’Aid for Trade’ or ’Aid to Trade’
Hungarian Trade Relations and International Development

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Table of Contents

Executive Summary

The research explored the connections between Hungary's bilateral trade relations and its program of Official Development Assistance (ODA). The objective was to assess, to what extent, trade regimes and trade agreements have been used to support the Millennium Development Goals of poverty reduction and sustainable development.

To this end, the research paper presented a short history of Hungary as a development donor, examining its International Development (ID) policy, Foreign Policy Strategy (FPS) and ODA disbursement trends. The desk review showed that Hungary's previous experience as a donor in the 1970s and 1980s left a strong impact in terms of the selection of partner countries and the modality of development assistance it provides.

Countries receiving the majority of development assistance are neighbours like Serbia or Ukraine, commitments arising out of international coalitions such as in Afghanistan, as well as countries such as Vietnam where Hungary has historical ties from its past donor life.

In terms of Bilateral Development Assistance (BDA), which accounts for just over 25% of the annual ODA budget, the research found that a substantial portion (30-40% average between 2008 and 2011) is allocated through the education sector including trainings, exchange programs, and scholarships.

Drawing on academic and practitioner writing as well as interviews and focus groups, the review identified certain shortcomings, principally the absence of a comprehensive and strategic policy on International Development policy. In the view of a number of actors, this continues to undermine efforts to elevate international development and make a clear separation with foreign policy. Crucial structures that could support ID activities, such as robust budgetary, management and coordinating frameworks have yet to be developed.

This relative marginality has inhibited the mainstreaming of ID to other sectors, for instance, trade. As has been noted by several commentators the already scarce budget of bilateral ODA is disbursed among too many countries.

Within the annual ODA spending there is a substantial difference between the proportion 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 or finance international projects within their mandates, for example, but these are rarely jointly planned activities.

The MFA DIDCs role – because of its low financial and human capacity - 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.

To what extent can Hungary use bilateral trade to support the development capacities of its partner countries? Using data from Hungary's export and bilateral trade relations it is clear that external trade has been the main driving force of the Hungarian economy. However, examining bilateral trade relations in both goods and services 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.

What is the relationship between changes in external and bilateral trade and the levels of BDA to recipient countries? Perhaps unsurprisingly, there is no clear-cut pattern. 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 a direct relation between these trends. However, 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 reinforces the previous findings which suggest that without a comprehensive ID policy and overarching ID strategy, a substantial portion of bilateral assistance may be utilized to advance agendas that areless development objectives such as the Millennium Development Goals but rather current foreign policy concerns such as economic interest representation, security and energy security.

Introduction to Hungary's International Development

Historical perspective, Hungary as a "New" Donor

At a recent technical workshop[1] 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 bySzent-Iványi development assistance was not separated from military aid, which wasalmost 30-40% of the total aid and accounted for 0.7% of the Hungary's national income of the time[2](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 enhanceinstitutional 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 acquiscommunautaire. In the field of internationaldevelopment, the mandatory requirementswere 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]"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 atCorvinus University, Budapest

[2]Szent-Iványi noted, in his PhD (2009) thesis, that the proportion of Hungary's development assistance is not comparable with the present days developed donors aid allocations, mainly because of the different method used to calculate Gross National Income (GNI) and the distinct definition and capacity of aid.

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.

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.

The Country Selection Process

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.[3] 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 withhigh 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 below shows priority countries chosen by trade volume (Serbia, Macedonia, Ukraine, Kazakhstan, China, Egypt) or ODA allocation level (Serbia, Montenegro, Ukraine, China, Egypt and Kazakhstan) and also 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.

[3]For a more detailed explanation on trade related data collection (see more: (Bartha 2013)

Table 1. Country Selection Criteria

Selection criteria→ *Countries↓*	Trade relations	Declared foreign policy preference						ODA level	WB or EP[4]	HDT
		Economy	Security	Energy security	Community Rights of Minorities	Agriculture	Sustainable Dev.			
Serbia	X	X	X			X		X	X	
Montenegro		X	X			X		X	X	
Bosnia and Herzegovina	X					X		X	X	
Macedonia	X		X			X			X	
Ukraine	X			X	X	X		X	X	
Kazakhstan	X			X		X			X	
China	X	X	X					X		
Vietnam						X		X		X
Egypt	X		X							
Kenya							X	X		
Nigeria								X		

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.

International Development Policy and Foreign Policy Strategy

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.[5]
Hungarian Development Policy does attempt to comply with all regulative measures obliged by the *acquiscommunautaire*, includingits 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).

[4]Refers to the Western Balkan countries, or the European Unions Eastern Partnership initiative
[5]http://ec.europa.eu/europeaid/what/developmentpolicies/financing_for_development/documents/hungary-donor-profile.pdf (Accessed 03/01/2013)

Institutional Background

In 2003, Government Regulations[6] amended the mandate of the Minister of Foreign Affairs (MFA)to establish three main bodies and one advisory committee:

- The *IDC Inter-budgetary Committee* to determine partner countries and target intervention areas.
- The *Inter-Budgetary Technical Working Group* to harmonize the different line ministries activates and increase the effectiveness of separate MFA IDC budget.
- The *NEFE Working Committee*(within the MFA) to support the harmonization of NEFE 'programs' with the foreign, security and foreign trade or export ambitions.
- A *Social Advisory Board* to strengthen the acceptance and support of IDC activities between the social, technical institutions, representatives of the broader public.

IDC activity areas:

In order to determine ID 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 NGDOs 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

[6]Government regulation 82/2003 (VI.7.) and the 2121/2003. (VI.6)

Observations

The above outlined concept note was formulated in 2001, but MFA officials claim it is out-dated and ill equipped.[7] 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 andthere 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).[8] 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[9].

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. Itneither 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 objectivesto what the project should achieve are not always clear.

SectoralEmbeddedness

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.[10]

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 politicalrelationships(MFA 2003). The international trend is that donors should concentrate on countries and sectors where they have 'comparative advantages';hencethey 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, infrastructure planning

[7]Interviews discussion notes 20/12/2012

[8]As Szent-Iványi noted,"…domestic aid structures are highly fragmented in the case of Hungary, the Ministry of Foreign Affairs only oversees a small part of the development budget, the rest of which is under the control of line-ministries, who are in charge of project and program implementation. The Ministry of Foreign Affairs, while charged with coordination of aid efforts, in practice has little means to influence the other ministries." (Szent-Iványi and Tétényi 2008:582)

[9] Interviews discussion notes 20/12/2012

[10]Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure to implement and benefit from WTO agreements and expand their trade(Lester 2007).

and civil society development.[11] 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.[12]

The DIDC is the body with primary responsibility to plan so called 'conscious development' activities.[13] 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.

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.

The Value-BasedForeign Policy

In view of both international law and the foundational values of the international community, namely sovereignty and territorial integrity, the most important national values in Hungarian foreign policy are:

- Sovereignty and territorial integrity
- Cross-border national co-operation
- Marked responsibility for the economic development of Hungary
- Promotion of Hungarian culture and the cultures of nationalities in Hungary
- Responsibility for Hungary's natural environmental state.

Foreign Policy Priorities

The foreign policy defines the following priorities:

- ***Regional Policy***: the representation of Hungarian interest including domesticeconomic 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 realizeHungary'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.

Sectoral Approach

Foreign policy should support endeavours to increase the country's competitiveness in an international setting. The sectoral approach defines areas where Hungary's efforts are

[11] www.kulugyminiszterium.hu/NR/...8F65.../061206_newdonor.pdf (Accessed on 01/03/2013)

[12] New donor countries from the Visegrád region do not seem to have a clear picture of what their advantages are. All countries have issued statements on aiding sectors where they believe they have comparative advantages compared to other donors. However, the list of these sectors is usually too long to be taken seriously (Szent-Iványi, Tétényi, 2008:581)

[13] Interviews discussion notes 20/12/2012. The expression comes from the officers of the MFA DIDC.

concentrated to draw the contour of Hungarian foreign policy profile (see Annex 1). The following six sectoral priorities are:

- Economic interest representation
- Strengthening Security
- Energy Security
- Strengthening Community Rights of National Minorities
- Interest Representation of the Agricultural Sector
- Fostering Sustainable Development

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 descriptionof the role of priority sectorsat 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 Danubestrategy.

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 transitionor 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 increasejob 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 increasingneeds 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 increasinglygrowing 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.

Table 2 Hungary's ODA Contribution between 2003 and 2011 in Million EUR 2011 price

Hungary	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Bilateral ODA	14.5	33.0	36.0	73.9	26.1	11.1	22.2	22.1	23.9
Multilateral ODA	7.7	32.2	55.3	57.1	55.6	65.6	65.5	66.9	76.9
Bilateral ODA as %	65%	51%	39%	56%	32%	14%	25%	25%	24%
Multilateral ODA as %	35%	49%	61%	44%	68%	86%	75%	75%	76%
Total ODA	**22.1**	**65.2**	**91.3**	**131.0**	**81.6**	**76.7**	**87.7**	**89.0**	**100.8**
ODA/GNI ratio	0.03	0.07	0.11	0.13	0.08	0.08	0.10	0.09	0.11

Based on OECD/DAC Statistics, presented in Million EUR 2011 price

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.

Fact Box

Official Development Assistance is Grants or loans to countries and territories on the DAC List of ODA Recipients and to multilateral agencies, which are:
(a) undertaken by the official sector;
(b) with promotion of economic development and welfare as the main objective;
(c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical co-operation is included in aid.

What are the MDGs?

The eight Millennium Development Goals (MDGs) form a blueprint agreed to by all the world's countries and all the world's leading development institutions. They have galvanized unprecedented efforts to meet the needs of the world's poorest.

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 ahalt in 2007 only to climb again from 0.08% to 0.10% between2007 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.

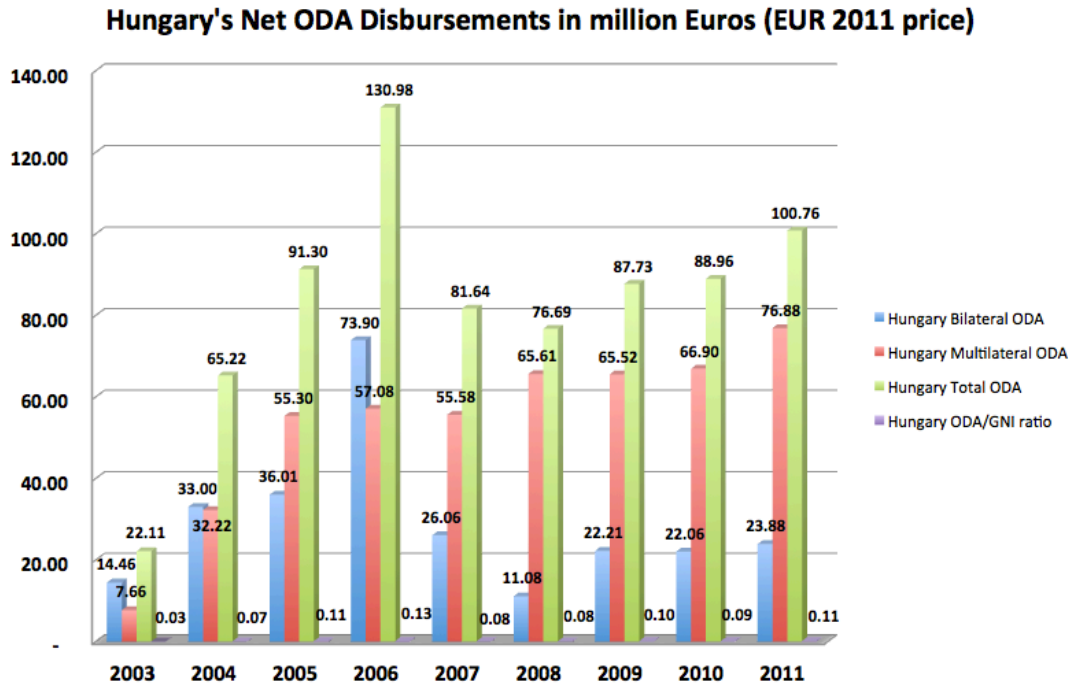


Figure 1. Net ODA disbursement between 2003 and 2011 based on OECD data

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 isdifferent - most ODA is channelled through multilateral aid and itis disproportionally highercompared to ODA channelled through bilateral agreements(Kiss 2008). The reason isthe priority given to the international commitments and membership contributions. The already small budget allocated to ODA has to fulfil multinational needs andas such, the portion of bilateral aid carrying the potential to accentuate Hungary's development profile is ever shrinking.

Who Plans Aid?
The MFAs DIDC is responsible to design, develop, finance or in cases implement International Development type projects. These projects are labelled as 'consciously planned' International Development projects, and directly link to the MDGs and incorporate Aid Effectiveness principles. The DIDC works together with line ministries to provide technical support on how to develop ID sensitive projects.

Legal Challenges

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

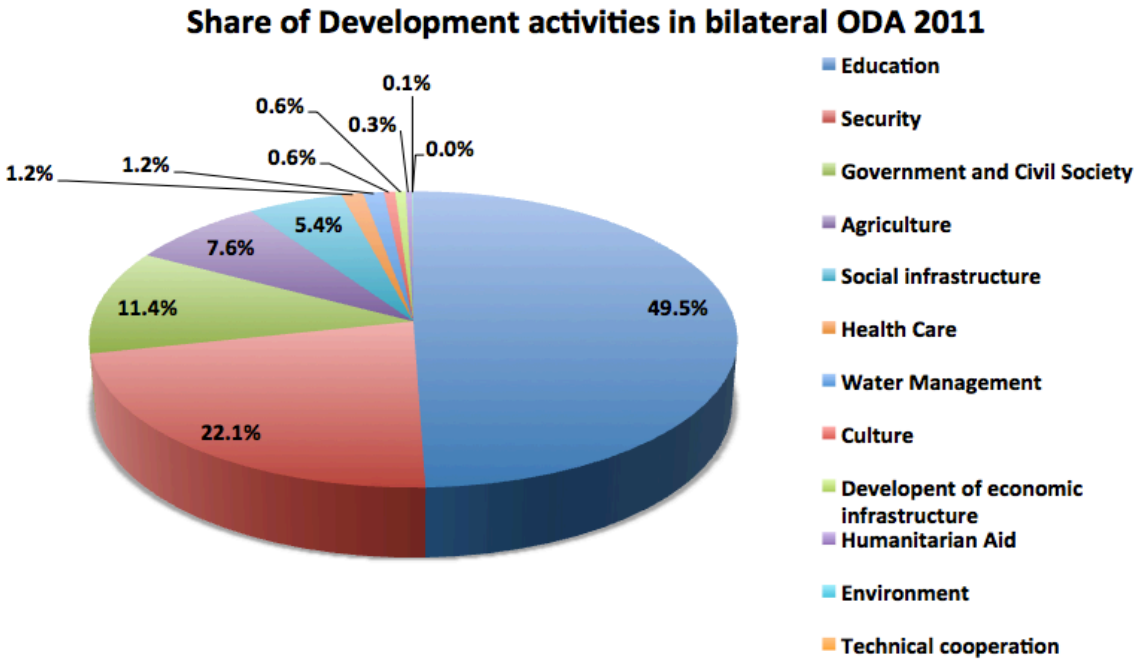


Figure 2. Share Of Development Activities in Bilateral ODA 2011(Base On MFA Data and own calculations(MFA 2011b)58

The official position is thatline ministries have bilateral international activates 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 that fact thatthey actually supportinternational development goals which leaves theexact 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.[14]

Main ministriescontributing to Hungarian ODA

Ministry	Sector
Ministry of Foreign Affairs	International Development, Health, Education, Government Civil Society, Humanitarian Aid
Ministry of Rural Development	Agriculture, Education, FAO Scholarships
Ministry of National Economy	Tied Aid Credits, Agriculture, Water management, Education, Economic Infrastructure Development
Ministry of Defence	Security
Ministry of Human Resources	Education, Scholarships, Culture
Bethlen Gábor Alapkezelő Zrt	Education, Government Civil Society

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 than 3.500EUR in total. Many of the expenses recorded as bilateral ODA cover the costs of a flight ticket.[15]

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 and Annex4 shows the average BDA contributions to the 21 countries that received most of the BDA between 2008 and 2011.

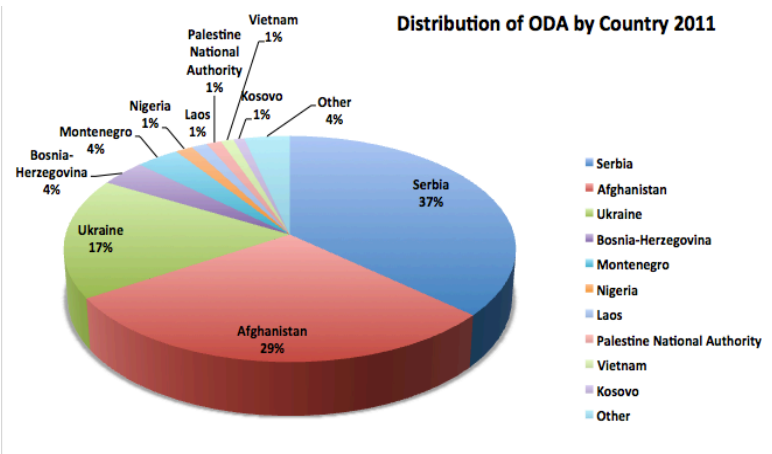


Figure 1 Distributions of bilateral ODA by Country 2011 (Based on MFA data and own calculations(MFA 2011b)58)

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. Theseare mainly due to the domestic political legitimacy issues that stem or are reflected in the lack of a

[14] 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'.

[15]Interview discussion notes 2012

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 scholarshipstostudents from developing countries contributes to MDG2[16]. 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.

Current State of Bilateral Trade and Applied Trade Regimes

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. (For more information of EU trade agreements, see Annex 5.)

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	

Table 3. International Agreements of Trade regimes

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. For more information on thelist of countries and their respective agreements, and a short general summary of each available agreement, please see Annex 2.

[16]MDG2 *Target 2.A: Ensure that, by 2015, boys and girls alike, will be able to complete a full course of primary schooling.* This achievement is somewhat shadowed by the fact that most of Hungarian scholarships refer to either university or other vocational trainings.

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.

Table 4. Export by product groups, 2003-2011

Development of Hungarian Export of Goods to all Countries by Product group	Total Chapters of the SITC	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment
Growth of Export between 2003 and 2011 (EUR current prices, level in 2003 is equal to 100)	247.1	285.2	364.8	549.6	252.2	228.6
Export Dynamics 2003-2011 by Product Groups (avarage = 100)	100.0	115.4	147.7	222.4	102.1	92.5
Relative Foreign Trade Weigths (%)	100.0	6.5	2.1	1.6	28.7	61.1

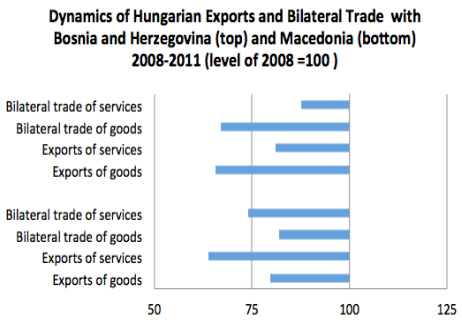
Country profiles

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, bilateraltrade of goods and bilateral trade of services*[17] between the periods 2008-2011[18]. 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.[19]

The Western Balkans (Bosnia -Herzegovina, Macedonia, Montenegro, Serbia)

Against overall trends, exports to *Bosnia and Herzegovina*decreased considerably and similar tendencies are observed in services. Overall bilateral tradedecreased by34% between 2008 and 2011.

Exports of goods to *Macedonia* decreased by 23%, while the export of services experienced a more considerable drop of 37%. In this case, both export of services and goods are below average amounting only to 0.071% of total international trade in 2011. In terms of overall bilateral trade, a decrease of 19% was observed during the analysed period.

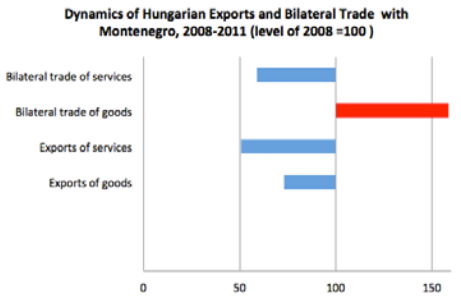


[17]Export and foreign trade dynamics is own calculations based on the data from the Hungarian Central Statistical Office (KSH 2013). All prices are calculated in EUR 2011 constant rate.

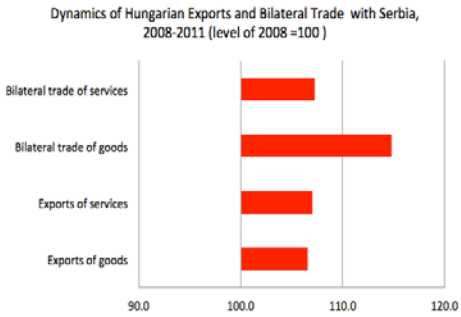
[18] Also it is important to stress here, that the observed 2008 – 2011 timeframe is an enduring crisis period, therefore the analysis about trade dynamics refer to a particularly negative period and it gives a darker picture than the long-term trend.

[19]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.

Accounting only for 0.05% of overall bilateral trade in 2008, by 2011*Montenegro* increased its shareby 58%. However, Hungarian export of goods and services was 50% below the average among all trade partners.



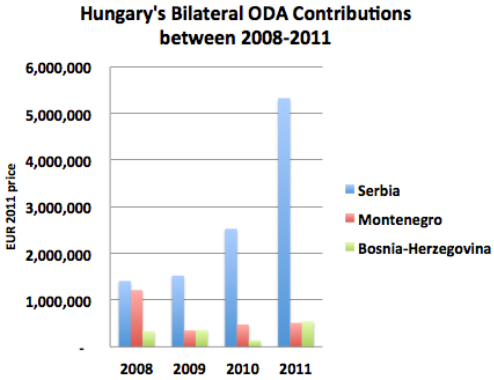
Serbia is the strongest trade partner of Hungary from this group accounting for 0.95% of overall trade, and in spite of the economic crisis the export of goods and services was 7% above the averagebetween 2008 and 2011. Bilateral trade in goods increasedby more than 14%, andbilateral trade in services were 7% above the average.



Trade Structure

With South-Eastern European countries Hungary has a significant trade surplus: 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 thereof(99% of the imports from Montenegro), Hungary registers a deficit with Montenegro.

Bilateral ODA between 2008-2011

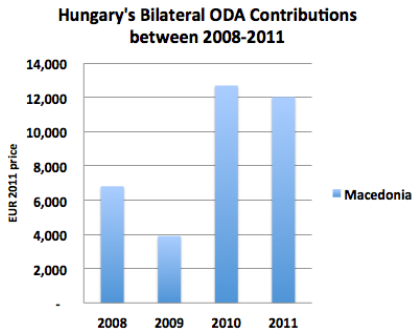


In terms of BDA, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia received continuous aid flows from Hungary in this period. All four countries are part of the EU's Neighbour Policy, and are considered in the FPS. However, BDA allocations show very dissimilar picture. Between 2008 and 2011 *Serbia* 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 scholarshipsor 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 itaccounted for only 3.5% of the overall sum, experiencing a staggering 58% decrease.

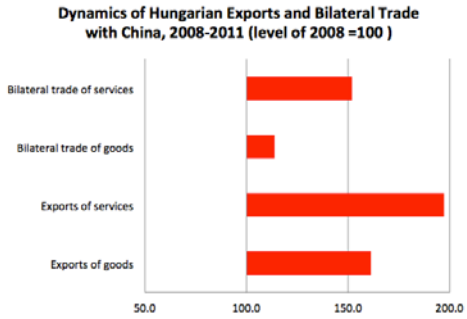
*Bosnia and Herzegovina*shows a third type of dynamic.Starting with 3.2% of bilateral ODA in 2008, it climbed to 3.7% in 2011. Bosnia and Herzegovina also has a tied aid credit agreement with the Government of Hungary amounting for 41% of its ODA in 2008 and 22% in 2011. Supporting an experimental project 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.

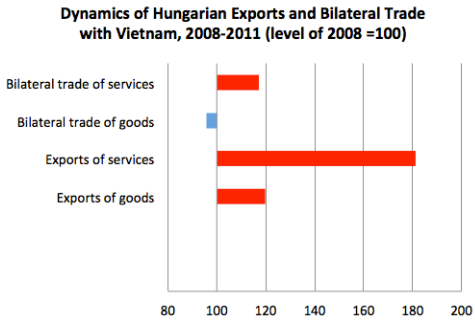


Asian Countries: China and Vietnam

China is an important trade partner receiving 1% of Hungary's overall export in 2008, and steeply increasing in the following years despite the financial crisis. In 2011 exportof goods to China added up to 1.21bn EUR, or 1.53% of Hungarian overall export capacity. In terms of service exports, China's share increased from 0.5% to 0.7% and in terms of overall bilateral trade, the Chinese market files 3.3% of gross Hungarian trade in 2008 expanding with a moderate 13% to 2011.



Vietnam receives a smaller fraction of overall Hungarian export fluctuating around 0.04%, with a moderate growth (19%) between 2008 and 2011. The 81% growth in export services by 2011 is considered a good performance, though concerning bilateral trade of goods, Vietnam showed a 5% decrease in comparison to Hungary's other trading partners.

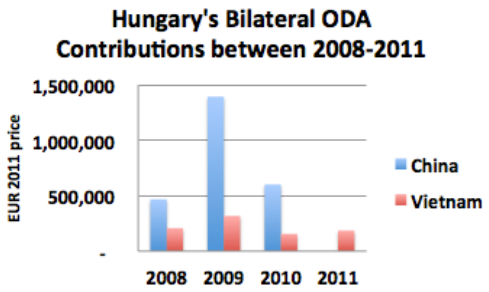


Global trade flows dominate the profile with the Asian countries. However, in the Chinese and Vietnamese relations Hungary has a trade deficit – the volume of that is moderate with Vietnam, but it is very high in relation to China (the volume of Hungarian exports covers only roughly one-third of the imports from China). Machinery products dominate the Chinese-Hungarian trade relations, but the trade of chemical products is also significant. 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

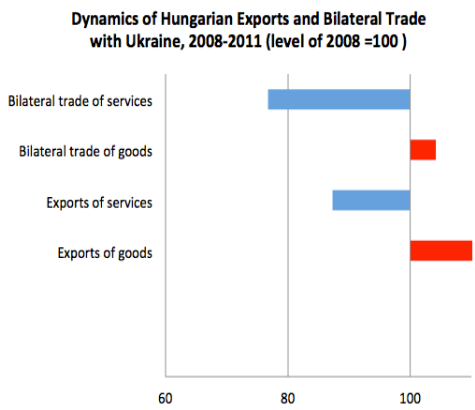
been exhausted by 2010, as the Hungarian bilateral ODA to China decreased with 57% and accounting for scholarships, training, R&D, and trainers exchange programs.



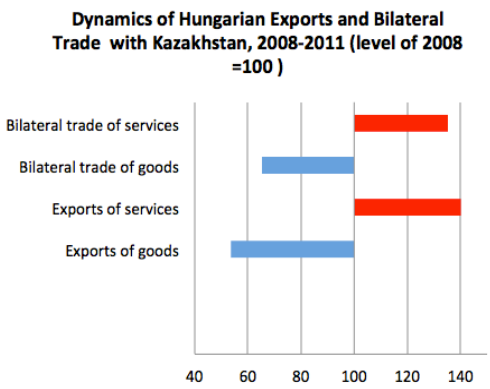
Vietnam is among the oldest aid recipient partners to Hungary.The two countries' bilateral relations reach back to the 60's, when Hungarian and Vietnamese experts participatedin technical cooperation programs. Vietnam still maintains a good relationship with Hungary, receiving an average 1.53% of its total bilateral ODA (see Annex 4). In 2005, Hungary and Vietnam signed a framework agreement on international development cooperation mainly aiming at know-how transition to modernize Vietnam'seconomic structure. The trend of BDA allocation shows a 53% increase from 2008 to 2009, although this was almost halved in 2010 increasing only 4% by2011. 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 is the most important trade partner for Hungary, not only because of its close proximity,but also because it isan energy transit country. In 2008 Ukraine absorbed 2% of Hungary's overall export, a sum that amounted to 1.4bn EUR, then in 2009 it decreased with 0.05% to 896M EUR, only to steadily climb back to 1.6bn EUR in 2011, a sum which accounted for 2.06% of the overall trade. Ukraine's relative weight of exporting services performed 13% below average during the period 2008 – 2011. The weight of Ukraine in the overall bilateral trade with Hungary rapidly decreased with0.5% in the period 2008-2009, but climbed back to 1.7% in 2011 providing a 4% above the average dynamic. Ukraine's dynamic in bilateral trade in services showed a 24% below average performance between 2008 and 2011.

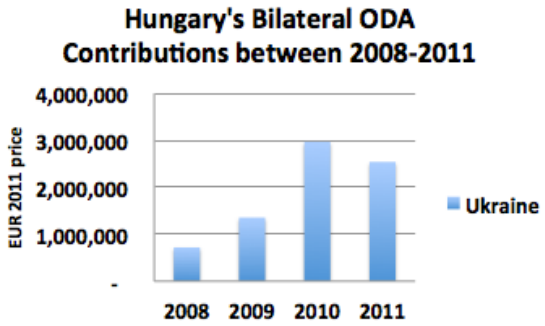


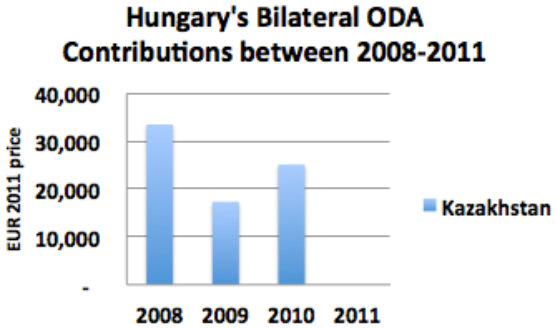
In spite of *Kazakhstan's* important position on the Foreign Policy agenda as an energy trade country, this position is not matched by its trade performance with Hungary. Its relative export weighted only 0.37% in 2008 and fell to 0.14% by2009; it managed to climb to 0.18% in 2011. Export of services shows a slightly more optimistic trend with a 40% increase. Its overall weight in the bilateral trade decreased from 0.23% in 2008 to 0.15% in 2011, which implies a 36% below average performance. However, in terms of bilateral trade of services Kazakhstan's weight climbed from 0.4% to almost 0.6% showing a 35% increase compared to the average performance in this category.



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 portionof 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% in2010(education and cultural), and 76% in 2011. This increased allocation of funding for the educational sector in Ukraine, whichaccommodates a substantial portion of Hungarian minorities, is arguably related to Foreign Policy goals to support Hungarian minorities outside the borders.

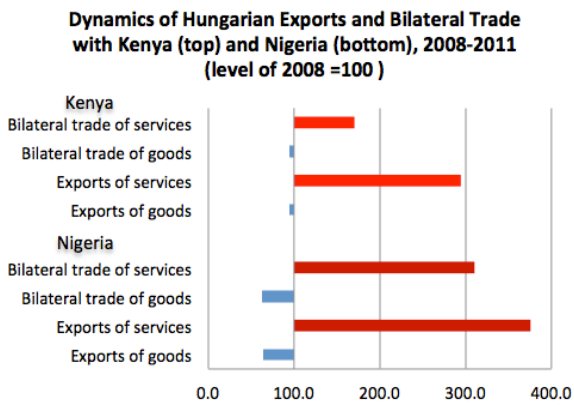




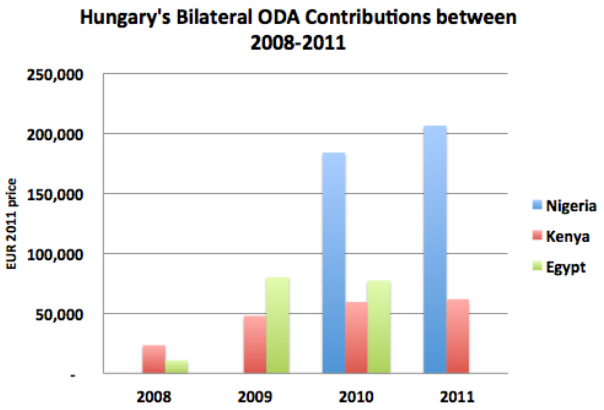
Kazakhstan is alow priority recipient country of Hungarian BDA accounting for only 0.14% between 2008 and 2010. Furthermore, it was notlistedasa partner countryinthe 2011 official MFA documents. The trend of BDA allocations shows a slow decreasing pattern, losing 25% of its aid allocations during 2008-2010 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 years allocation, with most supportingEnglish, 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

TheseAfrican trade partners have relatively low trade weight in exports from Hungary, however exports of services to Kenya and Nigeria did go went through a notable transformation. Nigeria and Egypt weighted 0.1% and0.2% respectively in 2008, while Kenya's trade involvement was only 0.02% of overall trade volume. Very different patternsare observed in the export of services, where both Kenya and Nigeriaincreased theirexports of servicesfrom Hungary. Whilst Kenya accounted only for 17,000 EUR in 2008, in



2011 itsexport value increased to 500,000 EUR or 194% above the average. The very same tendency is observed in the case of Nigeria with a 275% increase of export of services. The pattern of bilateral trade with the three countries' shows very similar trends as all three performed below average between 2008 and 2011.



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 receiveaid 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 fortechnical cooperation and training.

In case of *Egypt*, the BDA contribution of10,000 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 theoverall 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 SlumsInformationDevelopment&ResourceCentres. In 2009, 66% of support went through various scholarships while the rest of 34% was spent on finalizingthe previous year's three projects. In 2010 more than 99% of BDA was allocated for education, scholarships, trainings withonly less than 1% for technical cooperation. The way ODA funds wereallocated changed somewhat in 2011, when 21% of Kenya's bilateral ODA from Hungary was directed tothe 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, toeducation and scholarships.

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.

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 thatthese trade type activities are not reported or represented separately, many bilateral projects are related to trade. Respondents mentionedtechnical 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 howdevelopment 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.[20]

Facilitating Hungarian Know-How in the Agricultural Sector

The MFA together with the Ministry of Rural Development (MoRD) organizedin 2011 a three-day training in the agricultural sectorfor 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 wasdesigned to facilitate information on the relevant EU regulations, and point out the areas where development was needed the most.The training was financed and

[20]Interview discussion notes 12/01/2013

jointly organized by the MFA DIDC andthe MoRD with the local office of the Food and Agriculture Organization of the United Nations (FAO) providing technical experts.[21]

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 scholarshipsto students from DAC recipient countries that are strongly reliant onthe import offood and agriculture products. The courses provide quality technical materialonagriculture 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 andhelp increaseexport 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-Easter 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 – theCEFTA 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.[22] 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 Aidhas made it mandatoryto utilize the tied aid credit opportunity provided by the Ministry of National Economy under the umbrella of "eastern incentive".[23]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

[21]Interview discussion notes 09/01/2013
[22]Interview discussion notes 15/01/2013
[23]About the role of tied aid in the Hungarian international development policy in general see (Bartha 2013)

and Far-East Asia, the entitled African Regions, and the Western Balkans (Magyar Közlöny 2012).

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[24]. Hungarian Export Credit Insurance (MEHIB) provides insurance against the foreign debt payment, while 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 Eximbank 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: theHungarian Investment and Trade Agency (HITA). HITAis 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 provisionof 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 Eximbank – besides providing financial credit – is to consult potential companies about the requirements and possibilities. Companies then compete for the tender and if they win, Eximbank continues more detailed consultations. The ministry concludes the inter-governmental agreement but the negotiation of the credit compact falls within the sole jurisdiction of Eximbank. Eximbank – 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 pressureapplied on the recipient country governmentby 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.

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'.

[24]Interview discussion notes 15/12/2012

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 marketsrepresentation 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 aretoo good to be true.The underlying power relations remain hidden from the uninitiated eye[25]."

By looking at the preferred partner country selection much of the trends can be seen. In terms of regional priorities, the government'smain objectives are: to achieve state security in neighbour countries, to maintain energy security, promoteHungarian economic interest and advocate for Hungarian minorities outside boarders. 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 shiftin 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 ForeignPolicy. 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.[26]

[25]Interview discussion notes 14/02/2013
[26]Focus Group Discussion notes 30/01/2013

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 andMoRD, 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.[27]

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 governmentprovides generous start-up financing opportunities for domestic producers, delimiting the flow of foreign investment into the country.[28] Bilateral Economic Agreements foster joint R&D cooperation, which has the potential to turn into jointinvestments, 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 forhealth administrative practices. One interviewed company noted thatthe recipient partner only receives the goodsif the administrative paperwork and health permissions are validated by the Chambers of

[27]Focus Group Discussion notes 30/01/2013; Interview discussion notes
[28]Interview discussion notes 20/01/2013

Commerce(CoC) of both countries. Another prevalent issue is the lack of use of International Commercial Terms which arewidely used guidelines to avoid complications and misunderstandings in insurance costs and identify the risks associated with the transportation and delivery of goods.

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 thepreparation time that they [companies]need to enter international markets.[29] 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.[30] 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.

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 IDCstrategy, 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 jointprojectassessment frameworkis 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

[29] Discussion notes Focus group interview January 30th 2013
[30] Discussion notes Focus group interview January 30th 2013

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. Currentaid modalities used by MFA are small scale,and not linked to reform steps of any of thesectoral 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 facilitateeffective trade related activities, but if financial mechanisms to promote sectoral market access aremissing, the sectoral lock-in effect will decrease the effectiveness of economic agreements.[31]Considering that the market presenceof the private companies depends on the financing portfolio, if 'Automatizatized'[32] 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 theMFA will pursuejointreporting structures with line-ministries. Instead, ODA contributions may well continue to be developed around individual mandates and at the discretion of ministries. Second, having synergybetween 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 activitiesare 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

Theprivate sectors rolewould be to implement development projects, andto 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 would require the increase oftendering 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[33]. To elevate countries from poverty they need to produce and export their own goodsinstead 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.

[31] 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.

[32]The terminology used by one of the interviewees refers to the institutional infrastructure to automatically induce financial mechanisms to provide the needed financing for a project to initiate

[33]Focus group discussion notes 30/02/2013

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 anongoingconcern 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 thesefinancial 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.[34]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 theserelationships 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

[34] Interview discussion notes referred to a budgetary committee comprised of ODA relevant line-ministry reps., NGOs, and trade and business professionals

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 Eximbank'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 andhuman resources and rigid institutional regulationsfurther 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 supportsystem 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?"

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Annex 1.Sectoral priorities of the Hungarian Foreign Policy Strategy

Sectoral Approach

Foreign policy through the diplomatic relations is to support the governments' endeavours to increase the country's competitiveness in an international setting. The sectoral approach defines areas where Hungary's efforts are concentrated as priorities of Hungarian foreign relations to draw the contour of Hungarian foreign policy profile. The following six sectoral priorities are considered in the Foreign Policy Priorities to a different extent.

Economic interest representation

Economic interest representation is built on the Strategy of the National Ministry of Economics, to complement the EU trading policy and foster the representation of Hungarian trade interest. The economic interest representation also entails increasing the country's attractiveness for foreign investment. To this end, the MFA's objective is to develop and strengthen a positive country image.

Strengthening Security

A priority objective and constitutional role of the Government is to ensure the security, well-being and freedom of its citizens. The Ministry of Foreign Affairs (MFA) utilizes all diplomatic tools at its disposal to ensure the above objectives manifested in the National Security Strategy. This sector further supports the EU external and security strategy and all international activities conducted under the NATO framework and EU security policy.

Energy Security

The question of energy is of high importance therefore, the MFA's intention is to encourage projects that further the security of energy supply and strengthen the country's competitive position at the regional energy markets. These activities focus mainly on bilateral and regional level activities within the EU, but also work towards the utilization of relations with potential energy-source and transit countries.

Strengthening Community Rights of National Minorities

Delivering on a nationalistic objective, to strengthen the position of all Hungarian nationals outside the nations borders. It refers to the 2010 constitutional amendment that allows minorities with Hungarian ethnic descent to obtain Hungarian citizenship without settling on Hungarian soil. It stresses its aim to achieve harmonious relations with host countries, and reiterates the Hungarian Governments' commitment to pursue a consistent minority policy towards all countries with Hungarian minorities.

Interest Representation of the Agricultural Sector

Agriculture has been gaining a bigger share in the political diplomacy recently. Food security and food safety issues are receiving more attention globally, also because of the rising food prices caused by imbalances of global food demand and supply. Food security and agriculture are going to be strategic sectors also in the future; therefore Foreign Policy will focus on the

interest of domestic consumers and producers equally. It will also support the achievement of the Government's rural development plans, GMO-free agricultural production and strengthen the role of agricultural produce and technology in our external trade policy. To reach these objectives Hungary has started to renew and strengthen its agricultural attaché network abroad, so far it includes 8 stations (Berlin, Rome, Madrid, Paris, Bucharest, Moscow, Peking and Astana). Hungary has excellent knowledge for high quality food production; therefore by sharing its expertise internationally it could contribute to improving food-security situation of other countries.

Fostering Sustainable Development

As it is stressed in the Hungarian Constitution it is a foreign policy priority to contribute to global sustainable development. This sector mainly focuses on settling environmental disputes and foster regional cooperation with neighbour countries. Priority countries in this sector are neighbour countries or countries part of the Danube strategy.

Annex 2. Hungarian Bilateral Economic Agreements with Priority Countries

Ukraine

- Agreement on Economic Cooperation between the Government of the Republic of Hungary and Ukraine (2005)

Serbia

- Agreement on Scientific and Technological Cooperation (2005)
- Agreement on Economic Cooperation (2005)
- Agreement on the Establishment of the Hungarian-Serbian/Montenegrin inter-governmental mixed committee (2006)

Bosnia- Herzegovina

- Hungarian-Bosnian Agreement on Educational, Scientific and Cultural Cooperation (2005)
- Agreement on Economic Cooperation between the Government of the Republic of Hungary and the Council of Ministers of Bosnia and Herzegovina (2006)

Vietnam

- Economic Cooperation Agreement between Hungary and Vietnam (2004)
- Cooperation Agreement between Eximbank and Sacombank (2005)
- Tied-Aid Agreement or Inter-Governmental Agreement on the Establishment of Financial Cooperation Framework between Hungary and Vietnam (2008 and 2009)
- Bilateral Inter-Governmental Agreement on Development Cooperation (2005)
- Scientific and Technological Cooperation (2005)

Montenegro

- Agreement on Hungarian-Montenegrin Scientific Cooperation (2012)
- Declaration of the Establishment of Advantaged Political Partnership (2012)

Kazakhstan

- Agreement on Economic Cooperation between the Government of Hungary and the Government of Kazakhstan (2008)
- The Agreement supports the development of joint Hungarian-Kazakh business investments to foster the establishment of joint business forums

Kenya

- Cooperation Agreement between the Ministry of Foreign Affairs of Hungary and Kenya (2000)

Nigeria

- Cooperation Agreement between the Ministry of Foreign Affairs of Hungary and Nigeria (2001)

The Agreement on Economic Cooperation

The Agreements between the signatory governments provide the legal background for the development of bilateral economic relations and the establishment of Mixed Committees. The Economic Cooperation Inter-governmental Mixed Committee consists of state bodies, the Chambers of Commerce. The participatory bodies aim to foster bilateral economic relations in the area of trade, investment and to further cooperation between small and medium enterprises (SMEs) in the area of agriculture, food production, energy, environmental protection, transport, ICT industries, wood industries, metal industries and development of tourism. The economic relations are usually ensured by a number of agreements such as prevention of double taxation, investment protection, etc.

The Mixed Economic Committee

Committees provide the network base for bilateral economic relations, consisting of trade experts or representatives of Chambers of Commerce in the relevant industry sector. These committees have great potential to promote business interactions between the partners, but this potential depends on the aptitude, interests and motivations of the participating experts and chambers representatives. There were positive experiences in the water management cluster; however, some informants regarded these committees as merely protocol in character.

Agreement on Scientific and Technological Cooperation

The agreement aims to provide a bilateral framework for the cooperation between the countries' scientific institutions, including funding of joint projects, researches, scientists and students. It fosters the cooperation and development in science and technology, building technology parks, centres of excellence, etc.

Annex 3. List of Acronyms

BDA	Bilateral Development Assistance
CEFTA	Central European Free Trade Agreement
CoC	Chambers of Commerce
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DIDC	Department of International Development Coordination (NEFE-Fo)
EDF	European Development Fund
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FPS	Foreign Policy Strategy
GBS	General Budget Support
GNI	Gross National Income
HDT	Historical Development Ties
HITA	Hungarian Trade Agency
ID	International Development
IDC	International Development Cooperation
IPA	Instrument for Pre-Accession Assistance
LDCs	Least Developed Countries
MDG	Millennium Development Goals
MEHIB	Hungarian Export Credit Insurance
MFA	Ministry of Foreign Affairs
MNE	Ministry of National Economy
MoRD	Ministry of Rural Development
NTBs	Non-Tariff Barriers
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development
S&T	Scientific and Technical (Agreement)
SET	Strategy of External Trade
SMEs	Small and Medium Enterprises
TBTs	Tariff Barriers to Trade
UN	United Nations

Annex 4. Hungary's Bilateral ODA allocations between 2008-2011

The First 21 Priority Recipients Countries of Hungary's Bilateral ODA Contributions

	Hungary's Avarage Bilateral ODA Contributions 2008-2011	
1	Afghanistan	32.38%
2	Serbia	19.27%
3	Ukraine	13.57%
4	Montenegro	5.19%
5	Kosovo	4.80%
6	China	4.29%
7	Bosnia and Herzegovina	2.51%
8	Laos	2.24%
9	Vietnam	1.53%
10	Moldova	1.06%
11	Palestinian National Author	0.90%
12	South African Republic	0.83%
13	Mongolia	0.64%
14	Jemen	0.42%
15	Ethiopia	0.40%
16	Nigeria	0.33%
17	Egypt	0.28%
18	Kenya	0.25%
19	Irak	0.14%
20	Kazahstan	0.14%
21	Macedonia	0.05%
	% of Overall bilateral ODA	91.23%

Source Own calculations based on MFA Report on International Development 2008-2011

Annex 5.EU Trade Agreements

Short summery of EU trade agreements with priority countries.

The Western Balkans (Bosnia and Herzegovina, Macedonia, Montenegro, Serbia)

EU trade

Bosnia-Hercegovina, as other Western Balkans states, have been offered Stabilization and Association Agreements (SAAs) and have a clear EU perspective. The EU's strategy includes massive financial assistance, making it by far the largest donor to the region. (EC Source) The EU signed the bilateral agreement on Bosnia and Herzegovina as accession to the WTO (2012), which is a key step for the country to become a WTO member. The WTO accession negotiations with Serbia are ongoing.The trade part of the Stabilization and Association Agreements (SAAs) came into force through an Interim Agreement with Bosnia and Herzegovina (2008) and Serbia (2010), and allows the countries to use materials originating fro the EU under advantageous conditions in the manufacture of final goods, which are exported to the European Union. In 2000, the EU granted autonomous trade preferences to all the Western Balkansuntil 2015, allowing nearly all exports to enter the EU without customs duties or limits on quantities. The only exceptions, are wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas.

Asian Countries: China and Vietnam

EU trade China

One of the largest traders in the world, China is the 2nd trading partner to the EU. The constantly growing industrial and trade sector makes China a desirable trading partner, however this desire is shadowed by a number of concerns. The EU's position is that due to strict domestic industrial policies and non-tariff measures, foreign companies might be exposed to discrimination in China. Also because of strong state intervention in the economy creates a preferential environment for state owned enterprises leaving private or foreign enterprises excluded from access to subsidies or cheap financing. Furthermore, regulative measures to promote the proper enforcement of intellectual property rights in China are not stringent enough to EU standards. China also sustains significant export restrictions on raw materials, such as rare metal substances that hamper the flow of trade in all sectors. Regardless of such inconsistencies, its rapid development and the substantial potential for growth and economic expansion, the Chinese market is an attractive proposition offering huge opportunities to further trade, investment on the bilateral scale. The EU remains firm to launch negotiations on a bilateral investment agreement to create a forward-looking initiative, to promote bilateral investment by providing transparency, legal certainty, and market access to investors from both sides.

Ukraine and Kazakhstan

EU trade Ukraine

The key to Ukraine's economic growth is its close integration to the EU in the political and economic sense. These aspirations are covered under the Deep and Comprehensive Free Trade Agreement (DCFTA) with EU, which were launched in 2008 and initialed in 2012.The EU is one of the important commercial partners to Ukraine, and accounts for about one third of its external trade.Ukraine's is the primary exporter of iron, steel, mining products, agricultural products, and machinery to the EU. Where the EU exports to Ukraine are dominated by machinery and transport equipment, chemicals, and manufactured goods.

Egypt, Nigeria and Kenya

EU trade Egypt

Part of the Euro-Mediterranean partnership, the key objective of the trade partnership is limited to trade in goods and a number of bilateral negotiations are ongoing or being prepared in order to deepen the Association Agreements. The most important goal for the Union for the Mediterranean is to establish a common area of peace, stability, and shared prosperity in the Euro-Mediterranean region. Since 2004, EU-Egypt bilateral trade has more than doubled and reached its highest level ever in 2011 (from EUR 11.5 billion in 2004 to EUR 23.3 billion in 2011) (EC) dominated mainly by energy, chemicals and textiles and clothes and mainly of travel services and transport. The main export to Egypt consists mainly of machinery, transport equipment and chemicals, business services.