

# Hungarian Policy For International Development Cooperation (IDC)

On becoming a member of the OECD and as part of our preparations for EU membership, the principles established for the nature and delivery of Official Development Assistance (ODA) of the Development Assistance Committee (DAC) of that Organisation have become an important component of our foreign relations. As the accession negotiations were advancing, the EU stated, in annual country assessments, its expectation that the candidate countries should clarify their development policy.

On the basis of Government Decision 2319/1999 (07.12.), the Ministers of Foreign Affairs, Economy and Finance drafted a Concept paper proposing a new approach to international development cooperation (IDC) for the Republic of Hungary. The Paper proposed that Hungary replace its practice of delivering its contribution to ODA as a series of ad hoc and decentralised initiatives with a practice adapted to UN, DAC and EU standards. The Paper proposed that the Ministry of Foreign Affairs (MFA) would draw up the annual plan for the delivery of IDC and would act as the interdepartmental co-ordinator. On the 24<sup>th</sup> of July 2001, the Government approved the Concept Paper. In the context of institutional development, the International Development Cooperation Department was established within the MFA in November 2002 to execute all IDC activities. 2003 marks the Department's initial year and it is intended that it will manage Hungary's IDC program in a manner intended to reflect the practices of donors as established by the OECD and EU.

I.

## Hungarian IDC in International Context

**The EU pursues an expansive development policy for historical, strategic and moral reasons.** EU community-level development activities and the independent development cooperation activities of the member states complement each other.

**Hungary shall be obliged to apply all the legal provisions of the EU, including parts of *acquis communautaire* on development cooperation upon its accession** (provided for in Art. 177-181 of the EC Treaty). The draft of the EU Constitution regulates development cooperation and humanitarian assistance in a separate chapter.

Reflecting agreements made under the Cotonou Convention, the community law requires that our contribution, beyond payments for the community budget and the European Development Fund (EDF), finance activities for international development cooperation in the ACP (African, Caribbean and Pacific) countries. Development cooperation in areas and countries out of ACP are also funded from the EU community budget.

The new EU development policy was finalised in November 2000, again incorporating - in addition to the OECD DAC fundamental principles and the UN

international objectives (Millennium Development Goals) - the international ODA resolutions adopted by international conferences on development, in particular, those in Doha, Monterrey and Johannesburg. **The main EU development goal is the reduction of poverty.**

At its summit in Barcelona in 2002, the EU decided to increase the volume of **Official Development Assistance (ODA)**, targeted at the sustainable development of developing countries, in order to meet the strategic objective of reducing poverty. **EU member states are called upon to devote an average of 0.39 percent of their GNI (Gross National Income) to ODA development goals by 2006.** (To attain this average, a minimum contribution by each member state shall reach 0.33 percent of GNI.) **These so-called Barcelona commitments are regarded as obligations of each member state, including the newly acceding members.**

According to statistical assessments, employing OECD DAC procedures, in 2001 when no separate IDC budget existed, Hungary disbursed approx. HUF 4.1 billion, i.e. 0.027% of its GNI for ODA purposes (through subsidy programs of various ministries and institutions). In 2002, this was increased to HUF 5.7 billion, i.e. 0.035% of GNI for development cooperation, including its Official Aid (OA) to the so-called "in transition" countries. It is estimated that this country's contribution to ODA will be of a similar magnitude in 2003. With the adoption of the strategic development objectives mentioned above and the establishment of a specific IDC item in the National Budget, it is now timely that our international development activities be planned and determined for the longer term, taking into consideration budgetary conditions and the economic capability of the country.

Our country is assisted in its preparations to fulfil the responsibilities of a donor country through the establishment of institutional capacity and the training of experts by the International Development Agency of the Canadian Government (CIDA) and by UNDP, both organising capacity-building joint programs for V4 countries. The EU and the member states have joined together in assisting development capacity building since the spring of 2003.

## II.

### **Hungarian IDC policy**

**The Hungarian development cooperation policy shall be elaborated to conform with the Government Program proclaimed in 2002, with our foreign political and moral objectives and as required as part of our preparation for EU membership.**

As it evolves, Hungarian IDC, while considering the principles and political practice of the OECD and EU development strategy, will be based on national interests and characteristics, will form part of foreign relations and will be aimed at social and economic development of countries eligible for ODA and those countries in transition. . **Hungary intends to form a development partnership with countries that are important to its foreign and security policy and foreign trade relations** (regional stability, geographical proximity, traditional and active foreign relations, extensive social and political contacts, well-founded

economic and commercial structures, etc.), **that are well known to Hungarian social and economic actors** (knowledge of local characteristics and needs, command of languages) and where its IDC efforts are duly received. Hungarian development cooperation shall be focused primarily on sectors and areas where Hungary has comparative advantages, such as:

- the transfer of Hungarian experience related to the change of political systems (establishment and operation of democratic structures; establishment of conditions for the transition to market economy; privatisation; support to small and medium enterprises; application of the „good governance” requirements; development of migration, election and population statistic systems, etc.);
- intellectual capital, know-how based assistance (information technology and communication; community Internet access; management and planning of labour policies, etc.);
- education (university and post-graduate), training of experts and technicians, curriculum development, distance teaching arrangements;
- health, pharmaceutical production (planning, equipment and operation of hospitals and polyclinics; birth control; reduction of epidemics, etc.);
- agriculture (dissemination of the most up-to-date plant cultivating and stock-breeding methods; seed improvement; plant health and plant protection; freshwater pisciculture; afforestation programs; forestry consulting; mushroom growing; development plans for farms; biotechnology; agrometeorology; agriculture-related expert and engineer training), food industry (slaughter house design);
- water management, planning and consultancy (storage basins and barrage dams; water purification plants; dam planning; drainage; exploration and measurement of water resources, etc.);
- infrastructure planning;
- consultancy on environmental protection;
- protection of cultural heritage;
- general and transportation engineering activity; cartography.

Considering the existing multilateral and bilateral instruments of international development cooperation, **Hungary shall strengthen its capacity in bilateral development cooperation in the initial stage.**

The international trend of **untying aid** shall also be considered when framing Hungarian IDC programs, since international surveys pointed out that strictly tied aid reduces the efficiency of aid and delays the sustainable development of the partner country. However the practice of donor countries favouring the use of domestic products and services in their bilateral development assistance activities, i.e. tying the assistance thereto is almost generally used today.

### **Development of the Legal and Organisational Infrastructure**

Government Decree 82/2003 (07.06.) modified the responsibilities and competence of the Minister of Foreign Affairs to include IDC activities. Government Decision 2121/2003 (06.06.) decided to establish the

#### **IDC Interdepartmental Committee**

(IDC IC) presided over by the Minister of Foreign Affairs and primarily

responsible for determining partner countries and target areas for our IDC.

An **IDC Committee** shall be established in the Ministry of Foreign Affairs to harmonise IDC programs with the foreign, security and foreign economic policy objectives.

The IDC IC is to be assisted by an

**Interdepartmental Expert Group** of delegated representatives of the ministries, founded on March 10, 2003. The development policy coordinated by MFA shall not replace the international aid-support activity and funding program so far pursued by the various line ministries and institutions. However, the MFA is now responsible to harmonise, with the active participation of the line ministries, all Hungarian development activities and to assist in the efficient use of central IDC resources.

A **Civil Advisory Board** shall soon be established to allow and encourage the participation of social and professional organisations and representatives of public life in the review of Hungarian IDC activities and to expand the efficiency of IDC activities and enhance their social acceptance.

The IDC institutional structure is expected to be operational as from the second half of 2003 when the planning and execution of actual development programs and projects start.

The Ministry of Foreign Affairs shall **inform the Foreign Affairs and Budget Committees of the Parliament** about the IDC activities. The IDC program is open to the corporate sector, NGOs and other members of Hungarian society.

### **Partner Countries and Target Areas - Selection Criteria**

In view of our relatively limited financial means, in comparison with the total flow of ODA from OECD member states, and the requirement for the exposure of Hungarian assistance, Hungary's IDC resources shall, at first, be concentrated in **only a few partner countries**.

These partner countries are to be selected according to strict and consistent criteria. The assisted country shall meet the general cooperation conditions of the donor community and of international organisations (UN, OECD DAC, IMF, World Bank, etc.). At the same time, the selection of these countries shall ensure coherence between our political, security and economic objectives on the one hand, and the practice of development cooperation on the other. **The programs are intended to contribute to the sustainable social and economic development of the partner countries and to the reinforcement of bilateral relations equally.** Due measures shall be taken to adapt the programs to the requirements of sustainable development from social, economic and environmental aspects.

### **Scope of IDC activities**

Together with other member countries, Hungary shall employ the definitions of Official Development Assistance established by the DAC of the OECD. The most important areas thereof are as follows:

*- Technical cooperation (essentially education, technical training and the transfer of experience)*

This is where Hungary has the greatest experience. The exchange of experts and the provision of opportunities for university and post-graduate education have improved our relations with the developing world for decades. The EU expects the accession countries to be engaged in so-called “ **knowledge transfer** ”, i.e. the delivery of experience in political system changes and have a share in international donor work, principally in line with global challenges.

*- Project type development programs*

It is expected that partner countries will possess poverty reduction or strategic development plans which they share with donor countries as they seek partial or total funding and implementation of specific projects. At the same time it is noted that the success of development projects depends on their more general effect on economic and social conditions and sustainability. Experienced donor countries have recently concluded that comprehensive, sector or program - level development programs guarantee quicker and more efficient development than simple project-type aid. However, this approach requires development planning and management resources of a magnitude Hungary does not yet possess. So smaller, well - defined and targeted projects that tie up fewer resources will be selected for implementation in the first few years. In addition, opportunities will be sought to join the project-type cooperation schemes of experienced donor countries, e.g. through trilateral cooperation.

*- Humanitarian assistance*

Humanitarian assistance can take two forms: responses to natural catastrophes, and assistance to the victims of man-made crises. In both cases however, it is usually necessary to be able to respond urgently to unforeseen circumstances. Political considerations are often of secondary importance when offering humanitarian assistance as it is provided to everybody and anyone in need, under the aegis of discrimination-free assistance. At the national level therefore, facilities for offering and delivering quick assistance will have to be formed. It is foreseen that the resources dedicated to Humanitarian Assistance by Hungary will be channelled through NGOs capable of delivering aid quickly and proficiently and distributing it where needed.

*- Credit with aid included*

Within the frame of bilateral assistance forms, OECD allows the extension of credits with aid to ODA countries, subject to the observation of strict regulations. OECD publishes the list of qualified countries in its annual document “Country Classification for Export Credits and Tied Aid”. International regulations propose subsidised credit extension primarily for infrastructure investments that pay off slowly and are unsuitable for funding on market terms. Under this construction, donor countries mainly provide national products and services with a 35 percent minimum grant component. Hungary has not yet taken the opportunity of subsidised credits and the government decree to regulate this topic is currently in the preparatory stage.

*- Other assistance-type activities*

OECD DAC acknowledges as ODA all operating costs spent on the operations and maintenance of the ODA delivery institution system, the support granted in the first calendar year to refugees who arrive in our country and any other

support, as e.g. training and health allowances for foreign students from ODA eligible countries. This category also includes state subsidies related to the IDC activities of NGOs and expenditures incurred to support arranging the administration of IDC activities.

“Public-private partnership”, i.e. cooperation between the public and the private sectors has also recently appeared in IDC relations, with its primary objective targeted at the involvement of new development actors and funding sources to improve the efficiency of development activities. This shall also add new elements to the scope of ODA activities.

Assistance granted by the donor countries to countries in transition is also recognised as an ODA expenditure and called „Official Aid” (OA) by the DAC of the OECD.

From a Hungarian point of view the assistance granted to Hungarian communities living in the neighbouring countries through the Office for Hungarian Minorities Abroad also forms part of Hungarian IDC, as it contributes to the development of these communities and the countries in which they live.

#### *- Contribution to the IDC activity of international organisations*

The majority of development cooperation programs are implemented by international development and financial organisations. The UN and its specialised institutions have played a leading role in helping developing countries in their socio - economic development activities for decades. Countries newly joining the donor community can similarly rely on the decades-long technical experiences of the UN organisations in delivering IDC programs and projects. Hungary should reasonably contribute to the development activities of such international organisations on the basis of the general IDC principles.

The establishment of a joint trust fund with UNDP - managing training courses for Hungarian ODA experts, implementing projects and through that the reinforcement of Hungarian IDC capacities, based on the experience of the organisation and its wide-spread agency network - should be subject to consideration.

## **Requirements of program implementation**

**Establishing the conditions and the institutional capacity to deliver IDC, managing the structures and mechanisms that serve the implementation of development policy and forming capacities to promote the efficient use of budgetary resources are urgent, priority issues.** Following the OECD DAC recommendations, the mechanisms of the international donor community are co-ordinated. All members work towards the coherence, complementarity and coordination of their IDC programs. Hungary can best respond to IDC requirements if it harmonizes its national regulatory framework with the international practice.

The Ministry of Foreign Affairs acts as the decisive stakeholder in the development of Hungarian IDC policy, in interdepartmental coordination and in the operation of the delivery mechanism. The International Development Cooperation Department, with its chief responsibilities of planning, managing and organising IDC activities, was established in October 2002.

As a general rule, implementing agencies supervised by the Ministry of Foreign

Affairs organise the execution of IDC programs in the recipient countries. Primarily, organizations in the private sector, either businesses or NGOs are commissioned to **deliver** the programs. Their services in delivering projects or programs are to be retained through the use of competitive bidding procedures. The dimensions of the Hungarian IDC program do not as yet require the establishment of a separate implementing agency, however the development of the **delivery mechanisms** and their harmonisation has to be ensured in the initial stage as well.

The delivery mechanism is made up of three main elements;

- 1.) the **Ministry of Foreign Affairs**, determining the policies and priorities within which development programs and projects will be delivered, approving the selection of individual programs and projects for inclusion in the Hungarian IDC budget and supervising their execution on the basis of decisions taken by the IC;
- 2.) the **implementing agency, reviewing and assessing project proposals** from a technical and financial point of view, preparing invitation for bids from Hungarian organizations, evaluating proposals received, recommending the selection of successful bidders to the IC and monitoring the execution of projects;
- 3.) the **executive (management) organisation** executing the project as approved by the IC.

Any not-for-profit organization selected to the post of Implementing Agency should reasonably be experienced in development issues, should not be inordinately structured and should be supported with a flexible decision-making mechanism.

The public and private companies, as well as NGOs, taking part as executing organizations, should be well qualified in many aspects. These will be specified and prioritized in the request for proposals published by the Implementing Agency. The IDC programs are to be published on the MFA homepage and in the press.

**Development cooperation programs funded from the state budget are required by international standards to be organised with wide social participation, the involvement of the public and the assurance of accountability.**

The Ministry of Foreign Affairs and the line ministries are not engaged in the actual delivery of IDC programs and projects. Instead, they retain the services and competencies of profit-oriented and not-for-profit members of the **private sector** to deliver specific IDC initiatives in international development programs. Additionally, other institutions (universities, research groups, private persons) may also be involved in the arrangement of the programs.

The Ministry of Foreign Affairs has commenced to hold formal dialogue and to develop relations with the representatives of potential national stakeholders. Meetings have been held and the exchange of opinions has been promoted with the representative bodies of the national private sector and the representatives of NGOs that engage in humanitarian relief. Both representative bodies expressed their interest in development cooperation. The MFA continuously organises technical training programs for them, with the involvement of well - known international, EU and national experts.

An **expert registration system** shall be set up as soon as possible. Similar to the practice in other countries, anyone - natural persons and legal entities alike - is entitled to register in the database on the questionnaire accessible on the

MoFA homepage.

**Expert training** shall also be arranged. No educational institution offers relevant technical development training in Hungary. Moreover the experts with decades-long experience in developing countries lack familiarity with current IDC issues. For the time being the International Development Cooperation Department is responsible for organising such training. Administrative, branch-level and corporate technical knowledge that underlie Hungarian development cooperation will also be needed by Hungarian development experts who wish to support the development aspects of the European Commission. One of the efficient means in acquiring such information can be the realisation of trilateral development projects with experienced donor countries, under joint funding.

**Hungarian Embassies** in partner countries should also be able to represent the MFA in its role of determining the policies and priorities within which development programs and projects will be delivered in their countries of accreditation. They should also be able to monitor those projects as approved by the MFA on the basis of the IC decision. Where required, this role should include Hungary's contributions to Humanitarian Assistance programs.

### **IDC communication strategy**

Development cooperation is an expression of international solidarity by the Hungarian society. To date, Hungary's people have seen their role in international assistance as being a response to international and national catastrophic situations. The public has just recently become conscious of international development cooperation and development aid. Our citizens should have a better awareness of the fact that international solidarity, including development and humanitarian activity, is an essential element of European values and serves the interests of the international community as well as the donor and partner countries. They should also have accurate information about Hungary's contributions to development assistance. A multi-year IDC communication strategy shall therefore be drafted. In implementing this strategy the MFA will count on the connections of the IDC Civil Advisory Board with the public and the activities of the NGOs and the churches in this work. Politicians and the decision-makers who form the public opinion should send clear signals that they support the National ODA program.

The statistical reports for 2003 shall be compiled according to the OECD DAC requirements. A measurement system supplying realistic and accurate data to OECD DAC shall be elaborated in cooperation with the Ministry of Finance and the Statistics Office.

IDC funding is still decisively based on subsidy from the state budget. In line with the donor countries, reasonable steps should be taken to initiate the inclusion of donations from the private sector and the population in IDC.

Budapest, August, 2003