

**TOWARDS “MORE, BETTER AND FASTER”:
THE CASE OF AUSTRIAN AND
HUNGARIAN DEVELOPMENT AID**

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Abstract

This thesis examines the efficiency of the Austrian and Hungarian international development aid policy along three main aspects of analysis. Gathered around the EU motto “*Delivering more, better and faster*”, it looks at institutional structure and guidance, the quantity and quality of the aid, and the geographical and sectoral allocation of aid funds. The thesis finds that Austria, despite a number of achievements due to a reform in its development policy, still has a problem with the co-ordination between the activities of its actors and with the elements inflating the genuineness of its aid. Besides, the level of its Official Development Assistance falling short of the country’s economic capacities results in a low visibility of Austria for its partner countries and in the donor community. Hungary is at present in the phase of seeking its structure and donor profile and struggles to ease the tension between its restricted budget and the international expectations. In the future it not only has to increase the volume of its bilateral development assistance but also has to concentrate more its activities on a fewer number of partner countries and sectors in order to ensure a higher degree of efficiency for the aid it provides.

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List of Abbreviations

ADA	–	Austrian Development Agency
CONCORD	–	European NGO Confederation for Relief and Development
DDCCEE	–	Department for Development Cooperation and Cooperation with Eastern Europe (in FMA)
DIDC	–	Department for International Development Co-operation (in FMH)
EDF	–	European Development Fund
EU	–	European Union
FMA	–	Foreign Ministry of Austria
FMH	–	Foreign Ministry of Hungary
GDP	–	Gross Domestic Product
GNI	–	Gross National Income
HAND	–	Hungarian Association of NGOs for Development and Humanitarian Aid
HIPC	–	Highly Indebted Poor Countries
HUN-IDA	–	Hungarian International Development Assistance
IDC	–	International Development Co-operation
IFIs	–	International Financial Institutions
LDCs	–	Least Developed Countries
LMIs	–	Lower Middle-Income Countries
MDRI	–	Multilateral Debt Relief Initiative
MSs	–	Member States
NGOs	–	Non-governmental organizations
ODA	–	Official Development Assistance
OECD DAC	–	Organisation for Economic Co-operation and Development Development Assistance Committee
ÖFSE	–	Österreichische Forschungsstiftung für Internationale Entwicklung (Austrian Research Foundation for International Development)

Introduction

In recent years aid efficiency has become a key issue on the international development aid agenda. It is not only a key topic, but also a key concern for the donor community.

The question is not anymore whether aid has any impact at all, but rather in what way its effectiveness could be increased. A wide variety of ideas, methods and instruments have come to light in the last few years. In the 2002 *Monterrey Consensus* the donor countries recognized that “a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives.”¹ The *Rome Declaration* in 2003 formulated the importance of the harmonization of donor practices and alignment to the recipients’ needs and policies.² In March 2005 these two principles were complemented by that of ownership, managing for results and mutual accountability in the *Paris Declaration*. This Declaration meant a milestone in the discussion about aid effectiveness, and not only because it addressed key aspects of what seem indispensable for aid to work, but also, it was the first to set specific indicators against which to measure progress in terms of aid effectiveness every two years.³

In response to these events, the EU, as the leading donor today in the world, also had to take a step. Therefore in December 2005 it issued the *EU Consensus on Development*, its new development policy statement, in which it established that the “core principles for maximizing the quality and efficiency of aid” are donor coordination, complementarity and policy coherence, harmonization, alignment on recipient country systems, results orientation, national ownership, predictable and less arbitrary aid mechanisms as well as, very

¹ *Monterrey Consensus of the International Conference on Financing for Development* (Monterrey, Mexico, March 18-22, 2002), 14.

² *Rome Declaration on Harmonization* (Rome, Italy, February 24-25, 2003), 2.

³ *Paris Declaration on Aid Effectiveness, Ownership, Harmonisation, Alignment, Results and Mutual Accountability* (High Level Forum, Paris, March 2, 2005), 9-10.

importantly, effective monitoring.⁴ Also, exactly one year after the adoption of the Paris Declaration, on March 2, 2006 the EU brought out its action plan, entitled *EU Aid: Delivering more, better and faster*, with nine ambitious time-bound “deliverables”.⁵ Four of these, a revised EU Donor Atlas, the monitoring of the EU and the DAC processes, a roadmap and a Joint Programming Framework, were ready for adoption and implementation in a group of partner countries. The remaining five, operational complementarity, joint activities with an EU co-financing role, strengthening the EU vision, improving joint local arrangements and producing compendiums of Community development rules were to be developed during 2006 and implemented by 2010. This action plan, together with the *Financing for Development and Aid Effectiveness - The challenges of scaling up EU aid 2006-2010*,⁶ and the *Increasing the impact of EU aid: a common framework for drafting country strategy papers and joint multi-annual programming*⁷ made up the “aid-effectiveness package” of the EU. The importance of co-ordination of donors and in-country complementarity in aid efficiency has been further reflected by the adoption of the *EU Code of Conduct on Division of Labour* in May 2007.⁸

As we can see, the efficient delivery of aid has become an important theme on the aid agenda during the last few years and a host of plans and ideas have been made on the variations of effective delivery. The motto of the EU “*more, better and faster*” sums up very aptly what should be the three motive powers for its Member States in their efforts to enhance

⁴ *The European Consensus on Development* (Brussels, December, 20, 2005), 10.

⁵ European Commission, *Communication from the Commission, EU Aid: Delivering more, better and faster*, COM(2006) 87 final (Brussels, March 2, 2006)

⁶ European Commission, *Communication from the Commission to the Council and the European Parliament, Financing for Development and Aid Effectiveness - The challenges of scaling up EU aid 2006-2010* COM(2006) 85 final (Brussels, June 3, 2006)

⁷ European Commission, *Communication from the Commission to the Council and the European Parliament of 2 March 2006, Increasing the impact of EU aid: A common framework for drafting country strategy papers and joint multiannual programming* COM(2006) 88 final (Brussels, June 3, 2006)

⁸ European Commission, *Communication from the Commission to the Council and the European Parliament, EU Code of Conduct on Complementarity and Division of Labour in Development Policy* COM (2007) 72 final (Brussels, February 28, 2007)

the efficiency of aid. That is, through providing more, better and faster aid, they can increase their aid efficiency.

This thesis borrows this motto and analyzes the path Austria and Hungary follow as EU Member States in the light of providing *more aid*, *better aid* and a *faster aid*. The thesis examines three fundamental areas of investigation, which are key factors upon which the effective delivery and management of aid heavily depends and which are tightly linked to the matter of *more*, *better* and *faster*. Chapter 1. deals with the aspects of *better* and *faster* through looking at the institutional structure, the actors and the relations between them, and the way development policy is “invented” and planned further. *More* and *better* stand in the focus of Chapter 2., which scrutinizes the quantity and quality of the Austrian and Hungarian aid. It examines also the proportion of their bilateral and multilateral ODA. The last chapter, Chapter 3. addresses the problems of *more* and *faster* and analyzes the decisions taken by the two countries on whom to support and which sectors to support. It seeks the answer to whether through this selection their aid is distributed in a manner that increases its efficiency.

Why Austria and Hungary? As a matter of fact, the choice of these areas of investigation is inseparable from the object of the analysis. For Austria and Hungary the question of institutional guidance, volume and quality of aid and partner-sector selection are not simply important, since those are important for every single donor, but are also of strategic importance for them in finding their way towards providing aid more effectively, that is, more, better and faster. Why is it strategic for them? It is due to their current place and weight in the donor community, to their economic performance and capacities and to the potentials they could gain in aid-giving through developing a more efficient way of delivery. Austria still has a problem with its visibility amidst the donors owing to the low level of its ODA, performing far behind its economic possibilities and capacities, and with the criticisms against its not genuine aid with no impact on development. Hungary is at present in the phase of

seeking its structure and its individual donor profile, and struggles to ease the tension between its restricted budget and the international expectations. Thus, it is argued here that both have to direct their attention to those very three areas this thesis examines if they intend to achieve a higher ranking in aid efficiency on the donor palette.

The argument of this thesis is relying on two main channels of sources. On the one hand I have analysed the Austrian and Hungarian official policy documents, policy briefs as well as statistics, and I have consulted the recent studies and reports of key researchers, as well as the Peer Reviews and the online International Development Statistics DAC database of the OECD DAC. On the other hand, the lion's share of my argument is built up on findings from personal interviews, five in each country, conducted with representatives of both the governmental and non-governmental sector in order to get a deeper insight into the topic and to provide a greater added-value to the research.⁹

It has to be noted that due to the word limit, two important areas cannot fall within the scope of this work. One is humanitarian aid: if the linkage between the humanitarian and development aid, that is the continuum between the relief of the emergency, the subsequent reconstruction and rehabilitation and the outset of a long-term development is not ensured, development aid cannot be delivered efficiently. However, this theme is very complex and therefore cannot be included within such a short work. The other very important aspect of the “development business”, the role of and the relations of the official development policy with the private business sector, is also compelled to be omitted from the scope, since this field is becoming increasingly important and thus would need a more thorough analysis *sui generis*.

⁹ A detailed list of the interviewees, who are cited with their permission, can be found in the Appendix.

This thesis does not intend to provide a new theoretical framework for measuring aid efficiency. The view-points applied in the course of the analysis are only elements of a wider set of indicators of an efficient international development policy. However, the thesis intends to give a practice-oriented analysis of the Austrian and Hungarian foreign aid policy and also to bring out ideas how these could be improved and developed.

It intends to contribute to the evaluation of the performance of Austria and Hungary towards providing “more, better and faster aid”, and in a wider horizon, to contribute to the analysis of the practices followed by them and presented here with respect to aid efficiency in general. The results of the research may be of use for both decision- and policy-makers in the course of planning the future possible directions of their country’s development policy, for development NGOs in their project and advocacy work as well as for researchers in their future projects.

The investigation of the topic is very timely. Yet in September of this year on the Third High-Level Forum on Aid Effectiveness in Accra, Ghana, donors have to give an account of whether they have managed to move toward a more efficient aid which was set out in the Paris Declaration three years before. In November in Doha, Qatar, the Follow-up International Conference on Financing for Development will review the implementation of the commitments for scaling up the aid of the 2002 Monterrey Consensus. For EU Member States, thus for Austria and Hungary, 2008 is right at the half-way between their commitments taken for 2006 and 2010 on increasing the level of their development assistance. They have fulfilled them in 2006, but in the case of 2010 they both have still a long way to go.

Chapter 1: Institutions, Management and Planning

The impact and efficiency of the aid that a donor country provides is greatly determined by the way the donor plans and manages its aid policy, by the institutional structure, the leeways of the different actors, the relationships between them and the legal context they are surrounded by. In this chapter I will examine the effectiveness of the Austrian and Hungarian aid policy from these aspects, seeking the answer to whether their current institutional set-up, the division of labour and the methods of planning lead the Austrian and Hungarian development policy closer to an efficient way of providing development assistance. To solve this puzzle, first I will look at the role of the actors of the governmental sector. Following this, I will analyze the concepts, strategies and the legal background on the basis of which the development policy is “invented”. Finally, I will scrutinize the relationship between the governmental and non-governmental sector, and the future prospects of the latter in the changing circumstances.

1.1. Actors and Narrow Leeways

On a cross-donor level, the policy and decision-making structure and the administration of aid policies and programmes show a great variety. There are countries, for example in Belgium, the Netherlands or Sweden, where a separate ministry, or at least a separate minister (in the Belgian case) is responsible for the country’s international development co-operation. In general, the setting up of a separate ministry for a policy field may serve as an indicator of the importance a government attaches to that, although, it does not imply that the tasks are carried out by it more efficiently. More important factors are its exact mandate, be it a ministry or only a department, besides the division of labour between the different actors

playing a role in development co-operation, the coordination of and coherence between their activities, and the financial and human resources and capacities of the actors.

Austria and Hungary belong to the group of those countries where development policy and co-operation is managed by a department within the Foreign Ministry and is under the ultimate authority of the Foreign Minister. It is a common characteristic of both countries that the Foreign Ministry is the main policy-maker and the coordinator of the country's foreign aid policy. Yet, it has control over only a quite small share of the total ODA, around one sixth to one fifth in Austria and one sixth in Hungary, respectively.¹⁰ A number of line ministries also have their own development cooperation expenditures and programmes (such as the Ministry of Finance, Education, Interior, Agriculture, just to name the most important ones). In Austria this causes many times incoherency between the various aid activities.¹¹ While in Hungary this results in a lack of transparency and ineffective co-ordination between them.¹² From the point of view of aid effectiveness this means a problem, since it prevents both countries from exercising a consistent aid policy and co-operation.

Going further to the level of programme and project implementation, Austria, with the intention of creating a more efficiently working aid system and at the same time responding to the criticisms of OECD DAC, created in 2004 the Austrian Development Agency, a non-profit and limited liability executing agency owned by the federal government, to take over the implementation of all bilateral ODA programmes, which task had rested before with the DDCCEE. In practice, ADA does not have its own projects, but tenders out the actual

¹⁰ Michael Obrovsky, "Austrian Aid Policy," in *Perspectives on European Development Co-operation: Policy and performance of individual donor countries and the EU*, ed. Paul Hoebink and Olav Stokke (New York: Routledge, 2005), 119; Judit Kiss, *A magyar nemzetközi fejlesztéspolitika a számok tükrében* (Budapest: HAND, 2007), 23.

¹¹ Paul Hoebink and Olav Stokke, "Introduction: European Development Co-operation at the Beginning of a New Millennium," in *Perspectives on European Development Co-operation: Policy and performance of individual donor countries and the EU*, ed. Paul Hoebink and Olav Stokke (New York: Routledge, 2005), 7.

¹² Kiss, *A magyar nemzetközi fejlesztéspolitika*, 23.

implementation to Austrian or partner country NGOs and private firms.¹³ The creation of ADA has been assessed by the most recent evaluation as a positive step towards an effective aid-giving activity, in particular through the setting-up of co-ordination offices in every priority country of the official development policy.¹⁴

At the same time, there are still some problematic points. First, ADA is not responsible directly to the parliament, but only to the Foreign Minister, which would be necessary anyway if it spends public funds.¹⁵ Besides, the projects financed by line ministries in partner countries do not fall under the responsibility of the ADA Co-ordination Offices.¹⁶ Also, ADA administers only the bilateral core budget which amounts to only 8 % of the total Austrian ODA. As the Head of Unit of NGO Cooperation and Humanitarian Affairs in the ADA expressed herself, a key challenge in the future for the Agency is the harmonisation and coordination of the different activities of different actors, be it Austrian, local or international, in their partner countries.¹⁷

As regards Hungary, one channel of the implementation of the official bilateral aid programmes is the HUN-IDA, a private agency, which has obtained its status of official executing agency of the official projects through public procurement in 2004, until 2009. However, the programmes it implements are almost without exception only organization of trainings in the public administration reform and the knowledge of the transition to the market economy. A higher share of projects are implemented by NGOs, private firms, or the line ministries, which makes the development co-operation quite fragmented. A further critical

¹³ “Struktur der Österreichische EZA – Entwicklungspolitik in Österreich.” ÖFSE. Available at <http://www.eza.at/index1.php?menuid=1&submenuid=12> (accessed April 25, 2008)

¹⁴ Horst Breier and Bernhard Wenger, *Evaluierung der Tätigkeit der Austrian Development Agency (ADA)* (Bonn and Zürich, April 2008), 5-6.

¹⁵ Interview by author with Michael Obrovsky, Director of the Österreichische Forschungsstiftung für Internationale Entwicklung. May 14, 2008., Vienna.

¹⁶ *OECD DAC Peer Review 2004 – Austria* (Paris: OECD, 2004), 62.

¹⁷ Interview by author with Johanna Mang, Austrian Development Agency. May 15, 2008., Vienna.

point in this issue appears to be the lack of transparency and access to concrete information regarding the spending of public funds by the agency.¹⁸

From the point of view of aid efficiency, another issue is that of the monitoring. The HUN-IDA is responsible for the monitoring of the projects, but only of those implemented by NGOs from the funds of the DIDC. The monitoring of the rest of the projects is done by the DIDC itself. Due to the scarcity of its financial resources, the HUN-IDA monitors dominantly on the basis of self-assessment questionnaires, which have been prepared jointly with the Canadian International Development Agency before, and which the NGOs have to fill out.¹⁹ In the opinion of the NGOs themselves, these questionnaires are, in turn, not always able to point out whether a project has been measurably successful or not. Besides, as the secretary of the Federation of development NGOs has disclosed, when they tried to request evaluations based on the monitoring questionnaires from the FMH, the answer they received was that the questionnaires were in fact not evaluated further.²⁰

From the aspect of the efficient management of the ODA budget, a common problem in both countries is the lack of an adequate number of staff, although in Austria to a smaller extent. The low number of staff leads to a high amount of ODA managed per capita and renders the actual implementation of the 'aid efficiency commitments' more difficult. As Obrovsky argues, the FMA, although it is much more a focal point and a policy leader than it used to be earlier, it needs to be further strengthened in numbers, if it intends to be able to follow the OECD DAC and EU advancements and participate in the decision-making process in international fora.²¹ This is even more the case in Hungary, if we take a look at the latest available official figures. In 2006 the development staff of the FMH managing ODA in full-

¹⁸ Kiss, *A magyar nemzetközi fejlesztéspolitika*, 25.

¹⁹ Interview by author with Ibolya Bárány, Director of HUN-IDA, May 13, 2008., Budapest.

²⁰ Interview by author with Réka Balogh, Secretary General, HAND Hungarian Association of NGOs for Development and Humanitarian Aid, May 16, 2008.

time was only 17 people, no one working in the field among them.²² Actually, according to the latest published report about the Hungarian IDC by the FMH, this number was only 15 in 2006. It was deemed as a required minimum for the efficient working, but as one making an increase in staff indispensable in the following years.²³ Compared to those NMSs to which Hungary can be compared on the basis of a similar volume of ODA, this is still more than in Poland or in the Slovak Republic, 14 and 7 people, respectively, but only half of the staff of the Czech Republic, which amounts to 30 people. Furthermore, the majority of the staff of the FMH takes part in the periodical staff rotation and is sent abroad for foreign service, mostly to another field of work, through which the Hungarian IDC loses a considerable amount of experience and knowledge for its future self-development.²⁴

1.2. Concepts, Strategies and Legal Background

Either international development policy and cooperation is a fully independent policy field for a donor, or it is integrated into its foreign policy and policy tools, the lack of a clear overall concept of the aid-giving, of partner country strategies and sector strategies, of detailed and transparency-ensuring annual reports as well a comprehensive legal regulation is not conducive to an efficient aid policy-making and implementation. In the following part this issue is examined in relation to Austria and Hungary.

Austria, as a response to the recommendations of the OECD DAC Peer Review, namely that it should have an overall development co-operation strategy which links all the

²¹ Interview, Obrovsky.

²² In Austria this was 125 people, 93 of them working at the headquarters and the rest on the field. Source: *EU Donor Atlas 2006* (Brussels: European Commission), 53.

²³ *Beszámoló a Nemzetközi Fejlesztési Együttműködési Tárcaközi Bizottság részére a 2006. évi nemzetközi fejlesztési együttműködési tevékenységről és a 2007. évre tervezett feladatokról.* (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, 2007), 3.

²⁴ Interview, Balogh.

components of its aid policy to a clearly defined set of developmental goals,²⁵ introduced some major changes between 2002 and 2004. First, it replaced the Development Cooperation Law from 1974 by a new Act in 2002 (amended in 2003 due to the establishment of the ADA), which already defines three objectives – combating poverty, ensuring peace and human security, preserving the environment –, and four principles to take into consideration – the partner country’s aims and right to choose its own way of development, the integration of measures into the social environment, gender equality, and the needs of children and people with disabilities.²⁶ Besides, the FMA prepares every year, in consultation with the Ministry of Finance, a Three-Year Programme on a rolling basis, which sets out a programme-matrix and the thematic and geographic focuses of the bilateral policy as well as the priorities for the multilateral development policy of Austria for the next three years.²⁷ Also, since 1992 the FMA has developed specific country strategies for practically all of its priority partners as well as region-level strategies which includes the rest of the partners. It has prepared overall sector strategies as well, for water, transport, small- and medium-sized enterprises, education and training, tourism and rural development.

These elements can be assessed as clearly important developments towards an efficient aid policy, especially from the point of view of the “pressing need for multi-annual” planning, insisted upon by the European Commission, for the sake of the greater predictability of aid.²⁸ Although this aid flow predictability is in fact not fully-fledged, since the country, despite that the central state budget is planned for two years, cannot make multi-year financial commitments, but only plans can be drawn up about it. Besides, as I will discuss it later in much more detail in Chapter 2.2., the predictability of aid is further lowered due to debt relief.

²⁵ *OECD DAC Peer Review 1999 – Austria* (Paris: OECD, 1999), 11.

²⁶ *Entwicklungszusammenarbeitsgesetz inklusive EZA-Gesetz-Novelle* (2003), 1.

²⁷ “Wichtige Dokumente – Entwicklungspolitik in Österreich”, ÖFSE. Available at <http://www.eza.at/index1.php?menuid=1&submenuid=228> (accessed April 28, 2008)

²⁸ European Commission, *Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, The EU - a global partner for*

Besides, a further problem remains to be that the Three-Year Programmes, and the country and sector strategies do not cover all the ODA relevant activities of Austria,²⁹ that is, those implemented by any other actor save ADA. This leads back to the problem of incoherency and inconsistency I have already referred to in the previous chapter, as the FMA cannot coordinate those ODA projects or spending of the government which are not under its direct responsibility.

The case of Hungary is even more problematic. As a summary made by the DIDC puts it, “by now the institutional, legal and financial frameworks of our IDC policy have been laid down.”³⁰ This is a positive achievement given that the international development co-operation and policy of Hungary in its current form is very young, and consequently, a transitional period is needed to catch up with the more developed part of the donor community. As the Development Policy Concept also stated in 2002, so far Hungary had not had a consciously-structured development co-operation policy backed up constantly by financial resources and a stable institutional system.³¹

However, since already five years have passed since the OECD and EU-conform Hungarian international development cooperation commenced in the year 2003, the inchoative stage should be over soon. However, there are still three critical problems which need to be solved. First, so far only for three countries have specific country strategies been prepared, for Serbia, Bosnia-Hercegovina and Vietnam in 2006 and 2007.³² Although the

development - Speeding up progress towards the Millennium Development Goals – COM (2008) 177 final (Brussels, April 4, 2008), 6.

²⁹ *OECD DAC Peer Review 2004*, 61.

³⁰ The general development policy concept has been approved in 2001 and the DIDC has been set up in 2002. *A Brief Summary of Hungary's International Development Co-operation Activities*. (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, 2006), 1.

³¹ *Koncepció a Magyar Köztársaság Nemzetközi Fejlesztési Együttműködéséről*, (March 25, 2002., Foreign Ministry of Hungary, Budapest)

³² “A Nemzetközi Fejlesztési Együttműködési Kormánybizottság ülése”, *Foreign Ministry of Hungary*, (Budapest, April 9, 2008) Available at

annual summary report prepared by the DIDC each year about the previous year presents the various activities carried out in a country, these descriptions usually do not talk about the overall and country-specific strategy followed there. If they do, they do so only in case of the priority countries (Chapter 3.1. discusses in more detail which are these countries), which suggests that there are probably no strategies laid down for the remaining twelve countries. Similarly, no specific sectoral strategy has been made publicly available or referred to in any of the annual reports or speeches – which, again, points to the fact that these have not been drafted yet. This may mean a problem in the future, as comprehensive strategies about those countries and sectors where a donor intends to be engaged in the most efficiently possible are important for the effective programming of aid activities, already in the medium-, let alone in the long-run.

The second problem is that a development co-operation law, which would provide a comprehensive legal framework for the Hungarian development aid activity has not been born yet.³³ One of the main problems of the current legislation is that it cannot interpret the fact why Hungary should devote public funds for foreign countries.³⁴ Besides, it renders the financing of aid projects by NGOs abroad and a number of other administrative and accounting activities more difficult. As a matter of fact, not every donor country has a development co-operation law, and the existence of a law does not even guarantee in itself the efficient operation of the aid-giving system. As the OECD DAC Review on aid practices establishes, a well-developed legislative basis provides transparency and clarifies the responsibilities of the different actors, as well creates a spirit of thrust for the public, however sometimes a less formalised legal foundation is more beneficial in that it allows room for

http://www.kulugyminiszterium.hu/kum/hu/bal/Kulpolitikank/Nemzetkozi_fejlesztés/nemz_fejl/080409_nefe_kormanybizottsag_ules.htm.

³³ Interview by author with Dénes Tomaj, Head of the Department of International Development Co-operation, Foreign Ministry of Hungary. May 16, 2008., Budapest.

³⁴ Interview, Tomaj.

more flexibility for building coalitions between the actors.³⁵ In the case of Hungary a development law would be by all means of a great importance for it could tackle the problems in co-ordination, institutional structure, co-operation with the civil actors, transparency and effectiveness.

Further, by means of a new comprehensive legal regulation, the third problem could be tackled as well, notably, the Hungarian state budget is planned for a one-year term only and does not give possibility for a multi-annual planning of the ODA expenditures, which would be, in turn, conducive to a greater predictability of the aid flow and is therefore promoted by the EU, as I have already noted earlier. According to the disclosure of the DIDC, the preparatory works of the law are now under process, and the draft legislation is hoped to be submitted to the Parliament in 2009. If the new legal regulation takes into consideration the aspect of multi-annual planning as well, that will be an important step towards a more efficient programming of Hungary's development aid flow.

1.3. Partnership in Development: the Role of NGOs

Non-governmental organizations are an organic part of the foreign aid regime today. From the view-point of aid efficiency, the activity of the NGOs and the collaboration between them and the official policy is important in two main areas: project implementation and public awareness-raising. NGOs rarely use no governmental funds at all to realize their projects. Also, it is very common that donors, especially the smaller or "younger" ones, outsource a high share of the project implementation to NGOs. Besides, civil organizations have a crucial role in raising public awareness within the donor country's society, which is, in turn, a key determinant both for the public support for development aid and for the efficiency and success

³⁵ OECD DAC, *Managing Aid: Practices of DAC Member Countries* (Paris: OECD, 2005), 25.

of a donor country's overall aid effort.³⁶ Polls across donor countries have shown that people consider the aid provided by NGOs more effective in reaching and helping poor people than official aid.³⁷ Therefore, a good co-operation with NGOs is a key determinant for aid effectiveness.

In Austria NGOs have traditionally played a triple role in development co-operation: they have been implementors of their own projects, development partners for official projects and have carried out advocacy and awareness-raising work. Their engagement has been particularly central since it was their work through which the Austrian international aid-giving as such had commenced.³⁸ Historically, the co-operation between them and the governmental sector has been generally good, though it has also been a sort of mutual dependence on each other. The government has an interest in maintaining a good co-operation due to the relationships and presence of the NGOs in the partner countries.³⁹ Even if Austrian NGOs usually can raise a high amount of money from private charities, especially those with a church-related background, for many development NGOs public funding is an important factor.⁴⁰ A major challenge for the Austrian NGOs results exactly from this.

Two years ago Austria started to allocate a part of its bilateral ODA in budget support.⁴¹ This amounts to less funding earmarked for project assistance, that is, NGOs can apply for less public funding. Why this is problematic is that the level of the Austrian bilateral ODA is quite low, and if this level is not increased substantially in the future, the favouring of this modality of aid will negatively affect the NGOs. The AGEZ Federation of Austrian development NGOs points out in its position paper that in case of Austria the programme aid

³⁶ John Degenbol-Martinussen and Poul Engberg-Pedersen, *Aid: Understanding International Development Cooperation* (London – New York: Zed Books Ltd., 2005) 162.

³⁷ Riddell, *Does Foreign Aid Really Work?*, 112.

³⁸ Interview by author with Anton Mair, Deputy Director General of the Department for Development Cooperation and Cooperation with Eastern Europe, Head of the Department for Development Co-operation, Policy, Strategy and Evaluation. May 15, 2008., Vienna.

³⁹ Interview, Mair.

⁴⁰ Interview by author with Inge Jäger, President of *Südwind Entwicklungspolitik*. May 14, 2008., Vienna.

⁴¹ Budget support goes directly to the partner country's government to boost its aggregate expenditures.

(i.e. the general or sectoral budget support) and project aid need to be complementary, the NGOs focusing, for instance, on the development of good governance practices and the capacity-building of the local civil society in order to ensure the overall efficiency of the budget support.⁴² This necessity of the complementarity of aid modalities was emphasized by the Head of Unit of NGO Cooperation and Humanitarian Affairs of the ADA as well.⁴³ The first evaluation on the overall efficiency of budget support for Austria will take place later this year, but irrespectively of its findings, in the future the Austrian policy-making, in order not to disadvantage its own NGOs and to ensure that they can implement official Austrian development projects efficiently from the governmental funds available, has to consider what the proper proportion of the programme aid and project aid should be.

Another trend that has appeared recently is that the ADA contracts directly the Southern NGOs for project implementation, excluding this way the Austrian ones.⁴⁴ This also affects them negatively already now⁴⁵, and by reducing their co-operation it may result in less coordination in the future between the official and civil development activities, lowering the aid efficiency in the long-run.

In Hungary, the NGO sector in the modern sense has a much shorter history, as it had the possibility to emerge only after the changes in 1989-90. Therefore, a part of its currently existing problems, most notably, the lack of adequate resources and its relatively weaker capacities can be traced back to this fact. However, the state of development the Hungarian NGO sector has achieved by today can be assessed as quite good, compared to other

⁴² AGEZ, *Die österreichischen NGOs der Entwicklungspolitik und Entwicklungszusammenarbeit. ihre Rolle jetzt und in der Zukunft, ein unverzichtbarer Partner für die OEZA und die Länder des Südens – Positionspapier* (Vienna, 2006), 4.

⁴³ Interview, Mang.

⁴⁴ Interview, Mair.

⁴⁵ Interview by author with Friedarika Santner, Rapporteur on Africa of Gemeinnützige Entwicklungszusammenarbeit GmbH. May 14, 2008., Vienna.

organizations in Central Eastern Europe.⁴⁶ As regards the major problems, one of them is that the decisive majority of the organizations is in a great need of state funding; however, these tend to be usually limited, just like the overall Hungarian development aid budget, as it will be discussed later in the next chapter. A core funding on the part of the DIDC would therefore be welcomed by many and has even been suggested by the HAND umbrella organization of humanitarian and development NGOs⁴⁷; however, it does not appear for them that it will materialize in the close future.⁴⁸ Going further, according to the opinion of the HAND the co-operation between them and the DIDC has been mainly ineffective for a long period.⁴⁹ It is only from the last year, 2007 when they feel that their proposals and view-points are taken into account more, for instance, at the invitations for tenders.

Yet, at this very issue arises a major conflict of interests. Notably, even if the FMH intends to put the comparative advantages and capacities of the NGOs in the service of the national interests in the development policy,⁵⁰ it has announced many times that it does not want to build the capacity itself of the NGOs by making it possible for them to account some of their operational costs.⁵¹ However, for the NGOs this renders it considerably difficult to ensure their operation. According to the position of the DIDC, the governmental sector can help the NGOs in capacity-building by funding their participation in workshops, trainings and seminars so as to acquire the necessary knowledge and skills. Also, it can “lobby” in a good sense in their interest during the different phases of the international tenders.⁵² On the basis of the interviews conducted with the two sides, it can be established that there is still room for

⁴⁶ Interview by author with Gábor Bálint, Executive in EU Strategical Affairs of Hungarian Interchurch Aid. May 13, 2008., Vienna.

⁴⁷ *Javaslatok a NEFE stratégia és NEFE törvény kialakításához*. HAND Hungarian Association of NGOs for Development and Humanitarian Aid (unpublished) (Budapest, 2008), 24.

⁴⁸ Interview, Balogh.

⁴⁹ Interview, Balogh.

⁵⁰ *Beszámoló a Nemzetközi Fejlesztési (2007)*, 44.

⁵¹ Interview, Balogh.

⁵² Interview, Tomaj.

improvement as regards the co-operation between them. Which is vital, since it influences the efficiency of the overall development co-operation.

Having examined the institutional set-up, the leeways of the actors and the relationships between them and the way Austria and Hungary plan its development policy, we are led to the conclusion that at several points the current structures work against the efficiency of aid. The problems are not the same in the two countries, as we have seen, however, both need to develop, or change, these structures presented throughout the three chapters, otherwise their development assistance will not progress towards a “better and faster” aid-giving.

Chapter 2: The Quality and Quantity of Aid

The quality and quantity of aid are crucial factors on the route towards providing aid in a more efficient way. When a donor does not have an adequate level of ODA and does not provide genuine aid, the efficiency of its development co-operation as a whole is largely reduced. In this chapter I will examine whether Austria and Hungary provide enough aid, compared to the commitments they have made and compared to their economic situation and capacities. Following this, I will focus on the genuineness of their aid, and look for practices followed by them which worsen the quality of their ODA. In the last chapter I will point out the importance of the “healthy proportion” between the bilateral and multilateral aid allocation. Through all this, I seek an answer to the question whether the current quality and quantity of their aid serve the purpose of aid effectiveness or not.

2.1. Delivering Enough? – The Quantity

The answer to the question whether the quantity of the aid Austria and Hungary delivers is enough can be approached from two directions. On the one hand, does Austria and Hungary provide as much aid as they have committed to provide on international fora? On the other hand, do they provide as much as they could possibly do?

In 1970 the General Assembly of the United Nations set out in Resolution 2626 that developed countries will increase their ODA to 0.7 % of their GNP (today GNI) to assist developing countries in their fight against poverty and uneven development. Since then, the 0.7 % target has been reaffirmed many times on international fora and become an ultimate target for the donor community to reach by 2015. The EU, acting up to its position as the largest donor today in the world, with more than 55 % of the total ODA disbursed by the

whole donor community in a year,⁵³ has committed itself to additional targets. In March 2002 the Council of the European Union adopted the Barcelona Commitments, in which MSs agreed to increase their ODA to 0.33 % of their GNI and to reach a collective target of 0.39 % by 2006. The informal expectation towards the would-be Member States was that they reach a level of 0.1 % by 2006.⁵⁴ In May 2005 at the External Relations Council new targets were set: the EU-15 committed themselves to reach a level of 0.51 % of GNI by 2010, while the EU-10 undertook to reach a level of 0.17 % of GNI by 2010 and to increase that level to 0.33 % of GNI by 2015. Thereby the EU visions to reach a collective target of 0.56 % of GNI by 2010 as a step towards the 0.7 % level by 2015.

Table 1. shows the performance of Austria and Hungary and the average of the EU-25/27, the EU-15 and the EU-10/12 since 2002 (data for 2007 are preliminary data yet of the OECD):

Table 1.: ODA of Austria and Hungary in % of GNI and in million € between 2002 and 2007

	2002		2003		2004		2005		2006		2007	
Austria	0.26	552	0.20	447	0.23	546	0.52	1.266	0.47	1.193	0.49	1.313
Hungary	0.02	n.a.	0.03	21.1	0.07	56	0.10	80	0.13	119	0.07	66
EU-25/27	n.a.	n.a.	n.a.	n.a.	0.33	34.735	0.41	45.336	0.41	47.676	0.38	46.087
EU-15	0.34	31.030	0.35	38.154	0.35	34.418	0.44	44.857	0.43	47.040	0.40	45.361
EU-10/12	n.a.	n.a.	n.a.	n.a.	0.07	316	0.08	479	0.09	637	0.09	726

Source: OECD International Development Statistics DAC online database (data extracted May 11, 2008); European Commission Communication, *The EU - a global partner for development - Speeding up progress towards the Millennium Development Goals – COM (2008) 177 final*, 14-15.

From the table above it can be seen that both Austria and Hungary met their commitment/expectation, that is, they reached 0.33 % and the 0.1 % by 2006, respectively.

⁵³ EuropeAid, *Annual Report 2007 on the European Community's Development Policy and the Implementation of External Assistance in 2006*. (European Commission, Brussels, 2007), 12.

⁵⁴ *Beszámoló a Nemzetközi Fejlesztési Együttműködési Tárcaközi Bizottság részére a 2003. évi Nemzetközi Fejlesztési Együttműködési Tevékenységről és a 2004. évre Tervezett Költségvetésről*. (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, 2004), 12.

On closer examination, we can see that Austria started from a very low point in 2002. Historically, the level of ODA it has provided from the 80s onwards has always been low, and also fairly volatile, fluctuating between 0.20 % and 0.33 % of its GNI each year.⁵⁵ The country considerably improved its ODA statistics only in 2005, when it reached 0.52 % of the GNI and despite a small drop, it could more or less maintain this level until 2007. However, this increase seems impressive only if one does not look behind the figures. The rise was thanks only to debt relief, in particular for the one provided for Iraq, making up 57.44 % of the total Austrian ODA in 2005 and 50.49 % in 2006.⁵⁶ Having deducted this and other aid-inflating items, such as imputed students costs and refugee assistance (an issue which I will discuss in more detail in Chapter 2.2.), the country provided according to the estimates of aidwatch NGOs only 0.20 % of its GNI to development assistance in 2006.⁵⁷ And with this level it has fallen far too short of reaching the 0.33 % target.

Looking at the performance of Hungary, it can also report a good achievement. Having a glance at its ODA level in 2002, it started from a very low point, but has managed to increase its disbursed aid each year a bit, and by 2006 it reached the informal expectation, that is, the 0.1 % of GNI spent on ODA. However, in the last year, the volume of its ODA decreased to some extent and went below this target. This was actually in line with the international trend: the overall fall of net ODA due to the decrease of debt forgiveness.⁵⁸

Despite having fulfilled the Barcelona commitment, it is currently a great challenge for both countries to reach the target of 0.51 % and 0.17 %, respectively, of their GNI allocated to development assistance by 2010. Both the OECD DAC and the European Commission have

⁵⁵ In the 70s it was even less. Source: *Die Entwicklung des EZA-Budgets für Programm- und Projekthilfe (PPH) 1970 – 2005*. ÖFSE. Available at <http://www.oefse.at/Downloads/eza/PPHuebersicht70-05.pdf> (accessed April 28, 2008)

⁵⁶ “Bilaterale EZA – Entschuldung.” ÖFSE. Available at <http://www.eza.at/index1.php?menuid=2&submenuid=42> (accessed 27 April 2008)

⁵⁷ CONCORD, *Hold the Applause! EU governments risk breaking aid promises* (Brussels, April 2007), 17.

prepared a simulation of ODA to see to what extent Member States should increase their aid and whether they are and the international donor community as a whole on track towards achieving the 2010 target.

Table 2. shows this simulation in relation to Austria and Hungary:

**Table 2.: Simulation of the Austrian and Hungarian ODA for 2008 – 2010
(in million € and in % of GNI)**

	2007		2008		2009		2010	
Austria	1.313	0.49	933	0.33	970	0.33	1.552	0.51
Hungary	66	0.07	69	0.07	130	0.13	182	0.17

Source: European Commission Communication, *The EU - a global partner for development - Speeding up progress towards the Millennium Development Goals – COM (2008) 177 final*, 14-15.; OECD-DAC Secretariat simulation of DAC members' net ODA volumes in 2006 and 2010. Available at <http://www.oecd.org/dataoecd/57/30/35320618.pdf>.

The table shows that Austria is quite close to the target already. However, as it has already been noted, its ODA have been substantially pushed up from 2005 onwards by debt forgiveness. After its last phase runs out, which is expected to take place this year, the “statistical proximity” has to be compensated for by new resources, otherwise it will not meet the 0.51 % target, even if it is close to it now. As regards the political will, it is there, and also plans have been made about how to distribute the extra sum, only the source of that necessary amount is unknown yet.⁵⁹ The 2009 target is still the Monterrey target, i.e. 0.33% of the GNI, however, even this will be hard to achieve without including debt relief.

Hungary is now quite far from the target of 0.17 %. The projection shows that it should increase its ODA practically threefold to reach the 0.17 % level. However, according to national estimates,⁶⁰ it would be able to reach only an amount of 148 million euros (instead of the 182 million indicated in the table) by 2010, which corresponds to a level of 0.14 % of the

⁵⁸ OECD DAC, “Debt Relief is down”

⁵⁹ Interview, Mair.

⁶⁰ On the basis of information supplied by MSs in European Commission, *Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Keeping Europe's promises on Financing for Development – COM (2007) 164 final* (Brussels, 4 April 2007), 9.; Kiss, *A magyar nemzetközi fejlesztéspolitika*, 6.

GNI.⁶¹ Since there are still three years until the end of 2010 to improve the ODA numbers, it is not possible to establish firmly whether the two countries will reach their target or not. One thing is sure, their numbers already suggest that the volume of their financing is not satisfactory for this moment, since these targets have been set up as minimum requirements for an adequate financing for development.

Returning to the second question, whether Austria and Hungary give enough aid or not in relation to their possibilities and capacities, we come to similar conclusions in both countries.

Austria has long been criticized for the fact that the level of its ODA does not reflect its economic strength and capacities.⁶² As Obrovsky argues, in 2000 Austria ranked 6th in terms of economic strength, but only 12th in terms of the ODA disbursed from among the EU MSs.⁶³ If we look at the period between 2001 and 2006, we can see that the country had the third to fifth best economic performance from among the Member States,⁶⁴ but in providing development aid it was only the eleventh to thirteenth⁶⁵ most generous country in terms of its ODA/GNI ratio. Although it was so only until 2005 and 2006 when it sprang to the fifth and seventh place, respectively, – but this was only due to the debt relief, as it was noted above.

The 2004 OECD DAC Peer Review explains the long-term low level of Austria's foreign aid with its lack of a colonial past and of a historical and intellectual stimuli resulting therefrom to develop aid programmes for the ex-colonies.⁶⁶ Also, as mentioned by the Review, the Austrian school of economic thinking has always laid an emphasis rather on the

⁶¹ The exact planning is rendered more difficult by the fact that the country has not set up any timetable on how to reach the 0.17 % level step by step. Source: CONCORD, *No time to waste: European Governments Behind Schedule on Aid Quantity and Quality* (May 2008), 41.

⁶² *OECD DAC Peer Review 1999*, 11.; Obrovsky, "Austrian Aid Policy", 114.

⁶³ Obrovsky, "Austrian Aid Policy", 114.

⁶⁴ Eurostat: GDP per capita in PPS. Available at http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1073,46870091&_dad=portal&_schema=PORTAL&p_product_code=EB011 (extracted May 21, 2008)

⁶⁵ Carbone Maurizio. *The European Union and International Development: The Politics of Foreign Aid*. (London and New York: Routledge, 2007), 78.

⁶⁶ *OECD DAC Peer Review 2004*, 17.

role of market mechanisms and entrepreneurship than on the transfer of resources when it came to fostering development. Furthermore, the domestic political support for development policy has never been outstanding in the country. Evidence for this are the traditionally small budget suggests, and also the fact that between 1970 and 1995 development policy was transferred back and forth between the FMA and the Federal Chancellery, owing to that it was deemed a less important policy field for the party leading the given institution.⁶⁷ As a conclusion, the assumption that Austria gives less than it would be able to, has been confirmed by Anton Mair, Deputy Director General of the DDCCEE: “*Definitely. Austria could and should do more in development cooperation.*”⁶⁸

If we conduct the same analysis and look at the the economic performance and ODA/GNI disbursements of Hungary between 2002 and 2006, we can see that it ranked on average the 19th in both economic performance and aid generosity within the EU.⁶⁹ This reflects on the one hand the fact that Hungary numbers among the small donors and is still an emerging one, as usually referred to in the literature.⁷⁰ On the other hand, this makes us assume also that the level of the amount Hungary devotes to development assistance in a year is in proportion with its economic strength and capabilities.

In order to judge whether it would be a realistic expectation towards the country to allocate much more for assisting poorer countries, we have to take into consideration several issues. First, even though Hungary has gone through the transition successfully after the change of regime, it still needs a fair amount of time to fully catch up with donors with more developed

⁶⁷ Obrovsky, “Austrian Aid Policy”, 122.

⁶⁸ Interview, Mair.

⁶⁹ See *Note 64.* for the source on GDP per capita in PPS, and *Note 65.* for that on the volume of ODA.

⁷⁰ However, it has to be noted that this emergence is in fact a re-emergence, as during the socialist era the country provided considerable assistance for developing countries on political-ideological grounds, mainly education-training and technical co-operation. The peculiarity of this was that in several years the volume of this assistance reached the level of 0.7 % of GNI, exactly what the international donor community tries now to achieve by 2015. Source: *Hungary’s Report on the Millennium Development Goals: Taking stock.* (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, October 2004), 4.

economies in Europe. Second, if we consider that despite the considerable slow-down and deterioration of the position of its economy in the past three to four years, the country could still increase its ODA and since the EU accession it has practically doubled its volume both in absolute terms and measured in percentage of its GNI, its 'aid performance' seems rather positive. Also, Hungary ranks among the best ODA performers with Poland and the Czech Republic from among the new MSs.

Yet, there is another side to the coin. If we look at the size of the gap between the level of the ODA estimated by the country for 2010 and that of its commitment, we can see that these 34 million euros are in fact only slightly more than one promille of the country's GDP in 2007.⁷¹ Therefore it can be assumed that the national economy would not be burdened to such a great extent in a three-year term by an increase of this scale in foreign aid. The position of the Head of the DIDC coincided with this assumption when he worded that this was not an "unmanagable amount which could not be raised if the political will was there."⁷²

As a summary and a conclusion, we can establish that despite certain achievements there is still space for improvement in case of both countries. This is particularly true for Austria, who performs well below its possibilities. However, the increase of ODA is not impossible for Hungary, either, nor is it in fact an unreal expectation. This is important since by a higher level of ODA their efforts towards an efficient aid-giving could have a basis to build on.

2.2. Aid Inflated – The Quality

From the point of view of the recipient country, it is more than important whether it receives genuine aid that contributes to its development or phantom aid that does not. Both Austria and Hungary inflate their aid by accounting certain expenditures as ODA which have

⁷¹ Calculated on the basis of Eurostat: GDP current prices. Available at http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/&product=EUROIND_NA&depth=3 (extracted May 21, 2008)

a questionable impact on development, or in a worse scenario, they have no impact on it at all. The following chapter will discuss these expenditures: *debt relief*, *imputed student costs* and *refugee assistance costs*. Reporting these as ODA statistically improves the aid performance, however, in reality reduces the overall efficiency of the aid-giving activity.⁷³

According to the OECD DAC Handbook for Reporting Debt Reorganisation, the “Cancellation of debt qualifies as ODA *debt forgiveness* if it has a development motive.”⁷⁴ This reporting rule is favourable for a host of donor governments who are lenders to low income countries and are waiting in vain for the repayment of the loans they have provided in the past. Namely, a great majority of the debtor countries is not able to redeem the debt it has accumulated anymore.⁷⁵ The forgiving of the debt means, in turn, a loss in revenue for the lending government which accounts it, therefore, as ODA, roughly speaking, “in exchange”.

Almost all EU MSs inflate their aid by reporting debt relief as aid, but Austria is among the worst performers, what is more, in 2006 and 2007 it ranked as the biggest inflator.⁷⁶ Debt forgiveness, within the framework of the HIPC and as a member of the Paris Club, has provided a large-scale increase in its ODA statistics already from 1997 and 1998, and the 2005 debt relief for Iraq und Cameroon granted it with an exceptionally impressive ODA

⁷² Interview, Tomaj.

⁷³ Debt relief, imputed student costs and refugee assistance are also a sort of tied aid, since these “services” are available only from that donor country which provides them.

⁷⁴ OECD DAC, *Handbook for Reporting Debt Reorganisation on the DAC Questionnaire* (Paris: OECD, 2000), 29.

⁷⁵ From the end of the 80s bilateral and multilateral creditors, such as the Paris Club, and the World Bank, the IMF, the African and the Inter-American Development Bank and the International Development Association have launched various initiatives, such as the Debt Reduction Facility from 1989, Debt Initiative for Heavily Indebted Poor Countries from 1996, Multilateral Debt Relief Initiative from 2006, to cancel or reschedule the debts of some of the debtors. By mid-March 2008, 33 countries have benefited from debt relief and a further eight are potentially eligible for it in the framework of the HIPC initiative. Source: World Bank, “Debt Relief overview”, Available at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040942~menuPK:34480~pagePK:34370~theSitePK:4607,00.html> (accessed May 20, 2008)

⁷⁶ OECD DAC, “Debt Relief is down”, Table 2: Share of debt relief grants in net official development assistance.

performance.⁷⁷ The following table shows the amount of debt relief in million € and its percentage of the total Austrian ODA. The data for 2008 is a prognosis indicated in the Three-Years Programme for 2007-2009.⁷⁸

Table 3.: Share of debt relief in the Austrian ODA between 2001 and 2008

	2001	2002	2003	2004	2005	2006	2007	2008
Debt relief (million €)	271	176.78	36.22	74.79	727.24	602.79	671	775
% of debt relief in total ODA	38	32.03	8.11	13.71	57.45	50.49	51.11	55.55

Source: *Facts and Figures: Main ODA elements 2002, 2003, 2004, 2005, 2006.* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna); OECD DAC, “Debt Relief is down: Other ODA rises slightly”; “Bilaterale EZA – Entschuldung”, ÖFSE.

Hungary also takes part in forgiving of debts either multilaterally, through the HIPC and MDRI programmes or by bilateral decisions. The following table shows those debt relief actions where a part or the total amount of the cancelled debt could be reported as ODA. However, as Kiss notes it and as it is indicated in the table too, not in every case were there data available on whether these debts have been included finally in the ODA statistics or not.

Table 4.: Major bilateral debt relief actions by Hungary in 2005 and 2006

		Total debt (million \$)	Forgiven debt (million \$)	Reported as ODA in million HUF (a)	(a) % of total ODA
2005	Jemen	22.6	19.6	2180.545	10
	Tanzania	20.8	18.8	2080.681	9.5
2006	Ethiopia	7.154	6.4386	0.743	n.a.
	Iraq	229.324	137.594 ^(x)	n.a.	n.a.

(x) – From this amount only the interest, equaling to 67.152 million \$, could be accounted as ODA according to the OECD rules.

Source: Judit Kiss, *A magyar nemzetközi fejlesztéspolitika a számok tükrében* (Budapest: HAND, 2007), 20.

⁷⁷ “Bilaterale EZA – Entschuldung”

⁷⁸ *Dreijahres Programm der Österreichischen Entwicklungspolitik 2007 bis 2009. Fortschreibung, 2007.* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna, 2007), 54.

From this table it can be seen that in 2005, corresponding with the international debt relief wave, the share of the cancelled debt in the Hungarian ODA reached almost 20 %. This number may be even bigger if we accept what has been noted both by Kiss and the CONCORD in its report on the inflated aid of EU MSs, about the lack of basic information and exact numbers relating to the Hungarian debt relief measures, its beneficiaries, and the amount of disbursements.⁷⁹

From the point of view of aid efficiency, reporting debt relief as ODA is highly questionable. It is true that the burden the repayable debts mean hinder the process of development and poverty reduction. However, there are numerous problems arising. First, the vast majority of the debts forgiven and reported as ODA had been export credits before, without any developmental purposes, rather subsidizing the exporting company of the donor country. Second, the cancellation of the debt does not necessarily free up financial resources for the indebted country to allocate it to development because in many cases it does not have that amount at its disposal at all. Therefore, debt cancellation does not result in a fresh financial flow and does not contribute to development. Third, if debt relief frees up fresh resources, it is rather for the donor, as it treats it as a part of its ODA and not as an additional spending.⁸⁰

As a conclusion, accounting debt relief as ODA largely reduces overall aid efficiency, since it usually does not mean genuine financial resources, it does not ensure predictability of aid flow and it is not the proof of an increased aid budget, nor that of the political commitment to increase it.

⁷⁹ CONCORD, *Hold the Applause!*, 35.

⁸⁰ This is, actually, contrary to the Monterrey Consensus adopted at the Financing for Development Conference in 2002, which states that donor countries have to “ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries.” Monterrey Consensus, 17.

Going further, another important issue within the theme of aid effectiveness is the reporting of the so-called *imputed student costs* (i.e. the expenditures on developing country students enrolled in the donor's universities) as ODA. According to the Statistical Reporting Directives of the OECD DAC, these costs can be included in the ODA expenditure only if "the presence of students reflects the implementation of a conscious policy of development co-operation by the host country."⁸¹

Imputed student costs make up, after the debt relief, the second largest inflating part of the Austrian ODA. In 2004 they amounted to 6.9 % (some 38 million euro), in 2005 to 3.88 % (nearly 50 million euro) and in 2006 to 4.6 % (some 55 million euro) of the total ODA.⁸² This number is already slightly less than in the years before, as until 2004 Austria included the costs of all the students coming from developing countries and studying any subject not necessarily with a developmental focus in its ODA report.⁸³

Hungary is also of the opinion that educating developing country students is in the long-run conducive to the economic and human development of the sending country as the students upon return can utilize the knowledge and skills acquired at the donor's university. During the socialist period, in particular in the 70s and 80s, this was among the most popular forms of the country's aid policy, and hundreds of foreign students from countries with a 'socialist orientation' were pursuing their studies in Hungarian universities and colleges year by year. After the change of regime this form of assistance fell back to a minimum, and today Hungary only receives students, five each annually, from Mongolia and Vietnam.⁸⁴ However, in the

⁸¹ OECD DAC, *Statistical Reporting Directives* (Paris: OECD, 2007), 18.

⁸² *ADC Report 2004-2005 Official Development Assistance in Figures – Part II.* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna, 2005), 10-11.; *ADC Report 2006 Official Development Assistance in Figures – Part II.* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna, 2006), 9.

⁸³ *OECD DAC Peer Review 2004*, 78.

⁸⁴ Disclosure by Péter Holodnyák, referee of the Hungarian Scholarship Committee in a personal interview due to the lack of publicly available data in October 2006, referred to in Balázs Szent-Iványi and Vári Sára, "A nemzetközi fejlesztés gazdasági hatásai a donorországokban." (Unpublished working paper for the research project "Challenges and possibilities for Hungary in International Development Co-operation", *Institute for World Economics*, 2008), 17. Note 2.

future, added to these countries, there are plans to revive the scholarship cooperation with Afghanistan, Jemen, China, Laos, the Palestinian Authority, Serbia and Montenegro, and to strengthen with neighbouring countries where Hungarian minorities live.⁸⁵

Even if currently the share of these student costs is not so high either in the Austrian or in the Hungarian ODA, it is still questionable whether it is proper practice to report them as ODA. There are two conflicting positions. On the one hand, for those countries where the educational system is un- or underdeveloped, the transfer of knowledge and know-how means significant help towards the development of its human capacity. Furthermore, when the donor can provide useable and unique knowledge and skills for the recipient country's student, the cooperation benefits in fact both countries and may be considered as genuine aid.

However, usually it is not the students most in need who have the possibility also to participate in a scholarship programme and study abroad. More importantly, many times it is not the case that the developing country student returns home upon finishing his or her studies, but rather chooses better career opportunities with the freshly acquired knowledge abroad, mainly in the country where he or she studied. Therefore, in this sense, this form of aid only amplifies brain drain, which has become an international trend and means a serious problem for developing countries anyway.⁸⁶ Furthermore, it is also not sure that the student in question will ever use his or her knowledge acquired by the donor's educational help in a sector which has a developmental effect on the country. Consequently, the link between this type of aid and the future development of the country is quite weak in practice. In the absence of a strong causal relationship it is difficult to establish that this form of development assistance do contribute to development, that is, efficient. Therefore we are led to the

⁸⁵ *Beszámoló a Nemzetközi Fejlesztési Együttműködési Tárcaközi Bizottság részére a 2005. évi nemzetközi fejlesztési együttműködési tevékenységről és a 2006. évre tervezett feladatokról* (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, 2006), 15.

⁸⁶ Mario Cervantes and Dominique Guellec, "The brain drain: Old myths, new realities," Available at http://www.oecdobserver.org/news/fullstory.php/aid/673/The_brain_drain:_Old_myths,_new_realities.html (accessed May 3, 2008)

conclusion that by reporting these student costs as ODA, Austria and Hungary inflate their aid and reduce its efficiency.

Besides, in the case of Austria an additional problem is that it is the Ministry of Education, Science and Culture who covers these imputed student costs, so again, this is another expenditure over which the FMA has no control. And this works against the coordination and predictability, i.e. efficiency of aid.

Finally, a third inflating component of the ODA is the *expenditure on refugee assistance*. The DAC Statistical Reporting Directives have always allowed this item to be recorded as ODA, but from 1980 only for the first twelve months of the person's stay.⁸⁷

Hungary is not concerned in this issue, since it never accounted its expenditures on refugees as ODA.⁸⁸ However, Austria did and does so, although, the share of this item in the ODA statistics is only low. In the second half of the 90s the number of asylum-seekers in Austria started to decline, and so has the share of the assistance in the ODA from 21 % in 1992 to 7 % in 1998.⁸⁹ In the first years of 2000 this has decreased further to one-third of the ODA, and still stagnates around the same number.⁹⁰

In this issue it is not so much the scale of the amount of expenditure reported as ODA what is problematic, but rather the matter of the principle. Truly enough, providing provision to asylum-seekers is a moral and also a legal obligation, in particular in the case of EU MSs. However, the assistance for refugees does not contribute in any way to development and poverty reduction in the country they have fled from. It would do so, if the refugee returned, but even in that case only in a very complex way. However, even this very return is unlikely

⁸⁷ OECD DAC, *Statistical Reporting*, 22.

⁸⁸ Kiss, *A magyar nemzetközi fejlesztéspolitika*, 22.

⁸⁹ *OECD DAC Peer Review 1999*, 21.

⁹⁰ *Facts and Figures: Main ODA elements 2002, 2003, 2004, 2005, 2006*. (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna) Available at <http://www.bmeia.gv.at/en/foreign-ministry/foreign-policy/austrian-cooperation/facts-and-figures.html>

when it comes to fleeing. When a country, namely Austria counts the refugee assistance as ODA, it suggests that that amount, be it as little as it is, is used to replace fresh resources for development. Since costs on refugees do not bring any fresh resources to the aid recipient country, there is in fact no developmentally efficient element in them at all. Thus, this reduces the degree of efficiency of the overall Austrian ODA. Furthermore, should there be a humanitarian crisis in the future, and should more asylum-seekers arrive in the country, the higher costs resulting from that would detract this way even more resources from genuine development assistance and further reducing the value of the aid.

2.3. Quality and Quantity Combined: the Proportion of the Bi- and Multilateral ODA

No single donor gives development assistance only bilaterally or multilaterally. Both serve certain purposes and interests: the former is usually to foster the donor's individual objectives and priorities, while the latter has rather security policy considerations, ethical motives and international humanism, though it is still not de-linked from the donors' political or economic influence or motives.⁹¹ Donors divide their foreign aid cake for bilateral and multilateral cooperation differently. Smaller donors tend to provide a higher share of their annual aid budget through multilateral channels, while traditional and bigger donors leave more for themselves for bilateral form either in absolute or in relative terms.⁹²

The "healthy proportion" between the bilateral and multilateral aid, as well between the channels within the multilateral one, varies from donor to donor depending on its size, the number and location of its partner countries, the modalities of its assistance and the sectors it supports. However, many times the division is much more the result of the strategical goals of its aid-giving or its financial possibilities.

⁹¹ Degnbol-Martinussen and Engberg-Pedersen, *Aid*, 94.

⁹² *Ibid.*, 131.

If we examine Austria and Hungary, we find that the proportions are not the most adequate in either of them, although, from different points of view. Austria provides financial contributions to the UN, the World Bank and the budget of the EU, as well the EDF.

The following table shows the share and distribution of its multilateral aid between 2000 and 2006:

Table 5.: Share of the multilateral aid in the Austrian ODA between 2000 and 2006 (million euro):

	2000	2001	2002	2003	2004	2005	2006
Total Multilateral ODA	180.68	213.66	165.43	244.56	261.67	274.64	324.10
UN organizations	21.76	19.74	20.92	18.57	21.08	21.73	21.50
IFIs	62.73	87.36	38.62	73.67	76.84	72.47	112.51
EU	94.14	104.43	103.74	149.8	160.86	177.51	187.98
% of total ODA	39	30	30	55	48	22	27

Source: *Total Multilateral Development Cooperation 2000-2005* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna, 2005); *Total Multilateral Development Cooperation 2002-2006* (Department for Development Cooperation and Cooperation with Eastern Europe, Foreign Ministry of Austria, Vienna, 2005)

From this table we can establish the following main features of Austria's multilateral ODA during the last few years. First, it has been greatly volatile, ranging from 22 % up to 55 % of its total ODA. This makes the predictability of the contributions quite low. Second, the payments to the EU constitute the lion's share of the multilateral ODA, in average around 60 %. Third, Austria contributes three to four times as much to the IFIs as to the different UN programmes, funds and agencies. A fourth feature is that its voluntary contributions to the latter have been pushed down to the very minimum in comparison with the 90s,⁹³ being far below the EU and OECD DAC average today.⁹⁴

As a result of the volatility, it is not easy to judge whether the proportion of its bi- and multilateral aid is appropriate, since it always changes, partly depending on the date of

⁹³ Interview, Obrovsky.

⁹⁴ "Multilaterale EZA – Österreichs Beiträge zu UN-Organisationen," ÖFSE. Available at <http://www.eza.at/index1.php?menuid=2&submenuid=45> (accessed April 29, 2008)

replenishments to IFI funds. Historically, the share of its multilateral aid has always been low, although it has increased to some extent after 1995, when Austria joined the EU and became a contributor to the budget of the EU and the EDF.⁹⁵ As it has already been pointed out, Austria would be able to allocate more budgetary resources to its development co-operation as a whole on the grounds of its economic performance. The abovementioned trend, that smaller donors usually channel their funds multilaterally, is not applicable to it, even if it is a small donor indeed, as its economic performance would allow the country to have a higher ODA.

Austria's voluntary contributions are not efficient enough in this manner, since the agencies and funds which it supports depend on the members' generosity anyway and become more and more vulnerable by the reductions.⁹⁶ Also, as we have seen, its bilateral aid is highly inflated, not providing any fresh money for development, and therefore, it cannot compensate (and it would not even be its function normally) for the low amount of its multilateral ODA.

And a recurring problem is again that this small-size multilateral spending is administered, with the exception of the UN contributions, by the Ministry of Finance, thus the FMA has neither responsibility nor control over it.⁹⁷

Coming to Hungary, we find a different situation. However, before we examine the proportion of the bilateral and multilateral ODA, it has to be noted that there are two different datasets, which are not consistent with each other.

Table 6. shows the figures available in the International Development Statistics online database of the OECD DAC, whereas Table 7. shows the data of the DIDC of the FMH for the period from 2003 until 2006 and 2007.

⁹⁵ Obrovsky, "Austrian Aid Policy", 115.

⁹⁶ In case of finding extra resources for the ODA budget, this would be actually the second main priority for the DDCCEE after the country programmes and before the humanitarian expenditures where Austria would allocate its funds. Source: Interview, Mair.

⁹⁷ Obrovsky, "Austrian Aid Policy", 122.

Table 6.: Share of the multilateral aid in the Hungarian ODA between 2003 and 2007 – OECD data

	2003	2004	2005	2006	2007
Multilateral ODA (in million \$)	7.34	36.64	60.79	65.15	56.7
Total ODA (in million \$)	21.21	70.14	100.33	149.49	90.83
Multilateral in% of total ODA	34.6	52.2	60.6	43.6	62.4

Source: *OECD International Development Statistics DAC online* (data extracted May 11, 2008)

Table 7.: Share of the multilateral aid in the Hungarian ODA between 2003 and 2006 – FMH statistics

	2003	2004	2005	2006
Multilateral ODA (in million HUF)	5 508.77	13 734.67	8 583.13	15 681.81
Total ODA (in million HUF)	6 981.10	20 478.58	21 873.59	29 003.70
Multilateral in% of total ODA	78.9	67.1	39.2	54.1

Source: Kiss, *A magyar nemzetközi fejlesztéspolitika*, 8. Table 4.

As it can be seen from the tables, the data differ to a large extent. According to the disclosure of the Head of the DIDC in the FMH, on average 70-80 % of the Hungarian ODA have gone to multilateral organizations in the last few years.⁹⁸ The most recent official EU Donor Atlas (2008)⁹⁹ contains the same figures up to 2006 as the International Development Statistics of the OECD. However, neither the OECD database, nor the EU Donor Atlas have a detailed breakdown of data for each multilateral channel. Kiss itemizes which ministry pays membership fees and/or contributions to which international organizations or agencies, ranging from the World Bank group through various UN funds and programmes to other larger agencies or organizations, as well as to the obligatory EU contribution; however, she also remarks that it is not available how large is the share of those payments that can be or have been reported as ODA.¹⁰⁰ What one can conclude on the basis of the two different datasets and the disclosure of the FMH is that the share of multilateral aid in the total ODA of

⁹⁸ Interview, Tomaj.

⁹⁹ EU Donor Atlas 2008. (European Commission, Brussels, 2008) Available at <http://fs2.bbj.it>

¹⁰⁰ Kiss, *A magyar nemzetközi fejlesztéspolitika*, 9.

Hungary tend to be fairly high. This corresponds to the trend mentioned above, that small donor countries usually have a higher share of multilateral than bilateral aid.

The question is whether for Hungary this proportion is favourable or not. On the one hand, providing aid through multilateral institutions the transaction costs are usually less; therefore, this may be more advantageous for a donor with restricted budget capacities. Also, in the budget of a given multilateral institution its contribution is added up by that of others, thereby the little amount it gives may have in fact some greater impact than alone.

On the other hand, however, if we look at the history of foreign assistance, bilateral co-operation has always served to foster particular donor interests and goals. As according to the disclosure of the DIDC, Hungary also has specific national bilateral interests,¹⁰¹ the level of bilateral aid needs an increase. Besides, in case of Hungary such a high share of multilateral aid does not seem favourable and efficient in the long-run for the following three main reasons. The country cannot directly oversee the efficient use of a high share of the aid it provides; detracting a part from its bilateral budget it will have not enough resources left at its disposal to implement bilateral programmes and projects; and also, it cannot lay down the basis of its future individual aid-giving activity. Therefore, this current proportion of its bilateral and multilateral aid reduces its efficient operating in the development aid regime.

As a final conclusion and returning to the puzzle of this chapter, we have found that the current level and composition of both the Austrian and Hungarian ODA are not adequate for them to progress towards giving “more and better aid”. Thus, through this they reduce the efficiency of the development aid they provide both in terms of quantity and quality.

¹⁰¹ Interview, Tomaj.

Chapter 3: Geographical and Sectoral Allocation of Aid

The proper selection of partner countries and sectors to be engaged in has a decisive role on the effectiveness of a country's aid-giving activity. By finding that gap in the web of the different sectors and co-operation countries where they have an actual comparative advantage and which has not been overcrowded yet by others, small donors can provide a valuable contribution even with limited financial resources and increase their aid efficiency. In this chapter I will examine whether Austria and Hungary, who are also small donors, follow a wise policy in choosing their partners and sectors – a policy which contributes to a higher efficiency of their aid.

3.1. Donor interests and recipient needs – the selection of partner countries

The issue of focusing aid policy on a limited number of countries has long been on the international development agenda. The most recent OECD DAC guideline document on how to manage aid more effectively has also confirmed that donors “need to make important decisions about the [...] geographic focus and the number and choice of main partner countries.”¹⁰² Beside the focusing, two important considerations need to be whether the partner country is in need of aid and to what extent, as well as whether how many donors are working in the same country in the same field of activity. Namely, the proliferation of donor countries, agencies and NGOs has already led to a high ratio of unnecessary duplication of work and programmes, all to the expense of the recipient country and the efficiency of aid it receives.¹⁰³

¹⁰² OECD DAC, *Managing Aid*, 46.

¹⁰³ Riddell, *Does Foreign Aid Really Work?*, 361.

Examining the country focuses of Austria, we can see that it concentrates its development co-operation in eight priority countries, which are: Serbia, Montenegro, Kosovo, Moldova, Macedonia, Bosnia Hercegovina, Albania, Burkina Faso, Ethiopia, Uganda, Mozambique, Bhutan, Nicaragua and the Palestinian Authority. It has also so-called co-operation countries: Senegal, Kenya, Burundi, Tanzania and Rwanda, Zimbabwe, Namibia, the Republic of South Africa, Nepal and Pakistan, Guatemala, El Salvador, Armenia, Azerbaijan, Georgia and besides, Afghanistan, Iraq and Western Sahara as special programmes.¹⁰⁴

The system of priority and co-operation partner countries and regions was established in 1992-93, when Austrian, partly as a response to the recommendation of the OECD DAC, decided to put an end to the practice of dispersing the funds over a vast number of developing countries.¹⁰⁵ The view-points leading the selection were the experience and presence of Austrian NGOs (such as in Nicaragua, Uganda or Burkina Faso), good diplomatic relations (in the case of Ethiopia) and the special knowledge Austria could provide (for instance in Bhutan). Also, Austria had a particular interest in securing the successful economic transition and developing of stable democracies in Central Eastern Europe after the change of regimes, therefore it provided the major share of its development assistance for the countries of the region,¹⁰⁶ even if the activities of its NGOs have historically been much less significant there.¹⁰⁷

The list of the strategic partners has not changed since 1992, with the exception of Rwanda owing to the genocide in 1994 and Cape Verde, which has moved in 2008 to the group of

¹⁰⁴ *Dreijahres Programm*, 17-26.

¹⁰⁵ The difference between the priority and co-operation countries is that in the former a more comprehensive and long-term co-operation strategy is developed, while to the latter only a small share of the total bilateral ODA is disbursed and they are more a part of a cross-border multilateral programme with the objective of a future phase-out. Source: Obrovsky, "Austrian Aid Policy", 120.

¹⁰⁶ This assistance has been recorded as Official Assistance (OA) in the DAC terminology, and not as ODA well until 2005, when the OECD decided to abolish the two separated lists of partner countries and accounting systems.

¹⁰⁷ Michael Obrovsky, "Finanzielle Gesamtleistungen Österreichs an Entwicklungsländer und Multilaterale Stellen sowie an die CEECS/NIS und Länder in einem Übergangsstadium" in *Die Österreichische Entwicklungspolitik 2004 – Analysen, Informationen: Quo Vadis?* (Vienna: ÖFSE, 2005), 76.

LMIs from that of the LDCs and its relationships with Austria has been placed into an EU strategic partnership framework. The strategy of sticking to a set of priority countries is a positive feature of the Austrian aid policy. The other positive element is that it disburses nearly half of its annual bilateral ODA to LDCs and between 15 % and 20 % of it to LMIs.¹⁰⁸ Thereby it is efficient from the point of view of the poverty reduction efforts.

However, some problems still arise. When we look at the recipient list of the total ODA for instance in 2004 and 2005, we can see that the top 8 recipients, Cameroon, Iraq, Serbia, Montenegro, Bosnia and Herzegovina, Turkey, Egypt and Madagascar were not LDCs, but LMIs (save Madagascar). Also, these disbursements in the case of Cameroon, Iraq, Egypt, Madagascar, and to a small extent Bosnia and Herzegovina, were due to debt relief measures.¹⁰⁹ Further, these countries only partly correspond with the official priority countries of the bilateral policy. Except for Serbia and Montenegro, the traditionally biggest partners such as Uganda, Nicaragua, Mozambique or Ethiopia are found only lower on the list. This shows a certain degree of inconsistency within the overall aid policy.

Going further, the volume of aid Austria can provide in each country is usually very small in comparison with those of other donors. This is the case even in its priority countries, where the amount Austria allocates is much higher, altogether around 80 % of its total bilateral ODA budget.¹¹⁰ The only exception is Buthan, where the Austrian share of the total development assistance for Bhutan amounts to 10-14 %.¹¹¹ As Obrovsky also argues, despite its achievements, Austria still has some problems in the matter of visibility.¹¹² The reasons for this may be that either it is engaged in a too big country with a consequently higher number of donors, or its resources get fragmented because it selects too many countries and thus funds a

¹⁰⁸ *ADC Report 2004-2005*, 18.

¹⁰⁹ *Ibid.*, 22.

¹¹⁰ *Verteilung der bilateralen OEZA-Mittel (ODA-relevant) nach Regionen* (Austrian Development Agency, Vienna) Available at http://www.ada.gv.at/fileadmin/user_upload/ADA/media/2-Aussenpolitik_Zentrale/OEZA_ab_Februar_2006/2763_geografische_verteilung_der_bilateralen_oeza.pdf

¹¹¹ Obrovsky, "Austrian Aid Policy", 121.

higher number of smaller projects. Examining its profile, we can see that from among its priority countries only Ethiopia is relatively big (also, quite favoured by other donors); however, Austria runs projects in five main areas there (health, food security, energy, democracy and gender)¹¹³ which ensures a degree of visibility. Concerning the number of its partners and the projects, the fragmentation has already been observed by the OECD DAC¹¹⁴, and by a recent evaluation of the activity of the ADA.¹¹⁵ This fragmentation diminishes the overall efficiency of the Austrian aid-giving.

As regards Hungary, it has established the same system of strategic and co-operation partners. Its strategic partners are Bosnia and Herzegovina, Serbia, Montenegro and Vietnam, and the co-operation partners are Ethiopia, Yemen, Cambodia, Kyrgyzstan, Laos, Macedonia, Moldova, Mongolia, the Palestinian Authority and Ukraine. Also, Hungary has undertaken international obligations to support Afghanistan and Iraq.¹¹⁶ The list of the partner countries has not changed since 2003, when it was prepared. Only smaller adjustments happened, such as China ceased to be a partner due to its economic growth and emerging donor position.¹¹⁷ Besides, after the Tsunami in 2004 the two most affected countries, Indonesia and Sri Lanka got on the list for three years.¹¹⁸ The logic behind the selection of the partners was mainly linked with the interests of the national foreign, security and economic policy, such as the regional stability, geographic proximity, traditionally strong economic, social and political ties, though the demands of the would-be partners were also influencing.¹¹⁹ In this manner a

¹¹² Interview, Obrovsky.

¹¹³ *Ethiopia Country Programme* (Austrian Development Agency, Vienna, 2004) Available at http://www.ada.gv.at/fileadmin/user_upload/ADA/media/2-Aussenpolitik_Zentrale/EZA_englisch/224_eth_country_programme_2004_2006.pdf.

¹¹⁴ *OECD DAC Peer Review 2004*, 14.

¹¹⁵ Breier and Wenger, *Evaluierung*, 50.

¹¹⁶ *Beszámoló a Nemzetközi Fejlesztési (2007)*, 22.

¹¹⁷ *Beszámoló a Nemzetközi Fejlesztési (2006)*, 21.

¹¹⁸ *Beszámoló a Nemzetközi Fejlesztési (2007)*, 10.

¹¹⁹ *A Magyar Nemzetközi Fejlesztési Együttműködési Politika* (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, July 29, 2003) Available at

clear Central Eastern Europe-centric strategy has evolved, forming part of the trend discernible among the NMSs, notably that they tend to care the most about their neighbours.¹²⁰ Besides, another characteristic, also common to the EU-10¹²¹, is that some countries from the communist past have remained partners (such as Vietnam or Yemen).

From an efficiency view-point, the Hungarian attitude can be assessed as positive in that it intends to manage the geographical distribution of its aid budget flexibly and revise the properness of the country list when it is necessary.¹²² The last Inter-Ministerial Committee meeting in April 2008 decided actually to slightly modify the emphases in the future, and to complement the group of priority countries by Moldova and the Palestinian Authority, while Montenegro will be transferred to the co-operation countries.¹²³ These latter ones remain basically the same, except for Mongolia which does not appear among the partners. A major change is that the Hungarian IDC intends to focus on Subsaharan Africa as a whole in the future, and not only on Ethiopia.

The new plans have some implications on the aid effectiveness of Hungary. As the main focus continues to be on the neighbouring countries, it is efficient from the point of view of the easier financing, implementing and monitoring of the projects. The removal of Mongolia might be an acknowledgement of that it is usually not efficient to maintain a presence in a country if only a very few number of projects are implemented there.¹²⁴ The new focus on Subsaharan Africa has, in turn, positive and negative sides as well. As a pro, this step, which is in line with the development policy priorities of the EU itself, may be a sign of a stronger

http://www.kulugyminiszterium.hu/kum/hu/bal/Kulpolitikank/Nemzetkozi_fejlesztés/nemz_fejl/NEFE_politika.htm

¹²⁰ Aurore Wanlin, "What future for EU development policy?" (working paper) (Centre for European Reform, London, 2007), 8.

¹²¹ Michael Dauderstädt, "Eastern enlargement and development policy" in *EU Eastern enlargement and development cooperation*, ed. Michael Dauderstädt (Friedrich-Ebert-Stiftung, International Policy Unit, electronic edition, Bonn, 2002)

¹²² Judit Kiss, "The main principles and objectives of the Hungarian development cooperation strategy" in *EU Eastern enlargement and development cooperation*, ed. Michael Dauderstädt (Friedrich-Ebert-Stiftung, International Policy Unit, electronic edition, Bonn, 2002)

¹²³ "A Nemzetközi Fejlesztési Együttműködési Kormánybizottság ülése"

future engagement in overall poverty reduction in the region, especially given that the Hungarian IDC is mainly active in LMIs, and less in LDCs. This is important since the progress towards the achievement of the Millennium Development Goals depend mainly on the development performance of the LDCs. A further sign is actually that from December 2006 five Hungarian embassies, the ones in Pretoria and Nairobi among them, receive a certain amount of ODA allocation each year for planning and financing micro-projects in the countries within their scope.¹²⁵

However, there are some cons as well. On the one hand, to focus on the whole Sub-Saharan region and finance individual projects may be more costly and capacity-consuming in the case of Hungary than choosing only one country and trying to expand its presence from there. The reason for this is the low level of ODA Hungary can provide for the time being (and this amount is not likely to be radically increased in the short-run). Another important fact is that neither the Hungarian NGOs nor the private business sector have intense activity at present in the Sub-Saharan countries. On the other hand, the visibility of the Hungarian aid may be much lower given the popularity of African countries among the other, usually much larger EU donors, and the small amount that it can allocate to the region from its ODA budget.¹²⁶

What we can draw as a conclusion is that in order to provide “better aid” it is a strategic issue for both Austria and Hungary in which countries and regions they are present, for the former because it still has to strive for its visibility. And for the latter because it has for the time being too limited a possibility for providing a high level of development assistance for a higher number of partner countries, especially in the Sub-Saharan region.

¹²⁴ Kiss, *A magyar nemzetközi fejlesztéspolitika*, 13.

¹²⁵ *Beszámoló a Nemzetközi Fejlesztési (2007)*, 5.

¹²⁶ Budget support is not even among the plans of the DIDC for the time being, exactly for the same reason. Source: Interview by author with Gabriella Szűcs, Senior Official, Department of International Development Cooperation, Foreign Ministry of Hungary. May 16, 2008., Budapest.

3.2. Finding the gap and increasing the visibility – the selection of sectors

Similarly to the significance of the selection of partners, the decisions as to which sectors to provide assistance in are of a great importance in the process of developing an efficient foreign aid policy. The already mentioned OECD DAC Guidelines on effective aid management also set out that: “The selection of sectors in which DAC member countries are operational in their main partner countries remains a critical aspect.”¹²⁷ Why it is critical is twofold: duplications of work and projects need to be avoided and each donor has to deal with something in which it can provide a real added value. Otherwise the aid-giving is not efficient and even reduces the donor’s visibility. To address this issue, the EU has prepared for its MSs an *EU Code of Conduct on Division of Labour* in 2007, introducing among others the concept of leading donorship. According to this idea, varying from country to country one donor is delegated the task to act on behalf of the others, in order to ensure a more co-ordinated and complementarity-oriented aid policy in the assisted country and in its sectors.¹²⁸

Similarly to some of the MSs, Austria already participates in the ‘leading donorship’, and owing to its historical expertise in Uganda, it is now the leading donor for the rest of the Member States in water and sanitation.¹²⁹ In case it decides to be involved in this form of division of labour to a greater extent in the future, it would focus, similarly to Uganda, on the water sector, as well as on health, promotion of governance and forestry in other countries, of course depending on the given partner country.¹³⁰

Austria’s supporting attitude towards the ‘leading donor’ idea can be assessed as positive, however, it is particularly crucial for the country, since it is a small donor, to be engaged in sectors where it can stand out from among the mass of donors, especially in those places

¹²⁷ OECD DAC, *Managing Aid*, 49.

¹²⁸ European Commission, *EU Code of Conduct*, 7.

¹²⁹ Wanlin, “What future for?”, 12.

where a large number of them are present. For instance, in Mozambique, where fourteen donors have health, twelve have rural development, eleven have education and nine have good governance as their priority focuses.¹³¹ Having a glance at Austria, we can see that it is active the most in Mozambique in the very same sectors: good governance (28.74 % of its country ODA), health (8.75 %), water (8.61 %), and education (6.41 %).¹³² But it is not involved, for instance, in fisheries, in spite of the fact that it would have expertise in it. Why it is important is that a field visit of the OECD DAC has found that there is no sufficient support given by the 19 donors working in the country in the field of fishery, even if this sector would be potentially important for the development of Mozambique.

The other important issue in the case of Austria is the aid modality it applies in a given sector, notably the issue of budget support. The international trend now is the favouring of budget support over project aid, and the EU particularly invites the MSs to consider spending a higher share of their ODA on this modality, for it seems to offer more opportunity for alignment, harmonisation and division of labour. Austria, as it has been mentioned already, started two years ago to allocate a part of its bilateral ODA in the form of budget support in a pilot country, which is Mozambique. Its contribution is, however, very small, only 4 to 5 % of the total budget support disbursed to the country by all the 19 donors altogether.¹³³ Although it provides this kind of support in Mozambique as a member of a donor group, it still remains a small donor.

Steiner argues that size in reality does not matter, that is, despite their lower disbursements even small donors can have comparative advantages, and offer impartiality and the lack of the

¹³⁰ Interview, Mang.

¹³¹ OECD DAC, *Managing Aid*, 49.

¹³² *OEZA Bericht 2006 – Regionen und Schwerpunkten Teil I*. (Austrian Development Agency, Vienna), 39. Available at

http://www.ada.gv.at/fileadmin/user_upload/ADA/media/Nov2007/2894_oeza_bericht_teil_i_website.pdf.

¹³³ Interview, Mair.

pursuit of own interests.¹³⁴ He is of the opinion that Austria has to specialize its budget support in specific sector fields, and ensure an adequate balance of project and programme aid. This aspect is important, since it is currently only 5 to 10 million euros a year at the most that Austria plans to devote to budgetary help within the allocation set aside for its country programmes.¹³⁵ This shows, in turn, that in order for its support to have a real contribution, the overall level of its ODA has to be increased, and not only combined with project assistance and directed to only a limited number of countries and sectors.

As regards Hungary, another aspect of the importance of the selection of sectors arises. As the OECD DAC guideline discusses, some of the donors have already started to limit their activities on a limited number of sectors, such as Denmark, Finland and the Netherlands, who aim to work in a maximum of 3 to 4 sectors per each main partner country.¹³⁶ The document also establishes that this approach can give donors the critical mass to be more effective in their partner countries. In case of a small donor which does not have large resources at its disposal, focusing on specific sectors and activities is more efficient than dispersing its funds, attention and human resources.

Hungary currently focuses its activity on the transfer of the knowledge of the transition to a multi-party democracy, good governance, market economy, privatisation in the form of trainings and workshops for partner country officials. Basically, this transfer of “grey matter” constitute the basis of the Hungarian IDC strategy. Also, additional priority areas are the health sector, agriculture, environmental protection, water, and infrastructure development.¹³⁷

¹³⁴ Klaus Steiner, “Österreichische Strategien zur Budgethilfe” in *Die Österreichische Entwicklungspolitik 2005 – Analysen, Informationen: Mehr Wirksamkeit in der EZA, Quantensprung oder Rhetorik?* (Vienna: ÖFSE, 2006), 68.

¹³⁵ Interview, Mair.

¹³⁶ OECD DAC, *Managing Aid*, 49.

¹³⁷ *Hungary – A new EU donor country: Hungarian International Development Cooperation*. (Department of International Development Co-operation, Foreign Ministry of Hungary, Budapest, 2006), 3.

In the case of Hungary the question is which are those sectors where it can have an actual comparative advantage. This veers back to the issue of the selection of its partners. Taking into consideration that the main partner countries of Hungary are post-communist countries with a similar process of transition, the choice of the transfer of its knowledge in questions in which these countries are concerned to a large extent, seems a very positive strategic idea. However, Hungary is not the only country which has gone through this mentioned transition. Therefore, it is important for it to find that specific area, in other words gap, which it can fill and provide a unique knowledge. Thereby it can make a step towards a “better” aid with respect to benefiting the partner country and its own development co-operation as well.

Some areas where Hungary can have a contribution with added value are the modernisation of public administration, privatisation, civil society and rule of law as well as viniculture, wine-growing and production in polythene greenhouses within the agriculture.¹³⁸ Besides, a unique feature of the Hungarian IDC may be the transfer of that knowledge and experience which the country has acquired through the negative consequences of the transition, the difficulties and failed policies.

As a final point, the question also arises in which sectors Hungary could be a delegated donor in the future. The *EU Code of Conduct* approaches the issue positively, stating that even if there are significant differences between the old and new EU donors, every one of them has specific expertise in certain fields and can therefore play an active role in a division of labour, “which should be fully capitalised upon”.¹³⁹ On the basis of its country and sector priorities as well as possible advantages, Hungary would probably be the most efficient as a leading donor in its partner countries in the Balkan region. By being a leading donor in a sector, it could gradually increase its aid efficiency and also build up its profile in the donor community.

¹³⁸ Interview, Bárány.

¹³⁹ European Commission, *EU Code of Conduct*, 4.

Having examined the country and sector selection of Austria and Hungary, we can see that both have positive policy steps towards raising the efficiency of their aid, however both need to focus stronger on a more limited number of partner countries and sectors. For Austria this is crucial for its contribution being visible, while for Hungary this is important as a necessary step towards having a higher added value of its contribution and, as an emerging donor, also towards constructing its individual donor profile. All these are conditions for to provide aid in a more efficient way.

Conclusion

The thesis examined the efficiency of the development aid policy of Austria and Hungary from three main viewpoints: that of the institutional management, the quantity and quality of aid and the geographical and sectoral channels of allocation. The main message of the findings is that several of the features of the policy of each country reduce the overall effectiveness of their aid delivery and management.

The way of establishing, planning and guiding the aid policy, the leeway of the different actors and the relations between them are the first determining elements on the route towards an efficient way of providing development aid. In this respect Austria is more ahead: it works under the guidance of a development law, three-year programmes revised every year on a rolling basis and country and sectoral strategies. The basic problem is, however, that these programmes and strategies cover practically only the activities of the ADA, resulting in that the Foreign Ministry's share of and control over the total Austrian ODA is very small. The fact that the lion's share of the country's total aid budget comes from spending by line ministries causes inconsistency. The third main actor playing a traditionally important role in the Austrian IDC, the NGOs may be affected in the future by two recent trends of the government's development policy: a certain share of budget support as aid modality in the country's total ODA and the direct contracting of Southern NGOs, both excluding the participation of the Austrian organizations.

In Hungary more questions are waiting for to be solved than in Austria. Currently there is no development law, specific plans for the coming years, sectoral strategies, and country strategies except for three of the seventeen. Similarly to Austria, a large part of the development co-operation activities takes place outside (the control of) the Foreign Ministry, and results in inadequate co-ordination. The Hungarian NGOs are highly dependent on state-

funding, which generates a problem when it comes to the issue of their capacity-building and the differing views on it of the governmental and non-governmental sector. Further, there is still some room for improvement in the field of the co-operation, too between these sectors.

The quantity and the quality of the aid clearly play a decisive role in its efficiency. In this respect, both countries have a long way to go to catch up with better performer donors. Austria gives much less than its economic performance would allow it to do, and the quantity of its aid is also low in terms of its quality. This is so because more than half of it derives from debt relief, and the so-called imputed student costs and the costs of the refugee assistance are also accounted as official development assistance. Since these ODA items in reality do not necessarily contribute to the development of the partner country, the Austrian aid is highly inflated. The situation is similar in Hungary. The annual ODA budget is very small, though it is still in the forefront among the new MSs. The crucial problem is that the bilateral part within it is significantly less than the multilateral one, and this disproportion renders it very difficult to carry out an efficient bilateral development policy. Furthermore, Hungary also accounts financial flows like debt relief and imputed student costs as development assistance, through which it mitigates the effectiveness of its ODA.

The geographical and sectoral allocation of the aid funds has a large influence on what a donor can achieve, how visible it is, and in general how effectively it can support a given partner country. The Austrian contribution is generally very small in comparison with that of other donors, and therefore, it is particularly crucial for it to focus on a limited number of sectors and to find the adequate proportion of project aid and budget support, in order to increase the impact of its aid and to amplify its own visibility. It also has to cease the inconsistency in its policy caused by the debt relief, which greatly alters the recipient list in

case of the total ODA. Focusing on a more limited number of countries and sectors is particularly crucial for Hungary considering the volume of aid it is able to provide annually. Thereby it could not only increase the efficiency of the allocation of its funds that are small anyway, but also cease the fragmentation of its portfolio into small projects, and create its individual donor profile.

Today international development policy is increasingly a global domestic policy of the world. Intra-state practices have inter-state and supra-state projections and implications as well. A grain of sand in the machinery hinders not only the effective working of the development policy of the given country, but has an influence also on other members of the donor community. In the case of EU Member States this holds even more in light of the endeavours and achievements to co-operate more closely and coordinate their activity on community-level.

Translating all this into the case of Austria and Hungary, we come to two very important conclusions. First, if they do not increase the volume of their ODA and improve its genuineness, that will have not only political consequences, especially if they do not reach even their commitments, but despite their position as a small and an emerging donor, respectively, it will also contribute to an image of the EU the members of which do not devote enough of their wealth to solving global problems and reducing poverty where it is needed. Second, if their selection of partner countries and sectors to support is not in harmony with their own capacities and competences as well as with that of other EU Member States, but also of donors outside the EU, that will undermine the overall impact of the aid provided to a given partner country, and lessen the success of the efforts for coordination and complementarity.

The research of the aspects which render the Austrian and Hungarian development aid policy less efficient is therefore important. So can be the investigation of other aspects having an influence, positive or negative, on the effectiveness of their aid. Also, the same two investigations can be conducted for other EU Member States or any actors in the foreign aid regime, be it a bilateral or multilateral donor, in order to get a more precise picture of the roots of the problems hindering aid efficiency. The considerations of the future researches can be even more broadened after the official reports on the progress towards aid effectiveness go public in late August this year and are presented in the Accra High-Level Forum on Aid Effectiveness in the beginning of September.

The days of the Accra conference will be decisive. Not only will donors evaluate whether they have been able to follow the roadmap drawn up three years before in Paris and whether they have managed to move towards a more efficient aid. Also, Accra will give a clearer picture of how much further improvement is needed in aid delivery and management in order to achieve the Millennium Development Goals by 2015. In June 2008 we are right at the half-way to them. As Kofi A. Annan Secretary General of the UN said in 2005: “We cannot win overnight.”¹⁴⁰ So the next seven years are still there to accomplish the remaining tasks.

¹⁴⁰ Kofi A. Annan, *UN Secretary General's Address to St. Paul's Cathedral Event on the Millennium Development Goals*, London, July 6, 2005. Available at <http://www.un.org/millenniumgoals/> (accessed May 3, 2008)

Appendix

List of the interviews conducted in Austria and Hungary:

Austria

Anton Mair – Deputy Director General of the Department for Development Cooperation and Cooperation with Eastern Europe, Head of the Department for Development Co-operation, Policy, Strategy and Evaluation, Foreign Ministry of Austria. May 15, 2008., Vienna.

Friedarike Santner – Rapporteur on Africa of Gemeinnützige Entwicklungszusammenarbeit GmbH. May 14, 2008., Vienna.

Inge Jäger – President of Südwind Entwicklungspolitik. May 14, 2008., Vienna.

Johanna Mang – Head of Unit of NGO Cooperation and Humanitarian Affairs, Austrian Development Agency. May 15, 2008., Vienna.

Michael Obrovsky – Director of the Österreichische Forschungsstiftung für Internationale Entwicklung. May 14, 2008., Vienna.

Hungary

Dénes Tomaj, Head of the Department of International Development Co-operation, Foreign Ministry of Hungary. May 16, 2008., Budapest.

Gábor Bálint – Executive in EU Strategic Affairs, Hungarian Interchurch Aid. May 13, 2008., Budapest.

Gabriella Szűcs – Senior Official, Department of the International Development Co-operation, Foreign Ministry of Hungary. May 16, 2008., Budapest.

Ibolya Bárány – Director of HUN-IDA, Hungarian International Development Assistance Public Company. May 13, 2008., Budapest.

Réka Balogh, Secretary General of HAND Hungarian Association of NGOs for Development and Humanitarian Aid. May 16, 2008., Budapest.

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