

The study of the institutional and legal frameworks of international development policy in the Visegrád countries and Slovenia provides an appropriate basis for making a synthesis of the different experience and for drawing lessons.[17] The main considerations in shaping the international development policy in the above-mentioned countries can be summarised as follows.

- Czech Republic: a draft bill on international co-operation development policy has already been drawn up. It intends to set up an agency, largely independent of the Ministry of Foreign Affairs, with the principal aim of efficiently co-ordinating the international co-operation development policy activities conducted by various ministries at present;
- Poland: the drafting of a bill on international co-operation development policy is under way, envisaging the model of an agency delegated under the Ministry of Foreign Affairs. The act would outline the legal framework of the implementation of long-term commitments and ODA-objectives;
- Slovakia: first, decision was taken on creating an independent agency (from 1 January

Table 6

EU POLITICAL COMMITMENTS FOR ODA IN PERCENTAGE OF GNI

(per cent)

	2010	2015
EU-15	0.51	0.70
EU-12	0.17	0.33
EU	0.56	0.70

Source: Council of the European Union, 2005

2007), while the bill on international co-operation development policy is being drafted. An interesting feature of the system is the parallel operation, in 2007, of the new implementation agency and the organisations which had been responsible for the same function up to that point;

◗ Slovenia: a short and concise framework law on international co-operation development policy has already been adopted, but an interdepartmental expert group is also working on the further refining of the international co-operation development policy strategy, among others, on determining under what institutional framework should programmes be administered;

◗ Hungary: there is an implementation agency, which is selected through tendering in every three year. The current legal framework is suitable for fulfilling the international co-operation development policy tasks, but if decision is taken on the adoption of a separate act on international co-operation development policy, then it will be done with the wide participation of civil organisations.

It is worthwhile to devote attention to the issues related to the necessity and the level of regulation as well as to the possibilities of delegating decision-making. The following aspects deserve to be considered.

❶ Necessity of regulation:

- laying down principles, clarifying the issues of transparency, effectiveness and accountability;
- documenting compliance with international commitments.

❷ Flexibility and the level of regulation:

- the regulation must be sufficiently flexible in order that the system could respond to unforeseeable details of implementation or to new challenges;
- it can be provided at high level (framework law): underlying development policy objectives, responsibility, comprehensive co-ordination issues, the co-operation forms of governmental, civil and business players;
- flexibility is important (lower-level legal provision, the level of strategic papers): regional, sectoral priorities, proportions, the shares of multilateral and bilateral funding, change of ODA/GNI within an appropriate time horizon.

❸ Delegation of decision-making: it is advisable to develop it by taking account of the principle of subsidiarity, and where fast response is possible or essential, at the level of the ODA-authority or a formal committee *(Steering Committee)*. Only principle policy-shaping decisions should be taken at the highest level.

❹ The process of concluding contracts, the questions of public procurement: in general, the civil sector draws attention to the necessity of a regulation specialised in a specific ODA activity based on certain exceptions.

The Visegrád countries and Slovenia have already elaborated their systems of international co-operation development policy in accordance with international experience and expectations, and are continuously improving it. These endeavours are similar from many aspects (the need to develop a new structure and legal background), and the countries surveyed are facing similar problems and difficulties in the course of shaping their systems. At the same time, somewhat different solutions are adopted or will adopted in each new EU member state, by taking account of their own interests and the already established institutional systems.

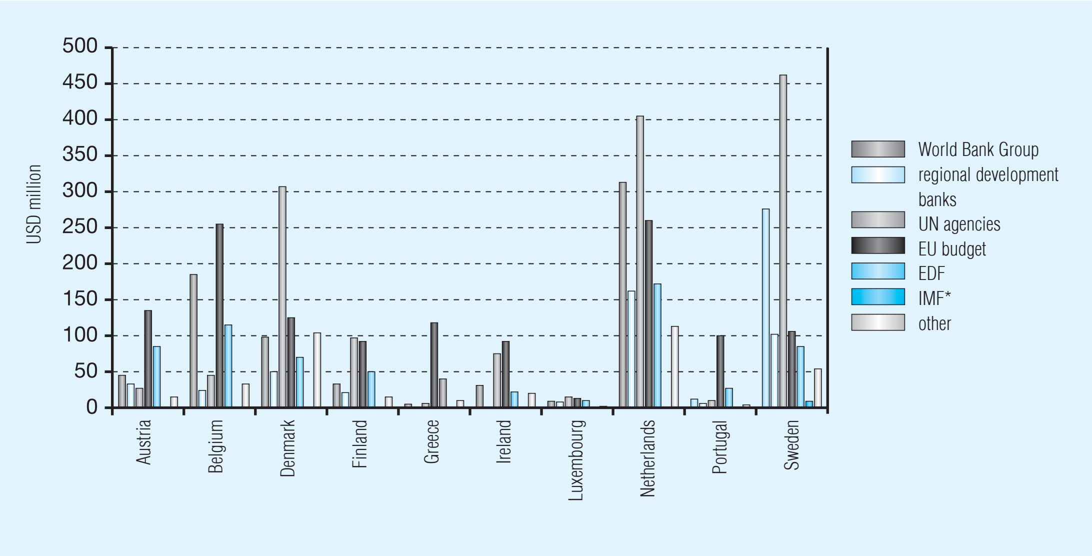
The example of some EU member states in the sphere of multilateral organisations

In respect of the USD 17 billion multilateral ODA contributions provided by the EU-15 in 2005, the amount received by the EU-budget for development policy purposes accounts for

Chart 8

THE PATTERN OF MULTILATERAL ODA CONTRIBUTIONS IN 10 EU MEMBERS STATES

(2005)



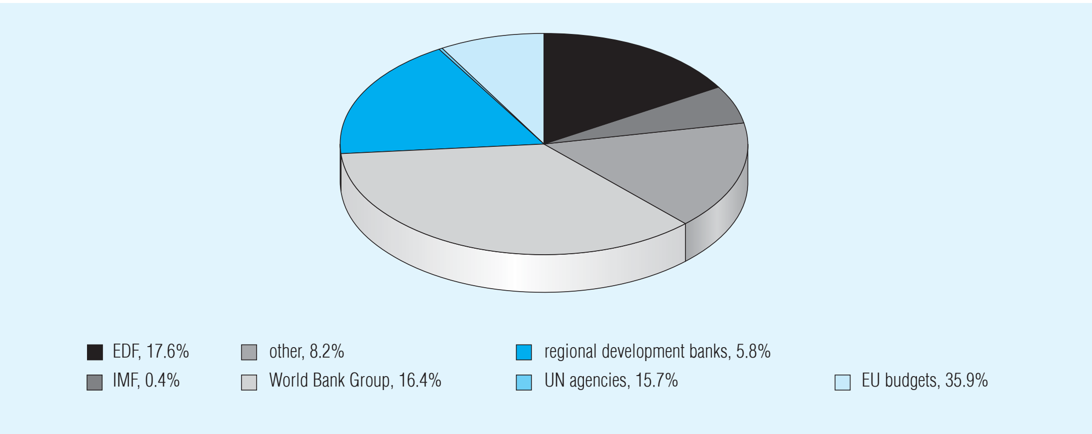
*IMF PRGF, PRGF-HIPC Trust

Source: OECD DAC database

Chart 9

THE DISTRIBUTION OF MULTILATERAL EXPENDITURES IN THE EU-15

(2005)



Source: OECD DAC database

the largest item, followed by EDF contributions, then by the contributions made to the World Bank Group (the dominant part of which comes from IDA replenishments) and the last in the row is transfers made to UN agencies. *(See Charts 8 and 9)*

By looking at the details of the 2005 data, we can see that while Germany, France, Italy and the United Kingdom are the major fund providers of the EU joint development policy, Sweden, Netherlands, Denmark and Finland give preference to UN agencies. In case of

Table 7

SELECTED EUROPEAN COMPARISON ABOUT ODA DATA, 2006

Country	ODA in percentage of GNI	Amount of Oda, in USD million	Number of target countries	Share of multilateral contributions in total ODA, %
Austria	0.48	1 513	14	27.0
Belgium	0.50	1 968	18	34.0
Czech Republic	0.11	135	8	52.0
Luxembourg	0.89	291	11	23.0
Hungary	0.13	114	16	61.0
Sweden	1.03	3 967	60	28.0
Slovakia	0.10	60	16	52.0[18]
Slovenia	0.10	39	6	80.0
EU-15	0.43			
EU-10	0.10			

Source: OECD DAC-database, Czech Ministry of Finance, 2007

Italy, the United Kingdom, Belgium and Sweden, the World Bank Group is placed second, while as regards countries that provide smaller multilateral contributions, such as Austria, Greece and Portugal, transfers to the World Bank Group come after contributions to the EU and EDF. *(See Table 7)*

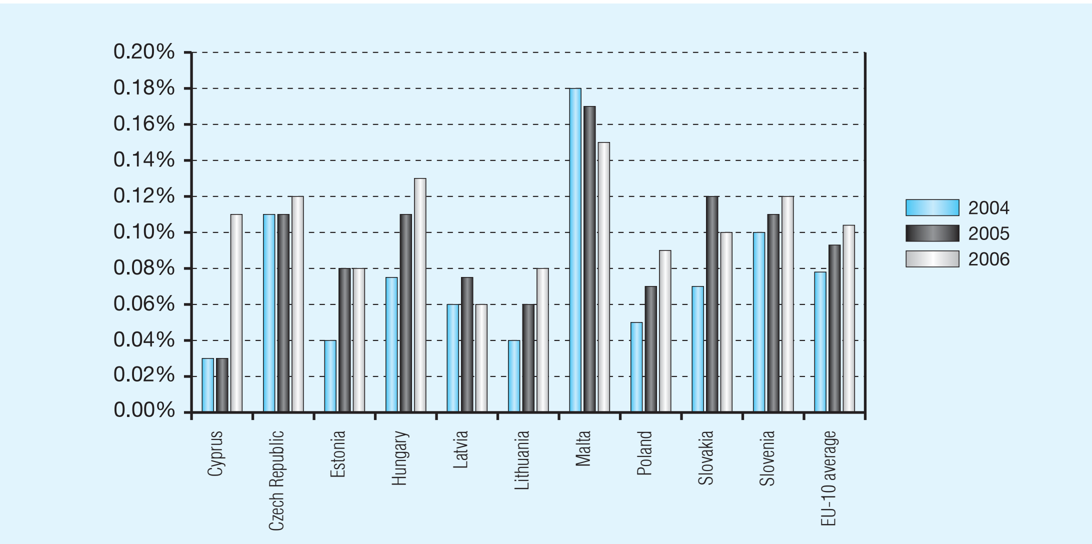
Assessment of Hungary's international development co-operation in the light of international experience

Financial size of aid commitments

The first and most important question is: how far did we get with our international political

Chart 10

ODA CONTRIBUTIONS OF COUNTRIES JOINING THE EU IN 2004 AS A PERCENTAGE OF GNI
(2004–2006)



Source: OECD, 2007; CONCORD, 2007

commitments for official development aid. It is at this area where criticism is most often addressed to the decision-makers and policy-makers of Hungarian donor activities. To sum it up, it may be stated that the prospects are not all that bad. Let us take a closer look at what our optimistic approach is based on. *(See Chart 10)*

The analyses indicate that in the reference period 2004–2006 Hungary showed a gradually rising trend in its contribution as a percentage of GNI, equalling to the EU-10 average consistently or reaching a higher level. We have therefore no reason to be ashamed of about the results accomplished in the period since our EU-accession. The real question is what will come after that and whether our political commitments set out in line with international expectations can be met, i.e. a level of 0.17 per cent ODA/GNI by 2010 and its double, 0.33 per cent ODA/GNI by 2015? If – based on the 2007 financial commitments (totalling about HUF 20 billion) – we attempt to calculate in advance the commitments for 2010, we find that 1.5 fold ODA contributions will have to be added by 2010 to the present predictable commitments. The next date of "calling to account" thereafter will be 2015, when we should deliver almost five-fold (!) of the present expectations in order to comply with our commitments *(See Chart 11)*

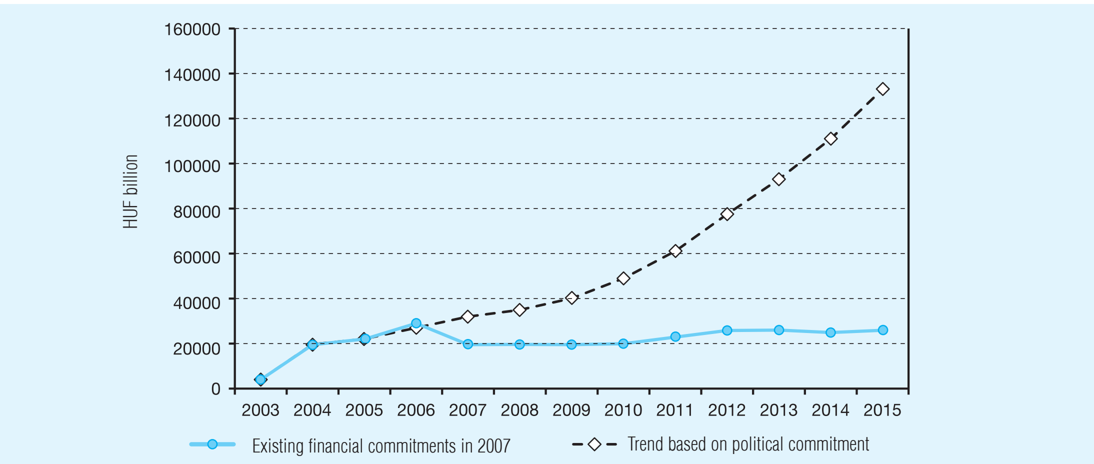
The debate over the financial size of aid resources granted from taxpayers' money often manifests itself as the chicken-egg problem: the institutions responsible for implementing development programmes would prefer to manage more extensive funding, while the financial government lays the stress on the effective spending of the available funds and would make increased funds dependent on effectiveness. The quantitative – and the associated effectiveness – challenges confronting Hungary's international development policy would however require a more complex structural change which means among others that Hungarian economic interests and expert opinion are better taken into account. This necessitates the formulation of a well-founded strategy.

Conceptional issues

What seems certain is that it would be practical to complement the present institutional and decision-making system with a new strategy

Chart 11

OFFICIAL DEVELOPMENT AID PROVIDED BY HUNGARY AND INTERNATIONAL EXPECTATIONS



Source: the author's calculation

containing a new and realistic set of targets and instruments, based on which the different players of the domestic international development policy will know exactly what their task is and will be aware of what they should do to use the available funds effectively. The implementation of the strategy will have to be monitored on a continuous basis and adequate mechanisms need to be built in for the adjustments that will become necessary during that time. This author believes that the problem does not arise as a codification issue (the need for an act on international co-operation development policy), rather, the task would be to elaborate a strategy that is realistic and accountable based on a consensus of the governmental, civil and business spheres. The codification would give the set of instruments for the strategy, i.e. scheduling, available resources and other necessary regulators are as a matter of course linked to the strategic framework at the regulatory level where necessary. It is crucial that the implementation of the strategy should be in the centre, its execution should be carried out in a decentralised way at different decision-making levels and the required adjustments could be made rapidly and within a flexibly framework.

Aid quality and effectiveness

In addition to one-sided demand for increased aid resources, effectiveness, the quality and predictability of aid should also be borne in mind (see the section on donor coordination and aid effectiveness). Donor activities pursued in bilateral context are of high priority, and when selecting multilateral donor funds and channels the possible highest concentration should be achieved for the financed sectors, countries and regions. There is a need in this area for a more extensive involvement of civil organisations which have international experience.

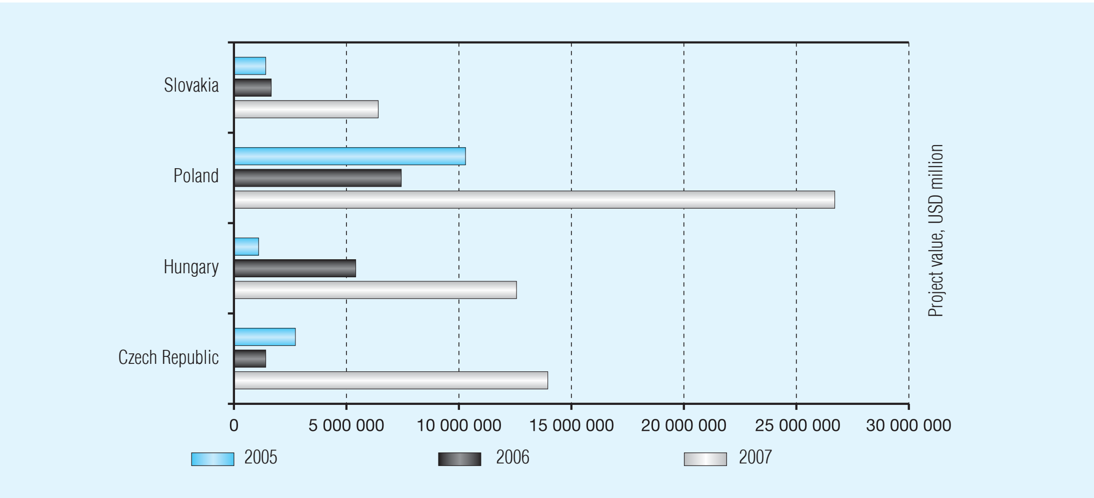
Morality versus economic interests

The question comes up whether it is a heresy if the economic interests of donor countries are also taken account of in addition to (and not instead of!) the serious moral aspects of donor activity. Is it a mistake or sin if – similarly to the practice of other developed donor countries[19] (evidenced by facts even if they do not

Chart 12

WORLD BANK PROJECTS AWARDED TO THE VISEGRÁD COUNTRIES

(World Bank financial years 2005–2007)



Source: the author's calculation

Table 8

SHARE IN TENDERS BASED ON SIGNED CONTRACTS IN THE FINANCIAL YEARS OF THE WORLD BANK

(per cent)

	2000–2007		2007		2006
	100%=tenders of OECD-members	100%=total World Bank tenders	100%=total World Bank tenders	100%=tenders of OECD-members	World GDP share
Austria	3.53	0.900	1.365	4.59	0.67
Belgium	1.45	0.369	0.403	1.36	0.81
Czech Repulic	0.38	0.096	0.047	0.16	0.29
Hungary	0.40	0.102	0.019	0.06	0.23
Ireland	0.39	0.100	0.009	0.03	0.46
Poland	3.21	0.819	0.175	0.17	0.70
Porugal	0.84	0.214	0.135	0.46	0.40
Slovakia	0.12	0.032	0.024	0.08	0.11

Source: World Bank

shout it from the roof-top) – the state, which uses taxpayers' money for doing good, also pays attention to stimulating the domestic business community to participate in donor-funded investments. This author is of the firm opinion that this is not a sin; rather, it is a topic that may give further impetus and ground for the necessary increase of aid. In actual fact, the success of Hungarian international development policy may depend on that.

There is international practice for the proper management of situations of conflicting interests (morality-based aid versus business considerations). The example of Germany or Austria deserves special attention as a possible model,[20] where development banks with international development policy mandate perform financing activity aligned to the Millennium Goals, but at the same time helping domestic business enterprises to enter international markets.

Table 8 and *Chart 12* show the prevalence of domestic economic interests and the participation level of Hungarian experts. According to the figures, in the period between 2000–2007, Hungary came second after Poland among the Visegrád countries in terms of the value of World Bank projects won though tendering (0.102 per cent of all World Bank tenders, which represents about half of what Portugal achieved during a similar period and a fraction higher than the result of Ireland). However, Hungary demonstrated a significant decline in 2007: the proportion in the previous financial year was just slightly higher than half of the result reached in the eight years surveyed. It is worth examining the achieved results on the basis of the different countries' share in world GDP: Austria (almost seven times higher value!), the share of Belgium and Portugal (experienced donor countries) in tenders won in 2007 exceeded their share in world GDP, while in the Visegrád countries the results were, to lesser or smaller degree, behind their relative weight in the world economy. In Hungary's case, this lag is nearly fourfold, namely, the involvement and performance of local enterprises and experts are yet to be improved.

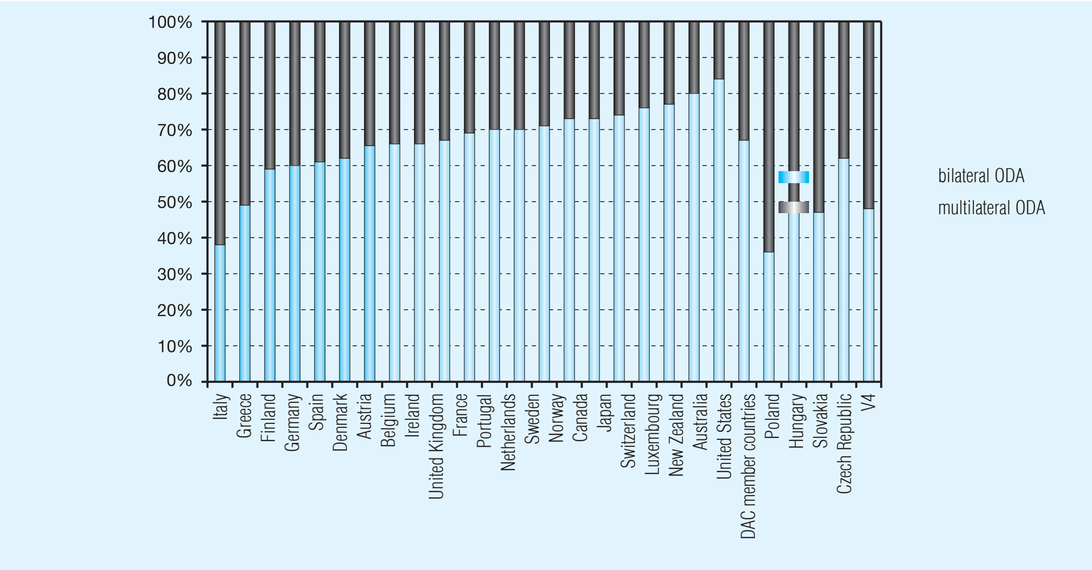
Bilateral versus multilateral channels

The question arises whether bilateral or multilateral channels suit better the interests of Hungary's international development policy. In

Chart 13

SHARES OF BILATERAL AND MULTILATERAL ODA CONTRIBUTIONS

(at 2000–2005, 2004 prices)



* Hungary: 2003–2005

Source: IDA, 2007

which case can national considerations better prevail and in which case can the Hungarian public be better won over to promoting the cause of international donor activity. The figures prove that, in comparison with DAC members and with the Visegrád countries at constant prices, 47 per cent of ODA expenditures were spent through bilateral channels in Hungary between 2003–2005. This proportion corresponds to the six-year average of the V4 countries and is exactly 20 percentage points below than the average of DAC members (ahead of Italy and almost reaching Greece). *(See Chart 13)*

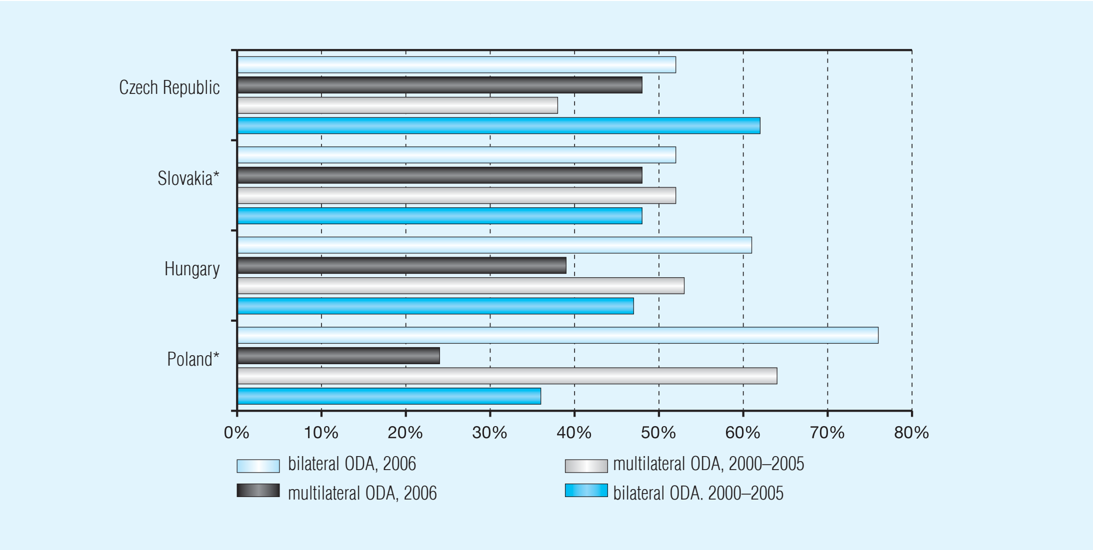
Chart 14 illustrates well that in relation to the six years' average the degree of intensity of bilateral channels has worsened most in the Czech Republic and Poland (by 14 and 12 percentage points), but speaking about the same factual data, we find that the share of multilateral channels has improved. Although less markedly than in the examples of the Czech Republic and Poland, but there was also a shift in Hungary towards multilateral contributions from the relatively balanced proportion in 2000–2005. The shift is clearly attributable to EU accession, as a result of which, the multilateral contributions of international ODA also grew in the new member states (contribution to the EU donor budget).

Assistance channelled through multilateral channels is based on tied international commitments and on one-off, medium or long-term commitments. A part of the assistance is defined automatically as a result of Hungary's membership in international organisations, practically by using a formula. On the other hand, the other part is dependent on the Hungarian position taken when the multilateral donor funds are replenished. Multilateral funds operating in the target countries of Hungary's international co-operation development policy (for instance, Western Balkan) can mobilise substantial resources and may even

Chart 14

CHANGE IN THE SHARES OF BILATERAL AND MULTILATERAL ODA CONTRIBUTIONS

(2000–2005 and 2006)



*Poland, Slovakia: last data from 2005

Source: OECD DAC database

promote the export of goods, services and capital originating from the donor country. It is therefore wrong to regard multilateral frameworks as a path alien to domestic interests without room for manoeuvre. Furthermore, when we speak about intensifying aid co-ordination and harmonising international donor activities, the dedicated institutions – also due to their size – are multilateral organisations and development banks. As regards aid provided in bilateral context, the transition costs associated with donor coordination and with the harmonisation of the particular steps can be rather high, which impair aid effectiveness both for Hungary and the recipient country.

It would be worth examining – starting from international empirical evidence -what the ideal proportion could be for Hungary? It is a difficult question because of the limited availability of domestic empirical data and of the diversity of international experience. In any case, in a considerable part of the countries, which are in size similar to Hungary, the opportunities offered by multilateral channels are not underrated, rather, the thematically, sectorally and geographically distributed multilateral donor funds are treated as acceptable forms of national donor policies and interpreted as an effective way of using the relatively low budget funding. In the author's view, the present multilateral/bilateral share of 60/40 per cent should be maintained until the first impacts of the inevitable adjustments in the framework of our international co-operation development policy are felt and if the institution system, the participation of the domestic business community and civil organisations justify it or make it necessary, bilateral assistance can be given more prominence.

SUMMARY

The UN commitments on the eradication of global poverty made back in 1970 were reinforced thirty years later by the new Millennium consensus of the international community, now in a more detailed and accountable form, setting out the achievement of specific development policy objectives by 2015. Following the large financial crises in the 1990s, international organisations with a leading role in international development co-operation, including multilateral development banks, were forced to make a re-examination and to review their former policies. In addition to a purely economic-financial approach, they are gradually placing more and more emphasis on the issues of social and environmental sustainability in the new development guidelines. On top of traditional aid programmes, the question of debt relief and later full debt cancellation of the poorest countries of the world has come into prominence, representing a larger and larger share within bilateral and multilateral donor activities. In the increasingly complex aid systems, on top of the size of assistance flow, priority has also been given to aid quality and effectiveness and to the related donor co-ordination.

Hungary became involved in international development policy as an emerging donor after the turn of the millennium – if we disregard its aid activity pursued basically on political and ideological grounds in the period preceding the regime change. Hungary could lay the foundations of the domestic institutional and decision-making system and the operating mechanisms of international development co-operation based on sovereign decisions, while using the common commitments of the EU member states as a constant guidance. In the era following EU accession, the international co-operation development policy of the new member states came into the limelight. The time-proportionate completion of our political commitments for the end of the decade are being monitored by the international community as well as the European Union, and Hungarian civil organisations express opinion on policy-making and decision-making and make constructive recommendations in conformity with international practice. Nevertheless, public awareness and knowledge about the theme are rather scanty, and in a number of cases, even prejudicial, which needs to be changed by intensifying donor activity and involving the civil society.

The balance of the period since our accession to the EU may give rise to optimism, since Hungary was able to increase its annual volume of official development aid on a continuous basis, in an extent above the average of the new EU member states. The established structure of institutions and decision-making is suitable for ensuring the effective use of the available resources. At the same time, the quantitative – and the accompanying aid effectiveness – challenges facing the Hungarian international development policy require a more complex structural change which can guarantee that Hungarian economic interests and expert opinion are better taken into account than today. This requires that a well-founded strategy is elaborated on well-founded experience, which strategy should – among others – define annual timetables and the effective method of aid disbursement. It may be misleading to regard multilateral frameworks as a path alien to domestic interests without any scope of action. The multilateral funds operating in the target countries of Hungary's international co-operation development policy can mobilise substantial resources and may even promote the export of goods, services and capital originating from the donor country. It is therefore of high priority to continuously seeking a healthy balance between the bilateral and multilateral channels, which can meet at the same time the principles of international co-operation development policy and represent domestic interests. It is thus no point cementing the shares; they will be aligned to our own national aspects which are being shaped with the changing world and according to our partners' needs.

Notes

1 The self-assurance can best be illustrated by the following quotation: "we can now develop far more consensus… [because] we now know much more about what types of economic policy work." (Williamson, J., 1993)

2 The recommendations centred on price deregulation, trade liberalisation and inflation control.

3 This set of problems can be best described in the literature with the expression "one size fits all".

4 An example for the growing economic patriotism seen in the recent past was when, for instance, the American Congress prevented the sale of the right of operating American ports to a foreign (in this case, to a Dubai) investor.

5 It is people not governments that feel pain. (Wolfensohn, 1998)

6 The Meltzer Commission examined the future role of the International Monetary Fund, the World Bank Group, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the World Trade Organisation and the Bank for International Settlements.

7 A few examples for the mobilising capacity of the World Bank: the global program against bird flu with USD 0.5 billion; the reconstruction after the Asian tsunami with USD 0.25 billion; the management of the Mexican, Asian, Russian, Brazilian financial crisis; participation in the reconstruction of the Balkans, Afghanistan and Iraq.

8 A problem may come from the one-off effect of debt cancellations, i.e. a specific challenge is posed by the provision of resource flows on an ongoing basis in the years after the finalisation of debt cancellations.

9 Heavily Indebted Poor Countries, (HIPC)

10 The countries must demonstrate stability in their macro-economic policies and implement an appropriate poverty reduction strategy. The amount of debt reduction is determined on the basis of the ceiling set by the HIPC Initiative.

11 Seventy per cent of the total debt is owed to the World Bank .

12 The Initiative is entitled: Multilateral Debt Relief Initiative (MDRI).

13 Long-term and continuous commitments (for 40 years in case of Hungary) are not allowed by most domestic regulatory environments, so in this case, agreements on commitments can be made only in principle and irrevocable commitments tied to specific budgetary periods are possible.

14 The average share of 17 per cent allocated to debt reduction within the total ODA between 1990-1996 grew to 34 per cent between 2001-2004.

15 At present, it represents a 30 per cent proportion.

16 EU Development Policy: The European Consensus (Council of the European Union, 2005)

17 Regional comparison was hugely furthered by the regional conference on the institutional and legal frameworks of international development policy held in December 2006, in Bratislava, organised by the civil organisation MVRO and by the Czech Ministry of Finance.

18 2005 data

19 See Austrian Federal Ministry of Finance: Strategic Guide for International Financial Institutions, 2005

20 Kreditanstalt für Wiederaufbau, Austrian Development Bank

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