

„Socio-Economic Assessment of the Danube Region: State of the Region, Challenges and Strategy Development“

Future Strategic Orientation of the EUSDR

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CENTRE FOR EUROPEAN ECONOMIC RESEARCH
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Content

1	Introduction	3
2	Objectives and approach	5
2.1	Objective.....	5
2.2	Approach	5
3	The Danube Region in figures.....	12
4	Assessment and conclusion	25
	References.....	44

List of Abbreviations

AT	Austria
BA	Bosnia and Herzegovina
BG	Bulgaria
BW	Baden-Wuerttemberg
BY	Bavaria
CZ	Czech Republic
HR	Croatia
HU	Hungary
ME	Montenegro
MD	Moldova
RO	Romania
RS	Serbia
SK	Slovakia
SI	Slovenia
UA	Ukraine

1 Introduction

The Danube Region is the area that stretches from the Black Forest in the West to the Black Sea in the East and from the Czech Republic in the North to Bulgaria in the South. Its name comes from the river Danube which connects Central with Southeast Europe. This area of Europe has undergone cycles of integrations and disintegrations in the past. The most prominent is the Habsburg Empire, which covered major parts of the Danube area from the late 17th century until it broke up after the First World War. Several of the Danube countries belonged to the communist bloc after 1945 and were – to varying degrees – integrated economically under these preconditions. These ties lost their significance after the fall of the Iron Curtain in 1989. More recently, there have been major steps taken towards increasing the integration of this part of Europe again, both within the Region itself and between the Region and the rest of Europe. One step has been the enlargement of the European Union (EU) towards the East through which the Czech Republic, Hungary, Slovakia, Slovenia (in 2004), Romania, Bulgaria (in 2007) and Croatia (in 2013) became members of the EU. In addition, there are currently accession negotiations under way with the candidate countries Serbia and Montenegro; Bosnia and Herzegovina has potential candidate status while Ukraine and Moldova are among the target countries of the EU neighbourhood policy... Another step is the establishment of the Working Group of the Danube Countries in 1990, followed by the Danube Cooperation Process in 2002. In 2011, the Council of the European Union finally adopted the EU Strategy for the Danube Region (EUSDR).

Besides the EU Strategy for the Baltic Sea Region, the EUSDR is the second macro regional strategy of the European Union. Its main aim is to develop the Danube Region by increasing interregional cooperation and network building. The basic idea is to follow a bottom-up approach: individuals and groups in the Danube Region countries are asked to define projects which are then implemented together with partners from other countries or regions. The general intention behind this approach is to increase the knowledge transfer in the region. A particular objective is to help the less developed countries to use more of their approved budget of the EU regional funds and the funds of the European Neighbourhood policy.

In the process of defining activities for the Danube Region as part of the programming period 2014-2020 of the EU cohesion policy the coordinator of the Priority Area 8 (“Competitiveness”) of the EUSDR, the Ministry of Economics and Finance Baden-Württemberg, Germany, and the EU Comm DG Regio commissioned a study on the current and future potentials, needs, and challenges of the Danube Region. The study is carried out by the Centre for European Economic Research (ZEW) Mannheim, Germany, together with the Institute for Applied Economic Research (IAW) Tübingen, Germany, and the Vienna Institute for International Economic Studies (wiiw), Austria, and has two parts. In the first part, extensive data on the competitiveness, entrepreneurship and SMEs and cooperation in the Danube Region has been collected. By assessing these data, a set of preliminary recommendations has been formulated. The aim of the second part has been to develop these recommendations further in order to “provide a preliminary strategic contribution to the definition of a program strategy” for the EUSDR in the end as stated in the terms of reference for the project. While the first part was primarily based on the analysis of quantitative data at the country, regional and firm level, in the second part a qualitative approach was followed. This qualitative approach involved extensive discussions with experts from the country both face-to-face and online. In this report, we synthesise the results of both analyses and present our conclusions what can be done to develop the competitiveness as well as the EUSDR further. We start by briefly describing the task and the chosen approach (chapter 2), then present some selected figures of the Danube Region (chapter 3) and finally provide our assessment of the results and our recommendations.

There are two companion documents to this report. The first is Achtnicht et al (2015) which includes the analyses of part I of the study with the data available in the early autumn of 2015.¹ The second document is designed as a separate appendix to this report where the exact approach and the analysis of part II of the study is included. These documents can be accessed via the project websites of ZEW, IAW and wiiw respectively.²

¹ An earlier version of this report is Achtnicht et al (2014) which is based on data available at the end of 2013.

² ZEW: <http://www.zew.de/en/projects/1319>, IAW: <http://www.iaw.edu/index.php/-306/sozio-oekonomische-analyse-des-donaustrategieraums-stand-herausforderungen->

2 Objectives and approach

2.1 Objective

The objectives of the study are to identify common socio-economic challenges among the countries of the Danube Region and to support the coordinator of the Priority Area 8 in making suggestions for the increasing the competitiveness innovative strength and the attractiveness of the Region as well as in developing the EUSDR further. This includes the identification of areas with room for improvement as well as of criteria and topics for meaningful projects. The task is to be carried out by means of both a quantitative analysis and a qualitative analysis.

2.2 Approach

2.2.1 Part I

In the first part of the study, we made a comprehensive inventory of the socio-economic situation of the Danube Region by putting together a broad variety of indicators. We considered three broad topics: 1) prosperity and macroeconomic development, 2) small and medium-sized enterprises (SME) and entrepreneurship, as well as 3) cooperation and cooperation potential. The analysis is based on several data sources such as Eurostat, UNdata, the World Bank, Statistical Offices, OECD, Penn World Tables and data from the Centre for European Economic Research (ZEW). Besides documenting the socio-economic status, the indicators were used for describing potential opportunities, needs and challenges in each of the above mentioned areas as well as for giving some preliminary recommendations. Figure 1 gives an overview of the proceeding in part I.

2.2.2 Part II

In the second part, we performed a qualitative analysis for which we basically used two qualitative approaches. Firstly, we carried out so called focus group and secondly, we initiated a discussion on an online discussion platform. In

und-strategieentwicklung, wiiw: <http://wiiw.ac.at/socio-economic-assessment-of-the-danube-region-state-of-the-region-challenges-and-strategy-development-pj-7.html>

Figure 1: Approach of part I

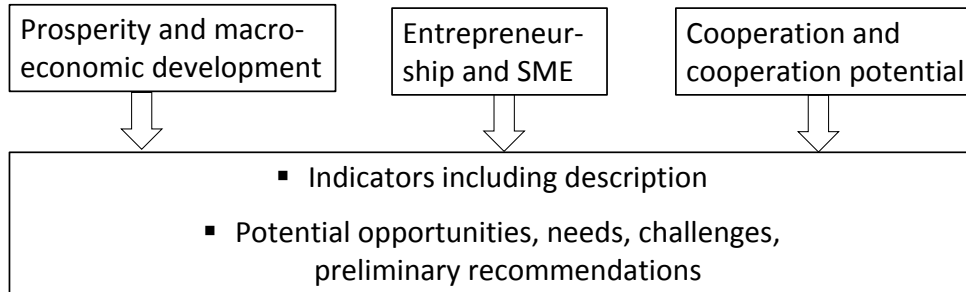
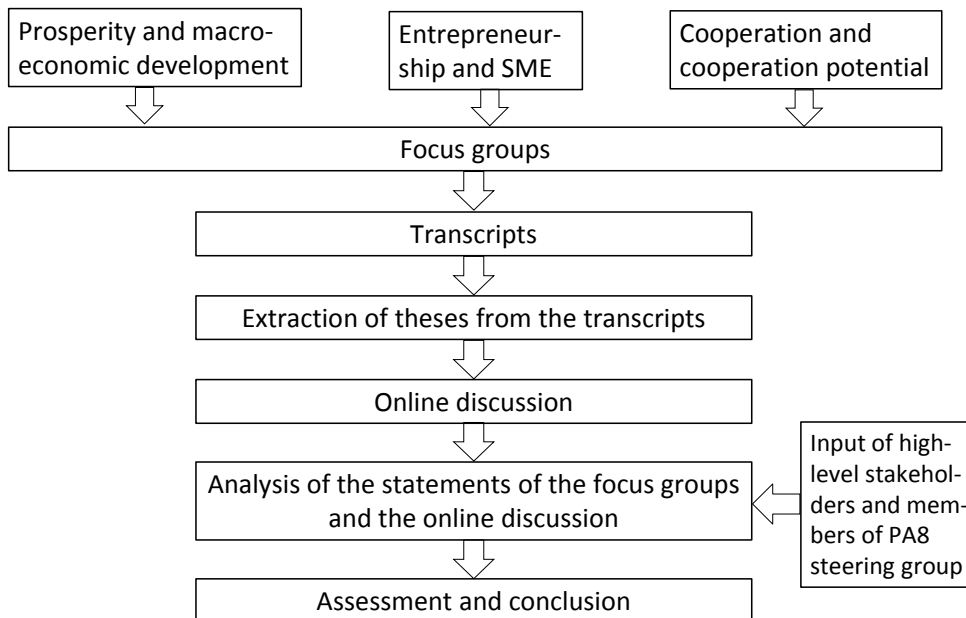


Figure 2: Approach of part II



addition, we received input from other persons interested in the Danube Region and the EUSDR via E-Mail. We used this input as a cross check of the statements we received in the focus groups and the online discussion. As the methods we used in this part are a bit less common in policy consulting we say a few more words about them in the following than we did in the description of the approach in part I above. Nonetheless, this is only a sketch. The detailed description can be found in the appendix to this report, where we would like to refer the interested reader to. Figure 2 gives an overview of the approach in part II.

Focus groups

Focus groups are moderator-led discussions between several persons. David Morgan defines it as „a research technique that collects data through group interaction on a topic determined by the researcher“ (Morgan 1996, p.130). Focus groups appeared to us as a meaningful starting point for our analyses in the second part for two main reasons.³ First, they are an established instrument of empirical social research for defining ideas, developing concepts and identify demands. This matched our requirements at the beginning of the second part of the study very well. Although the quantitative analysis in the first part of the study helped in defining the search process for issues that should be addressed in the contribution to the definition of the Danube Region Strategy we were still looking for an assessment of the relative importance of the individual points. We used the focus groups as a means to substantiate and concretise the results of the first part as well as to identify and explore further relevant aspects. Second, in the context of our study focus groups are an efficient way to talk to a number of people in a geographically expanded area such as the Danube Region.

For the focus groups we assembled people with expertise in the competitiveness of their country/region in a broad sense.⁴ We made sure that people had different backgrounds, i.e. that we had representatives both of the public administration, academia and the business world as well as people with and without experience of the EUSDR. In total, we carried out four focus groups in different parts of the Danube Region (Vienna, Budapest, Belgrade, and Bucharest).

As topics of discussion we picked up the three themes which already stood centre stage in the first part of the study, i.e. prosperity and macroeconomic development, entrepreneurship and SMEs as well as cooperation and cooperation potential. We used the following set of questions as guidance through the discussions:

- What is the state of affairs with respect to topic X?

³ Further reasons are provided in the appendix.

⁴ The selection process of the participants for the focus groups is described more in detail in the appendix.

- Which factors hinder the improvement of the situation?
- What are suitable measures in order to improve the situation?
- What are the reasons that these measures are not taken?
- In what areas can cooperation take place?
- To what extent can the EUSDR be helpful?

While carrying out the focus group in the middle and lower part of the Danube Region, it became clear that Baden-Württemberg, Bavaria and Austria play a special role for the Danube Region due to its more advanced economic development. In order to take this observation into account we changed the guiding questions of the focus group with participants from Baden-Württemberg, Bavaria and Austria to:

- To what extent is it interesting for the countries/regions of the upper part of the Danube to work together with the countries further down the Danube?
- Which problems arise in the collaboration between the countries/regions of the upper part of the Danube and the countries further down the Danube?
- What are the reasons to engage in the Danube Region? Do you plan to extend this engagement?
- What are your experiences with the countries of the lower part of the Danube Region and the EUSDR?
- Which role does the EUSDR play for the countries/regions compared to other EU programmes?
- What are sensible criteria for projects for the Danube Region?
- What are sensible projects? In which areas? Are there already concrete project ideas?

All focus groups were recorded and transcribed afterwards.

Online discussion

Focus groups have the advantage of discussing a certain topic in detail with a group of persons. However, for methodological reasons these groups are comparatively small and reflect only the opinions of the participating persons. In addition, although there is some social pressure it cannot be ruled out completely that some extreme positions are formulated without opposition. We

therefore initiated an online discussion in order to reach a larger number of experts and stakeholders and to cross check the statements we got from the focus group discussions. As potential contributors we invited all contacts we made during the preparation phase of the focus groups and all participants of the 3rd Annual Forum of the Danube Region Strategy whose e-mail addresses we could identify via an Internet search. We used [discuto.io](https://www.discuto.io/) (<https://www.discuto.io/>) to accomplish this task.

For the online discussion, we extracted theses from the transcripts of the focus groups which we put on the platform. After that, we approached all contacts we made during the preparation phase of the focus groups and invited them to vote and to comment on the statements. In total, we contacted 820 persons of which 134 answered, which corresponds to a response rate of 16%.

Further input

After completion of the focus groups and the online discussion the client of the study helped us to get in contact with high-level stakeholders in the Danube Region such as the Romanian president and the Bulgarian Minister of Tourism. In addition, he asked the members of the steering group of the Priority Area 8 to contribute to the study. In order to integrate this input we sent out the guiding questions we used for the focus groups via e-mail to the mentioned group of persons and asked them to write down their opinion and assessment to the issues at hand with respect to their country.⁵

Analysis in part II

Once we got all the input from the focus groups, the online discussion and the further input via e-mail we performed the analysis. 'Analysis' in a qualitative setting basically means identifying statements that point in the same direction, putting them together and describing them in a condensed way. Both the focus group and the online discussion were analysed in detail while the input we got after completion of the online discussion served as a balancing corrective. The result of the analysis can be found in the appendix. The most salient features of the analysis then were the starting point for the formulation of

⁵ In the appendix to this report, a full list of the persons who provided us with input for the second part of the study can be found.

suggestions for policy. With hindsight, participants in the focus groups were very open in addressing problems, shortcomings and omissions of the EUSDR directly, with little moderation but in a very constructive way. The other participants mostly agreed or presented their points of view. There were no unresolved issues left over in the focus groups. The specific insights of participants of the online discussion helped to move away from generalised statements towards a more focussed analysis of the real issues that drive developments. Overall, the participants of the online discussion agreed with the statements made in the focus groups.⁶ In addition, the input we got after completion of the online discussion corresponded quite well to the information we got in the focus groups and the online discussion. We are therefore quite confident that we identified topics and issues which are relevant for the Danube Region and the EUSDR.

Defining subregions of the Danube Region

The Danube Region is a quite diverse area. Reasons for this are, among others, that it covers both EU Member States and Non-EU Member States as well as countries that had a communist past and countries that had not. This led to highly different development paths and high income differentials. At the same time, it also brings with it different roles for the individual countries to play in the Danube Region and in the EUSDR. The role of the more developed countries ideally is to help the less developed regions in catching up, e.g. through a knowledge and technology transfer or investments in these regions, while the less developed regions, for example, can provide firms from the more developed regions with favourable production conditions. In order to capture some of the heterogeneity we divided the whole group of Danube Region countries into five subregions in the first part: Member States Area 1 (Baden-Württemberg, Bavaria, and Austria), Member States Area 2 (Hungary, the Czech Republic, the Slovak Republic, and Slovenia), Member States Area 3 (Romania, Bulgaria and Croatia), the Accession Countries (Serbia, Bosnia and Herzegovina, and Montenegro) and the Neighbouring Countries (Moldova and Ukraine). As note above, during the process of carrying out the focus groups we detected a special role that is assigned to Baden-Württemberg, Bavaria,

⁶ See Table 2 in the appendix for some numbers of the online discussion in general and the percentage of controversial statements in particular.

and Austria, and on which we reacted by posing a different set of questions to the participants of the Baden-Württemberg/Bavaria/Austria focus group. This also had an impact on the analysis and on the presentations of the results. For ease of exposition, we therefore use collective terms at some places in the following. Without any valuation, we use “Group A countries” for Baden-Württemberg, Bavaria, and Austria and “Group B countries” for the other countries of the Danube Region.

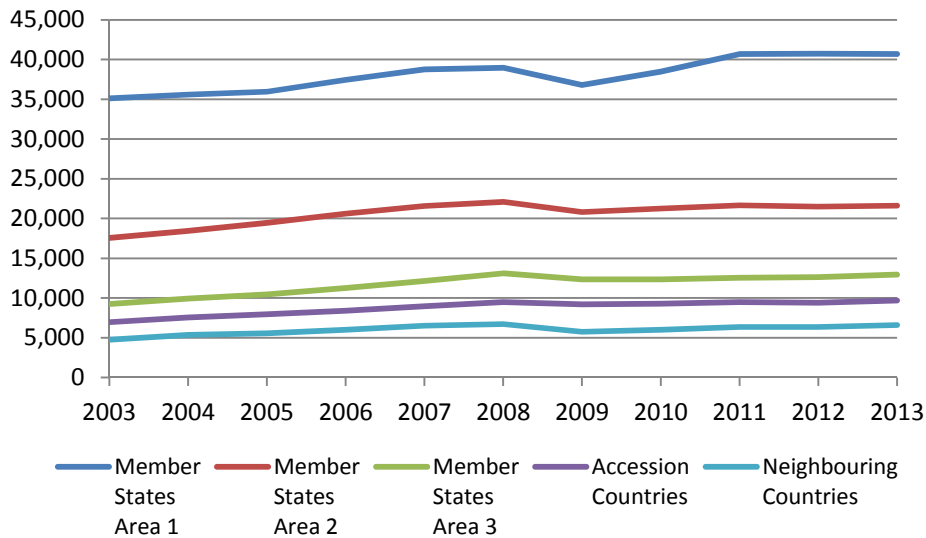
3 The Danube Region in figures

In this chapter, we present a summary of the results of the quantitative analysis of the first part of the study. The aim is to give some background information about the Danube Region and to describe shortly the environment in which actions are to be taken. Where appropriate, we compare the indicators of the Danube Region with those of the EU-15, EU-27/EU-28 and the OECD countries in order to benchmark them. Note, that these are only selected results. The full set of indicators as well as the description of the potential opportunities, needs, and challenges including the preliminary recommendations can be found in Achtnicht et al (2015).

A slow catching-up process

One of the results of part I is that the standard of living measured by GDP per capita in the Danube Region is significantly lower than that of the EU-15, EU-28 or the OECD countries although it increased by 27 percent between 2003 and 2013 (the most recent year for which data are available). In 2013, the GDP per capita in the Danube Region was 57 percent of that of the EU-15 and OECD countries and 62 percent of the EU-28 countries. As Figure 3 shows, GDP per capita across the Danube Region also differs widely. While GDP per capita was 40,700 US\$ in Member States Area 1 in 2013, it was only 6,600 US\$ in the Neighbouring Countries. In addition, although there has been an increase in the GDP per capita in all subregions of the Danube Region, there are only little signs of convergence. GDP per capita growth has even slowed down in the less wealthy parts of the Danube Region. This means two things: First, a major challenge for the Danube Region is to improve the cohesion process so that the Danube Region countries can grow together. Second, increasing the competitiveness of the Danube Region is a matter of increasing the competitiveness in the middle and lower parts of the Danube Region, i.e. in the countries of Member States Area 2 and 3 as well as in the Accession and Neighbouring Countries (Group B countries). Figure 3 also underpins the special role of the countries of Member States Area 1, as identified by the experts of the focus groups.

Figure 3: GDP per capita 2003-2013, PPP adjusted, by subregion of the Danube Region



Notes: Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA. Source: Eurostat, UNdata, World Bank, national statistics. Calculation and illustration: IAW.

The need for improving institutions

One of the main obstacles for improving the competitiveness of the Danube Region identified by the participants of the focus groups and the online discussion is the poor condition of the institutions in most parts of the Danube Region. (By 'institutions' we mean the government and the public administration but also the system of formal and informal rules that guide the social behaviour of individuals, groups, and communities.) This is also reflected in the numbers. Figure 4 shows the rank of selected variables of the Global Competitiveness Report 2015-2016, which is based on a survey of 13,000 business leaders in 148 countries. (A lower rank means better performance.) With a few exceptions, the countries of Member States Area 2 and 3 as well as the Accession and Neighbouring Countries rank in the lower half (and sometimes even in the lowest quarter) of all countries considered. And the development is facing downwards. Since 2007, the Danube Region has fallen back in the ranking regarding 'burden of government regulation', 'protection of property rights' (including intellectual property rights) and 'trade barriers'. (This also

holds for the countries of Member States Area 1, even though their ranking of the indicators is still significantly better than for the rest of the Danube Region.)

Figure 4: Global Competitiveness Report Rank, selected variables 2015-2016

Indicator/Area	Member States Area 1	Member States Area 2	Member States Area 3	Acc. Countries	Neighb. Countries
Burden of governm. regulation	46 (+)	127 (-)	110 (-)	105 (+)	98 (-)
Protection of property rights	16 (-)	81 (-)	104 (-)	112 (-)	129 (-)
Prot. of intellectual property rights	20 (-)	52 (-)	92 (-)	115 (+)	118 (-)
Trade tariffs, % duty	5 (+)	5 (+)	5 (+)	61 (-)	46 (+)
Trade barriers	55 (-)	36 (-)	54 (+)	77 (-)	94 (-)

Notes: **Red (-)**: Decrease in rank since 2007-2008, **Green (+)**: Improvement of Rank since 2007-2008
Ranks are arranged in an ascending order. Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA.

Source: Global Competitiveness Report 2015-2016, Calculation and illustration: IAW.

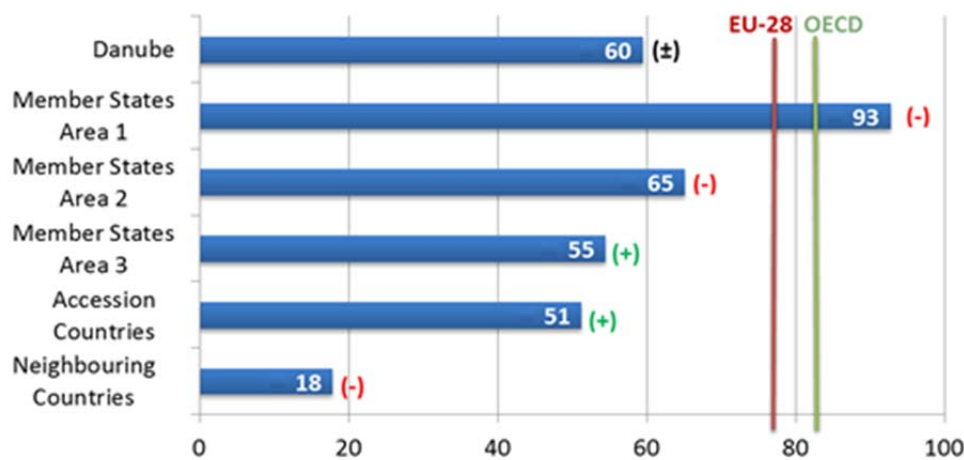
In the same vein, the Index of Economic Freedom of the Heritage Foundation points to the fact that there is room for improvement with respect to the institutions in the Danube Region. Overall, on a scale from “Free” to “Repressed” the index indicates that the Danube Region is predominantly “Moderately Free” in economic terms.⁷ Since 2009, economic freedom has risen in the countries of Member States Area 1, 3 and in the Accession countries, but it stagnated in the Neighbouring Countries, where the economic freedom is still close to “repressed” and in the countries of Member States Area 2.

Poor working of institutions influences the behaviour of agents. An expression of this is corruption. For a long time, corruption has been a serious issues and it still is. This has long been recognised and addressed by policymakers at the

⁷ Economic freedom is defined as a situation in which “governments allow labour, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself” by the Heritage Foundation.

national level (and recently also at the supranational level) but no notable improvement could be reached for the Danube Region as a whole (Figure 5). Nevertheless, there are some glimmers of hope as the control of corruption index of the World Bank has improved between 2002 and 2013 in the countries of Member States Area 3 and in the Accession Countries.⁸

Figure 5: Control of Corruption for Danube Regions 2013 (percentile world rank)



Notes: Change in comparison with 2002 in brackets. (+) positive development, (-) negative development, (±) no change. Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA.

Source: World Governance Indicators (2014 and 2003, referring to the years 2013 and 2002). Calculation and illustration: IAW

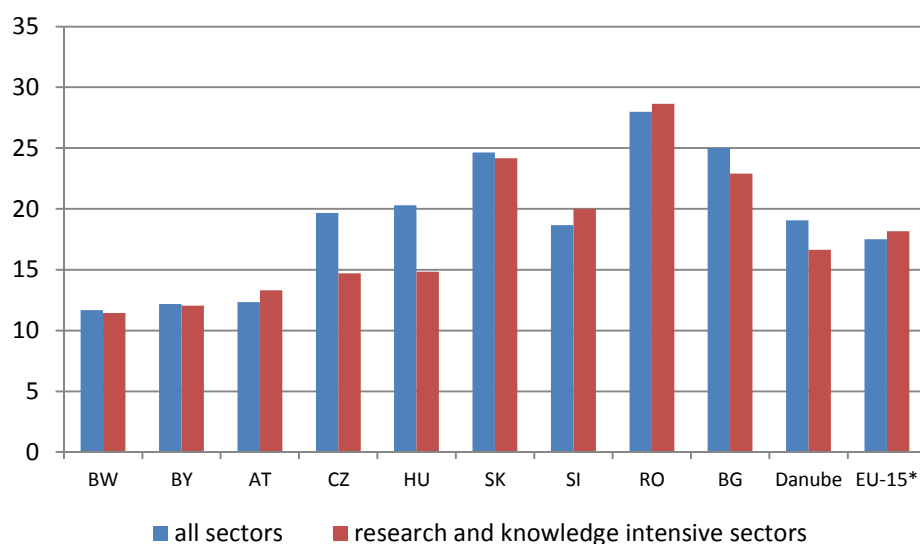
Entrepreneurs as agents of change

Entrepreneurship and start-ups have the potential of playing a major role for increasing the competitiveness of the Danube Region. Entrepreneurs can be regarded as “agents of chance” because they bring new methods, processes, products and services to the market thereby challenging existing firms and their business models. This can lead to a stream of innovations initiated not

⁸ The Control of Corruption Index measures perceptions about the extent to which public power is exercised for private gain. The values are given as percentile ranks of all countries in the world, i.e. a percentile rank of 100 means that the country is the top performer worldwide, while a percentile rank of 50 means that the country is at the median position.

only by the new firms but also by existing firms in response to increased competition due to the entry of new firms. Furthermore, new firms can cause existing firms to exit. This can have positive effects on the competitiveness of the Danube Region if outdated processes and products disappear together with the closed firms. There is substantial amount of firm dynamics going on in the Danube Region reflected e.g. in the turbulence rate (sum of the start-up and closure rate, Figure 6).⁹ Overall, the turbulence rate resembles that of the EU-15 countries but in some countries the turbulence rate lies clearly above the average. In most countries, this is associated with an increase in the number of active firms. (The exceptions are Romania where the stock of active firms decreased and Baden-Württemberg, Bavaria, and Austria where the numbers of start-ups more or less correspond to the number of firm closures.)

Figure 6: Turbulence rate in the Danube Region 2008-2010 (in %)



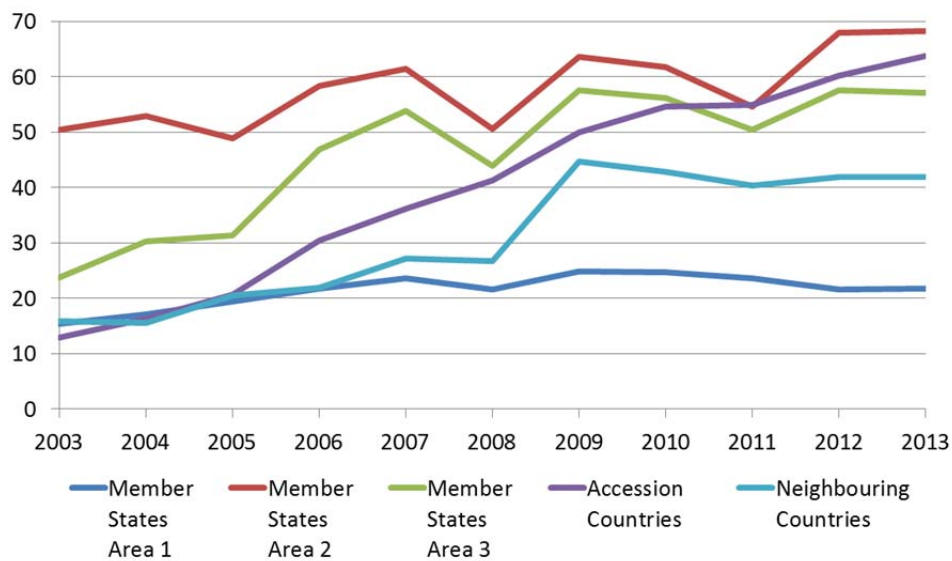
Note: The turbulence is the sum of the start-up and the closure rate. Considered countries/regions of the Danube Region: BW, BY, HU, CZ, SK, SI, RO, and BG. *Values for EU-15 without Greece and Denmark because data are either completely missing (Greece) or have considerable gaps (Denmark). Source: Structural Business Statistics (Eurostat), Mannheim Enterprise Panel (ZEW). Calculation and illustration: ZEW.

⁹ No data on firm dynamics for the non-EU countries are available.

Foreign direct investment as characteristic of the business structure

An important characteristic of the business structure in the Danube Region countries – except the countries of Member States Area 1 – is the high fraction of foreign direct investments (FDI) in GDP (Figure 7). The average FDI inward stock in the countries of Member States Area 2 amounted to 57 percent between 2003 and 2013, and the countries of Member States Area 3 the respective fraction is at least 50 percent since 2009. In addition, the Neighbouring Countries experienced a shift of inward FDI from 27 percent in 2008 to 45 percent of GDP in 2009 with a constant development in the following years to 2013. Overall, leaving out the countries of Member States Area 1, the fraction of inward FDI in GDP is higher in the Danube Region than in the EU-28 since 2008.

Figure 7: Inwards FDI stock 2003-2013, by subregions of the Danube Region (in % of GDP)



Notes: Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA. Source: UNCTAD, national statistics. Calculation and illustration: IAW.

The participants of the focus groups and the online discussion see this as a double-edged sword. On the one hand, they acknowledge that FDI have played an important role for the economic development in the countries of

the middle and lower part of the Danube Region since the fall of the Iron Curtain in 1989. In addition, FDI are in principle regarded as a means of knowledge transfer which can help boosting the competitiveness of the Eastern part of the Danube Region further. However, on the other hand, FDI can also work as an impediment for the emergence of a viable and competitive SME sector in the countries further down the Danube. In addition, it seems that not much knowledge flow is actually taking place.¹⁰

Clusters in the Danube Region

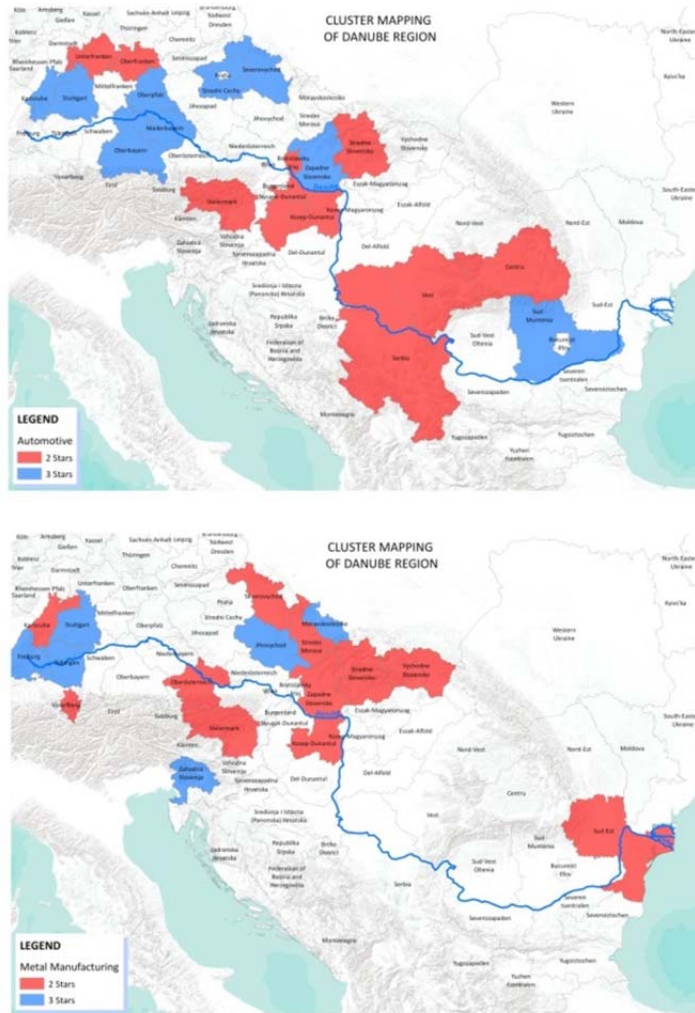
Related to the FDI activity are the clusters that can be observed throughout the Danube Region. Clusters are defined as geographically co-located firms and other institutions engaged in economic activities in a set of related industries, connected through externalities and other type of linkages. The strongest clusters according to the ‘Star’-classification of the European Cluster Observatory and with around 500,000 employees each are in automotive and metal manufacturing (Figure 8).¹¹ This reflects the offshoring activities of the large automotive and metal manufacturing firms in Baden-Württemberg and Bavaria after the fall of the Iron Curtain and shows in a different way that the economies of the middle and lower part of the Danube are to a large extent reliant on economic activities coming from outside.

Runner-up clusters are production technology, construction, processed food as well as transportation and logistics. There are also clusters in niche sectors such as biotech, sporting, recreational and children’s goods, leather products, lightning and electrical equipment, oil and gas. In general, the distribution of cluster activity is rather uneven across the region with more advanced technologies, such as production technology, clustered in more developed countries, and other sectors, such as processed food, concentrated in less developed countries or countries dominated by agriculture.

¹⁰ For further reading on this point see chapter 3.3.2 and 5.1 in the appendix.

¹¹ The European Cluster Observatory awards up to three stars depending on how many of the following criteria a cluster meets: 1) The top 10% of all clusters in Europe within the same cluster category in terms of the number of employees, 2) A cluster with a specialization quotient (LQ)¹ of 2 or more, and 3) The top 10% of clusters which account for the largest proportion of their region’s total employment.

Figure 8: Cluster mapping - automotive and metal manufacturing



Note: 2 Stars: Clusters meets two criteria as defined in footnote 11; 3 Stars: Clusters meets all three criteria as defined in footnote 11. Calculation and illustration: Dragos Pislaru.

There has been a survey by the PA8 Working Group “Clusters of Excellence” of the EUSDR among cluster policy makers in the Danube Region showing that the most prominent sectors with cluster activity besides automotive are ICT, wood processing, food processing, textiles, agriculture, and – a bit less prominent – renewable energy. Although the survey is very likely to be non-representative the mentioned areas coincide quite well with the areas of activ-

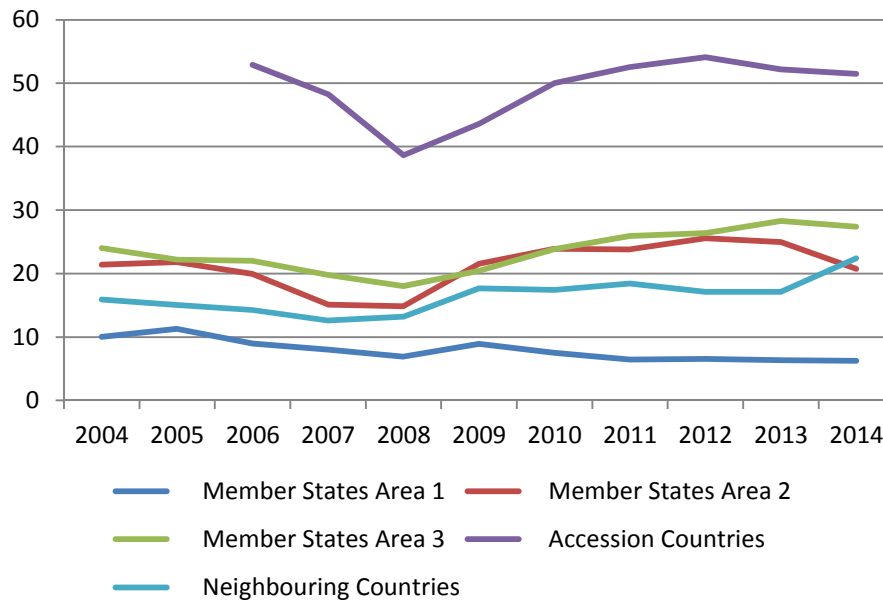
ity that the focus group participants considered as worthwhile in the Danube Region.¹²

The labour market in the Danube Region

For quite a while, comparatively low activity rates, i.e. a low fraction of the population in the working age who participated in the labour market, has been a special feature of the labour market of the Danube Region. Whereas the activity rates in the EU-28 countries fluctuated around 71 percent it was only 66 percent in the Danube Region. However, in the recent years this gap has almost closed. In contrast, there is still a significant difference in the employment rates between the Danube Region countries, especially in the area of the Group B countries. On average, the employment rates in the region of Member States Area 2, 3, the Accession countries and the Neighbouring Countries laid eight percentage points below the corresponding rate in the EU-28 countries since 2007. Especially severe is the situation among the young (aged 15-24). Their employment rate in the more Eastern part of the Danube Region was around 12 percentage points lower than the one in the EU-28 countries since 2007.

¹² See chapter 5.2 in the appendix.

Figure 9: Youth unemployment rates (15-24 years, in %), by subregions of the Danube Region



Notes: Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA. 2014 data for UA are excluding Crimea and Sevastopol.

Source: Eurostat and national statistics. Calculation and illustration: wiiw.

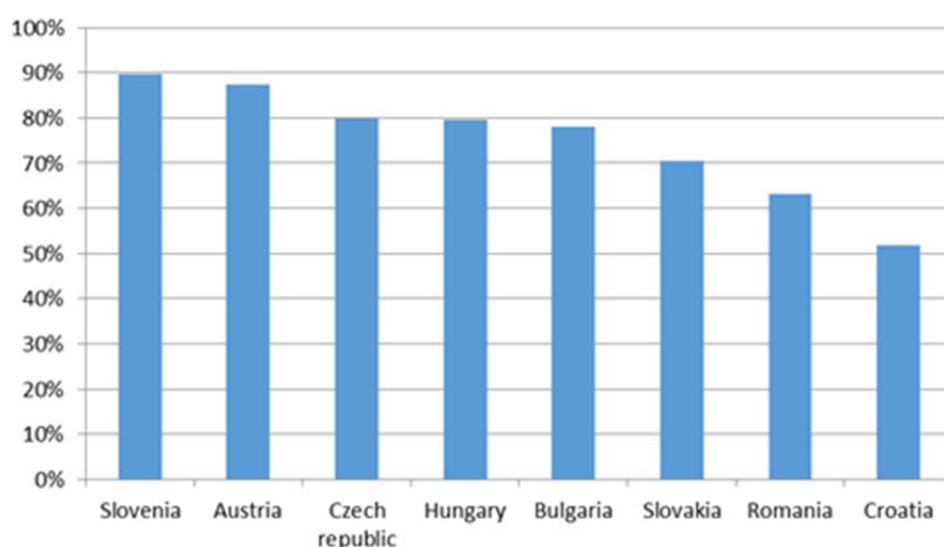
Figure 9 shows that there is high variation in the youth unemployment rates across the different subregions of the Danube Region. The average youth unemployment rate in the Accession countries was 49 percent between 2006 and 2014, whereas it was only 7 percent in the countries of Member States Area 1. But also the youth unemployment rates in the countries of Member States Area 2, 3 and the Neighbouring Countries with up to 28 percent point to a strong need of improvement of the situation. Besides the poor working of the labour market institutions the participants of the focus groups and the online discussion indicate that the reason for high unemployment rates in general and among the youth in particular lies in a strong mismatch between labour demand and labour supply with respect to qualifications.¹³

¹³ See also chapter 3.4 in the appendix.

Usage of funds from EU structural funds

Between 2007 and 2013 27 percent of the total available budget from EU cohesion policy was allocated to the Danube countries. However, the funds were used rather unevenly throughout the Danube Region (Figure 10). While Slovenia called for 90 percent of the allocated funds, it was only 52 percent in Croatia.

Figure 10: Absorption rates (% of funds allocated to member states), 2007 – 2013



Source: European Commission, EU cohesion funding – key statistics. Information on the payment rates on this website is updated every quarter. Last update: 28/08/2015. Calculation and illustration: IAW.

On average, only 65 percent of the funds allocated to the Member States were actually paid out in the Danube Region, whereas the average was about 85 percent in the EU as a whole. The contributions of the focus groups and the online discussion strongly pointed to the fact that the main reason for the low absorption rates in some countries of the Danube Region is that the knowledge and the ability to write competitive proposals for getting EU funds is missing in large parts of the Danube Region. The prevalence of high levels of corruption was another reasons mentioned for why only a few funds were

awarded to part of the Danube Region.¹⁴ In contrast, missing funds for co-financing projects was not regarded to be much of a problem.

The state of the infrastructure in the Danube Region

As with most of the indicators, the indicator for the state of the infrastructure shows a great deal of variety across the Danube Region. In general, the infrastructure becomes worse the farther East one goes (Figure 11). This is true for roads, railroads, port and airports with only a few exceptions. In contrast, the energy sector in all Danube Region countries is relatively well developed although the quality in the Eastern part is again worse than in the Western part in this respect. As Figure 11 shows the infrastructure has significantly improved in most of the more Eastern countries of the Danube Region.

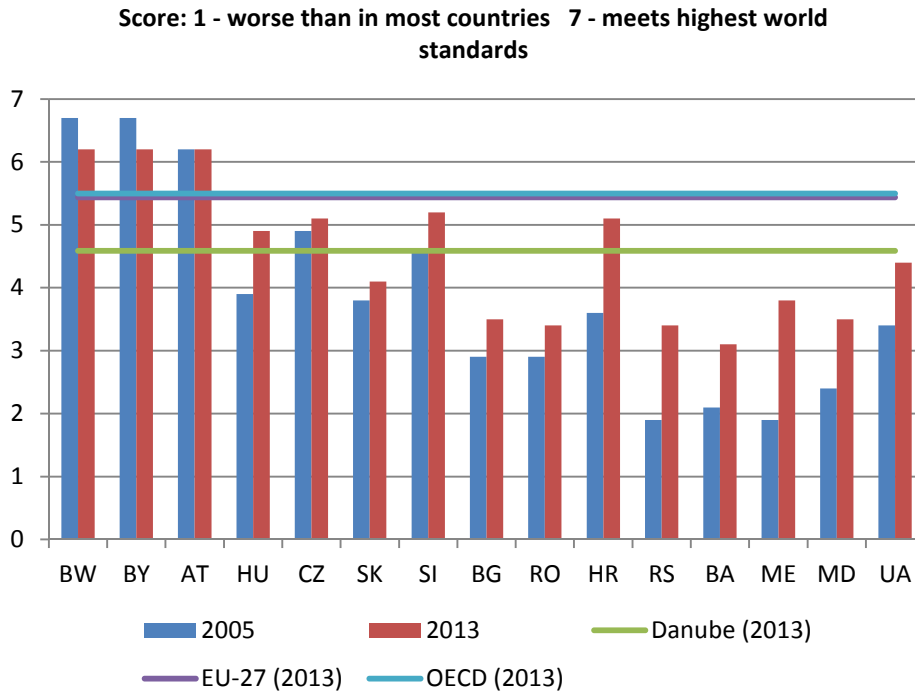
Electricity prices, including taxes and fees, are relatively high in the Western parts of the Danube Region and decline towards the East. However, electricity transmission and distribution losses are higher in the East than in the West. Renewable electricity is almost exclusively produced from hydro power in the former Yugoslavian and Soviet countries of the Danube Region. Most other Danube countries have significant shares of solar and wind energy. Energy use, electricity use, and CO₂ emissions per capita are highest in the western parts of the Danube Region. Nonetheless, the western countries are the most CO₂ efficient, i.e. they have the lowest CO₂ emissions per PPP \$ of GDP.

The uneven quality of the infrastructure throughout the Danube Region suggests that there is wide room for cooperation and trans-border projects. However, an important result of the qualitative analysis in part two of the project has been that the condition of the infrastructure is not a main obstacle for the improvement of the competitiveness of the Danube Region. The only exceptions are Moldova and Ukraine where it indeed seems to hinder the improvement of the economic situation. For all the other countries of the middle and lower part of the Danube the working of the institutions are a much bigger problem than the condition of the infrastructure. We elaborate on this point in the next chapter.¹⁵

¹⁴ See chapter 3.1.3 and 4.2.2 in the appendix.

¹⁵ See also chapter 3 in the appendix.

Figure 11: WEF Infrastructure Score 2013



Source: Schwab, K. (2005-2013), Global Competitiveness Report, World Economic Forum, Geneva, Switzerland, Database of the World Bank (Code: SP.POP.TOTL), Statistical Office of Germany. Calculation and illustration: ZEW.

4 Assessment and conclusion

This chapter is about the final step of our approach in the project, which is the assessment of the analyses and the conclusions for policy we draw from them. In this exercise, we combine the two parts of the project in the following way: The results of the first part serve as a background in the picture as well as a possibility to back the statements of the participants in the second part with quantitative numbers. The policy formulation exercise itself is mainly based on the outcome of the second part. We used the processes in this part to get a meaningful understanding of the shortcomings, problems, and threats, which we partly already identified in part I of the project but we also tried to identify visions, hopes, and communalities in the perceptions of the people in the Danube Region as well as hints for potential projects to be launched under the EUSDR banner.

Still, the task here is not to simply mirror what the community suggested but to better understand the problems and then come up with suggestions for solutions/measures/action and projects. The proposed measures below may overlap with ideas from the community, but may also reject some of the suggestions or frame them differently, or make them dependent on the fulfilment of other criteria. In any case, we try to make clear what the reasoning for our suggestions is.

The proposed measures in the following, and this is very important, are seen as untested hypotheses – as it is the case with all policy measures as long as they are not implemented and their impact thoroughly evaluated. However, great care was taken, of course, to make them evidence-based and responsive to the actual problems of the EUSDR. Knowing the problems is an important part of crafting solutions but not a sufficient one. There must also be a mandate and a drive to actually change the situation. This is probably the most important task left for the people involved in the EUSDR: to find out which of the suggestions “fly”, i.e. get enough support from actors throughout the Danube Region Area and thus not only attract sufficient resources to study the issues and do pilots, but having a chance of seeing implementation. In other words, the problems tackled should be real and on the agenda of decision makers so that they are willing to invest time and money. Testing may encom-

pass getting a political mandate as well as reaching out to enterprises, ministries, research institutions etc. Self-mandated activities without “testing the market” are necessary in some areas, but — given limited time and resources — the time to focus on activities that are already seen by all actors as a problem to be solved seems to be now.

In the following sections we briefly summarise the main insights and suggestions from the focus group and evaluate how the community responded. We then analyse which policy level they are addressing and what responses the EUSDR might deliver.

The Danube region comes with many attributes: It is perceived as a large, diverse and creative region that is a huge market with the potential to develop into a major supplier for European and global markets. The Danube Region is of importance for many people although there is no commonly shared narrative behind. Instead, there are many facets that let people personally and emotionally connect to the region. The participation in processes for this study — particularly in the online discussion — is a clear indication that people are interested in the future course of the Danube Region.

The EUSDR is seen as a major vehicle to create attention for the region. “Without the EUSDR the region would be almost forgotten” is one view often encountered. In the worst case, if all other things underperform, the EUSDR keeps the region visible and on the agenda of policy makers in the European Union.

Problems at home — salvation from abroad

Creating attention for the situation and challenges in the regions is relevant because many participants coming from countries of Group B count on outside help for mastering the change process ahead. It is clearly expected that the European layer — and particularly Austria, Bavaria and Baden-Württemberg — leads in this catching-up exercise. Local governments and public administrations in Group B countries are not perceived as a stable factor in economic development. This is because strategies — if existent at all — are not being implemented, priorities are being changed frequently, responsibilities and responsible persons are moved around in unpredictable ways, there is corruption, short-term policy-making etc. Changes in the administration and erratic

moves are mirroring developments in the political sphere. This is not the sole responsibility of local administrations and not valid for all countries and subregions to the same extent but a reality in many regions.

For a functioning catching-up process and for knitting closer ties within the Danube Region, the public sector must be in the driving seat — relying on efficient structures, well working processes and fast decisions. This includes being responsive and accountable to citizens. Many of the participants from Group B countries — and probably also in the more advanced regions — would not see a large overlap between the present functioning of the public sectors and these demands.

While local public administrations and the political system in the Group B countries only get lukewarm cheers, many of the projects to be taken on by companies, entrepreneurs, researchers, and the civil society need public support. This is presently not available locally; only at the European and sometimes at the bilateral level.

This creates a dilemma for those that would like to act. European initiatives are far away with high thresholds for participants, and thus for many not an option. This would be exactly where the EUSDR could have come in: just in between the demanding European programmes and the (not yet fully) working local initiatives.

This constellation has set the bar high for the EUSDR. Maybe too high. The EUSDR has not filled this gap and is consequently — for the right or wrong reasons — not spared from critical comments.¹⁶ Four years into operation, the number of critical statements and overt criticism is substantial throughout all countries of the Danube Region. Despite visible activity in the political sphere, high-level conferences and meetings, the “trickle down” effect seems to be pretty small, if notable at all, for those involved in focus groups and the online discussion. This concerns both cross-country cooperation projects as well as the business climate in Danube Region countries. None has seen substantial change, nor grand momentum-building that could be attributed to the EUSDR.

To stimulate the “trickle down” of high level policy initiatives into national, subnational as well as cross-country policy line ministries of the Danube coun-

¹⁶ See chapter 3 in the appendix.

tries have to play a central role. Line ministries need to translate overall initiatives into their own agenda so that the Danube strategy will get more momentum. In all countries a broad set of line ministries should be involved and each one should clearly identify their contribution to the EUSDR, develop a set of concrete actions and seek agreement with companion line ministries from other countries.

Interestingly, both representatives from Group A as well as from Group B countries are critical of the EUSDR, — but for different reasons. Actors in Baden-Württemberg, Bavaria and Austria — regions/countries that could support development in other regions of the Danube Region — are frustrated by slow progress made in framework conditions and by the unpredictable moves by politicians and public administrations. Those on the “receiving end” are frustrated by the great difficulties encountered when trying to integrate into value chains or scientific networks, as well as by the slower than expected and unevenly distributed economic development.

Aiming high

At the same time the ambitions for economic development are high throughout the region. Statements that suggest focussing first on medium- and low-tech industries meet strong resistance or are at least controversial. An immediate transition to the level of the most developed countries seems far more attractive and the only acceptable way forward for the discussants coming from Group B countries. Of course, this must be the long-term objective but until then a lot of steps have to be taken. It is unclear if a gradual catching-up process would meet much support. It is not yet fully acknowledged by the discussants coming from Group B countries that solid fundamentals — i.e. rule of law, property rights, functioning administration, little corruption, working infrastructures, etc. — increase the return on investment of public and private investments substantially, and also create room to manoeuvre for citizens, institutions, investors and enterprises. Aiming at a more inclusive development process should be one of the prime tasks.

What projects?

The EUSDR is broad in scope and already addresses a variety of topics. Scouting for projects was one of the motivations for the focus groups and the online discussions. Actually, the definition of a project is debatable. A project can be a big change process for the country or region as well as a piece of research done by a group of researchers.

The present scope of the EUSDR — a look at the priority areas will confirm this — could accommodate the big change processes (macro level), programmes that focus on particular issues (meso level) and actual projects that are set up by individuals in enterprises, research institutes, universities, administrations, etc. (project level). The further up in this hierarchy, the more planning and strategic thinking is demanded, as well as some top-down management of the issues. The further “down” one is, the stronger is the bottom-up principle in developing proposals and setting up projects. Without further delving into this matter, we received suggestions for projects mostly for the macro and meso levels, i.e. big change projects and programmes that could help to bring about change.

What projects? – Topics at the macro level

The focus groups and also the online discussion clearly showed huge demand for improvements and reforms across the Danube region. Here are the main, unfiltered macro **topics** that should be on the reform agenda as seen by the participants:

- **Public sector** is not helpful in developing projects, or in creating conditions for companies and the economy to prosper. The state is not a catalyst but a brake. Not effective in sorting out problems but being part of the problem. The intervention logic is not thought through, and consequently, neither efficient nor effective — instead hampering all other players. This view points out problems but ignores the workload that is handled by the public sector on a daily basis.
- **Strategies** are rarely developed or not implemented if developed. Activities in the public sector are not coordinated and frequent political changes and a shifting of responsibilities as well as persons create an unreliable partner over time.

- **Corruption** is a severe problem within many countries and for foreign companies that would like to locate in the region. It also increases the number of people that leave the country.
- **Lack of trust** is also a big impediment to (cross border) cooperation.
- **Property rights** are not clear and are difficult to enforce.
- **Short-term perspective** dominates long-term perspective.
- **Education system** supply and demand are not coordinated. This already slows down FDIs and entrepreneurship.
- Lacking tradition of **entrepreneurship** and non- or only partially existing eco-systems for start-ups. Entrepreneurial success is not valued by society but seen as an indication of wangling with elites.
- Upgrading and integration of local companies into existing high-end **value chains** is seen as almost impossible by some, while high on the agenda for others. This stands for the overall ambitions in the catching-up process: being on a par with the most developed countries rather than locked into catching-up mode.
- Foreign direct investments often do not connect with local companies. They skim public support and then leave the country again.
- Even local governments buy almost exclusively from large foreign-owned companies.
- Products from Group B Danube Region countries do not yet achieve the same quality level as their international competitors and the producers thus have to compensate by offering a lower price.

What the above list suggests is that there is a series of basic problems that have to be solved. In our opinion, the solution or at least a significant improvement with respect to these issues is a necessary condition for the implementation of any other project in the Danube Region because each project needs a strong mandate from political decision-makers to stand a good chance of being implemented. Or to put it differently: **Helping the Group B countries to get into the position to implement large scale and long term projects on their own should be *the* macro-level programme for any strategy in the Dan-**

ube Region. The individual components of this project should be taken from the list above.

What projects? – Programmes at the meso level

The participants of the focus groups and the online discussion made a series of suggestions for **programmes** at the meso level which we think are sensible as a starting point for reaching the above defined goal at the macro level. The reason for this is that most of the issues in the above list reflect some kind of knowledge gap, i.e. some kind of ignorance about how to do things more efficiently and more effectively and also some need for breaking up ingrained behaviour. The idea behind many of the suggested programmes from the discussion participants, both in the focus groups and online, is to increase the knowledge transfer between the different parts of the Danube Region thereby leaving it open what ideas are adopted in the respective country. This has the advantage that the less developed countries of the Danube Region can have a look at the processes and procedures in the more developed countries but can decide what is suitable for them and what is not. In addition, all countries remain in their responsibility to decide which actions are to be taken, which is an important component of the enabling process. In general, we think that the countries must come up with suggestions for projects themselves as any project imposed from outside is likely to lack the necessary support of the people concerned. We elaborate on this point below. But the list of suggestion of the participants of the focus groups and the online discussion can help in the process of defining projects and by reaching the goals of the above defined reform agenda. It includes the following elements:¹⁷

- **Establishing exchange programmes for students, public sector employees, trainees etc.:** The idea here is to not only addressing students, which is usually done with this kind of programmes, but extending the target group to trainees and young officials.
- **Mentoring programmes for the public administration:** The idea behind this suggestion is to bring together business people and

¹⁷ A more extensive description of the suggestions as well as some further programme proposals which are not directly related to a knowledge transfer can be found in chapter 5.1 in the appendix.

people from the public administration in order to work jointly on projects in the public administration. This can have two effects. First, the officials get to know which principles guide the actions in the business world and get the chance to integrate some of these in the processes of the public administration in order to increase the efficiency and effectiveness of the actions of the public agencies. Second, working together with business people allows the officials to understand better how the business sector in a market economy works and makes them more able to take appropriate action, e.g. when it comes to supporting SMEs.

- **Establishment and expansion of town twinnings:** Town twinnings are a way of cooperation on a rather low level which appeared to be quite successful in the past for fostering democratic processes and economic development. Fostering town twinnings is a valuable approach to increase the cooperation between the countries of the Danube Region because cities are the place where projects are to be implemented and have visible effects or, as one might say, “come down to earth”.
- **Programmes that strengthen local SMEs:** The experts mentioned a number of elements which are key for developing the SME sector. Partly, these elements are already in the list of the topics for a reform agenda on the macro level mentioned above. Further aspects e.g. include: Support of visits of national and international trade fairs, establishment and development of business associations, establishing communities of practice (informal networks of people who deal with similar kinds of problems), establishing/improvement of services for businesses, using crowdfunding as a means for selecting promising companies, establishment of start-up incubators and accelerators, increasing the knowledge and technology transfer between business units as well as between universities and businesses, establishment of a state guarantee scheme for SME loans, establishment of public-private equity investment companies such as the German ‘Mittelständische Beteiligungsgesellschaften’.

- **Introduction of a system of dual vocational training:** Systems of vocational training can be a solution for the problem of non-matching supply and demand of the labour market. In addition, it can help establishing an “endogenous potential” which means that a more structured flow of knowledge can be set in motion which both includes the transfer of professional skills and skills for running a business.
- **Mentoring programmes for SMEs:** This suggestion is based on the observation that companies often do not want to be taught by experts who, in doubt, do not have much practical experience. They rather prefer to learn from the experiences of other companies in the same sector or even share these experiences among each other. This knowledge exchange can be fostered by setting up mentoring programmes with the aim of matching people (companies) who have already been successful with a project in a given area with people (companies) who are in the start-up phase of a project in a related area.
- **Organising start-up weekends:** One rather simple way to increase the level of skills and spirit for entrepreneurship is to organise so called start-up weekends. The idea is to bring together people from different locations and with different backgrounds to develop a business idea over the period of a weekend. The advantage of such kind of activity is that people can try out business ideas in a rather safe environment and even if no real start-up is created the participants had the chance to learn from doing and to broaden their network which may at least broaden their understanding how to run a business.
- **Training for developing project applications for EU projects:** One of the reasons why many of the catching-up countries of the Danube Region do not retrieve the assigned EU funds to a larger extent is that they simply do not know how to write an application for an EU project so that it will have a chance to get accepted. Accordingly, a suggestion is to establish trainings on how to do project applications for EU projects.

- **Helping accession and neighbouring countries with EU standards:** Other areas where there apparently is a huge need for a knowledge transfer is the application of the *acquis communautaire* and the EU standards of quality. This especially holds for the accession and neighbouring countries of the Danube Region. These countries seem to struggle in improving their competitiveness because they simply do not know how EU laws work, what EU standards of quality mean and how they can be met.

What projects? – Thematic fields

The third group of **projects** — those that we were actually looking for — are those that could be financed by European programmes. Almost no ideas that fall into this category were discussed in the focus groups or online. These projects are obviously not floating around but will actually be developed when a suitable tender is advertised or viable cooperation opportunities arise. We assume that there is not a lack of ideas, but that potential ideas for such application are not openly discussed.

Although there were no suggestions for projects that could be financed by European programmes, the participants of the focus groups and the online discussion made some proposals what **thematic fields** are potentially interesting for projects. **However, we want to emphasize again that trying to identify projects in the areas listed below should come only in the second place. At first, the issue of helping the Group B countries to get into the position of implementing large-scale and long-term projects themselves should be tackled.** If this is (at least sufficiently) done projects in the following (partly interrelated) areas can be considered:¹⁸

- **Agriculture/Wood processing:** As large parts of the more Eastern part of the Danube Region are still dominated by agriculture this fact could be exploited. Especially interesting in this respect is the orientation towards organic production.
- **Tourism:** As the Danube Region is blessed with scenic beauty and a wealth of culture tourism can be extended. Related to the first

¹⁸ A more extensive description can be found in chapter 5.2 in the appendix.

point, rural tourism might be especially interesting but also health and wellness tourism.

- **Green economy:** This is of special interest, also for the EUSDR, because it concerns several Priority Areas. But except from that the Danube Region could built a green economy strategy because the resources are there and it is definitely an area with future. In addition, developing and installing green economy technologies would be interesting for firms from the Group A countries (and also for other countries of Europe).
- **Social entrepreneurship:** This is another area with still untackled opportunities. It includes technologies that support older people (smart aging), care for older people, ecology and green economy (which relates back to the point above).
- **Infrastructure:** Although the state of the infrastructure is not among the main obstacles for improving the competitiveness of the Danube Region there is still large room for improvements in this respect as the numbers show. This concerns the water infrastructure, roads, railroads, airports, ports, waste management and the public transport in cities.

How does this all fit with the EUSDR?

The EUSDR is addressing the big issues for all Group B countries as well as some more down-to-earth aspects of managing common resources, i.e. concerning the Danube, energy, tourism and the environment¹⁹. It comes with governance structures that manifest themselves on three separate governance layers (European, national, regional; see European Commission, 2014) and has involved administrations, business, research and education organisations as well as the civil society in both Group A and Group B countries.

Nonetheless, the activity “on the ground” has been limited due to the three NOs (no new funds, no new structures, no new legislation) and difficulties in

¹⁹ Here we are almost exclusively concerned with the big questions that are related to catching-up issues. Thus PA7 to PA11 are in the limelight. This is a result of the topics that were raised by the focus groups and in the online discussion and should not be interpreted as an attempt to belittle the importance of other EUSDR PAs.

accessing existing funding mechanisms, particularly the European Structural Funds that came with programming objectives and logic that was not compatible with the EUSDR (i.e. focussing at the country level and not at cross border cooperation). Thus the EUSDR has predominantly been a “motivation machine” to take up issues that are high on the European policy agenda, to cooperate on finding solutions and to knit closer ties between the countries in the Danube Region. In some areas the EUSDR was also a continuation of work that had already started before the strategy was enacted. Cooperation on water transport and environmental issues was continued in the framework of the EUSDR and resulted in projects. The progress made there was substantial but expectations were high and different.

The high visibility of the EUSDR, despite the inability to invest in change processes, may explain some of the frustrations observed. This may be due to overenthusiastic communications that created expectation that could not be met or did not explain the working of the EUSDR and its likely impact in a realistic way. At the same time, the bulk of cohesion policy is executed through structural funds and most tangible results should have been achieved through this channel. If there were too few results, the blame should go to cohesion policy actors rather than that of the EUSDR. The latter may consider a different approach to communicating the merits of its activities.

European Structural and Investment Funds — only part of the story

This situation has somewhat changed: The Danube Strategy has become integral part of the partnership agreements for the use of ESI funds between Member States and the EU. There are other programmes on the European level that can be used to fund initiatives from the Danube Region (e.g. Danube Transnational Programme). The situation is somewhat different for accession and neighbouring countries. Although there are some funds available – e.g. the Instrument for Pre-Accession Assistance (IPA) – the funding programmes do not always overlap in their geographic scope and thematic orientation with the EUSDR. The participation of accession countries and neighbouring countries could be considerably easier if the use of financial resources would be compatible at the project level with funding from the ESI funds that are used by the other project partners. In practice, getting funding out of ESI funds for member states might lead to the allocation of resources from other pro-

grammes for accession and neighbouring countries. This is particularly true for all programmes that aim at capacity building. Still, the overall endowment of the EUSDR is poor if compared to ESI funds. Many observers see this as a major flaw in the design of this strategy, and thus strive for new funds.

Actually, the present setup of the Danube Region Strategy should rather be seen as a challenge. The Danube Region Strategy is not the only initiative in the region. South East Europe 2020 Strategy (SEE2020), the Strategy for the Adriatic and Ionian are two other initiatives which cover part of the Danube Region countries and are — if it comes to general development goals — overlapping with the EUSDR. European Bank Reconstruction and Development (EBRD) and World Bank Group are also active in the region and the largest tranche of European funding is available through the European Structural and Investment Funds (ESIF).

Given this situation, some of the countries can decide where to launch and support activities. The recent initiative to set up a Western Balkans Research and Innovation Centre, supported by Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, Kosovo, and the former Yugoslav Republic of Macedonia, is a good example for the options at hand. It might be an indication that another grouping of countries is a better setting for some of the big issues in the region than the area of the EUSDR.

From the outset, it is not obvious which arrangement is best suited to deliver progress in terms of catching-up policies. A first indication of the relevance of the Danube Region Strategy, and the services offered by this macro strategy, is the importance given to the EUSDR in the partnership agreements between Member States and the Commission for the use of ESI funds. If there is only lip service paid, this should be taken as a clear indication that the services are not valued by this country. Formulated differently, the Danube Strategy is of relevance, but only if decision-makers in group B countries consider the services it renders — i.e. cross country cooperation, learning from more advanced regions, creating synergies by tackling problems in a coordinated way etc. — to create added value for the cohesion process. It is up to these countries to allocate resources, to decide on the course and to shape the programmes. In this sense salvation must come from within, must be based on cooperation and must be mandated by the highest political level.

The same logic applies to accession and neighbouring countries. If they do not come with a convincing change agenda, working governance structures, and have to be drawn into projects that are then half-heartedly executed, no big change projects should be started.

To put this line of argument as bluntly as possible: the main driving force in the EUSDR should be the reform agenda in the Group B countries, shaped by clearly voiced demands, the willingness to invest and to reform structures in the countries. There cannot be salvation from outside if there is no will to embrace reform among the elites of the Group B countries. Any other approach would fall in the “rent seeking” category.

It may be added, that catching-up processes take a long time. They take even longer if reforms are not done, or done half-heartedly. East Germany may be a good illustration of this issue, where decisive and sustained initiatives were taken to modernise this part of Germany. Although big progress was made in the past 25 years, this is still an ongoing process.

Inclusive or extractive?

Presently, the elites are weighing their returns in a reformed system versus the present arrangement. The lack of reforms/visible changes in some of the Group B countries simply means that the present situation is preferred by those taking decisions. This is in preference to yet-to-develop future arrangements that might create more opportunities for more people at the expense of present privileges. The inability to understand the challenges ahead, or lack of knowledge of how to change systems or to secure support for system changes, is rarely the root cause for missing reforms.

Changing these patterns is crucial for long-term development. Otherwise countries may be locked in or stay in a vicious circle caused by man-made political and economic institutions. One that does not create incentives to invest in education, does not reward innovation, and does not allow everyone to participate in economic opportunities and maintains governments and administrations that are not accountable and responsive to citizens (for the full story see Acemoglu and Robinson, 2012).

The frustrating interactions with public administrations and governments, the level of corruption, etc. reported in the focus groups and the online discussion

by a great number of participants already hint that the economic and political institution are far from inclusive.²⁰ The responsibility for changing the situation is with (local) governments, with help from European Union, assisted by the actors in the EUSDR. Civil society, which should be another driver of change, seems not to be in a position to accomplish this task on its own and thus has to receive more support. Intensifying ongoing activities in the EUSDR is definitely advisable.

Some further recommendations

To summarise the top-down approach, the large change agenda that is behind the Priority Areas of the EUSDR can only be tackled if there is a political consensus what the EUSDR and consequent action should accomplish.

Four years into the strategy — or six years after the main decision — seems to be a good moment to demonstrate that the framework under the Danube Region Strategy is able to deliver.

A prime task would be to reform the public sector, with the intention to increase the capacity to process the workload associated with a large-scale change process. The composition of EUSDR partner countries is well-suited to accommodate such a process by setting up twinning and exchange programmes based on a solid strategy.

Additionally, it would be just in time to formulate within three months six projects that have broad political backing²¹ — at least the foreign ministers are fully behind the EUSDR (see their joint statement from May, 13th 2015, EUSDR, 2015) — a network of motivated partners that wants to move the area forward, is able to secure funding for the projects and start implementation as soon as possible. There is a clear need for horizontal policies instead of isolated silos.

²⁰ It might, of course, also be discussed to which side Europe as a whole has been leaning in the past years.

²¹ Of course, for these projects the conditions formulated above should hold. This means that the projects should aim at improving the ability of the Group B countries to implement long-term and large-scale projects themselves. The number “six” has no specific backing in our analysis. We propose this number of projects because we think it is both realistic and demanding.

The emphasis should be on projects that solve real problems in the Danube Region and should employ a strictly opportunistic selection mechanism. If there is no support from the ground and from political decision-makers in the regions concerned — and support here means willingness to act — then no projects should be started. It is up to the proponents to identify the necessary contributions from different players right at the beginning and to get their commitments arranged accordingly.

The nature of projects is important but should not be the main concern. Preferably, projects should tackle those issues that are the fundament of modern competitive economies, i.e. rule of law, property rights, functioning administration, little corruption, working infrastructures, etc.

A change process to improve the efficiency and effectiveness of the public administration should be high on the agenda but may lack political backing. Cross-border learning with respect to qualification and advanced education would be also interesting if the focus on implementation is strengthened. For example, cooperation between scientific, public and private institutions, exchange programmes for students, trainees and public sector employees, and support in the introduction of dual vocational training. Last but not least, strengthening SMEs in the region is of great importance. All this may already build on some initiatives already started, with the overall aim to increase knowledge absorption and thus the speed of catching up. This list is, of course, far from being exhaustive and should be adopted through discussions across Priority Areas.

Accessing and neighbouring countries should be particularly motivated to join with the intention to modernise their structures so that action match ambitions.

Actually, and this brings us to the meso and project level, the financial restrictions in place during the first years of the EUSDR are mostly gone. It is still a challenge to set up programmes but the opportunities to fund projects have grown substantially. At the programme level it has to be assured that different programmes in the region are compatible, i.e. can be combined in funding projects and overlap in thematic and geographic scope with the EUSDR.

At the project level, the ESI funds should allow funding in almost all areas where projects under the EUSDR²² umbrella might pop up. Funds for community-led local development (CLLD) are another source as well as the Danube Transnational Programme that was designed to support implementation of the EUSDR. Furthermore European programmes like Horizon 2020, Erasmus+, COSME, LIFE, CEF, EU Investment Plan are other options. The planned Danube Region Research and Innovation Fund will not materialise — at least not as a funding organisation (for more information see the feasibility study by EY, 2015) — because of financial constraints. The EUSDR itself is thus equipped with limited resources but should be helpful for potential applicants in accessing other funds.

Experience with participation in some of the above mentioned programmes is mixed. In general, there are no indications of a shortage of projects emanating from Danube Region countries — rather the opposite. If the Start programme is taken as an example, the funding opportunity organised by PA 10 resulted in 635 applications, 25 of which got funding. In the recent EUREKA for the Danube Region call, 88 proposals were submitted by 287 institutions. In 2012, the number of ideas and projects within the EUSDR itself amounted to 491 (Metis, 2012).

In stark contrast, the participation in past Framework Programmes (FPs) and now Horizon 2020 is below average (EY (2015), Kutlača et al. (2015)). The latter is not surprising: Recent FPs and now Horizon 2020 have been striving for excellence and not for cohesion. Horizon 2020 is thus not intended to fund “standard” research and innovation projects but excellent research and innovation projects. This might create problems for applicants from less advanced countries. Any ambitions to foster participation of Danube Region countries must be preceded (!) by strong investments in science and education to attain noteworthy improvements in participation rates. While there is some support

²² Strengthening research, technological development and innovation; Enhancing access to, and use and quality of, information and communication technologies; Enhancing the competitiveness of small and medium-sized enterprises; Supporting the shift towards a low-carbon economy in all sectors; Promoting climate change adaptation, risk prevention and management; Protecting the environment and promoting resource efficiency; Promoting sustainable transport and removing bottlenecks in key network infrastructures; Promoting employment and supporting labour mobility; Promoting social inclusion and combating poverty; Investing in education, skills and lifelong learning; Enhancing institutional capacity and an efficient public administration.

in Horizon 2020 for scientific catching-up, the main impulse to modernise science and scientific infrastructures must come from the national level.

As far as mastering the administrative requirements, forming competitive consortia, or the ability of drafting competitive proposals are concerned, the EUSDR organisation could do the following actions:

- Analyse the current situation: Which projects were accepted, which were rejected, and for what reasons?
- Provide assistance in formulating project proposals and managing successful projects.
- Define topics that will be eligible for funding under established EU programmes and inform potential applicants about tenders and funding opportunities.
- Establish mentoring programs for the public administration and businesses.
- Install trainings for developing applications, especially for EU projects.
- Create communities of practice and online communities to communicate efficiently and to make this a self-propelled process.
- Conferences and large-scale events of the EUSDR might be used to form consortia and develop projects.

In combination with the newly added funds in the Danube Transnational Programme and the technical serviced contracted through this programme, this might significantly speed up developments. The main aim should be to increase the “project flow”, i.e. the number of projects that are developed with support from the EUSDR to create competitive institutions and enterprises, and funnel more resources to the Danube Region. Of course, these activities have to be coordinated with National Contact Points that also strive to support applicants.

Projects that were supported by measures set up in the framework of the Danube Region should get the EUSDR label, as a signal for high-quality standards in writing project applications. It is evident that this support could be ex-

tended to the operational phase of the project, with the aim to ensure the proper working of project management and administrative services. In the medium-term the Danube Region quality label could also be used to evaluate the impact of the support generated under the Danube Region Strategy. The control group for the projects running under the EUSDR banner would be those that were supported by other institutions or were not supported at all.

Mastering participation in EU programmes would be a good topic to actively encourage communities of practice across the region. This, of course, is valid for many of the other topics raised. After initial support these communities should become self-propelled and lead to rapid proliferation of experiences and knowledge.

Building a EUSDR online community that helps create momentum for the Danube Region, coordinate activities, generate ideas and validate suggestions would be also a formidable objective. The community active during the online discussion in this project would be a good starting point.

Eventually, the structures under which the Danube Region Strategy operates allow quite some freedom in setting up coordinated activities. It is up to the actors from all governance layers to fill the vastly open space, and act on the many challenges in the region. The hopes associated with the EUSDR were inflated right from the start although most people and regions were working hard to make them happen. Particularly, the hope of accelerated catching-up or even leapfrogging did not materialise.

Given the circumstances, it is fair to say that the EUSDR could not have fulfilled the aspirations kindled by the ambitious topics it has in its working programmes. Changes of such magnitude cannot be achieved by fostering collaboration as the main strand of activity. Now the EUSDR stands the chance of having financial resources at hand that allow stimulating tangible investments that might generate substantial returns for the region — if coupled with sustained reform efforts. More input and leadership and willingness to cooperate across borders are needed from catching-up countries to make this work. If this development mode is not an option for the region than the EUSDR has to start managing expectation. It will then — at best — be a soft instrument to coordinate a bunch of very heterogeneous actors that have chosen to take the long way to prosperity. Everything is on the table now — make your bets!

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