ABSTRACT OF THE DOCTORAL (PhD) THESIS

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SOPRON
2008

UNIVERSITY OF WEST HUNGARY
FACULTY OF ECONOMICS
Doctoral School for
Theory and Practice of Economic Processes
Program for Finances

MULTILATERAL DEVELOPMENT BANKS AND HUNGARY

Lessons from the period after the change of regime,
perspectives for the future

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Topicality and importance of the theme

1. The recent period of economic, social and political change in Hungary brought along remarkable historical changes. Our country became a part of the Euro-Atlantic Military Organization, and became a full-right member of the European economic integration: government efforts constantly present since the change of regime in 1989-1990 and widely supported by extensive social consensus have been carried out. Hungary became a part of the globalization, which creates the opportunity to be able to use its adventages and fend off or at least dampen its unfavorable effects.

2. In order to be able to continue - after the conclusion of the transformation – to face the challenges of an economic historically new era, and to manage its risks with the appropriate tools, there is a need to assess the events of the last decade and a half, also with regard to the relationship between Hungary and the international financial and development institutions (IFIs).

3. The reason and need of the existence and operation of the multilateral financial institutions founded by sovereign nations is the subject of constant disputes, but in the meantime, because of their functions not substitutable by the market, they operate as a depository of economic stability and development. Therefore their existence in the long run, and the constant demand for their services is out of question.

Objectives of the research, hypothesis

4. The study also contains Hungarian relations of the subject incorporated into the framework of the global financial architecture. The primary purpose of writing this dissertation is to give a comprehensive overview of the role played by the multilateral development banks in the transformation of the Hungarian economy, and in the economic development in the period since 1990 (historical overview, economic and financial analysis and assessment of their impact) contributing to the scientific literature about the topic.

5. Another important goal of this paper is to define, using the experience obtained earlier, the directions that can be of the service of the economic development of the EU member Hungary. To define perspectives of relations, changing in quality during the course of EU

accession, and moving from a beneficiary to a donor status, are primary objectives. In order to determine the national impact and weight of the multilateral development banks, it is essential to process international comparisons and examples by sampling; and the author brings along comparisons with the Visegrad 4 countries (V4).

6. The dissertation is based on the following hypothesis and the assessments aim at proving them and defining the possible conclusions:

a./ It is still in the balance whether multilateral development banks can keep their weight when adapting to the spreading and accelerating globalization caused rearranging world economy.

b./ There is a real risk that the ability to align to the global economic powers is blocked by a sort of status quo powerlissness which shifts power balances from the global multilateral financial and development institutions to regional levels.

c./ The impact of multilateral development banks (MDBs) on the economic policy in Hungary decreased due to the development of the European integration process.

d./ With the improvement of the conditions of access of Hungary to the capital markets, the prevailing governments could decide about the weight and importance of the borrowing in external financing provided by multilateral development banks according to the domestic development and financial needs.

e./ Multilateral development banks will play a crucial role in the efficient spending of the resources of domestic international development policy in line with the commitments made.

Methodology, processing of the topic, resources

7. The set of data available about the activity of the multilateral development banks in Hungary is very complex, but in the meantime the primer dimension of the data is only touching the surface, and is not suitable for drawing scientific conclusions. In order to obtain this kind of information, it is worth trying to examine rather long time-series to explore new data interrelations. There are several credible sources where researchers can obtain information: annual reports, analyses, publications about statistical, financial and corporational organizations, systematic studies, country and sectoral reports, cross-country analyses of the international financial institutions are available. In addition the international literature of the multilateral financial institutions is very rich, however national processing of

the topic is limited to the analyses of the sub-topics institution-specifically, there is hardly any comprehensive assessment.

8. The domestic and international literature is analysed based on the following group of criteria:

- official documents, papers, records (articles of agreements, rules of procedures, methodologycal documents, agreed minutes);
- factual data disseminations (annual general reports, annual activity reports, thematic statistical reports, financial reports, brochures about internal organizations);
- assessments and synthesis of productivity and results (comparison analysis, country, cross-country and sectorial studies, impact assessments);
- assessments in economic history;
- innovative, pro-active and critical literature.

9. The paper examines only those worldwide and regional multilateral development banks and their impact on the Hungarian economy where Hungary is a member. The activity of those institutions where Hungary does not participate in its main operation is presented only in the extent required by the subject. The reference frame of the dissertation examines the relations between Hungary and the multilateral development banks. From a financial perspective, the financing provided by the mentioned institutions is qualified as official financing. Since most part of the reference period (1990-2005) coincided with the period of economic transformation, therefore most of the financial assistance served the purpose of economic development also by OECD terminology. When talking about the subsidization element in connection with the multilateral institutions, then we mean interest rate subsidy or usually EU (non-repayable) funds financing investments.

10. The supra-national financial intermediaries, multilateral development banks discussed in the paper were founded by a group of countries with the aim of providing financing from capital markets, official sources, or providing technical assistance through its expertise in order to reach development goals, economic integration and social cohesion. The study considers only those multilateral development banks relevant in the development of the Hungarian economy in the last decade and a half which (i) consist of several member countries or international organizations; (ii) finance development policy and/or economic development tasks; (iii) provide reimbursable financing (banking operation) with a given

maturity, with a fix or variable price, as well as offer non-reimbursable assistance or technical expertise.

11. The shareholders of the multilateral development banks comprise of both the developed donor, and the developing recipient countries. Their project financing activity is made through:

- granting long term loan at market conditions, or
- granting loan at more favorable terms than in the market (concessional lending), or
- grants, non-reimbursable assistance.

12. In the study, the borderline between development policy and economic development is drawn along the following: development policy is generally based on income levels and assists merely developing countries (through granting loans, concessional lending, non-reimbursable assistance) with the direct or indirect burden bearing (subscription of capital in development banks, replenishment of subsidy funds) of the developed (donor, non-receipent) countries, while economic development – also in developed countries - is meant to be some kind of promotion of social and regional cohesion (e.g. improving economic growth or employment conditions).

13. In most cases the purpose of the financing is well reflected in the name of the institution, but a clearer picture is obtained when studying the Articles of Agreement of these institutions. Consequently for example the mandate of the World Bank and the European Bank for Reconstruction and Development (EBRD) is clearly development policy according to their Articles of Agreement (e.g. closing up of developing countries, promoting market-economic, democratic transformation, and following the achievement of these goals the given country emerges from the operational target countries, and the institution generally withdraws from the financing of the economy[1]), in the case of the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB)[2] however the country's higher development level is not a disqualifying factor (in both cases the mandate is financing the goals of the parent institutions, the EU or EC); and in contrast the so called rich countries – as share

[1] This process is called graduation.
[2] In the case of the 40-member CEB, the 20 operating target countries with 17% of the shares may receive about half of the loans.

holders and best debtors – secure the best risk rating (AAA) of the institutions, and thereby securing the long term availability of the cheap financing for the less developed.

14. The development goals can both aim at the assistance of developing countries, and at the promotion of the regional, economic and social integration of certain geographical units (therefore the notion of multilateral development bank by definition does not rules out the possibility of financing developed countries when the goal is to serve the closing up and the cohesion). According to the definitions of multilateral development banks, they belong to 5 categories:

- global,
- regional,
- sub-regional,
- European, and
- other multilateral development banks.

Results of the dissertation, conclusions

15. The thesis consists of three parts, and within them 13 chapters. The first part of the paper – following a short historical overview – defines the notion of multilateral development banks, their goals and instruments, their operational framework, introduces in a comparative way the constantly renewing strategies based on the more frequently used value-added approach, and comprehensively presents the main streams of the strategic arguments in connection with the role and future of the international development banks in the 21st century, and takes a position with reference to the main issues.

16. The second part deals with the value- and interest-based approach of the membership of Hungary from Hungary's standpoint, examines the participation of the shareholders in the policy-formation, and the impact of the institutions on the Hungarian economy and on the public finances.

17. In the third part of the paper, following the analysis of the lessons drawn from the experiences of the last decade and a half, the author attempts to draw a perspective for the possible future cooperation by presenting from a multilateral approach the financing relations and the opportunities lying in international development policy.

Based on the original hypothesis of the dissertation and the detailed assessments and review of the respective chapters, the following results and conclusions may be drawn.

A/ The historicaldevelopment of the international financial system

18. In the first stage of its operation, for about 25 years (1946-1971) the multilateral financial system fulfilled its duties: provided sufficient liquidity and stability for the world economy. During the second stage (from 1972 until the Millennium) however the economic political consensus for breaking down the factors limiting the fulfillment the purposes of the global economy proved to be successful and socially accepted only in the Trans-Atlantic region of the world, in other areas (Far-East, Latin-America) it did not pass the test of adaptation: removing the economic factor limits brought about the weakening of the stability which led to financial crises and social distress.

19. The financial crises in Latin-America, Mexico, South-East-Asia, Russia and Brazil in the 1980s and 1990s, and the dramatic indebtedness of the developing countries drew the attention to the problem of the sustainability of the economic policy tools applied until then, and the international financial institutions participating in the worldwide formation of economic policies were forced to conduct a serious self-assessment. According to the critics, instead of the adjustments that raise the level of indebtedness and are initiated outside the country, it is more important that the given country form its own economic policies (ownership), and that civil organizations and the society are also included in the forming of the transition (partnership[3]).

20. The cracked economies stepped on a more sustainable growing path again, and their share in the world trade and their increasing output per capita placed them among the emerging, in most cases middle-income economies of the world. In the financing of their economic development, the market became the most important source; official sources were pushed into the background. With the current and constantly improving positions in the real economy, a large group of the emerging market countries expects proportional representation, and thereby active participation in the decision-making process based on their economic weight in the international institutions, especially in the multilateral financial institutions.

[3] It is people not governments that feel pain. (Wolfensohn, 1998)

Slowing responding capacities of the institutions, disincentives of countries with the largest voting power paradoxically diminish the strength of the global financial architecture, hence emerging economies will choose regional or bilateral ways of representing and enforcing their interests.

B/ The financial framework of the operation, the value-added of the functions

21. In addition to the sectorial and geographical distribution of the financing by the multilateral development banks according to their mandate, it is also important that

- they provide financing at more favorable terms than the market (lower pricing, longer maturity, more stable and anti-cyclical financing) and/or
- they finance investments that would not be possible to finance from other sources because of return or risk reasons, and
- they are complementary, additional-type (co-financing of government spending, promoting the inclusion of the private sector, mobilizing effect).

22. The first condition mentioned is true for all recipient countries other than the best risk-rated ones, e.g. it is in the given country's interest to borrow from the international institution with the best debtor-rating as long as the costs of obtaining funds from the institution are lower than the similar costs of the country. The best credit rating of the shareholder countries having a higher income makes the flow of relatively cheap or concessional resources through multilateral development banks as intermediaries toward the beneficiary, usually less developed countries and regions or to developed countries.

23. The second viewpoint includes the financing of those investments that have a public interest, where the private sector does not join the financing because of the negative rentability (or offering only a long term return) and the high associated risk. These are usually the roles and responsibilities of the government, e.g. these investments have rather social usefulness and return.

24. The inclusion of multilateral banks can also have demonstrating purposes and this occurs primarily (i) in the regions with democration deficits (ii) with non-market type, or (iii) serious environment destroying investments.

25. Beside the aspect of obtaining resources from the loan provider private market, the aspect of banking operation and its continuous maintenance - which distinguishes development banks from aid-supplying world agencies (part of which operates under the egis of the United Nations) – are also important. There are also examples that multilateral banks decide to provide non-reimbursable assistance (grants, aids), interest arte subsidies or concessional lending facilities in addition to or to supplement banking operation.

C/ Competition and division of labor

26. The operation of the institution is determined by the market where it operates. Naturally the banks and loan providers of the private sector are also present on the market. Therefore competition is not limited to multilaterals; there is also a need to examine the relationship between multilaterals and institutions of the private sector. For demonstrating the typical situations, we use a 4-dimension matrix which is called 4-C matrix because of the English abbreviations of cooperation, complementarity, competition and cooperative competition. [4].

MARKET BEHAVIOR / INSTITUTIONAL FORM	CO-OPERATION	COMPLE-MENTARITY	COOPERATIVE COMPETITION	COM-PETITION
MULTILATERALS	A11	A12	A13	
MULTILATERALS AND PRIVATE SECTOR		A22		A24
PRIVATE SECTOR		A32	A33	A34

27. The sections of the matrix are approached from the side of the market behavior where the classic form of cooperation is most typical among multilateral institutions (Section A11). In most cases these cooperational agreements

- reach beyond informal cooperation,
- aim at certain target areas,
- are implementable within some kind of comprehensive policy framework
- are equipped with a concrete operational framework
- have bilateral or multilateral targets
- operate for a given period of time or continuously with regular reviews.

[4] The competition of development financing provided by multilateral banks and the private sector can be comprehensively analyzed by using the aspects of the four Cs, eg. cooperation, , complementarity, competition and cooperative competition.

28. Complementarity occurs within all three institutional forms; the point is that institutions cooperate in the realization of a certain project or program target. In this case the principle framework covering different areas is missing; pragmatic, interest-driven financing agreements are made, adjusting to the needs of the recipient country. In the case of multilateral institutions, the most typical example is (Section A12) when a national project (partially or fully) is carried out with using external financing from the loan of at least two development banks. The scarcity of domestic resources, the relative high pricing of other available funds, the need for external expertise and knowledge are the reasons behind a recipient country's or other economic participants' choice of this option. A typaical cooperational form of Sections A22 and A32 is investments realized with the cooperation of the public and private sectors; these are the PPP investments where expenditures of the central and/or local governments and the external funds financing them are complemented with resources from the private sector.

29. Because of their mission and mandate, pure competition cannot be a characteristic of the relative market operation of multilateral institutions; however it is a natural form of the relationship between multilaterals and the private market participants (Sections A24 and A34). This is manifested as many international development institutions cannot participate in the public procurement procedures announced for the full range of market participants.

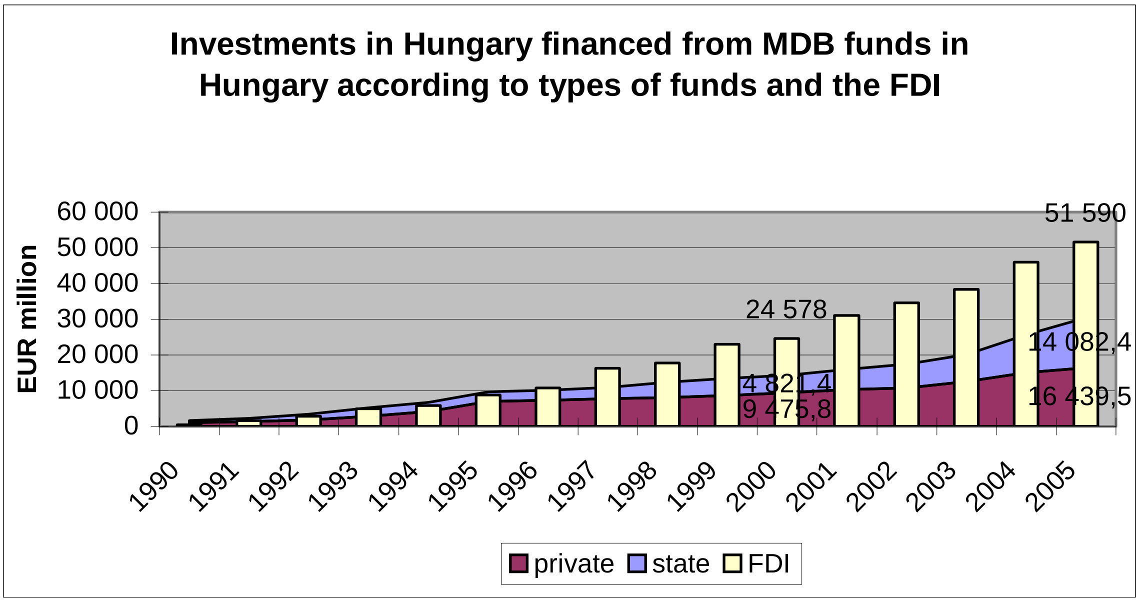
D/ Resources arriving to Hungary fom multilateral development banks

30. The amount of the financing obligations assumed by multilateral development banks for the investments realized between 1990-2005 reached € 10.6 mn, which is about 1/5 of the foreign direct investments arriving to Hungary during the decade and a half following the change of regime. This level of the financing commitments exceeding € 10 mn made by international institutions helped in the realization of a three times higher investment and property gaining level in the last 16 years.

31. The stock of the € 5bn having arrived during the 10 years unil the Millennium have doubled in the next 5 years, as EU pre-accession funds starting in 2000 and the co-financing need of the resources arriving from the cohesion and structural funds within the framework of the EU financial perspective in effect from the date of our EU accession until 2006 (2004-2006) had an obvious role to play. Total costs of the investments carried out from EU

sources[5] between 2000-2006 - together with resources of the local governments and the private sector - reached € 5 bn, and between 2001-2005 EIB contributed € 1.1 bn (1/10 of the resources arriving from international development institutions during the given decade and a half, and 1/5 of the resources arriving between 2001-2005) for the financing of the national downpayment.

32. However debt-generating financing arriving from international institutions until 2005 amounts to only € 1037 per capita, then taking into consideration the tripling mobilizing effect mentioned earlier, the per capita amount of investments realized is about € 2982. This means that from the about € 65 reimbursable assistance per capita, an approximately € 186 investment per capita has been realized annually. FDIs and the size of the commitments of investments realized from the financing of multilateral development banks come apart from 1997, the approximately € 10 bn difference in the year 2000 doubled in the next 5 years.



33. The calculations of the author show that a little more than half of the € 30 bn worth of investment financed from the resources of multilateral development banks are the investments of the private sector, and in the meantime this is the potential, a part of which was financed from FDI; the mentioned multilateral resource is obviously the debt-generating fraction of investments. This € 16 bn private market potential is about 1/3 of direct investments, and - because of the lack of the capital force of the domestic corporations -, the most part was used

[5] Commitments of the EIB were made until the end of the period examined, 2005.

for cofinancing investments assisted by international commitments. This sum is about the same as FDIs having arrived through privatization, and its fraction to direct investment is estimated to be between 25-31%.

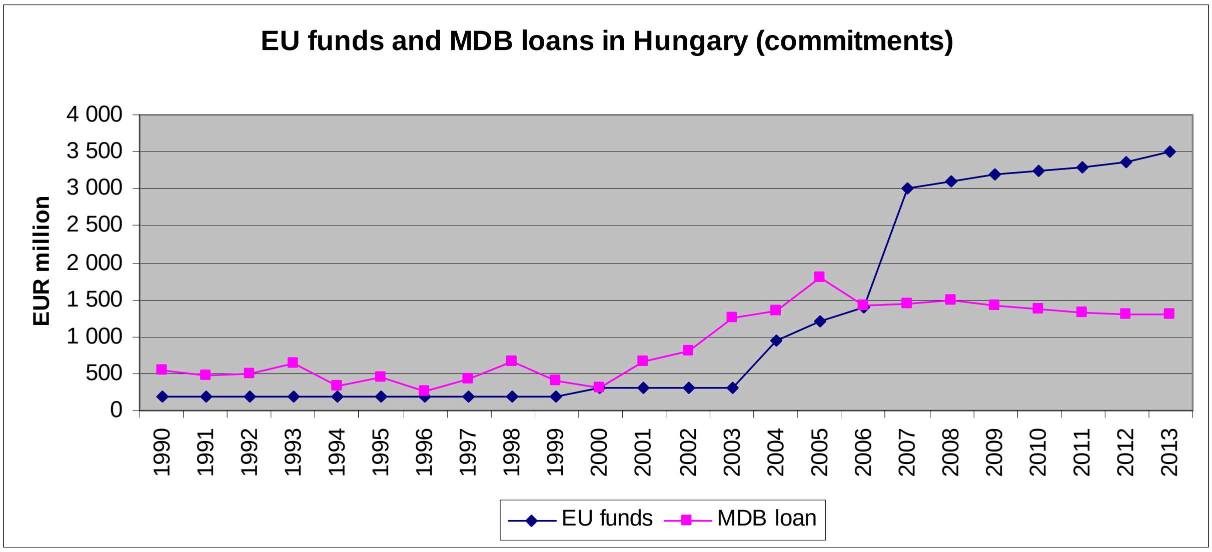
34. For the examination of the relationship between investments financed partially from multilateral resources and foreign capital investments, it is useful to separate resources of international financial institutions used for public or private sector investments. According to the calculations, multilateral credit- and capital resources received by the private sector accounts for about 8% of FDIs, and a large part of these resources have complemented investments carried out from direct investment with long term reimbursable financing.

35. Considering the two fundamental types of cooperation, it is the European financial institutions – primarily the EIB, the bank of the EU – that dominates in the financing, while in the area of economic policy dialogue and technical expertise, the Bretton Woods institutions take the leading role.

36. In the area of government financing relationships, the EIB and the CEB remains a cooperational partner in the period until 2013, while the EBRD will remain active in granting loans to the private sector until 2010. Within the framework of the 2007-2013 financial perspective of the EU, consultations were conducted about developing a new program-based financing cooperation with the EIB and the CEB, and along the priorities of the New Hungary Development Plan. The substance of the new type of cooperation is that the institutions provide financing mechanisms along their main priorities which are adjusted to the features of the national operative programs, to the programming, implementational and accounting rules. The financing activity of the two development banks is largely complementary, however in some areas they can become potential competitors. EIB can fundamentally finance programs with large infrastructural investments (transportation, environment, energy), while CEB can extend financing in the area of economic development (creating new jobs), social renewal, and human infrastructure.

37. The volume of the loans of the international financial institutions constantly – but in different degrees – exceeded the level of EU assistance during the whole pre-accession period (short exceptions are found in 1994, 1996 and 2000) and during the two years following the EU accession. The turning point in the trend occurred in 2006, which was followed by a € 3-

3.5 bn annual assistance intensity from the 2007-2013 financial perspective, and a € 1.3-1.5 bn annual loan volume from the international financial institutions (largely cofinancing EU resources). This latter one is expected to come solely from resources of the EIB and the CEB, including the financing of investments of both the public and the private sectors.

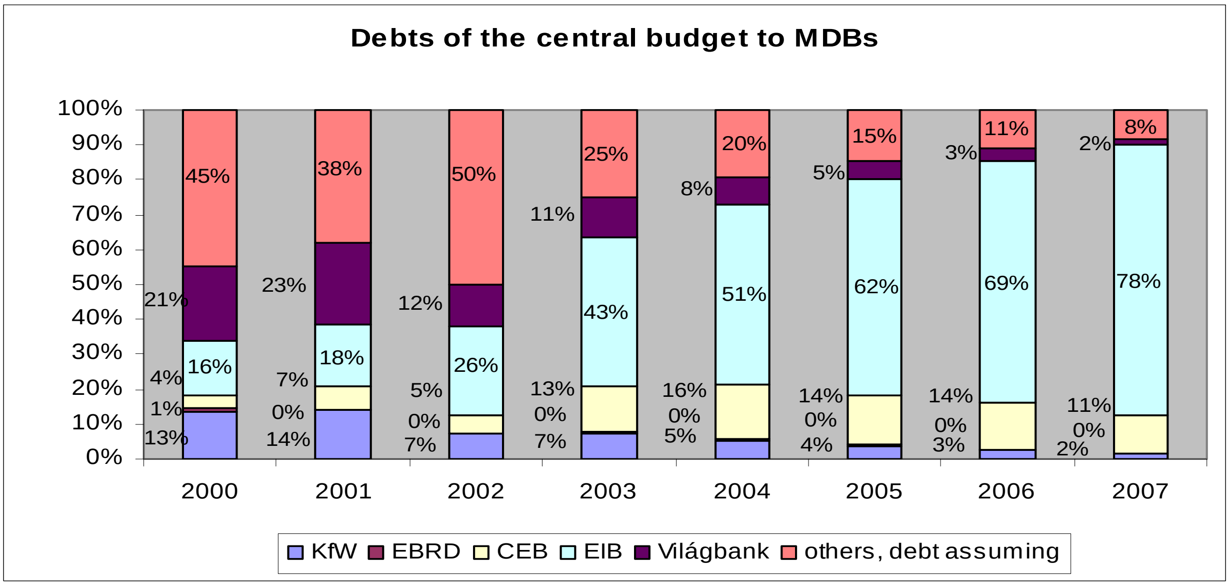


E/ The place and weight of the resource allocation in public finances

38. Loans provided by multilateral development banks – in addition to the resources from international capital markets (bond issuance, sindicated loans) appear as a foreign exchange financing source for the government. While resources obtained at the international capital markets are freely usable, eg. the sovereign issuer can use the external funds for financing the prevailing budget deficit, renewing its maturing debt, raising the level of international reserves, or financing the current account deficit, but on the other hand the government is required to account for with the loan provider about the use of the external development financing (fixed use for carrying out investment programs of the budget).

39. Due to the continuous improvement in Hungary's international market position and credit rating, the importance of resources available from international financial institutions decreased, and gradually Hungary reached the point when it can chosse from the financing options available at the international monetary and capital markets based on its own preferences. Debt owed to international financial organizations and foreign financial institutions amounts to 14% of the total foreign exchange debt which is about 29% of the

gross debt of the 2007 central budget. Debt toward international development institutions grew at a faster rate growth of more than 2.5 times) within 2000-2007 than foreign exchange or gross debt (about doubled). Since the supply for loans available substantially exceeds the actual demand for it, thus we can say that in economic sense there is a supply market in Hungary with regard to international financial institutions.



40. Within the debt owed toward multilateral banks, the best-priced EIB constitutes a 75% majority, while CEB with the second largest share reaches only a much less 11% in public borrowing based on the costs of funds. Today the expediency of the newly drawn loans is determined by the need for European Union closing up and the adjustment to the practice of other EU member states.

F/ The place of capital transfer arriving to Hungary in comparison with the Visegrad countries

41. The analysis is based on the OECD statistical data source and on the results of the collectin of data from it. Most part of the examination takes the net value of capital flows into consideration, which is the difference between the incoming funds and the related debt service, refunds (for example, capital repatriation). The purpose of the regional comparison is to show the weight of the Visegrad countries within the Central and Eastern European region, demonstrate the relative positions of the 4 countries with special attention to Hungary's capital attracting ability.

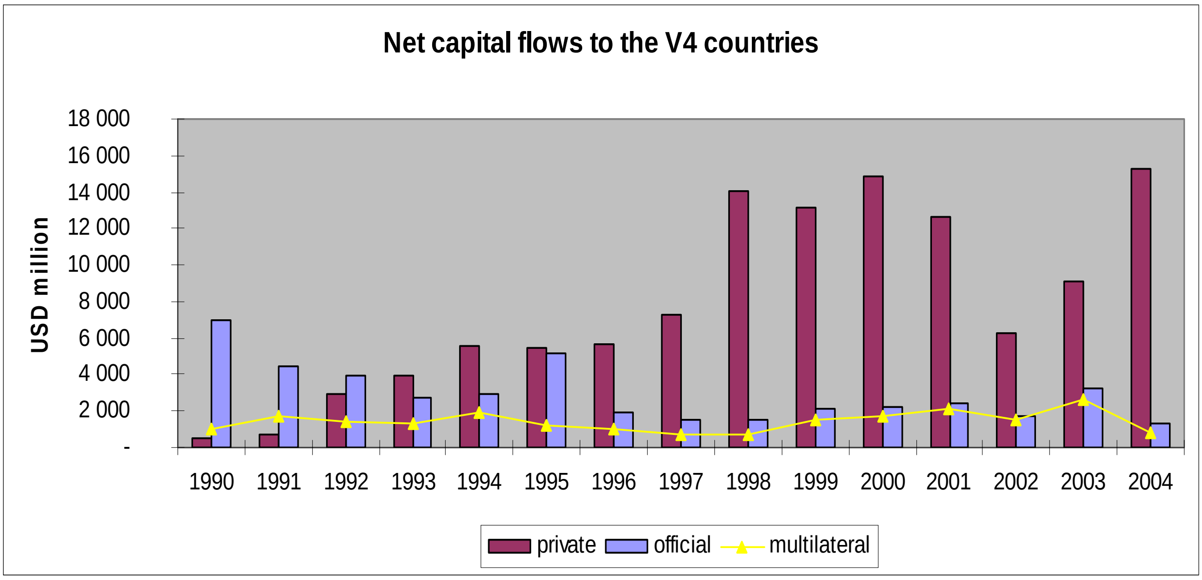
42. According to OECD statistics, € 210.7 bn net capital transfer arrived to Central and Eastern Europe between 1990-2004, more than ¾ of it (77%) flew to the Visegrad countries, and 1/5 of the total amount came to Hungary. The private and official capital flows financed the transformation coinciding with the change of regime, and it is worth comparing its volume with the amount of the resources coming from the 7-year EU financial perspective serving the EU closing up. If we consider the approximate present value of the quite remarkable net USD amount (USD 42.2 bn) arriving to Hungary during the 15 years of the two EU financial perspectives, then we can state that it roughly equals with the € 22.4 bn EU funds available between 2007-2013. The comparative analysis also shows that while the region as a whole achieved remarkable (20-85%) increases during the periods, in Hungary however a substantial decrease was experienced between 1995-1999 when compared to the net value of the funds in the previous period. The country regained its capital attracting ability only following the downturn between 1996-1998.

43. There was a kind of anti-cyclical effect between official and private capital flows. This kind of reciprocity can be traced mostly in the case of Hungary, where the size of official capital per capita is the smallest, while the value of private capital is the highest during the period examined. About 2/3 of the total capital flow to Central and Eastern Europe came from direct investments or loans from the private sector, while the remaining 1/3 flew to the region in the form of official financing. From the statistics it is seen that private funds exceeded official financing in the region only from 1996 (since 1997 net private flows were at least twice as high as official financing, in 2004 a significant 5-times higher). In the Visegrad group, private investors have been dominating continuously since 1993, and since 1996 the share of official financing arriving to the 4 countries is negligible.

44. Analyses also show that the share of the Visegrad countries from the total capital flows to Central and Eastern Europe exceeds ¾ (77%) of the total volume. The popularity of the Visegrad countries within the broader region is well demonstrated by the fact that private funds constitute about ¾ (73%) of the total capital flows, which is about 8% higher than the respective ratio of the Central and Eastern European region as a whole.

45. Simultaneously the share of private resources within the total capital flows arriving to Hungary reaches 85% which indicates on one hand the outstanding confidence of private investors, and on the other hand the favorable relative assessment of the investment

environment. Analyses also show that it was mainly Hungary where the transformation process was financed primarily by private investors. When examining official capital flows among the individual Visegrad countries, it is seen that in the first stage of the period examined (until 1994) Hungary was second behind Poland in attracting official capital, while later usually (with the exception of 1999 and 2004) we were placed second – at this time – behind the Czech Republic. In many instances also Slovakia finished the year with a higher volume of net official financing.



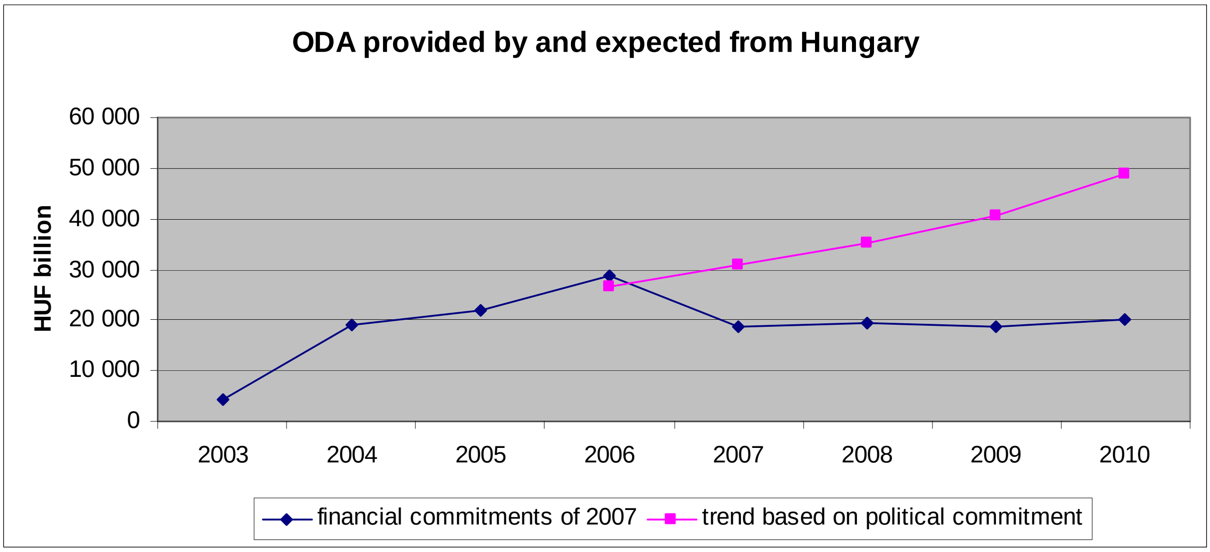
46. In the region and in Hungary almost the entire amount of multilateral financing was provided by the EBRD, the EU, (including the EIB), the World Bank Group and the Global Environment Facility (GEF). According to the aggregate data for the Visegrad countries, in the most part debt-generating resources of multilateral institutions constitute the major part of official financing since 1999 continuously. Before that date we again can see special results for Hungary in terms of multilateral capital flows: there was a net capital withdrawal in the case of multilateral funds in 1995, 1996 and 1998 (e.g. the volume of capital exports exceeded the new resources), however between 1999-2002 the net ratio of multilateral capital flows was higher, which points toward the fact that debt service paid for multilateral resources remained below the amount of refunds paid after other items in the total flows of official capital in the given year.

G/ Hungary's participation in international development policy

47. The commitments of the United Nations for eliminating world poverty made in 1970 was strengthened after 30 years by the more detailed and more accountable Millennium consensus of the international community; which outlined the achievement of specific development policy goals by 2015. Following the big financial crises of the 1990s, the leading international institutions of the international development cooperation – like multilateral development banks as well – were forced to make a self-assessment and a general overview of their former policies. Within the new guidelines, the issues of social and environmental sustainability received gradually a greater emphasis beside the clearly economic/financial approach. In addition to the classical assistance programs, debt-relief and later the issue of debt cancellation of the poorest countries of the world – which constitutes an increasing fraction within bilateral and multilateral donor activity - received special attention. In the increasingly complex subsidization systems, beside the size of the flow of resources, now it is the quality and effectiveness of the assistance, and relatedly the coordination within the donors that plays the leading role.

48. Hungary - not considering the assistance made on basically political and ideological grounds in the period preceding the change of regime - joined the international development policy as an emerging donor after the Millennium. We could lay the foundations and the operational mechanisms of the national institutional and decision making system of international development coordination (NEFE) in a sovereign framework, and in the meantime the common commitments of the member states of the European Union serve as a continuous benchmark. Following their accession, the the NEFE policy of the new member states received special attention. The timely realization of our political commitments for the end of the decade is closely monitored by both the international community and the EU, and - in line with the international practice - it is the civil organizations that form opinion and make recommendations for improvement about the policy forming and decision-making. In conjunction with this, the consciousness and related knowledge of the topic of the public opinion is insufficient, in several instances preconceptional, which need to be changed simultaneously with the necessary intensifying of donor activity and with the inclusion of the civil society.

49. In the meantime, the balance of the period following our EU accession can give a gound for optimism, as Hungary could raise continuously the annual volume of its official development assistance at a much higher rate than the average of the new EU members. The actual institutional and decision-making structure is suitable for spending effectively the presently available funds. The quantitative – and the simultaneous efficiency – challenges facing Hungary in international development policy require a complex, structural change securing a more substantial inclusion of the Hungarian economic interest and expertise. To achieve this, Hungary needs to work out an established strategy, which – among others – determines the annual phasing and the efficient disbursement of the assistance based on previously obtained experience. It can be misleading if we consider the multilateral framework rigid, and falling far from national interests. Multilateral funds operating in the target countries of the Hungary NEFE cooperation (Western Balkan for example) can mobilize large volumes of resources, and above all, they can promote the export of goods, services and capital originateing in the donor country. Therefore it is very important to search continuously for the healthy balance between bilateral and multilateral channels which in turn is suitable to comply with the principles of NEFE cooperation and the presentation of national interests. Ratios therefore should not be graved, they have to be adjusted to our own aspects shaping with the changing world and to the needs of the partners.



50. Analyses show that during the reference period of 2004-2006, Hungary could continuously improve its contribution to GNI rate which was constantly at or above the level of the EU-10 average. It is a question yet whether our political commitments adjusted to

international standards are achievable, eg. reaching an assistance level to GNI rate of 0.17% by 2010, and doubling it to 0.33 by 2015. If we project our financial commitments of 2007 (about HUF 20 bn), it is clear that in 2010 we have to add to the presently plannable commitments an amount which is about one and a half times this sum.

51. The question arises whether it is a profanity if in addition to (not instead of!) the serious moral aspects economic interest of the donor countries also emerges. Similarly to the practice (proved by facts even if they do not advertise it) of other developed donor countries, governments using the money of the tax payers for charity purposes have to pay attention to stimulating the inclusion of the domestic business sector into financing investments from donor resources. According to the firm opinion of the author, this is a topic which can attract more interest and establishment to the necessary increase of assistance. In fact, the success of the Hungarian international development policy can depend on it. There is international practice for treating the situation with conflicting interests (moral-based assistance vs. business aspects). It is worth mentioning and studying further the German and Austrian example, where development banks with a mandate for international development are making financing activity to assist national business entities to get into the international markets but the assistance is made along the Millennium Development Goals.

LECTURES AND PUBLICATIONS OF THE AUTHOR IN THE TOPIC

Lectures

The European Financial Institutions

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