The Private Sector...the Missing Link for Development?

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June 26, 2014

Executive Summary

The importance of extending the number and nature of sectors contributing to development has been emphasized in the commitments set forth in the documents of the Busan HLF and the European Union's Agenda for Change. As the commitment to increase ODA funds have fallen short, the need to leverage private sector activity and finance to improve the environment for business in developing countries has gained momentum. Central to this trend is the need to distinguish between private sector development and the private sector for development. This brief focuses on the main issues concerning the private sector for development; to advance the private sector in development related pursuits (poverty eradication, economic development, livelihood, job creation) with a focus on the Hungarian context. Furthermore, this brief will use policy coherence for development to determine if coherences can be observed between Hungary's current foreign and trade policies with the EXIM Bank.

Introduction

In the last decade traditional donor model methods of development aid allocation have largely been ineffective in accomplishing their core goals of poverty reduction and growth. Development economists from Peter Bauer (1972, 1981), Milton Friedman (1995) to William Easterly (2003, 2006) have demonstrated and openly opposed how this traditional model of aid allocation is ineffectual and called for a 'rethink' of aid allocation methods. Outright aid has proven incapable of "buying growth." Official development assistance (ODA) has become increasingly reduced since the economic crises of 2008-2009, with governments tightening their budgets and reducing aid allocation. In 2012 development aid fell by 4% in real terms and 2% in 2011 (OECD 2013). This has led development aid organizations and donors to look for alternative means of financing projects by more sustainable means, which are less prone to economic shocks. The role and importance of alternative actors for development projects has become an increasingly prominent issue since the Busan HLF[1] partnership in 2011 and the European Union's Agenda for Change 2011.

The need for the private sector to play a larger role in development projects has progressively become acknowledged as a means of filling this financial void, by leveraging their activates and finances to improve the environment for business in developing countries. The European Commission (EC) in their Agenda for Change has stated that there is an increased, "scope for the EU to work more closely with the private sector, foundations, civil society and local and regional authorities as their role in development grows" (EC 2011, 3). Additionally stating that the, "EU should develop new ways of engaging with the private sector, notably with a view to leveraging private sector activity and resources for delivering public goods" (EC 2011, 8). The commitments of the Busan HLF have shown similar support for increasing the role of the private sector in development by stating that it is essential to, "[e]nable the participation of the private

[1] http://www.oecd.org/dac/effectiveness/49650173.pdf

sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction" (Busan HLF 2011, 10). In November 2010, the G-20 leaders, in the Seoul Summit Declaration, recognized, "the critical role of the private sector to create jobs and wealth, and the need for a policy environment that supports sustainable private sector-led investment and growth" (G-20 2010, 12). Furthermore, at this summit, leaders developed the Multi-Year Action Plan on Development (MYAP), with one of its six major goals emphasizing private sector involvement and "[r]ecognizing the centrality of private investment to development and job creation" (G-20 2010, Annex II). The private sector's involvement with Non-Governmental Organizations (NGOs) and the public sector for development is no longer an, 'if' but a 'when' and 'how' question being inquired.

The purpose of this brief will be to look at the private sector's role in development, how it can be achieved, what distinctions should be made when assessing their role, what makes it different from private sector doing business as usual in a developing country and what potential partnerships can be achieved. This brief will look specifically at how "inclusive business" can be achieved through providing stakeholder value rather than only shareholder value. Using Hungary as an example, this brief attempts to see if ODA promoted by the Ministry of Foreign Affairs (MFA) can be seen as promoting private sector inclusiveness in the development process or, if ODA is based on the private sectors preexisting involvements.

1. Section one of this paper looks at the broader meaning of the private sector's role in development, potential partnerships, scales of involvement and possible risks, using OECD, EU, UN reports, as well as existing secondary literature. Survey data collected will also be used to evaluate potential overlapping areas of development between the private sector and NGOs.
2. Section two considers the literature on Policy Coherence for Development (PCD), and discusses its meaning for private sector involvement in development projects.
3. Section three analyzes Hungarian development policies, foreign policy and external trade strategies promoted by the MFA, to better understand the context of private sector involvement for development and in relation to PCD.
4. Section four uses the Hungarian Export Import Bank (EXIM), examining the Hungarian credit financing system and its role in the promotion of exports to ascertain if EXIM's export promotion can be viewed in terms of the wider Hungarian development policies promoted by the MFA.
5. Section Five provides a summary of these finding and concluding remarks about the future of the private sector's role in development.

For the purpose of this paper we do not consider FDI, because the vast majority of OFDI is considered "transit FDI" or when multinational companies transfer capital to a subsidiary operation in a different country. Furthermore Hungarian OFDI in the countries in review amounts to at most 2% in Serbia and Ukraine and less than 1% in the rest of the countries, making it insignificant for this analysis.

For the same reasons as OFDI, the role of Hungarian private financial companies role in international development activates will not be considered heavily in this analysis because of its narrow application.

Methodologically this brief will primarily draw upon secondary literature as well as reports and statements made by EU, OECD, and UN officials. This brief also considers survey data accumulated through questionnaires circulated to Hungarian civil and private sector organizations, through a collaboration of the Central European University's Center for Policy Studies in conjunction with the Hungarian International Trade Agency (HITA) as well as semi-structured expert interviews.

Section One: The Private Sector's Role in Development

The private sector as an actor in development projects is in principle still in its infant stages and for the most part, still experimental in practice. Traditionally, the private sector's role in development has been viewed as self-interested and insincere, because it is prone to a focus on profits and not the values of human rights and global solidarity. The addition of for-profit actors has been intensely debated in the literature and in major international organizations. Despite what critics have said in the past, aid effectiveness by NGOs and governments has increasingly come under scrutiny in recent years with many now considering this aid to be more efficiently delivered by the private sector. Furthermore, tied aid (assistance, which must be spent on purchasing goods and services from the donor country) increasingly has come under inquiry by international organizations for not holding to the true tenets of development values.

Growth of private involvement, primarily through investment, is considered among many to be a major driver of economic growth, which can lead to poverty reduction and the fulfillment of the Millennium Development Goals (MDGs) in developing countries. "Greater levels of private investment tend to accompany greater levels of GDP growth and development" (G-20 2011,10). Greater levels of GDP growth can generate higher levels of employment. Raising the level of investment in a developing country can also have a direct influence on employment. A rise in employment often leads to improved wages and further economic prosperity, which can be seen to permeate throughout the society. "[T]esting this for 48 developing countries, for which such data was available, over three five year periods from 1980 to 2007, shows that in a majority of these country episodes, investment growth, GDP growth and employment moved together" (G-20 2011, 11).

Private sector inclusion in development has had an increasing number of supporters, including the UN, EU, and OECD. The private sector can contribute to poverty reduction through three key conduits. First, Poverty reduction can be accomplished through an increase in productivity, this causes employment to rise and competition between workers increases wages, causing greater economic prosperity. Second, by making basic goods and services cheaper and more accessible to the public, the private sector increases the actual incomes of the developing nation's citizens. Third, as the private sector expands in a developing economy, they become an invaluable source of tax revenues to the government, further increasing public investment and better services for citizens.

Since the early 2000s with the adoption of the Millennium Declaration, which was embraced by the international community, private investment worldwide has grown significantly, especially in developing economies, promoting development and economic growth. The private sector has expanded its role as a partner to developing economies, leading to stronger economic growth in these nations. Despite a minor slowing down of private investments, the private sector continues to be a strong source of economic growth and the leading source of worldwide investment.

Before one can begin to evaluate the role of the private sector in development one must distinguish between two circumstances. First, “private sector development” and second, “private sector for development.” The first implies labors made by a developing countries government to advance economic growth through investment and production to facilitate an expansion in business and reduce unemployment. The second is the need to engage the international private sector as a facilitator in the development process. The second scenario is what this brief will focus on, looking to identify the main issues concerning the advancement of private sector activity in development related pursuits. At what point is private sector inclusion developmental? At what point should private sector companies be able to use public money and donor subsidy and investment. The literature identifies two broad ways the private sector can be utilized in development action: First, to engage with the private sector activity for development through encouraging dynamic investment, and second, using ODA to leverage private sector finances. It is critical, as laid out in the Monterrey Consensus of 2002 and subsequent international documents, that private sector business, “take into account not only the economic and financial but also the developmental, social, gender and environmental implications of their undertakings” (UN 2002, Art 23.) to be in coherence with private sector involvement for development.

1.1 Private Sector Scales of Involvement and Risks

Due to the relatively new nature of the private sector as an actor in development, one should acknowledge the different scales of involvement the private sector could have in these projects and examine both the risks and benefits involved. Because of the novelty of this type of partnership, it is important for both sides to know what each can potentially offer.

A major argument for the inclusion of the private sector in development projects is to provide a cost effective vehicle through which countries may consolidate their development projects. Outright aid has been ineffective in “buying growth.” Developing countries need long term partners willing to invest in their nations to create continued job creation.

European Commission DG DEVCO - EuropeAid suggests five major areas of private/donor involvement:

1. Multi-stakeholder alliances
2. Developmental partnerships/ challenge funds
3. Private-Public Dialogue: With the purpose of increasing quality and relevance of public policies to increase the investment climate.
4. Blending: Using the private sector as a delivery mechanism for donor and state aid
5. Public Private Partnerships (PPPs)

Table 1: Forms of Private Sector Engagement

	Private Sector Development	**Private Sector (for) Development**	
		Private Sector **Investment** for Development	Private Sector **Finance** for Development
Location	Domestic	Domestic/International	International
Role of Donors	Supporting the enhancement of the domestic business climate, credit etc.	Encouraging private sector actors to make investments in developing countries by offsetting certain risks	Leveraging private sector to provide finance to development efforts
Type of Instrument	Challenge, equity and credit guarantee funds etc.	Challenge funds for FDI, development-related grants and subsidies	Public-private partnerships, portfolio investment, private equity, private infrastructure funds etc.

Source: Byiers and Rosengren 2012

A further decline in direct ODA resources has lead to the expanded relevance of using aid to leverage the private sector's finances, otherwise known as "blending." This usually involves both ODA and investment loans to increase efficiency making the coordination of capital export paired with IDC priorities all the more essential (Markocsany 2013, 8). This affords the private sector a unique, heightened role in development projects, while staying within the boundaries of holding to development principals. Five potential possibilities of blending include:

1. Technical experience, know-how
2. Consulting in fostering more effective and efficient project design and delivery
3. Feasibility studies
4. The use of grants and loans to government
5. Portfolio investment, private equity, private infrastructure funds, PPPs

The use of PPPs has become increasingly essential as a mechanism for facilitating the private sector in collaborations with the public sector. This method allows the burden of risk and benefits of each party's expertise to be shared. While this brief does not look to delve into details about PPPs, it is important to discuss it briefly, due to the increasing popularity of incorporating the private sector. PPPs can range from 'publicly owned enterprises' to outright 'privatization' with numerous degrees of risk for both sides.

Table 2: PPP Scales of Involvement and Risk

	Operation & Maintenance	Ownership	Investment	Commercial Risk	Duration
Management Support	Public &Private	Public	Public	Public	1-2
O&M	Private	Public	Public	Public	3-5
Leasing	Private	Public	Public	Semi-Private	8-15
Concessions	Private	Public	Private	Private	20-30
BDO	Private	Public	Public	Private	20-30
BOT/BOO	Private	Public/ Private	Private	Private	20-30

Source: OECD, 2005, Note: Operate and Manage (O&M), Build Design Operate (BDO), Build Operate Transfer (BOT) and Build Own Operate (BOO)

While PPPs have become increasingly fashionable in attempting to incorporate the private sector into development, there are risks that should be acknowledged. PPPs could make it difficult to track and monitor money flows. There have been cited experiences in which management and affermage contracts have been unsuccessful at producing the efficiency gains expected, and often when they do achieve these efficiencies it is at the expense of competition (Gantsho 2010). PPPs may distort the development goals and priorities of governments as they choose financially viable projects over needed projects, despite the fact that PPP borrowing often is more expensive than public borrowing of projects (Gantsho 2010). Furthermore, PPPs have focused primarily in well-performing sectors, such as telecoms and energy; making it unclear if this model is compatible with all sectors and industries (Byiers and Rosengren 2012, 27). The recent re-municipalization movement in the water sector has shown how private sector involvement is often less efficient and more costly in some sectors. While these are risks stated for PPPs, many of these risks can be applied to a wide range of development activities involving the private sector and be generalized as risks for broader involvement of the private sector in development.

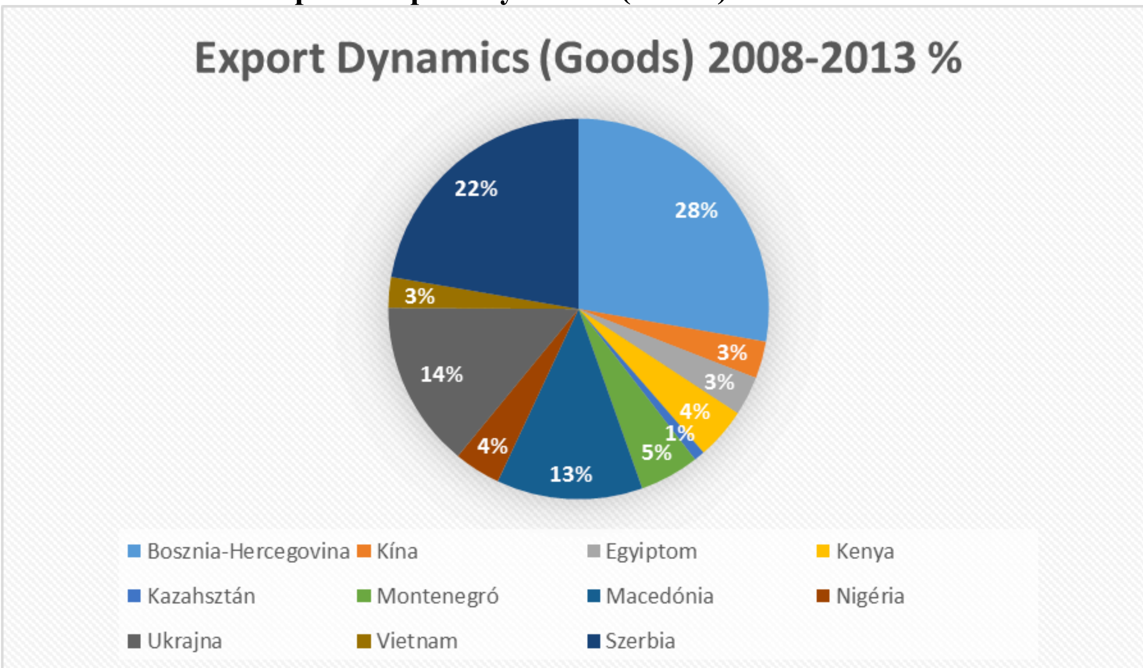
It is important to understand the implications of the private sector's involvement in development as a new mechanism of development effectiveness commitments with a fine line between simply untying aid and the promotion of private sector for development. Private inclusion through equity investment could foster ownership through the use of country systems, however, it could potentially undermine progress achieved at untying aid, through new financing mechanisms such as those of the export credit agency and other tied aid credits. Transparency is another major obstacle of private sector inclusion. Private flows of capital used for development, which may be subject to confidentiality agreements must be made transparent to meet development standards. Private sector involvement in development is redefining the meaning of ODA, specifically the development aspect. There has been a growing trend of large donor countries to exclusively advance economic growth as a means of solving all development goals, however this should not mean sacrificing the primary focus of poverty eradication and core development objectives. The private sector is highly proficient at creating economic development, but it must do so within the boundaries of core development tenants with the ultimate goal of poverty eradication and social development, not simply the accumulation of capital.

1.2 Hungarian Private Sector in Development

Hungarian private sector inclusion in development has largely taken form through exports. Since Hungary's accession to the EU, exports have become a major driving force of the economy. Between 2003 and 2011 external trade increased by 90% (Bartha 2013, 43). In the first two months of 2014 exports have risen by 7.1% already compared to the previous year (Hungarian Central Statistical Office 2014).

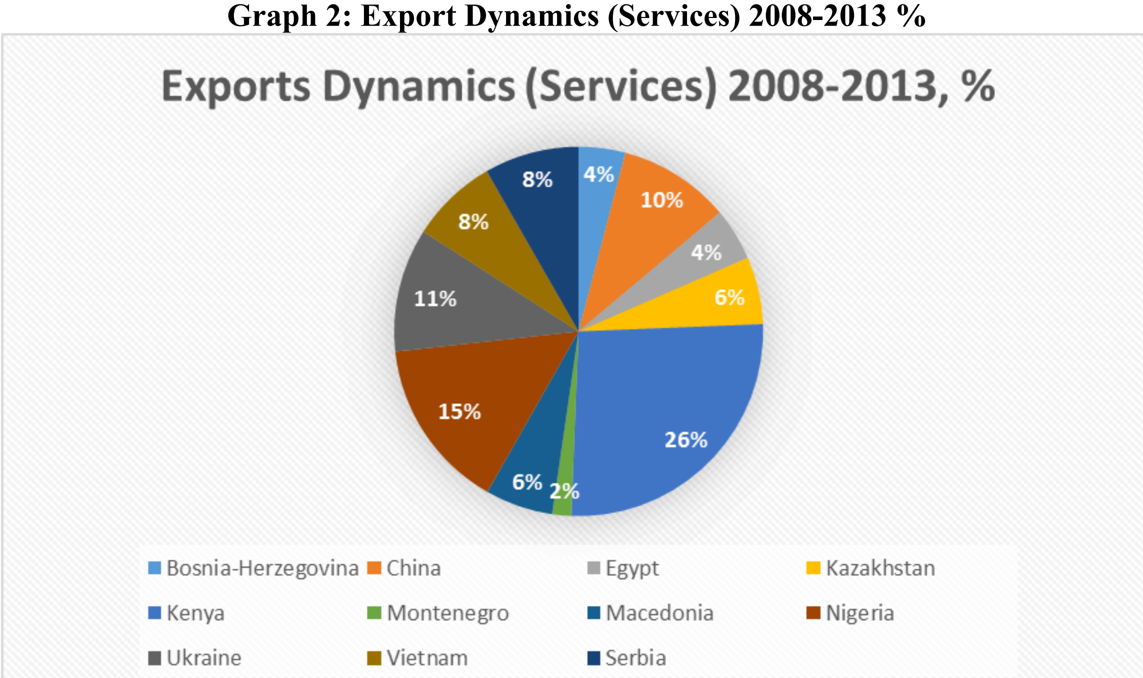
Previous studies by Leiszen (2013) and Bartha (2013), which focus on the relationship of Hungarian exports to Hungarian ODA recipient countries, show that growth of exports to selected ODA beneficiary countries such as China, Serbia, Montenegro, Ukraine, Kazakhstan, Egypt, Kenya, and Nigeria was 3.8% higher than the average (Bartha 2013, 44). The recession of 2008-2009 has had unequal effects on Hungarian exports, with more demand coming from Asia and Africa, China and Vietnam, Kazakhstan, Egypt, Kenya, and Nigeria, and decreasing and stagnate demand from the Balkan region and Eastern Europe, including BiH, Serbia, Montenegro, Macedonia, and Ukraine.

Graph 1: Export Dynamics (Goods) 2008-2013 %



Source: Author (Based on Bartha 2013)

Graph 2: Export Dynamics (Services) 2008-2013 %



Source: Author (Based on Bartha 2013)

Hungary has a significant trade surplus to South Eastern Europe, the Balkans and Africa, with imports from these covering typically only 10-30% and in the case of African countries less than 10% of Hungarian exports (Bartha 2013, 44). Hungary predominantly exports machinery and pharmaceuticals to these countries, however, in the case of Africa, Hungary also exports organic chemicals, plastic articles, textile products, ceramic products and furniture. In East Asian countries, specifically China and Vietnam, Hungary has a trade deficit. Hungarian exports to these countries are largely the same, primarily machinery products, pharmaceuticals, chemicals and furniture.

Besides exports, a number of Hungarian private sector companies have been involved in international development efforts, focused in a few key fields, predominantly humanitarian aid, technical assistance, agriculture, infrastructure and water management. A few prominent projects include:

- Construction of schools in Afghanistan and Montenegro;
- Support for breeding of economically important fish species in the Mekong Delta of Vietnam
- Technical assistance for agricultural production in Moldova;
- Agricultural training in Kenya
- Capacity building of municipalities and civil servants in Serbia, Montenegro, Ukraine and Bosnia and Herzegovina;
- Water purification infrastructure development in Bosnia and Herzegovina;
- Groundwater management and irrigation in Ethiopia;
- Providing medical equipment in Yemen and Iraq;
- Academic training of professionals in Laos, and Macedonia;
- Water-purification and service system construction in Vietnam;
- Water Infrastructure in South Africa;
- Rehabilitation of water treatment plants in Sri Lanka

Hungary has also participated in joint scholarship programs with the UN FAO for Vietnam, and Afghanistan.

Despite these projects, the Hungarian private sector involvement in development projects remains low. A recent explorative survey from 2012, found that this could essentially be attributed to a lack of capacity of the Hungarian companies. Fifty percent of companies cited a, "lack of open and transparent access to financial instruments' as a major difficulty" for participating in international development projects (Bartha 2013, 50). This lack of capacity can be seen as both a fiscal barrier and a deficiency of local connections in these developing economies.

The international financial crisis has had severe consequences on the Hungarian banking sector (as cited in Bartha, 2013, 48). This has led to a significant amount of reluctance from private banks to take part in development financing. The only Hungarian bank to be active in development is the OTP Bank. OTP Bank currently has operations in eight countries besides Hungary, however OTP branches have under performed in countries where Hungary gives aid, specifically Serbia, Montenegro, and the Ukraine, placing these operations at the bottom of abroad operations performers (OTP 2012, 16). This information makes it unlikely that OTP is active in providing development financing in these countries.

Hungary's major sources of financing for development projects in DAC countries is through the EXIMBANK of Hungary, which will be considered in greater detail in section four.

1.3 Hungarian Private Sector- CSO Partnerships

While public-private partnerships are more commonly practiced, increasingly NGOs and the private sector are realizing that partnerships may benefit both parties in their development endeavors. Private sector–NGO partnerships could become the desired missing ingredient in ensuring that private sector inclusion in development can be achieved in a responsible and dynamic manner.

This brief takes a preliminary explorative look at the potential costs and benefits as viewed by these two individual groups if they were to work together in a development partnership. Survey data has been accumulated through questionnaires circulated to Hungarian civil and private sector organizations, through a collaboration of the Central European University's Center for Policy Studies in conjunction with the Hungarian International Trade Agency (HITA).

Survey Findings

It should be noted that these findings are merely explorative and the results can only be considered valid for the organizations that participated in the survey. This survey is not representative of the entire populations of these groups and therefore cannot be generalized to the larger aggregate.

For those organizations that participated in this survey, overwhelmingly both groups, CSOs and the private sector, viewed "transparency" as being pivotal to executing development projects in any type of partnership. 93.33% of CSOs and 83.3% of the private sector viewed this as being a major priority. "Sustainability of projects" was considered the second most critical with a response of 93.33% by CSOs and 75% by the private sector. Interestingly, the third most important category above "accountability" and "social responsibility" was, "involving local actors" in projects, 73.33% of CSOs and 58.33% of the private sector viewed this objective as being highly important in the implementation of development projects. While "returns on financial investment," many would suspect are not the primary driver for CSOs in the implementation of development projects, more interestingly only 50% of the private sector responded that this was the main objective of participating in development.

When questioned what would be the biggest risks of working in a partnership both CSOs (66.67%) and the private sector (75%) viewed "administrative and bureaucratic barriers" as being significant risks. 75% of the private sector viewed "conflicting project objectives due to different interests in development approaches" as a risk, while 53.34% of CSOs did not view this a risk at all. Intriguingly, 58.33% of private sector respondents viewed working with CSOs as a "political risk."

When questioned as to what the major benefits would be in a partnership, both CSOs (80%) and the private sector (83.33%) stated that "sharing human resources," would be one of the foremost benefits. 100% of private sector respondents stated that working with CSOs could benefit their operations through increased "regional, language, and legal expertise." While, 93.33% of CSOs stated private sector "technical knowledge and infrastructure" could be beneficial to their operations. Both CSOs (73.33%) and the private sector (91.66%) further viewed each other's "network" as being a potential benefit stemming from a partnership.

The results of this explorative survey are broadly consistent with the literature on this subject with no real surprises; however, the results do give insights for the Hungarian context and potential partnerships between these two groups. These survey results are notable in two areas in particular, however, the private sectors lower then expected emphasis on "return on financial investment" and both groups lack of weight on "accountability" and "social responsibility." Optimistically, both groups placed a large weight on "involving local actors," which if practiced could lead to more ownership of projects by developing countries, and falls in line with the Paris Declaration. Although obvious risks are apparent, this survey also shows notable benefits that could be gained through engaging in these types of partnerships.

Section Two: Policy Coherence for Development

2.1 Policy Coherence for Development Background and Overview

With an ever increasingly interconnected and globalized world, a more robust need for national and international consistency between various countries' policies has become increasingly evident. Additionally, with increased involvement of the private sector in development greater coherence is necessary to mitigate potential risks of this new actor and to ensure developmental focus is maintained on not only economic growth and accumulation of capital but more importantly poverty eradication and social development. policy coherence for development (PCD), first began to be acknowledged in the 1990s, but has recently become more important, not only for individual countries, but for groups of countries, such as the European Union, OECD and United Nations members, as well as members of the G-groups. Policies in today's world no longer have borders, and policy makers must be considerate of not just local, but national, regional and global tiers of this system. "All countries have a shared responsibility to ensure that their policies are conducive to, or at least do not undermine, development elsewhere" (OECD 2013). In May 2012, the OECD adopted their "Strategy on Development," stressing the importance of member countries capacities and willingness to design policies in coherence with development and thus endorsing further steps to follow PCD.

The European Union has also been an active proponent of PCD, embedding these ideas in their European Consensus on Development in December 2005. With the active pressure of CONCORD (European NGO Confederation for Relief and Development), the EU has been keenly applying PCD in an effort to increase advancement towards the UN's Millennium Development Goals. This has lead to the EU's commitment to PCD in five principal areas, trade and finance, climate change, food security, migration, and security.

Because there is no internationally agreed upon definition of PCD, it can become difficult to ascertain where the priorities of PCD should be positioned, in the policy making process, or focused in institutional mechanisms (OECD 2013). Policy Coherence for Development can take many forms in practice, however as a working basic definition, it can be defined as, "the absence of incoherences, which occur when other policies deliberately or accidentally impair the effects of development policy or run counter to its intentions" (Ashoff 2005, 1). The OECD (2013) and Picciotto (2005) further define PCD's goal as to "…enhance understanding of the development dimensions of member country policies and their impacts on developing countries." Picciotto (2005) emphasizes the importance taking into consideration the trade-offs and potential synergies across all sectors from agriculture and health to education and investment, with consideration of development goals. A grander, overarching definition could be seen then as creating consistency between all policies in all areas, with the objective of realizing distinct development goals. It is important here to acknowledge the objectives laid out in the 2002 OECD mandate, "Action for a shared Development Agenda," that not only is the importance of PCD to circumvent adverse effects, which could hurt development potential in developing economies, but also the need to utilize "positive synergies" from all policy areas to maximize development potential. In this approach PCD is two fold, eliminating negative policy incoherences, while capitalizing on policy synergies to maximize the effectiveness of development policy.

In general, at this point, each international organization (IO) often substantiates their individual motivation for PCD. Guido Ashoff, describes three distinct justifications for strengthening PCD making it a legitimate objective to be pursued by all IOs. First, the "negative" justification, or the harmful outcomes stemming from a lack of consistency among policies, which recently has become increasingly prevalent, especially in the EU (eg. illicit financial flows, as well as agricultural policies related to biofuels). Second, the "strategic justification" claims that PCD is a responsibility of global governance and acts as a means to globalization. Lastly, the "substantive-programmatic" justification, that PCD is a product of the "demand for sustainable development as the supreme guiding concept of global governance" (Ashoff 2005, 1). These goals have been more explicitly defined in the UN's Millennium Development Goals (MDGs).

The OECD has laid out five key areas essential to PCD:

1. Internal Coherence: Consistency between a single country's distinctive aid objectives and modalities, for ex. Bilateral aid, multilateral aid, technical assistance, and aid synthesized through NGOs and the private sector.

2. Intra-governmental Coherence: Consistency between a country's development aid and non-development aid policies to promote further development goals.
3. Inter-governmental Coherence: Consistency between contributions of a country's aid and no-aid policies in terms of their development policies.
4. Multilateral Coherence: Multilateral consistency between policies and actions of bilateral donors, multilateral IOs and other development organizations, including consistency between adopted multilateral communiqués for development.
5. Developing Country Coherence: Whether developing countries benefit from the international environment and to enhanced economic and social well being through the adoption of certain policies.

Thus one may see that the goal of policy coherence is to overcome political, social and multilevel governance issues evident and strive to develop coherence by giving attention and analysis to the intricacies of the interactions of all levels of policy. Governments are attempting to achieve this by aligning other policies with development policies and strategies.

2.2 PCD Application in Hungary

The MFA has begun drafting a more extensive and all-inclusive strategy of international development cooperation and has taken this opportunity to attempt to incorporate PCD into it. Overall, the strategy has been commended by civil society groups as an endeavor to address points these groups have identified, primarily strengthening the coordination role of the MFA, the creation of an ODA Act and the enlargement of ODA funds (Hand 2014). The MFA's new strategy also contains the topics of monitoring and evaluating this process, which would strengthen PCD. Nonetheless, this new strategy, on the whole, does not focus on implementation of these strategies, making it lack political will. Three major aspects of this framework can be considered lacking from a PCD perspective:

1.) The strategy does not address how state institutions are affected, making it unclear as to who each partner country would correspond with, the MFA or line ministries.
2.) The strategy does not make clear the relationships between regional strategies, ODA strategies and action plans, with regard to implementing order.
3.) Goals and objectives are not clearly defined in terms of contributing to development implementation and how policies could be coordinated.

References to PCD in this text are frequent, however, at each instance the interpretation appears to be unclear. In this strategy, "IDC policy takes into account the priorities of other policies and then encourages them to strive for enforcing IDC aspects" (Hand 2014). It is primarily other policies that should strive for coherence with development policies. Monitoring and evaluation are fundamental characteristics for putting PCD into practice but this can only be achieved if policies are monitored after implementation to make sure coherence is achieved. Without a tangible framework, process, or indicators to implement this goal, there can be no means of identifying inputs and outputs. In addition to lacking reference to a monitoring and evaluation framework, the new development strategy fails to delegate relevant human resources to such tasks.

Section Three: Hungarian Development and Foreign Policy

3.1 Hungarian Foreign Development Policy History

Since their accession to the European Union (EU), many have called new member states, such as Hungary, "reluctant donors." Authors, such as Simon Lightfoot and Balazs Szent-Ivanyi, have pointed to many different reasons why this may be, however, many new member states justify their reluctance, arguing that they have little capacity in this field. This stems from the fact that new member states have vastly smaller resources to be allocated to any one project than older donors, which would put them in a subordinate role with regard to program design and implementation. Hungary's "reluctance" to this type of development aid can be accentuated by their outright rejection to participate in some joint initiatives, such as that organized in Moldova by the EC in 2011-2012 (Lightfoot and Szent-Ivanyi 2013, 14).

Despite this so called "reluctance", it should be observed that international development and foreign aid policy have been components of Hungary's foreign policy tool set since as early as the 1970s under communism, when it actively promoted foreign aid policies with mutually politically aligned countries such as Vietnam, Cambodia, Laos, Mongolia, Cuba, Angola, South Yemen and Ethiopia (Dreher, Nunnenkamp, and Thiele 2011, Leiszen 2013, Markocsany 2013). Hungary's "reluctance" as a multilateral donor, has led to Hungary's promotion of the private sector for development, seeing this as a more strategic means to development and directly beneficial to Hungarian interests.

3.2 Current International Development Policies and Foreign Policy Strategy for Promoting the Private Sector

Hungary's International Development Policy

Hungary's first international development policy was fostered by their membership into the OECD in 1996 (MFA 2003). In 2001, Hungary developed a more articulated development policy document, (Government Decision 2319/1999 (07.12.) for international development cooperation (IDC) in order to comply with UN, MDGs, OECD and EU norms (EC 2014). According to this document, the Ministry of Foreign Affairs (MFA) is in charge of planning and coordinating Hungary's international development program and humanitarian aid operations through the International Development Cooperation Department (IDCD) (EC 2014). The MFA administers roughly 20% of total development offerings, while the rest is allocated by other Hungarian line-ministries

(MFA 2006). It has been reported by officials, however, that this document has largely become outdated (Leiszen 2013, 87). This document is the only overview of policy of Hungary's IDC activities. Hungary's new IDC strategy is in the process of being developed and is currently going through review by the Hungarian Civil Society, which has shown support for many of the current amendments. Hungary's new IDC strategy, as indicated in Section Two, in its current proposed form as yet does not cover monitoring and evaluation. This new strategy also does not cover the political will for implementation; for instance, there is no indication of human and fiscal resources to achieve these new reforms. As stated above, only 20% of development aid is offered by the MFA, while the remaining 80% is offered through other governmental departments, and line ministries, making the vast majority of IDC activity difficult to evaluate as a whole (MFA 2006, Leiszen 2013, 87).

In 2011, Hungarian ODA was $140 million, a 14.6% increase in real terms. Hungary's ODA to GNI ratio rose from .09% to .11%. Bilateral assistance accounted for 24% of ODA, while multilateral assistance equaled as much as 76% of ODA (OECD 2014). In 2012 Hungarian ODA has had an almost 7.5% decrease, leaving it at $119 million. ODA to GNI collapsed from .11% to .10%, largely due to Hungary's reduction of multilateral ODA to the EU.

As established in the MFA's (2006) "Hungarian International Development Policy: Hungary - a New EU Donor Country," the eight major categories of Hungarian development assistance are:

- Advisory: Sharing Hungary's experience in political-economic transition, fostering free market conditions and providing assistance to SME
- Knowledge transfer
- Education, vocational training
- Health services: technical support, management know how, pharmaceuticals
- Agriculture: farm development, biotechnology, training, food industry
- Environmental protection
- Water management, water resource development
- Infrastructure development

While international development cooperation remains an essential part of Hungary's foreign policy, Hungary has recently been a more pro-active proponent of the use of the private sector in its development strategy. As stated in its "Foreign Economic Strategy," a major goal is to promote Hungarian business in international markets, by focusing on SMEs in foreign markets (MFA 2011). Nonetheless, Hungarian development projects struggle to compete due to a lack of framework for all actors to utilize. "A harmonized national strategy would afford Hungary's international development initiatives a chance to prevail in a highly competitive international market milieu" (Markocsany 2013, 9).

Hungary’s Foreign Policy Strategy

According to Hungary’s 2011 Foreign Policy strategy document, Hungary’s FP has largely shifted East, as this document points out, the world is currently seeing a potential realigning of power resulting from the “relative decline of the political and economic power and leadership of the ‘West’- basically North America and Europe” leading to an “Eastern Opening” (MFA 2011). Hungary has made countries such as China, Brazil, India, Indonesia and other high growth countries a priority in their FP. Hungary has placed considerable focus on Asia and considers it to be one of the most prominent features of its foreign policy. Hungary has stated that cooperation with African countries have had rather low profitability and a “very low” degree of efficiency (MFA 2011). Hungary’s FP places a large emphasis on the advancement of Hungary’s economic interests, making it the “focus” of Hungarian FP (MFA 2011). “Helping Hungarian exports and advancing foreign investment…is the goal of our foreign policy in promoting Hungarian economic interests” (MFA 2011, 10). The MFA strongly believes that Hungarian economic actors abroad can play an integral part in influencing increased investment back into the domestic Hungarian economy.

3.3 Hungarian Trade Agreements

Trade agreements can be seen as a means for a government to promote trade activity as well as create ongoing partnerships. The Hungarian government often claims its central role in promoting the private sector is predominantly in relation to trade, however, since Hungary’s accession to the EU, its trade agreements have become essentially centralized trade agreements with the EU. Thus one sees very little actual content to the Hungarian government’s claimed promotion of the private sector through these agreements.

While the Hungarian government’s role in establishing new trade agreements is limited, it can be observed, based on studies, by Szent-Ivanyi (2012, 2013) and Leiszen (2013), that Hungary has primarily maintained bilateral relations with lower-middle (LMIC) and upper-middle income (UMIC) DAC countries, either in CEE, the Balkans or Asia. Kenya is the only lower income country of the three African countries (Kenya, Nigeria, Egypt) that Hungary currently maintains bilateral trade relations with. These trade policies also emphasize the Hungarian government's promotion of the private sector in development projects through stronger ties to these countries. Here one can see that Hungary does not actively promote stronger ties with least developed countries (LDC) or low-income countries (LIC), except in Kenya. These actions appear to be a product of Hungary’s FP and regional strategy of supporting those countries in close proximity geographically and “Eastern Opening.”

Section Four: Hungarian Import-Export Bank Plc (EXIM)

The Hungarian Import-Export Bank Plc. (Eximbank) and the Hungarian Export Credit Insurance Plc. (MEHIB) provides Hungarian exporters financing and insurance facilities. Eximbank and MEHIB serve to support Hungarian exporting enterprises by providing financing credit to strengthen the capacity of this sector and lead to future growth for the Hungarian economy. "EXIM's objective is – while assessing and channeling the needs of exporters – to provide a coherent range of lending, guarantee and insurance products that cover the entire spectrum of export activity, from production through manufacturing to the support of the sales process" (EXIM 2014). The Ministry for National Economy oversees both the Eximbank and MEHIB, with the goal of promoting Hungarian goods and services abroad. For the function of this analysis the bank and insurer will jointly be referred to simply as EXIM.

EXIM is important for this analysis because according to its mandate, its purpose is to provide financing and insurance to higher risk international trade activities, predominantly, those which involve higher "country risk," due to the loss of traditional commercial bank financing for these trade activities (EXIM 2012, 40). This is important to our analysis of the private sector's involvement in development projects, specifically in DAC countries. This analysis looks to examine two facets of EXIM's operations, firstly, its regulations and conditions for financing with regard to its acknowledgment and use of internationally practiced mechanism to prevent environmental and human rights abuses and secondly, to evaluate if EXIM promotes exports more decidedly to specific target countries who are considered, "high priority", as promoted by the Hungarian MFA and their development policy. It is of particular interest to this research if PCD can be observed in the actions of EXIM and the MFA.

4.1 Regulations and Human Rights Conditions for Financing

An overview of the EXIM literature available online (annual reports, regulation, and requirement statements) shows that EXIM's mandate prescribes that it adheres to the legislative frameworks of the OECD and EU. According to EXIM's website and "Environmental and Social Policy," EXIM must insure that projects adhere to reasonable environmental and social considerations. The bank assesses environmental and social impacts and risks, which are considered in the application process. By law, EXIM must make special considerations for these impacts when assessing a client's project in coherence with OECD regulation. As of July 2, 2012, EXIM has adapted its policies to provide better coherence with the OECD ECG document, "Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence." To this extent, EXIM strives to follow the "Guide to Human Rights Impact Assessment and Management" (HRIAM) fostered by the International Business Leaders Forum (IBLF), International Finance Corporation (IFC), and UN Global Compact.

EXIM's principals with regard to environmental and social policy can be condensed as the following:

- To comply with all pertinent Hungarian legislation as well as international commitments and environmental agreements.
- To observe legal regulations pertaining to international commercial and confidentiality and business welfare, with regard to those applicable rules.
- To work in conjunction with the stakeholder country, respecting the buyer countries rules and regulations during the assessment of environmental and social impacts stemming from exporters.
- To make rules and measures flexible enough to sustain future development.

While EXIM follows (HRIAM) protocols, it is difficult to asses to what degree. EXIM has a six-step procedure for assessing the environmental and social impact of their companies:

Pre-screening: Identifies the applicant with regard to the "scope-criteria."

Screening: Identifies the applicant with regard to potential environmental and social impacts. This stage looks to classify the applicant in terms of transaction type.

Classification: Initial categorization of the applicant, and level of potential impact is assessed from A (High Impacts), B (Medium Impact), C (Low Impact) with regard to social and environmental issues.

Review: Based on classification, applicants may have to conduct ESIA. Category A projects are required to submit an ESIA. All other Categories may do so if chosen but are not required to.

Decision: "Made on the basis of a complex assessment in the course of which the insurer accepts the transactions (subject to conditions if necessary) if it meets the relevant criteria" (EXIM 2014). In accordance with international protocols the insurer should not confirm a contract if the terms are not consistent with the host country or relevant international standards, or if it would lead to a major negative social or environmental impact.

Monitoring: Ex-post tracking of environmental and social impacts are "applied occasionally," but only if monitoring has been determined a precondition for the project.

While EXIM attempts to take into account relevant international protocols and norms in its consideration of applicants, it is largely undeterminable to what level of due diligence they use these standards. As stated in their Procedures, EXIM "should" benchmark projects alongside host country standards and against the relevant aspects of all ten World Bank Safeguard Policies, the International Finance Corporation Performance Standards, European Community standards, and other internationally recognized standards (EXIM 2014). EXIM, relies primarily on the information provided by the client (EXIM 2014).

The bank may collect further information from independent sources, "if it is considered necessary (e.g. finance institutions, other insurers, green organizations)" (EXIM 2014) Additional information on the frequency and to what degree this information is pursued is important to determine to what extent the bank does its due diligence in assessing environmental and social impacts. The fact that "monitoring" or ex-post tracking is only considered for "high impact" cases and only "applied occasionally," leaves significant room for clients to participate in acts of moral hazard. Without ex-post monitoring mechanisms it is difficult to assess "low impact" projects to the full extent of their impact and to provide PCD to ascertain project's tangible impact.

The above review of EXIM policies suggests that there is room for improvement. While traditionally overwhelming focus is placed on monitoring and assessing developing country's performance, it is still generally uncommon to follow PCD principals and monitor the impact of developed country's policies to both insure they meet their goals and do not have negative impacts. International financial institutions (IFIs), including EXIM, have been among the slowest to adopt ex-post monitoring measures. Many IFIs have not promoted a 'policy space' or the capacity for developing nations to conduct their own evaluations, leaving the burden on IFIs (Picciotto 2014, 317). From an accountability standpoint, it is essential that, in accordance with PCD, unnecessary incoherence either unintended or intended resulting from being uninformed or incompetence or resulting from favoritism, should be prevented (Picciotto 2014, 322).

4.2 Development Financing

At the end of 2009, EXIM adopted its new business strategy and business policy plan. The focus of this new approach was to create more consistency between EXIM and the Hungarian Government's foreign economic policy. A major new aspect of this policy was to support small and medium sized enterprises in Hungary through export financing activates and bring them into the government's general economic and development goals (EXIM 2011).

Table 4: EXIM EXPORT DISTRIBUTION 2009-2012

	2009	2010	2011	2012
Russia	X	45%	36%	15%
Romania				6%
Other	X	46%		6%
EU	X		59%	59%
USA			.2%	3%
Brazil ****	X			2%
Serbia****				2%
Croatia				2%
Iraq***				1%
Canada				1%
Ukraine***	X			1%
Egypt***		3%	1.4%	1%

China****	X			1%
Tajikistan**	X			
Macedonia****	X			
Slovenia			.5%	
Thailand****			.2%	
Turkey****	X		.3%	
Laos*	X	1%	.3%	
Belarus****	X	1%		
Republic of Yemen*		1%		
Kazakhstan****	X	3%		
Montenegro****	X	1%	2.1%	

Source: Author (based on EXIM Annual Reports) *=LDC **=LIC, ***=LMIC, ****=UMIC. “X” = Recipients (No formal % data)

IFC Trust Fund

EXIM’s role as a development actor has recently expanded through its contributions to the International Finance Corporation’s (IFC) Trust Fund portfolio. IFC trust funds are used as a mechanism for channeling concessional development finance. EXIM has committed $20 million to an IFC trust fund for advisory services. Officials from EXIM have stated that these funds will be used for developing the markets of countries in North Africa, the West Balkans, Mongolia, Vietnam, and Laos, as well as certain CIS countries, in accordance with the MFA’s foreign strategy. These funds will be used for projects in the water management, agriculture and health care sectors. EXIM officials have also stated, in coherence with the IFC that these funds will be allocated 50% to the private sector and 50% to the governments of the countries of projects chosen. The IFC will determine which projects will be funded out of this trust with no preference shown towards Hungarian enterprises. This can be seen as an improvement on the side of the Hungarian government’s allocation of development aid by means of uncoupling direct aid from exports from tied aid loans. It might be noted, that the sectors and regions in which these funds have been earmarked are areas in which Hungarian enterprises hold a comparative advantage, as shown in previous sections. EXIM officials have indicated that these contributions will serve as a share of Hungary’s new multilateral aid contributions in the coming years.

Tied Aid Loans

Tied aid loans have traditionally been a major source of financing of development activity for the Hungarian government in their promotion of the private sector. Tied aid credits, have been deemed as a “preferential credit facility” by EXIM according to their literature. EXIM officials have indicated that the bank may be moving away from this traditional method of financing by adopting more innovative strategies modeled after western donor countries approaches. EXIM officials have further stated that tied-aid has never been considered a development tool by the bank and that it is looking for more robust vehicles of financing. This is indicated in the portfolio of EXIM, with a decline in tied-aid loans since 2009. Hungary's ODA has declined in this same period, making it difficult to determine if this is a decoupling or the result of a overall reduction of ODA.

On February 12, 2014, EXIM deputy CEO signed a co-operation agreement with the Chinese Export-Import Bank (SINOSURE) to strengthen ties between these two institutions and to promote further bilateral development goals. This is consistent with the Hungarian Government's policy of "Eastern Opening" established in May 2012. EXIM also expanded its official development strategy, on March 19, 2014. To meet pressing development goals, Hungary agreed to provide $20 million to the IFC to help support private sector activity in Asia, the Middle East and North Africa, and the Balkans. This pledge was made by EXIM to the IFC's advisory activities. These funds will primarily be used to fund agricultural, water management and health industries in countries such as Kazakhstan, Vietnam, Egypt and Albania.

Section Five: Conclusion and Summary

Private sector for development can be a key driver for economic development, improving job creation opportunities and inclusive growth, while still adhering to international standards and norms.

While during the EU accession process Hungary complied with the EU's acquis communautaire, since their accession, relatively little pressure has been put on Hungary from the EU for continued compliance. This has become evident through Hungary's development strategy as outlined in past research and in this paper, which does not primarily focus on LDC or LIC, but primarily on "key trade" partners outlined in their FP. As both Horky (2012) and Szent-Ivanyi (2012) have shown, most new member state countries, Hungary included, comply with very few of the recommendations in the acquis, channeling relatively meager amounts of aid to Africa, in Hungary's case only Kenya, Nigeria and Egypt, none of which are considered LDC and only Kenya falling into the LIC category. It can be observed that Hungarian aid is generally tied to exports, as opposed to budget support or joint programming.

Based on the lack of a clearly articulated development strategy, it is very difficult for one to make the conclusion that Hungary's development policy plays a significant role into it's foreign policy or export promotion through EXIM and trade agreements. Hungary's foreign policy puts a heavy emphasis on export promotion. It would seem, as supported by this analysis, that Hungary's ODA is used to promote current trade partners. While the author acknowledges the problem of causality in either direction with regard to Hungary's ODA and EXIM's export promotion, based on the documents and literature assessed, there is less evidence suggesting that ODA is being used in conjunction with the private sector for wider international development goals. It could be possible that the government tracks the private sector, seeing where investment goes on its own and then attempts to develop it further and create a more business friendly environment. The author also acknowledges the likelihood that there is no causal relationship between either of these factors and that they are both completely independent, based on Hungary's only now growing use of policy coherence evidenced in the literature.

The Hungarian government appears to lack a strong donor identity and development strategy and framework. This coupled with the fact that the MFA, plays a relatively small role in overall IDC activates, only 20%, while the majority, 80% of development contributions are the responsibility of line ministries, suggests that there is room for improvement with regard to adherence to PCD. Without a cohesive strategy, framework, and support instruments, it is difficult to make the MFA's promotion of domestic private actors into international development projects, however, the Hungarian government's acknowledgment of PCD into their new IDC strategy is a significant step forward.

Section four shows that EXIM has adopted the fundamental communiqués set forth by most international organizations for environmental and human rights scrutiny in philosophy. One might consider, however, assessing more fully, beyond this research, the extent to which EXIM has been taking precautions to apply international standards in these projects and specifically looking at ex-post assessment of project impact. Projects EXIM has financed since 2009, and previous research, might suggest that it is not a primary facilitator of development, but predominantly a mechanism of export promotion and therefore, following Hungary's overarching foreign policy. There is still considerable opportunity for EXIM to become a more intrinsic player in the Hungarian development strategy.

There are five major repeated 'soft law' suggestions which international institutions call for,

- Shifting aid allocation to Africa, specifically LDC, and LIC countries. (European Consensus, 2006)
- Untying aid from exports (European Consensus, 2006)
- Increasing policy coherence for development (Council of the European Union 2012)
- Engaging in cooperative actions and programming with other donors (Council of European Union, 2011)
- Increasing transparency (Council of the European Union, 2011).

One can see that Hungary needs to establish a stronger development strategy, which at this time is potentially preventing Hungary from achieving all of these objectives. While Hungary promotes the private sector for development, this promotion cannot be seen in the strict sense of adhering to international values and standards of the private sector for development, but instead more as an extension of its foreign policy and external trade strategy. PCD cannot be observed in the Hungarian context at this time, due the lack of a clearly defined independent development strategy and framework for implementation. Hungary's acknowledgment of PCD in its new development strategy in progress, however, is an important step forward and commendable.

Recommendations

1. It is vital for Hungary to develop a more comprehensive and visionary development strategy. This strategy should focus on clearly establishing Hungary as a donor, and delineate specific guidelines for development. This will help to establish the tools, which can then be used to foster their development goals. Furthermore, a clear development strategy would allow better and increased involvement of the private sector and civil society into the development process.

2. A central agency should be established to coordinate development projects among the line-ministries, private sector and civil society. This would allow increased efficiency through improved coordination and ultimately lead to the exploitation of positive synergies and adherence to PCD. It is acknowledged that the Hungarian government is currently in the process of establishing such an agency and its introduction is a positive step forward.

3. The recent signing of a MOU between the MFA, HITA, EXIM, MNE, and civil society is a good introductory step for these different units to start harmonizing their projects, however further coordination between line-ministries, the MFA as well as other units should be established. Ministries and government units should meet more then once a year to define mandates and assignment of contributions, which in turn will strengthen inter-ministerial dialogue and strengthen their commitment to PCD.

4. The platform for private-public sector, and civil society dialogue currently facilitated by HITA is a vital resource for sharing ideas and strengthening partnerships across all sectors. This platform should continue to be strengthened to provide more inclusive dialogues between these sectors through active working groups.

5. The IFC trust fund is a positive contribution to the Hungarian government's ODA, if it is in addition to preexisting development commitments. This trust should be used as an added supplement for improving Hungary's GNI/ODA contributions, not as a replacement to current ODA assistance.

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