

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

Future Strategic Orientation of the EUSDR -
Appendix

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CENTRE FOR EUROPEAN ECONOMIC RESEARCH
GMBH (ZEW) Mannheim

Institute for Applied Economic Research (IAW)
Tübingen

The Vienna Institute for International Economic
Studies (wiiw)

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Zentrum für Europäische
Wirtschaftsforschung GmbH

Contact

Dr. Bettina Müller

L 7, 1 · 68161 Mannheim

P.O. Box10 34 43
68034 Mannheim

E-Mail Bettina.mueller@zew.de

Tel: +49 621-1235-352

Fax: +49 621-1235-170

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Authors

Bettina Müller (ZEW)

Hannes Leo (cbased - Community based innovation systems GmbH Vienna)

Project team

Bernhard Boockmann (IAW)

Jürgen Egelin (ZEW)

Gabor Hunya (wiiw)

Günther Klee (IAW)

Georg Licht (ZEW)

Simona Wagner (ZEW)

Anna Weiß (ZEW)

Contact and further information:

Dr. Bettina Müller (ZEW)
(Project coordinator)

E-Mail:
bettina.mueller@zew.de

Telephone:
+49 621-1235-352

L 7,1
D-68161 Mannheim

Telefax:
+49 621-1235-170

Günther Klee M.A. (IAW)

E-Mail:
guenther.klee@iaw.de

Teleohone:
+ 49 7071-9896-25

Ob dem Himmelreich 1
D-72074 Tübingen

Telefax:
49 7071-9896-99

Dr. Gabor Hunya (wiiw)

E-Mail:
hunya@wiiw.ac.at

Telephone:
+43-1 533 66 10-22

Rahlgasse 3
A-1060 Vienna

Telefax:
43-1 533 66 10-50

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1 Introduction

This is the appendix to the report entitled “Future Strategic Orientation of the EUSDR” of the project “Socio-Economic Assessment of the Danube Region: State of the Region, Challenges and Strategy Development”.¹ It contains the results of the analysis of focus groups and an online discussion which were the main methods of investigation in the second part of the study.

The appendix starts with a detailed description of how the focus groups and the online discussion were performed and how the results of the analysis are to be read (chapter 2). There is some overlap with the shorter description of the task and approach of part II of the study in the main report. However, we decided to repeat the aspects already mentioned here again in order to have all the relevant information of the qualitative approach of part II of the study at one place. We then go on with presenting the results on the obstacles for improving the competitiveness of the Danube Region (chapter 3) and on the remarks on the Danube Region and the EUSDR (chapter 4). In chapter 5 we describe the programmes at the meso level and the thematic fields for potential projects which we listed in section 4.1.4 in the main report more extensively.

¹ The report can be downloaded from the project websites of ZEW, IAW and wiiw which carried out the study: ZEW: <http://www.zew.de/en/projects/1319>, IAW: <http://www.iaw.edu/index.php/-306/sozio-oekonomische-analyse-des-donaustrategieraums-stand-herausforderungen-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>.

2 Objectives and approach of part II of the study

2.1 Objectives

As already mentioned in the main report, the objectives of the second part of the study are to develop the preliminary recommendations of the first part of the study further and to reach at a “a preliminary strategic contribution to the definition of a program strategy” (Terms of References) for the EUSDR which aims at promoting the competitiveness, innovative strength and the attractiveness of the Region. This includes the identification of areas with potential for improvement and of criteria as well as topics for meaningful projects. The task should be carried out with the involvement of experts of and relevant stakeholders in the Danube Region.

2.2 Approach

We chose two approaches to perform the above mentioned task. First, we carried out so called focus group and second, we initiated a discussion on an online discussion platform. These approaches were complemented with input via e-mail from further persons interested in the development of the Danube Region and the EUSDR. We describe the methods below.

2.2.1 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). The idea of focus groups is to take into account not only the verbal expressions of the discussion participants but also the non-verbal interactions among the group members.

Why using focus groups in our context?

Focus groups appeared to us as a meaningful starting point for our analyses for several reasons. 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. Second, focus groups are guided by the principle of openness, which means that the researcher should take on an observer position as much as possible. In particular, it means that the researcher should not push the development of the analysis in a direction that matches with his or her own experiences or opinions. Although this holds for scientific research in general, what is relevant here is to take into account the fact that interviewees might give a situation or a problem a (completely) different interpretation than the researcher would do. This appeared appealing to us because we did not want to give too much structure on the interviews but wanted to let the interviewees speak in a rather freely and associative manner in order to find out what they are worried about and what solutions they think are appropriate. Third, compared to individual interviews focus groups have several advantages. These are: Interviews in groups can lead to that the interviewees feel more comfortable so that they are more communicative and speak more openly. More information can be revealed through the possibility that participants can react to contributions of their fellows. The likelihood that extreme positions are expressed and can find their way into the results of the study is diminished either through the social pressure in the group or through direct opposition by other participants. And finally, 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.

Preparing the focus groups I: defining the groups

The steps for setting up the focus groups involved a) developing a concept for the accomplishment of the discussions including aims, guiding questions and qualification of the participants, b) identifying suitable persons and c) contacting and inviting them. In total, we carried out four focus groups between November 2014 and January 2015 with experts from all Danube Region countries.

One of the guiding principles of focus groups is to identify rather homogeneous groups in order to find out differences between groups. We therefore divided the countries of the Danube Region into four groups according to their

state of economic development. In particular, we defined the following four groups:

- Focus group 1: Baden-Württemberg, Bavaria, Austria
- Focus group 2: Czech Republic, Hungary, Slovakia, Slovenia, Croatia
- Focus group 3: Bulgaria, Romania, Moldova, Ukraine
- Focus group 4: Bosnia and Herzegovina, Montenegro, Serbia²

Preparing the focus groups I: the guiding questions

As parent topic for the focus groups we defined “The Role of the EUSDR for increasing the competitiveness of the Danube Region”. Under this overall heading we picked up the subtopics of the first part of the study which were “Prosperity and macroeconomic performance”, “Entrepreneurship and SMEs” and “Cooperation and cooperation potential”. These topics were discussed in turn on the basis of the following guiding questions:

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

These questions are very broad and unspecific on purpose. The reason why we left the questions rather open is that we did not want to put too much structure on the discussion in advance in order to give the participants the chance to formulate their opinions without too many restrictions so that we as researchers could observe what is most important for them. The guiding questions of the discussion were sent around by e-mail about one to two weeks before the day of the session so that the focus group participants could prepare.

² Focus group 1 consists of the countries which we called „Member States Area 1“ in the report for the first part of our study. Focus group 2 corresponds to “Members States Area 2 plus Croatia”, Focus group 3 to “Member State Area 3 minus Croatia plus Neighbouring Countries” and Focus group 4 to the “Accession countries”.

The special role of Baden-Württemberg, Bavaria, and Austria (focus group 1)

One characteristic of the Danube Region is that it is quite heterogeneous. As this holds in general, what became clear while carrying out the focus groups is that the countries/regions located at the headwaters of the Danube, i.e. Baden-Württemberg, Bavaria and Austria (focus group 1), take on a special role. These countries/regions have a significant higher level of development than the other countries/regions of the Danube Region, if not to say they belong to the most developed regions in Europe. In addition, they had no communist past as the countries of the lower part of the Danube and also have much more experience with the (funding) processes of the European Union. Thus, in the context of the Danube Region these countries/regions are more in an advisory position from which knowledge and technology can flow further down the Danube than in a position of a country/region that needs help for development.

To be clear, this is not a structural element which we imposed on the focus group in advance. Initially, we aimed at treating all focus groups equally especially in terms of the guiding questions. However, when carrying out the focus groups at the middle and lower reaches of the Danube Region the special role of the regions/countries of the headwaters became clear as the participants of the focus groups 2, 3, and 4 repeatedly pointed to the special role of the regions/countries of focus group 1. Luckily, we were able to exploit this finding by adjusting the guiding questions for focus group 1 because we had the focus group 1 at the end of our series of focus group discussions. In response to the reactions we got from the participants in focus group 2, 3, and 4 we turned the angle of view for focus group 1 away from the own area of the Danube Region to the East by using the following guiding questions for this group:

- 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?

Preparing the focus groups II: identifying appropriate person

Regarding the participants of the focus groups we looked for persons with expertise in the competitiveness of their country/region in a broad sense because they should be able to evaluate the situation of their country/region with respect to all three subtopics (prosperity, SMEs and entrepreneurship, cooperation) mentioned above.³ In addition, for each country we aimed at inviting one person who has already been in contact with the EUSDR and one person who has not yet involved in the EUSDR in order to include both the inside and the outside perspective with respect to the EUSDR in the discussion. Discussion participants should be involved in the implementation of projects because we wanted to know what kind of problems arises in defining sensible projects and in realising them. Finally, we sought for a good mix between persons from the administration, academia and the business world in order to consider different views.

For the 'insiders' (i.e. for the persons who had already been in contact with the EUSDR) we contacted the National Contact Points (now: National Coordinators) of the EUSDR. Sources for the 'outsiders' were the address list of wiiw and contacts-of-a-contact information. Although it was quite demanding to put together a list of suitable experts, convincing them to take part in our study and to find a common date for the focus group we managed to have the planned focus groups with at least one participant per country in the end.⁴ The

³ The alternative would have been to do a focus group for each subtopic separately. But that would have meant that we should have done twelve focus groups which would have exceeded our resources both with respect to time and money.

⁴ For the Czech Republic, Bulgaria, Moldova as well as Bosnia and Herzegovina we had only one participant. This was due to short term cancellation in all cases. For the other countries we could welcome two participants.

size of the focus groups reached from five (Focus group 4) to nine participants (Focus group 2) which corresponds to the recommended range of focus group sizes.⁵

A note for readers which are not familiar with quantitative methods: The participants of the focus groups definitively do not represent a representative sample of the stakeholders of the Danube Region. (This also holds for the participants of the online discussion.) However, getting representative statements in the statistical sense is not an aim of qualitative methods such as focus groups and online discussions. These methods are used to discuss a specific topic in detail apart from standardised questionnaires in order to get in-depths insights by also allowing participants to choose the direction of the discussion to some extent. We took account of the danger of receiving unbalanced views by ensuring that the focus group participants (and the participants in the online discussion) had a different background.

Implementation of the focus groups

As mentioned above, the evaluating researcher should take on an observer position in focus groups. This comes along with the recommendation that the researcher should not assume the role of the moderator of the discussion at the same time in order not to blur the observer's perspective. We therefore engaged a moderator to lead the discussion. However, we did not follow strictly the recommendation that the researcher should only observe and not participate in the discussion. At some point we felt that it would be useful that we as research team would also ask some questions. This had simply to do with the fact that the moderator came in only in the second part of the project so that he had not the same background information as we had.⁶ Nevertheless, the lead of the discussion always remained in the hands of the moderator so that we stayed in the observer position all the time.

⁵ Although there is no uniform recommendation about the ideal size of a focus group usually a size of five to twelve persons is suggested.

⁶ Of course, we instructed the moderator and he also went through the report of the first part of the project. Nevertheless, there always remains some implicit knowledge that cannot be transferred.

Because we had a broad spectrum of areas which were to be discussed we had to allow for enough time for the discussion. On the other hand we did not want to overburden our focus group participants. We therefore scheduled three hours discussion time plus introduction and breaks which resulted in four hours in total. For illustration, the sequence of events of the focus groups is shown in Table 1.

Table 1: Sequence of events for the focus groups

09:00-09:30	Aims and Goals of the Focus Group, Round of Introductions, First round of Statements on Prosperity/Competitiveness
09:30-11:00	Entrepreneurship and SMEs
11:00-11:30	Coffee Break
11:30-13:00	Cooperation and Cooperation Potential
13:00-14:00	Joint Lunch

At the end of the introduction into the aims and goals of the focus groups at the beginning of each session (Table 1), we asked the focus group participants for their permission to record the session. In each case, the participants agreed so that we were able to make a sound recording of the discussions. These sound recordings were transformed into transcripts (literal written versions of the contributions to the discussion) and then sent back to the discussion participants for approval and additions.

2.2.2 Online discussion on [discuto.io](https://www.discuto.io/)

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. For this task we could resort to the discussion platform [discuto.io](https://www.discuto.io/) (<https://www.discuto.io/>) which has been and currently still is developed by the moderator of our focus groups and his team of [cbased](https://www.cbased.com/de) (<https://www.cbased.com/de>).

Why using discuto.io?

Discuto.io exhibits some characteristics which proved to be useful for our purposes. First, on the platform it is not only possible to comment on statements but also to simply vote on them. As we had 149 statements from the focus group this opened up the possibility to also include persons with tight time restrictions in the discussion. Second, the results of the votes are displayed immediately and visible for everyone so that the discussion participants could see at any time how many of their fellows agreed with a certain statement and how many do not. Third, the platform has an integrated ‘consensus meter’ which gives an indication for each statement to what extent the participants of the discussion agreed with this statement. The consensus meter uses not only the number of positive and negative votes but also applies a weighting algorithm to offset imbalances resulting from especially negative or positive attitudes towards the topic discussed. Finally, because the moderator of our focus groups is among the developers of the platform we could rely on special support also with respect to the content of the discussion.

Preparing the online discussion

In order to prepare the online discussion we extracted theses from the transcripts of the focus group discussions according to the following criteria: a) problems in increasing the competitiveness, b) criteria for projects, c) remarks on the EUSDR, d) area of projects, and e) concrete projects mentioned. The theses were then placed on discuto.io.

With respect to the potential participants of the online discussion we put together a list with all the contacts we made during the preparation phase of the focus groups. In addition, we went through the list of participants of the 3rd Annual Forum of the EUSDR in Vienna in June 2014 and tried to find out their e-mail addresses via an Internet search. The final list included 886 persons plus the 26 participants of our focus groups.⁷

⁷ We contacted the focus group participants again in order to give them the chance to defend their statements and to react on the contributions of the other participants.

Implementation of the online discussion

The potential participants were then contacted by means of an e-mail sent out directly from *discuto.io*. It turned out that 92 of the e-mail addresses did not exist any longer. Besides the reason for establishing the contact, the contact e-mail also included instructions how to access the discussion and how the platform works. After two weeks the participants received another e-mail which pointed to the most controversial points of the discussion and asked them to comment again especially on these points. In addition, this e-mail also served as a reminder for those who have not participated yet.

The discussion was open from 22nd of May until 30th of June 2015. 134 persons participated in the discussion which corresponds to a response rate of roughly 15 percent from the gross sample (including the invalid e-mail addresses) and 16 percent from the net sample (excluding the invalid e-mail addresses). The participants gave 304 comments and 4,638 votes. They agreed with the statements from the focus groups in most of the cases. In only five percent (eight cases) the consensus meter suggested a change of the statement. Thus, we can be pretty sure that we identified topics in the focus groups which are of general interest for the Danube Region and the EUSDR.

Table 2: Overview of the online discussion

Contacted persons (gross sample)	912 (incl. 26 focus group participants)
Invalid e-mail addresses	92
Net sample	820
Duration	22 May to 30 June 2015
Active participants	134
Response rate (net)	16%
Statements	149
Comments	304
Votes	4,638
Controversial statements	8 (=5% of all statements)

2.2.3 Further input

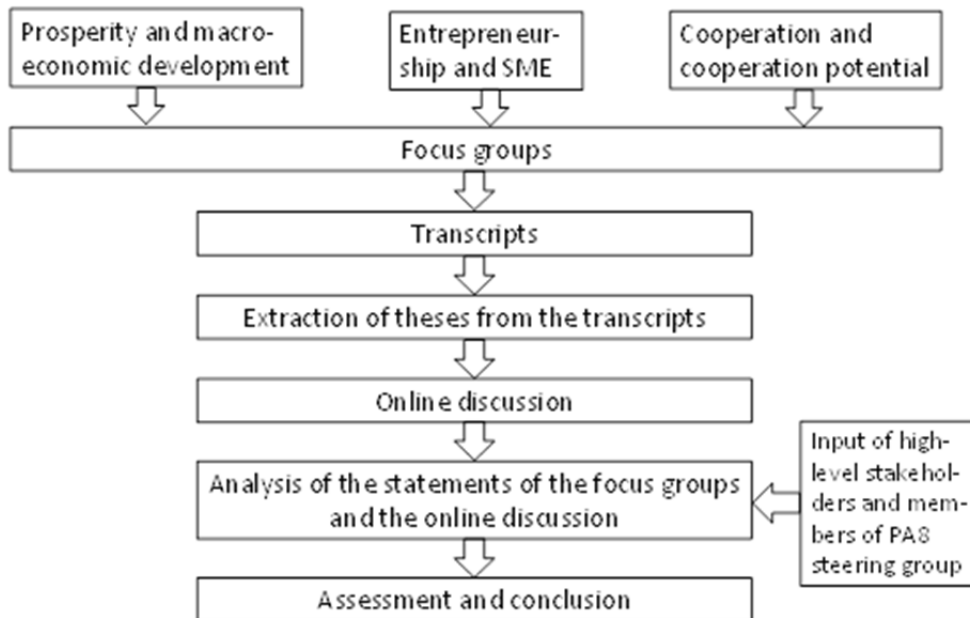
After completion of the focus groups and the online discussion the client of the study helped us to get in contact with high-level stakeholders in the Dan-

ube 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. The answers of these persons corresponded quite well with the reactions we got in the focus groups and the online discussion. We interpret this as a further indication that we identified relevant issues. At the end of this document, a full list of the persons who provided us with input for the second part of the study can be found.

2.3 Analysis and overview of the approach of 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 following chapters of this appendix. The most salient features of the analysis then were the starting point for the formulation of suggestions for policy which can be found in chapter 4 of the main report. Figure 1 gives an overview of the approach in part II.

Figure 1: Approach of part II



3 Obstacles for improving the competitiveness in the Danube Region

We start the analysis of the results of the focus groups and the online discussion with the factors that hinder a higher the competitiveness of the Danube Region in order to identify starting points for the improvement of the situation. As we identified in the main report, improving the competitiveness of the Danube Region basically means improving the competitiveness of the what we call in the main report Group B countries, which basically cover all countries of the Danube Region except the German federal states Baden-Württemberg, Bavaria as well as Austria (Group A countries). The reasons are already given above when describing the special role attributed to this subregion of the Danube Region by the experts from the focus groups of the other subregions: The German federal states belonging to the Danube Region and Austria are already highly developed and they do not have to reappraise a communist past. Therefore, the analyses in this report mainly refer to the situation in the Group B countries of the Danube Region. This does, of course, not mean that the views of Baden-Württemberg, Bavaria and Austria are suppressed. It rather means that they are not the object of analysis in the first line but take on a kind of observer or analyst perspective themselves. We elaborate on this dichotomy further in Section 4.1.3. However, at this point it is useful to know that the Group A countries are ready to provide help to the Group B countries of the Danube, certainly on their own interest, but, of course, not at all costs. Baden-Württemberg, Bavaria and Austria are already engaged in a series of initiatives in the Group B countries.

In general, it can be said that the majority of the obstacles for improving the competitiveness in the Danube Region arise from the communist heritage of the Group B countries. It is quite clear that the Group B countries still struggle with the learnt behaviour resulting from the incentives of a system of a centrally planned economy. This is reflected in the self-image of the public authorities, the view of entrepreneurship and the entrepreneur, as well as the behaviour and attitudes of economic agents. For identifying sensible projects as part of the EUSDR, this definitely provides a challenge. But we think that without being aware of these circumstances, projects in the Danube Region are more likely to fail than to be successful.

3.1 Institutions

A recurring theme in the discussions both in the focus groups and online on the obstacles for improving the competitiveness of the Danube Region is the working of the institutions. In economics and the social sciences the term ‘institutions’ is used rather broadly, which is what we also do in this report. Institutions are usually defined to include the government and the public administration but also the system of rules that guide the social behaviour of individuals, groups, and communities. The latter comprises both the rules that are formalised in laws and regulations as well as hidden behavioural rules and attitudes. For any economy, institutions are of outmost importance for the well-being of the population because they provide the framework in which the actions of the economic agents take place. The incentives created by the institutions affect the behaviour of individuals and firms and, eventually, the economic output and prosperity of a country (or region). In the discussions, comments which can be related to institutions are expressed in such a high frequency and in such a vehement way regardless of the country of the origin of the experts that we think that the working of the institutions is the main obstacle for improving the competitiveness of the Danube Region.⁸

3.1.1 Government and public administration

When it comes to the government and the public administration, the main result can be summarised by a statement of a participant of the focus group 1:

#26: „But always when we try to do something with public support I see a very, very big problem.“

To be more specific and to include voices from other parts of the Danube Region, governments and the public administration are often regarded as not competent and inefficient and therefore a key barrier for improving the competitiveness of the Danube Region:

⁸ There are signs that the problems increase the further down the Danube one gets but there were also comments from the experts of the non-German speaking countries in the upper part of the Danube which point into this direction. We therefore concluded that this is a general phenomenon.

#08: “And last but not least, I think the biggest barrier is the government in the Czech Republic. It’s not [only] my personal view, when we look at the competitiveness reports always the quality of the institutions, all this 25 years it’s the worst part. We are on levels comparable to African countries. So, it’s not true, of course, but I mean the perception is very, very bad. So, I think this is the key problem. [...] And structural funds, this is another, I don’t know how is the experience of other countries, but the Czech Republic is the worst country in the European Union in efficiency of spending the money from EU. So, this is a really big problem also.”

#08: “Again, I would say that the businessmen or entrepreneurs try to solve their problems somehow themselves because the government is not efficient.”

#04: “The situation in Bosnia and Herzegovina is more or less the same as in Serbia and Montenegro, with some more problems that we have with respect to our political organisation which complicates the business life very much. So, this is the main problem. [...] But generally, the business community is very angry with our political decision makers because they just comply to each other, let’s say municipalities to entities level, entities to the state levels. And we really [waste] our time when we need to make some business improvement decisions that should enhance our economy. [...] From my point of view, the political situation is the most hindering factor.”

For sure, people in all countries have a tendency to complain about their governments and the public administration. However, the words above are exceptionally harsh. So, it seems that at this point there is a large room for improvement. An indication that this is indeed a serious point is that companies try to avoid the contact with public authorities even if these authorities offer help:

#18: “But occasionally we become aware of some success stories. But these people, they ...generally when you call them to join a round table discussion, asking them: “What do you need from the state? What do you need from the county? How can we help you?” They generally say: “Do not help us!””

#29: *"Yes. "Leave us alone"."*

#18: *"We are fine with ourselves. We just want to keep the low profile. Do not bother us with your research or your questionnaires. Just let us live."*

#08: *"Otherwise, companies are, ok we can go to various research surveys, which we did, but in principle they are ok. They just say don't intervene, ok, let us be and we will manage the best. But the government is really a disaster. This is the problem."*

#10: *"...and I try to set up this projects as much as possible independent from the government ..."*

The experts mentioned some points which can help to explain why the governments and the public administration are viewed so negatively. One is that public authorities want to have hands on a lot of things but basically do not know where to go:

#08: *"The government is very kind of interventionist, this is this Austrian-Hungarian tradition, I would say. They want to have hands on a lot of things, they are like to regulate, but they are not efficient. So, this is the key barrier."*

#24: *"Ukraine really needs to improve legislation, regulation and business rules. In Ukraine we have a very complicated system and too many taxes which stipulate really bad business conditions in Ukraine."*

#05: *"...and there is a lack of vision towards how the society will face all these challenges, in capacity of the institutions and also corruptions and things which are very, very frequently in the press right now."*

#25: *"The main lack of management in Romania at the public authorities' level is that they design a lot of strategies and actions plans and they started to implement but they are lost among this process."*

#24: *"The most important thing, I think, is that we still have no clear vision or strategy of how we have to develop this area and a real assessment of how the development of SMEs may contribute to regional and local development."*

#03: “This is the important issue in Slovenia but when we are talking about the mechanism how to select companies and how to support R&D we have a lot of different programmes, as #09 mentioned. But the thing is, there is no mechanism since we don’t have a strategy on the national level.”

Even if they manage to identify some strategies, they apparently fail in implementing them:

#08: “We have a lot of strategies, we have a lot of programmes, but I have never seen any strategy in the Czech Republic work, never. Really never. I mean, on the regional level, we have smart strategy, smart specialisation, everything. On paper everything is beautiful. But when you make an evaluation, even if there’s somebody in evaluation, this is the question, then you make an evaluation and they said nothing really measurable was achieved. So, there’s a big scepticism in the country as any strategy is concerned.”

In addition, actions are also often not coordinated:

#05: “ ... there is a fragmentation of the market institution. The state institutions are very much fragmented. I can see when working in PA8 how difficult it is for me to bring consensus among different institutions about projects.”

#25: “Another aspect that we have to take into account is based on Romanian experience, you see, after the revolution we said we need to reform our economy; we need to go from the centralised economy to a competitive one and so on and so on. Each ministry started to reform something, the domain for which they were responsible. They created strategies on the domain but they forgot to interconnect.”

#05: “There is a lack of capacity that sometimes at the local level, companies themselves and the business associations and the institutions are not too much cooperating to identify which is their vision.”

#04: “The policies for SMEs are not coordinated, generally speaking. I will show you by the first example. For example, we do not have any more strategy for SME development on the state level. The last one expired in 2011. We have probably one on the entity or cantonal lev-

el, on municipal levels but from my point of view they are not coordinated.”

This clearly reflects a transformation phenomenon. In the era of the centrally planned economies the task of the public authorities was to allocate economic resources and to define the level of output. This implied a high degree of intervention of the authorities in the economic processes. Now, the public authorities do not have this part any longer and apparently struggle to find their new role. Some public agencies obviously still follow the interventionist model (see comment by #08 above) while others stepped into a – seemingly uncoordinated and at the moment not very successful – search process for their functions in the context of a market economy.

A quite unfortunate manifestation of this search process which has severe consequences for the implementation of projects is the instability of the responsible staff in the governments and the administration. This leads to constantly changing contacts and also changing priorities, which evidently makes it very hard to pursue long-term projects:

#05: “They are also thinking after the election. But they are thinking after the election to change all the people in the public institutions in order to put some other people and they are changing names of their directorates, change of ministries, just for this, and then they are naming other people and the people they do not recognise what has been done better in the previous government.” ... “That is destroying long-term projects like infrastructure projects.”

#20: “And we did not mention a big impediment. This is the political instability. We are changing governments very frequently, not many of our governments lasted for four years, for which they were elected and even if they are in the position they are frequently changing the staff. So, it is very difficult to work under these circumstances and I think that is because of still politically not very stable situation.”

#01: “But: In some cases we saw that, while changing the contact person, suddenly the focus shifted and this is, of course, for those projects, that have a middle-term component, and above all should have long-lasting effects for the infrastructure, it’s then, of course, difficult to realize.”

Another aspect is that there is also not much understanding of the working of the market economy and the role of entrepreneurs:

#10: “I think if we talk about prosperity, we have first to talk about the necessary mind change in the political elite in all these states. Not so much because they have no ideas or that they are not well trained, they are very well educated but they have very less economic understanding.”

#25: “Yes, but we have to train them [the decision makers] to change their philosophy about what means now competitiveness and entrepreneurship, because they don’t know this. They are focused on the old image of entrepreneurship.”

3.1.2 Rules and Regulations

Regarding the rules and regulation aspect of institutions, one principle of communism is that there is, in general, no private property. According to the advocates of the communist idea, this leads to a classless society and a better life for everyone. In contrast, in the market economy approach property rights are favoured because they provide incentives to the owner to use an economic resource in a productive way. Indeed, one important result of the research in institution economics is that property rights have a significant positive effect of the prosperity of a country. According to the statements of our interviewees the non-German speaking countries also suffer from a communist legacy in this respect, at least partly. This also has significant impacts on the implementation of projects:

#24: “Many business people from Germany and Italy visited our area and who have been interested in the promotion of organic culture in the area but unfortunately, because of the legislation and the suspended question about property.”

#11: „Of course, I also call for a strong state in these countries, with appropriate ownership protection. This is somehow really essential, as well as always connected with the SMEs. I don’t know how land registers work, whether the land property, the territory, is always completely clear. We actually do have this problem in Greece to date. We

also have different states in the Danube region where this doesn't work that much."

3.1.3 Effects on the behaviour of economic agents

The incentives of the former communist system, which apparently are still present in the current system of rules and regulations are also reflected in the behaviour of individuals in different contexts be it as a single economic subject, as part of a business or as a member of the public administration.

Although there is a high degree of activity in inventing strategies in the public administration as mentioned above, there are signs that there is still a lack of initiative:

#25: "The other aspect is, what my colleague said but what I also want to focus, the lack of initiative at the local level.

#07: „ I want to give an example. I have been to Hannover Industriemesse, the biggest industrial fair in the world, for 15 years. If Hungary would manage to take 20, 50 entrepreneurs to the fair as tourists, to see this fair once after all: What is Champions League? So, just such small, practical things, only making sure that a network is created, that organizations of self-care is created, that the producing companies ... That there is an exchange, that they can learn in engineering schools, that's so diverse, to establish something like that. And you have to start somewhere, that's life. The one that coaches the Regional League has to take coaching lessons one day, to get to the District League at all. And just like this it has to develop."

People tend to take a short-term perspective directed to their own quick profits or benefit:

#05: "Based on the economy and business model at the national level which is favouring only the short wins for the businesses, so rather quick wins than going to cooperate for long-term private initiatives."

#05: "... it is a question of culture and mentality and the capacity to go forward with the long vision projects."

#18: "Well, the figure of Croatia, the overall expenditure of R&D is 0.8 percent of GDP overall. Well, the business sector accounts for only 15

percent of that. That is 0.4 percent of GDP is R&D in the business sector in Croatia. This says really much about the long-term orientation and perspectives of these firms. We do not have large incentives to use research in the business sector, to cooperate with the universities or projects like that.”

#20: “Talking about our budget planning, it’s for one year, just for one year, and, of course, it’s a great impediment in thinking strategically to implement some strategic things like the SME strategy, industrial strategy, things like that. We face this with cluster support. Every year, we have to apply for a special annual program, with a special budget and this is also very uncertain. [...] We are planning a budget for one year, and next year you don’t know, will it be commitment for the same item in the strategy or not.”

#25.: “Because of lack of financial and opportunities to be sustainable in the medium and long run, they only focus on short-term benefits. There are changes in the mentality as to what it means to be entrepreneur and how to unleash our potential.”

They also engage in rent-seeking activities. This is expressed, for example, in the still widespread corruption in the Eastern countries of the Danube Region⁹. Although this is a problem that is well known and recognized, it is useful to show it quite plainly again how destructive and harmful it can be for the implementation of projects. One of the members of the focus group 1 reported that he/she witnessed cases where projects were completely ready for implementation but could not be realised because of corruption:

#01: „And especially at the municipal level you can do that quiet quickly because they also have the understanding. But then the central ministries get involved, which, of course, make sure the funding. In Bulgaria in particular, they had a corrupt environmental secretary, the money flow simply stopped somewhere. In Plowdiw they were in limbo, even though they were really committed there. They had even employed a lady, an environmental manager, she even worked in the EU

⁹ To be fair: Also the German speaking countries of the Danube Region are not corruption free zones. But the degree of corruption seems to be significantly lower than in the Eastern part of the Danube Region.

Directorate-General, so she's very, very open-minded for these topics. To get the cloacas out of there, but then it didn't go any further [...]."

#01: „And, well, in the area of environment and energy, particularly in environmental engineering, it's not possible without EU resources. [...] So, we had 2-3 workshops with the persons responsible on site, that is, the implementers. Well, not political conversations, but with the project sponsors on site, which have to implement it on the municipal level. And then we also have, ... we were in good dialogs after all and then, however, the problematic with the EU means, not retrieved or corruption issues came up. And that's why it didn't go any further. [...] Well, I can only say: There are possibilities, we even had starting points. But, of course, if then things break off locally and corruption topics come up, we have to keep our hands off it. This is why it failed.“

Another participant of the same focus group told us that corruption is also a market entry barrier for firms from the Western part of the Danube Region:

#11: „ Speaking of corruption, for example, this is also such an impediment which you have to take into account. Often, our companies also just need a local partner, to chop their way through the undergrowth of bureaucracy on the one hand, but on the other hand also with those, in parts, difficult structures when it comes to corruption.“

#24: “And I think one of the most critical things at the moment is really poor investment climate and investment opportunities in Ukraine. One reason is huge corruption in Ukraine which still exists in Ukraine.“

However, corruption is not only a market entry barrier but it results in that the companies pull back and are not very likely to return:

#11: “I know some SMEs that after the opening of the borders went to the Danube Region full of euphoria, but then withdrew, since they said: The cost advantage isn't that crucial for me, because I just have too many additional costs.“

#01: „[...] and then, of course, our companies shift. That's obvious. And to have another go is then difficult, since the capacities are already used elsewhere.“

A participant of focus group 4 points to the fact that corruption drives people out of the country because it impedes everything:

#04: “It’s always the issue of the government, the reason why people leave the country is, [...], is a very high corruption rate in the whole society, of course, and that produces the lack of possibility for employment, for developing a business, for developing of the whole society. So, this is probably the main reason. When I talk with the people who are planning to leave the country or who have already have left the country, this is the first reason why they leave, because they do not see any perspective for them to stay in the country.”

This behaviour then has important second-round effects. There is a low level of trust between the agents of the economic system:

#12: “We do not have sustainable agricultural associations. When you in the region, when you speak to the farmers and you ask them: “Why don’t associate?” So, the main problem is that they lack social capital, they don’t trust each other. So, he tells me: “Why should I associate with him because I don’t trust him. I don’t have to associate with him.”

#06: „huge gap between “state institution” and “private-entrepreneur entities” in former communist states (all!); we consider the state institutions (including government) thieves since we pay a lot of taxes receiving bad roads, bad education, bad social insurance systems in return, they consider us also as thieves, since we are good just in paying taxes, but we are ready at any time to protest and say a lot against their “work”.”

#20: “When we come to cooperation, my job was to promote this kind of business behaviour, to overcome this big impediment in our economy, which is first of all lack of trust and no successful record of doing business together.

Moderator: Lack of trust in what sense?

#20: Generally.

Moderator: Between people and the government? Or between companies?

#20: Between companies, between all levels, between companies and the governmental institutions. Among the governmental institutions. This is a general issue in Balkan countries. I think it is spread in all Balkan countries not just in Serbia.

People shy away from taking responsibility:

#17: „How would you like to “create competitive companies”? This is only possible when entering concrete projects. And to convince and force beneficiaries of respective initiatives to consequently implement the entire action over years. [...] This is the missing: political commitment, not the money.”

#07: “Every time it comes to signing a contract and to saying: OK, now we need 100,000 euros for a feasibility study, everyone winces and the priorities all of a sudden are different. Suddenly the mayor goes to underground, is voted out or whatever.”

And there is an uneven distribution of returns from the ‘economic’ activities which again undermines the trust in the system:

#25: “You see, it’s another issue. The balance. Because, if one side the win is very small and the other is very large, is not sustainable. The things are broken.”

3.2 Infrastructure

Institutions are part of the foundation on which economic activity occurs. By analogy, institutions are the rules of the game. Yet, as many games do not only require guidelines about what is conceded and what is not but also a playing field economic activity needs a fundament on which it can take place. This playing field is provided by the infrastructure of an economy. From a conceptual point of view, the infrastructure can be regarded as equally important for the prosperity of an economy as the institutions under which the economic agents act. However, interestingly, the topic ‘infrastructure’ only played a minor role both in our focus groups and in the online discussion. This does not mean that the improvement of the infrastructure is no longer an issue for the

Danube Region. On the contrary, we, as research team, think that it is still an important factor for increasing the competitiveness of the Region, especially in the countries further down the Danube. But it seems that in comparison to other factors the infrastructure is regarded to play a subordinated role for the improvement of the economic situation in the Region. Obviously, people feel that the infrastructure is sufficient enough so that it does not play a restriction for economic activity at the moment or they are of the opinion that other problems such as the bad working of the institutions must be solved first before large infrastructure projects will have a chance of being successfully completed.

There are two exceptions from this overall picture. These are Moldova and Ukraine. The experts of these countries repeatedly pointed to the restrictions resulting from the bad state of the infrastructure. This concerns the logistic networks such as roads ...:

#24: “The transport system requires a serious modernization. First of all, we need serious modernisation of roads as the state of roads in Ukraine and in the Danube Carpathian part is really awful now. This is one of the main issues which seriously restrict business opportunities and opportunities for prosperity in the area. This is really a challenging thing in terms of the development of car turnover in the area, the development of tourism and infrastructure as on the one hand we have great and attractive facilities on the Black Sea coast, in the Danube delta, in the Carpathian part we have mountain areas interesting for tourists. But again, because of really poor transport infrastructure, bad condition of roads, this area loses its attractiveness for potential tourists from the European Union and from other parts of the world.”

#32: “First of all, the particularity of this area, especially of my region Bukovina, both South of Bukovina in Romania and especially the North of Bukovina in Ukraine. These are the historical roots, this was practically constructed for a few centuries as a communication interchange. Practically, we have at the moment the fact in Ukraine density of rails and roads there, which are not developed.”

... as well as the water and sewage systems:

#12: "Another issue is the health of the population; especially we have very somehow high level of sickness of the population because of the quality of resources. The water quality is the lowest in the region. We could not find the standard for the water quality, especially in rural area, water was polluted. People do not have access to qualitative water. As well, as you take cooperation in urban and rural areas, in rural areas, only 1% has access to sewage system. In urban area it is a little bit better, about 50%. Everybody has access to water, but not everybody has access to a sewage system."

#24: "On the other hand we have the same problems about what #12 has already said in Ukraine. On the other hand, we have a lot of water resources in the area. On the other hand, we have big problems with water supply especially for irrigation purposes. Now we have to think over more efficient system of water supply to maintain agriculture in the area."

Another aspect which was frequently mentioned was the malfunctioning of the system of waste treatment.

3.3 Entrepreneurship and SMEs

3.3.1 Entrepreneurship

Entrepreneurs are important actors in a market economy. They are the ones who organise the production of goods and services and sell them to consumers. Ideally, they also contribute to the economic development of an economy by introducing innovation and by opening up new areas of economic activity. In this function, they can be seen as 'agents of change'. Consequently, a significant role is attributed to them for the development of the Danube Region. We think that this is quite justified, as entrepreneurship is about organising production decentrally (and often also in small units, i.e. in small and medium sized enterprises (SMEs)) and exploring new business opportunities. However, also in this respect the Group B countries of the Danube Region still seem to struggle with their communist past although it must be noted that the obstacles seems to become more severe further down the Danube. As one of the participants of our focus group 4 remarked:

#22: “On the other side, we have a long tradition of not having entrepreneurs, relying on the state sector, and, of course, that is one more hindering factor.”

This long tradition without entrepreneurs impacts on current entrepreneurship in several ways. The most obvious and understandable is that business skills are not widespread:

#05: “... and the level of company start-ups is very, very slow, the entrepreneurial skills are very low ...” ... “We have a low density of enterprises ...”

#28: “...that they do not have knowledge about marketing, branding, access to market information.”

#14: “The third issue is non-financial support or business services support where there is a room for some additional support to SMEs, like for development of business plans, informing them or supporting them on how to apply for different sources of funding, how to upgrade their technology etc.”

#29: “And I think there’s also one big item, which is behind this reasons: It’s that we’re lacking the entrepreneurial skills. Not the labour force skills, but the entrepreneurial skills itself.”

Nevertheless, it is interesting to note that even after more than a quarter of a century after the fall of the iron curtain lacking business skills are still an issue. One explanation for this is that the knowledge transfer in this respect occurs rather slowly. This hypothesis is consistent with the fact that rather few comments on lacking business skills were made in our focus group 2 where we had experts from the countries of the immediate neighbourhood of Germany and Austria.¹⁰ In contrast, in this focus group there were a series of statements which implied that the experts think that the businesses of their country were almost on the same level as those of Baden-Württemberg, Bavaria and Austria but were not rewarded accordingly. We elaborate on this point below in more detail.

¹⁰ The exception is the Croatian experts. They also reported that the entrepreneurs in their country do not have enough business skills. But this is no contradiction to the formulated hypothesis as Croatia has no direct border to either Germany or Austria.

Another explanation is that the bad business skills are again an outgrowth of the incentives in the system. The hypothesis here is that, from the perspective of the entrepreneur, it is not beneficial to develop skills that are useful for productive entrepreneurship because unproductive or even destructive entrepreneurship is rewarded as well. There is some evidence for this. For example, the experts of the focus group reported that entrepreneurs engage in rent-seeking activities:

#05: "They are looking for opportunities to get money and financing without having the business model to attach to that project or to the kind of the vision to make something which is really worth to do it."

#04: "But also the entrepreneurs are not very well qualified. They do not rely on knowledge, on science. They just think in terms of money. They do not see what they have to do to produce more money. That is the situation in the majority of SMEs. When they lack managerial skills, experience and they also think that it is important to be connected on the political level, at the municipal level, entity, or even state level, that connectivity would help their business. In fact, it is the situation but it is not a long-term goal, it is just a very short-term one."

And they seem to regard businesses not as organisations for producing valuable output but to feed friends and acquaintances:

#18: "And there is a number of other indicators that if you sum them together shows that there's something wrong in the management, well in the nepotism of employment policies of the firms, there's a lack of reliance on professional management."

In addition, successful entrepreneurship is often not socially awarded because the old image of entrepreneurship still prevails:

#13: "And I have the feeling that, the further you go down the Danube, a successful entrepreneur is rather seen as someone that cleverly took advantage of something, but not that it's sort of his own accomplishment."

#18: "And anecdotally, if you, just to add to what my colleague said, it's not popular in Croatia to be an entrepreneur. If your firm is on the top

of the list of the most successful firms in terms of profits or turnover, if you're named the most successful manager of the year, you are most likely to be in jail in five years and your company could be in the bankruptcy or in least in the red. Why is that? Because with the model of entrepreneurship oriented towards public funds, which was generally the case of Croatia, be it to directly absorb the public funds or to subcontract to firms that are in a position to be protected from the forces of the international market, that could be the position that could bring you to some really positive outcomes of your economic activities. This is not the case anymore.”

#22: “But what is more important, and that is strictly from my point of view, is that you have entrepreneurship coming from the bottom-up, because you can stimulate it, but if it is not from the ground, if it is not sensed in the people who should take this risk and do it, then it is going to give that fruitful results. So, one important measure is that you try to put it as a good value, to promote it in the nation as a good value, as something that should be valued and something that is good to do.”

This again provides disincentives to develop sound business skills.

The fact of regarding successful entrepreneurs as highly suspicious can also explain another phenomenon of the economies of the Group B countries of the Danube Region. As described by the participants of the focus groups the firm size distribution in the Group B countries is highly skewed to the right, i.e. to very small firms:

#20: “Concerning SMEs, that is the biggest part of our economy when we are talking about numbers, like 99.9%. The average SME in Serbia are very, very small to 2.4 people per one SME, this is a great hinder to their growth.”

#25: “Because the statistical figures show that from the total number of companies 97% are included in this category: SMEs. It's a good figure. But the second figure is not so good. Because, of total SMEs more than 95% are micro enterprises with less than nine employees, which is a bad aspect. It's impossible for them to be competitive because

there are so many and they don't have enough capital to develop themselves during the mid-term or long-term strategies."

Referring again to a quote from participant #18, it seems that most of the firms also do not want to grow:

#18: "We are fine with ourselves. We just want to keep the low profile."

One of the reasons for this can be that entrepreneurs simply fear to be punished by wry looks or, more severely, by being thrown in jail when growing their business. This should be kept in mind when designing policies for developing the SME sector.

3.3.2 SMEs

Foreign direct investments (FDI)

Regarding SMEs in general, the Group B countries of the Danube Region seem to be at a crossroads. Although not explicitly formulated, we think that the experts of the Group B countries would agree with that direct investments of large foreign firms had played a significant role for the development of these countries in the past. Or: It is not very likely that they would speak against what a participant of focus group 1 formulated as:

#13: „It's clear that this standard of a rapid catch-up of the wealth difference in that region is, of course, extremely connected with FDIs. Because you can't develop this level of production on your own so quickly and even less this entrepreneurship, if you haven't had that for 50 years. This extreme delta the region had is, of course, extremely connected with these productivity increases that came from outside."

However, they are increasingly dissatisfied with a business model that heavily relies on foreign direct investments (FDI). This has several aspects. First, there is the feeling that the Group B countries do not participate enough in the value created by the FDIs in the countries:

#25: "The other issue is related to FDI in Romania. We were open for FDIs but most of them are based on short term profit gain and they

are not sustainable. According to our statistics, more than 80% of the profits are repatriated.”

#08: “So, again I must go back what I mentioned already, we simply need more money to be paid for our products and be able to pay those people more compared to the competing fields or industries.”

Second and related to point 1, there is a strong wish to move up the value chain:

#08: “...and the part which is part of the globalised value chain, the key to prosperity is to move up to this value chain.”

#04: “Very important, very useful for us would be that we start to prepare to make final products, final food products, not just raw materials for the food processing industry.”

#28: “Also projects related to the extension of the value chain in production because one characteristic of SMEs in Montenegro, especially in the field of agriculture, is the semi-products. We export raw material and after that we import the final products, for example, export cherries and import juice or similar products. In that case we have to extend the value chain because the value chain in all fields of production is very short.”

#13: “Of course, this has changed a lot now and I also see this in the business sector, that a paradigm shift takes place here, that this region wants to become sustainable, that is: It wants to have a balanced current account, in other words, people aren’t as willing anymore to act as sales area, but also want to deliver and create value and you can see that massively.”

Third, apparently the knowledge transfer from the FDIs to the local companies is rather low so that local companies cannot benefit very much from the existence of the foreign companies in their country:

#08: “We don’t know much, this is a bit mystery for us because these foreign companies do not give much information about their internal doings. It’s very difficult to get actually, to involve them in some research and so on. They are really secretive, especially when they are

asked about the specific activities in their Czech Republic affiliates. They do not talk about their whole global brand. So, this is a big mystery actually. We have kind of estimates, we have some hypotheses but what is actually happening is not clear."

On a more general level, the local firms seem to be not involved in the activities of the FDI:

#07: "This is exactly the key problem, That is, practically no involvement of the local economy takes place."

Fourth, they do not perceive that the local companies have much room for development when the business activities are dominated by large foreign owned firms:

#08: "We have some small subsectors which are still in Czech hands or they are still in this group of SMEs but basically all big companies are foreign owned. So, the place for SMEs is actually defined by these big guys and they are mostly owned by foreign companies."

And fifth, a strategy of relying on FDI might not always pay off:

#01: "And once you look at Nokia. And attracted by an EU subsidy ..."

#07: "Yes, and two years later they gave their keys back again."

However, the countries apparently struggle by achieving the goal of more independence from FDIs. This seems to be a mix of (with respect to this goal) misguided policy approaches, detrimental incentives in the system and the wrong perceptions of the actual situation.

Regarding the policy approaches, there is apparently still a strong focus on foreign owned firms:

#01: „The answer is fairly simple, we know it. It's going to be looked by far too much, almost exclusively at foreign direct investments: everybody wants to see that we're bringing in foreign direct investments."

And it seems that large foreign owned firms are deliberately favoured against local firms:

#20: "When I was working with the IT sector in Serbia they were telling about easier access of foreign companies to get tenders in Serbia. So,

that is the opposite of what you just said. Big investments by public money, publicly announced money, usually goes to foreign companies. And foreign companies are favoured compared to domestic companies.

One reason for this is that foreign owned firms are simply better equipped. In addition, a large size might be relevant for certain tasks:

#20: “Because they have more references, they have bigger resources and they have more competences. Actually, they are multinational companies and our companies are small and they have this problem.

However, the preferential treatment of foreign owned firms occur even if local firms have references from international clients and could provide tailor-made solutions:

#20: “Especially in consultancy it is an issue. In almost all industries. We know for certain of our IT companies in the embedded sector that they have proven references from Vienna Airport, as a subcontractor. They cannot take any job here because Siemens will get it. They have a name and it is easier for those who make decisions to choose Siemens because they have a brand name [...] They prefer to choose an established brand name than a maybe better solution made domestically. The local solution can be better because it is tailor-made, easier to maintain.”

Yet, the focus on the foreign ownership of the firms can be explained by detrimental incentives in the system. As one participant of the focus groups mentioned:

#07: „ I only said: Simply try to get something done on your own. But, anyway, the success came from outside, one didn't have to do anything, you just had to be sure you didn't ... And the foreign firms came, since, of course, the labor cost advantage was that large there.”

A related statement is:

#10: "Then this is very, very important: you talked about FDIs and that this is not sustainable. Yes, I agree but it is not sustainable because the countries forget to develop the supplier structure."

This is again a sign of the lack of initiative resulting from the (perceived or actual) low rewards for starting own projects.

Concentration on large firms

Besides the focus on foreign owned firms there also seems to be a concentration on large firms:

#15: "There are maybe some tools for SMEs and for start-ups but they are really just partial. They are not solving the problem. So, there is some help for companies but really limited and companies, also SMEs and also start-ups, have a lot of problems also with financing and in every country the government is supporting much or less the large companies and not the SMEs and start-ups. That's the problem I think."

This focal point is interrelated to the concentration on foreign owned firms as firms that invested in the Group B countries of the Danube Region are for the most part large firms. Making a link to the communist past of these countries again, the focus on firm size might be explained by the idea people have about what makes a firm. As centrally planned economies consisted for the most part of large state-owned enterprises decision makers might be guided by the image that an important characteristic of a firm is a large size. And in fact, also from the point of view of the organisation of an economy as a market economy, focussing on large size is not completely off the point. A large size of a firm can be justified by the existence of economies of scale and scope and the advantage that all relevant services can be provided from one hand. In addition, there are industries where the production conditions require a so called natural monopoly from an efficiency point of view which very often comes along with large firms. There has been a long discussion in economics about the ideal size distribution of firms in an economy (or a sector of the economy) which is partly still ongoing (see e.g. Cabral and Mata (2003), Angelini and Generale (2008) or Coad (2009)). However, what is apparently missing is a good mix in the firm size distribution or more precise: The right awareness that also small

and medium sized firms matter. This contributes to what a participant of the focus group 1 identified as the basic problem of the Group B countries of the Danube Region:

#07: “... and this is the basic problem of all of these countries: They are not able to create or implement their own SME sector.”

Quality of products

As mentioned above, there is a strong wish of moving up the value chain in the Group B countries of the Danube Region. The reason is that they want to participate stronger in the returns of the value which is created in their countries and also do not want to serve as extended workbench any longer. In addition, there is also the feeling that they are exploited to some extent. This holds especially for the Group B countries of the upper part of the Danube and is reflected in the statement of one of the participants of focus group 2:

#08: “The key challenge is, of course, to sell the products at a comparable value with the Western competitors. This is for us the key problem. So, I think that we have already kind of 70%, we are at the level as to the knowledge intensity. But the capacity to sell it for the comparable prices, the unit values are still low. So, we don’t get that much part of the value, we import a lot.”

The feeling that the Group B countries do not get enough money for their products can be explained in two different ways: Either the Group B countries are really treated unfairly or it is still the case that the quality of the output is not high enough to be rewarded at prices the Western companies get. It seems that the latter is the case. When confronting the participants of the focus group 1 with this critique they told us the following incidents:

#07: “In this case I always make a comparison with sports. That is, let’s assume you can play tennis and, let’s say, Boris Becker can play tennis. That means you want to compete with him or you want to play with him in Wimbledon. I’ll just say, and that’s how it is, there is a top league. And if you want to deliver to Audi or Daimler, to just name the top league, even for German suppliers, explicitly well-known ones, that have been supplying Daimler, Porsche or whatever their names are, it’s difficult to play in this league. [...] Because Daimler explicitly

tries, and has tried, to find suppliers, of course in the region, initially from Baden-Württemberg, but later of course also from Hungary itself. Barely anyone could overcome the quality hurdles to at least, staying with the example, play in the Champions League or with whomever, to join at all. [...] But that's how it works: the requirements are so extremely high and the things of certification, of quality, a firm of the class in Hungary can never ever make that without a long period of learning."

#01: „And then it was tried to order cast from the Czech Republic as well, also because of the price advantage in the Czech Republic. That didn't go well for a long time at all, until all the cast came back. Why? Because, evidently, a prototype could once be cast well. But when they started the serial production with those high quality requirements, just think of an axis or a steering box or whatever, how many norms are behind that, how many problems. [...] So, it must be seen that the issue of quality represents a really huge challenge."

The experts further down the problem are quite aware of it as the exemplary quotes from experts from Montenegro and Moldova show:

#28: "Also, some local producers do not have standardised quality of the products and do not have adequate packaging, branding or labelling of their products [...]"

#12: "The quality of our products is very low."

However, as the quotes from the experts from the focus group 1 suggest, the quality of the products seems to be a problem for all countries of the Danube Region, even for those that are close to Germany and Austria. In a sense, the quote of the participant of the focus group 2 above already suggests that. A knowledge intensity of the products of 70% of the western level is still far below the standards. In addition, the rather low quality of the output does not concern the rather high-tech products such as in the automobile sector but also the output in medium and low level technologies:

#11: "But solid handicraft businesses which do things well, I would say, they're missing in large parts of the Danube Region."

The participants of the focus groups mentioned several reasons for why the quality of the products of the Group B countries is still lower than that of the Western countries. One is that the knowledge flow between the FDIs and the local companies is limited because the FDIs isolate themselves. To partly repeat one of the statements from above:

#08: “We don’t know much, this is a bit mystery for us because these foreign companies do not give much information about their internal doings. [...] They are really secretive, especially when they are asked about the specific activities in their Czech Republic affiliates. They do not talk about their whole global brand.”

Another reason is, however, that the companies lack the so called absorptive capacity so that they are not in a position to do something with the knowledge that the FDIs bring with them:¹¹

#14: “... and first of all it is related to the limited managerial capabilities in certain enterprises: low qualities of skills among the labour force, limited knowledge diffusion of global practices and technologies and lack of information about sources of finance or access to finance.”

Somehow related to the argument of lacking absorptive capacity is what the participants of focus group 1 give as a reason about the still lower quality of the products from the Group B countries. They argue that the countries spend their efforts in a wrong way. As the largest investments by Western firms have been taken place in the automobile sector the Group B countries try to develop a supplier structure in exactly this sector. According to the participants of the focus group 1 this is, at least to some extent, a waste of time and money because:

#07: „That means, a SME or supplier chain in the automotive sector for these countries without external aid is out of the question, impossible, I think, because the others are already streets ahead of them, they’re uncatchable.”

¹¹ The concept of absorptive capacity goes back to Cohen and Levinthal (1989, 1990) who define it as: “a firm’s ability to recognize the value of new information, assimilate it, and apply it to commercial ends”.

#01: „We see that for example in India. Daimler went a completely different way there, namely it didn't take the current top models, but started with a production below, since this was just adjusted to the local structure. Well, this is unthinkable in Europe. Here, we are in a different situation and you can, you must be tier 1, or at least tier 2. If not, you're out of the chain.”

It also makes not much sense when it comes to keeping more of the returns from the value created in the countries:

#07: „And this number of pieces, point 1 and point 2, every year they're dictated a price reduction by Daimler, Audi. That means the number of pieces go on and every year there has to be a 3 % reduction. And like you said: The firms earn, I mean, the automotive suppliers really barely earn any money ...”

What they suggest instead is that the Group B countries try to participate in the technology transfer which takes place in the automobile sector and then to diversify into related areas which are not yet as competitive as the market for supplier products for the automobile sector:

#26: „It's a difficult situation for these supplier companies. Partly they start to differentiate their product spectrum, to do something else. A classic example is Renk in Augsburg, which before only produced gears and now suddenly starts to work with wind turbines. The question now is, of course: Are such strategies starting points, maybe also considering certain comparative advantages that are still there, to actually implement something new in these countries?”

#01: „That would be a good starting point, yes.”

However, this again requires that the Group B countries take initiative and identify the areas in which they have comparative advantages.

An aspect of the level of product quality which seems to be only (or at least: especially) relevant for the Neighbourhood countries Ukraine and Moldova is that they are caught in a system of standards of quality which relate to the standards of the Commonwealth of Independent States which obviously are below that of the EU:

#12: “We have about 40,000 standards of quality for products in Moldova. 40,000! But please note here, about 18,000 are related to ghosts. So, from common independent states. Only 7% are related to EU standards.”

3.4 Qualification of the labour force and migration

Another area where obstacles for increasing the competitiveness of the Danube Region arise is the labour market. This is already a widely known problem and there are already some measures in place to tackle it such as the introduction of a dual education system along the lines of the system of Germany in, for example, Hungary. However, it has been emphasised by many experts of the focus groups and in the online discussion which means that it is an urgent problem. So, we take it up here again.

One result of our analysis in the first part of the project has been that the participation in the labour market and the employment rates in the countries of the Danube Region are below those of the EU27 and OECD countries. From the remarks from our experts in the discussions we can infer that this is because of a severe mismatch of labour supply and labour demand. This mismatch occurs both with respect to the level of education and the field of education. With respect to the level of education, the experts note:

#25: “We don’t have a proper education for the labour market, so it is a disconnection between what should the education system provide as graduate [...] and the other part of labour demand is not satisfied.”

#12: “I’m not afraid to say that we have a disaster in 2013/2014 when we have the final examination of the students. They peak, from about 100% about only 20-30% passed the final exam because of this ambitious reform. What happened? The new minister installed cameras everywhere; they started to focus mostly on the knowledge of students. No more bribe, corruption, or bureaucracy. This kind of experiment shows the level of preparedness that Moldova has. Our students are not prepared, mostly. Foreign investors can’t find qualified labour force. So, it is actually a very big problem for us, finding a qualified labour force.”

#12: *“There is no dialogue between educational institutions, vocational institutions and business environment. There is no such kind of dialogue.”*

#24: *“Again, #12 told about the situation in Moldova with the education and the same is in Ukraine as we have no relation of education and the labour market.”*

#10: *“The customers, the OEMs explained: we need only two things: we need people, well educated people, some thousand, and, of course, these people need a good environment, that they stay. All other things are nice and we negotiate like taxes and things like that and subsidies or all these things, but this is not so important.”*

#19: *“And also for the entrepreneurs the lack of high skilled labour and high skilled workers ...”*

Interestingly, the mismatch is not always caused by a labour force whose skills are too low but there is also overeducation such as in Slovenia:

#03: *“But we have a different problem than Hungary has: We have an overeducated workforce. So, I guess, we can cooperate in that way, because when the transition started we reformed our higher education system in a way that we actively supported educational attainment but the industry didn’t restructure that fast. So, now we produce a lot of graduates that don’t find work on the graduate level.”*

In addition, a participant of the focus group 1 reported from a case where a craftsman who invested in Romania and Hungary could not find qualified people to help him in his plant:

#11: *“There is a company, roofing systems, for example, they made the roofing on the Munich fair or at the airport, [...] It has created almost 2.500 jobs in Romania, in Hungary, with corresponding branches. [...] It just or a good year ago bought a former industrial plant in Romania, built up a production on parts of the area, on 10,000 m², [...]. It offered to various local companies: “You can act as my supplier.” For gutters and roofing systems, I don’t have to produce totally in the high-tech sector. But that hasn’t worked out either yet.”*

So, there is a mismatch of labour supply and labour demand on all skill levels.

With respect to the field of education, the experts note that there are too few technicians and engineers but too many people educated in humanities and social sciences:

#08: “So, we have a big problem with limited supply of high skilled labour force, especially engineering and technician ...”

#08: “The problem is also that the quality of pupils, I don’t know, of the students is, of course, lower, because they are attracted by other fields where we have this overqualification. We can export people educated in humanities and social sciences, if anybody is interested.”

#04: “Not as many potential as maybe seven years ago because we now lack skilled workers for industry, engineers. Our educational system does not produce enough and quality students with a technical background, which is necessary for developing industry.”

#24: “Again, #12 told about the situation in Moldova with the education and the same is in Ukraine as we have no relation of education and the labour market. As we have too many people, for example, learn in law, in bank systems and in economic fields but particularly those people have no chance to work in this area as in reality we do not need so many lawyers, bank clerks, etc. On the other hand we have real gaps in many areas in terms of job creation and in terms of working places in Ukraine now.”

What also affects the labour is the high degree of migration:

#22: “...or of human capital as we have excessive brain drain as experts are leaving Serbia so we have knowledge leakage. On the other hand, Serbia is not recognized as an attractive country for other people to come into ...”

#13: “For example we see that a lot of the competence of this region migrates to Vienna or to the west and doesn’t stay there, this brain drain in this sector is obviously also a defiance to put up higher value creation. There I also see certain challenges.”

This is also an already known problem. People leave their home country for several reasons of which the mismatch between supply and demand on the labour market is one factor. Other motives can be that they do not see a future for themselves in their country because of a high level of corruption (see the statement of #04 in Section 3.1.3 above) or they are attracted by higher amenities such as functioning infrastructure, leisure activities or nice apartments in foreign countries. In any case, research has shown that it is the highly skilled people who tend to leave their home country in the first line (e.g. Dustmann and Glitz (2011)). This means that a high level of migration can also contribute to the mismatch between labour demand and labour supply when firms need highly qualified employees but cannot find them on the labour market because many of them left the country.

4 Remarks on the Danube Region and the EUSDR

When developing the concept of the focus groups we followed the idea of discussing the obstacles and possible policy measures rather independently of the perception of the Danube Region and the EUSDR. The EUSDR should only come into play at the end as it is also reflected in the set of questions for the focus groups in Section 2.2.1. However, it turned out rather quickly that this approach missed an important point. We discovered that there is a strong wish among the experts to comment on the Danube Region in general and the EUSDR in particular. In addition, we realised that we forgot in a sense that it is the people in the Danube Region that have to bring the EUSDR to life which is why it is important to know about their perceptions of and the attitudes towards the Region and the EUSDR. Starting with our second focus we therefore included an explicit question on the personal views of the experts on the Danube Region and we also tried to tease out what people think about the EUSDR.¹² This turned out to be a fruitful approach because we got a series of insightful statements from our interviewees. In the following we present the results of this exercise, starting with the comments on the Danube Region (Section 4.1) followed by the remarks on the EUSDR (Section 4.2).

¹² In order to be able to also include the views of the experts of the first focus group we sent them the set of questions on the Danube Region and the EUSDR via e-mail and asked them to send us their responses back.

4.1 View of the Danube Region

4.1.1 Positive aspects to mention about the Danube Region

In principle, the attitudes of the experts towards the Danube Region are positive. In a way, this is not surprising because we interviewed only persons who have been involved in advancing the Danube Region in one or the other way. So, the expressed views might not reflect the opinion of the average European about this Region. But still, the experts mentioned a series of aspects why they think that the Danube Region is worth getting attention.

Rather straightforwardly, countries of the Danube Region which have many common borders with other Danube Region countries, such as Serbia, consider the Danube Region important. In a sense, they regarded the question of the significance of the Danube Region a bit silly because it is the region of Europe where they live:

#20: “Yes, definitely. The Danube Region is very important. In my opinion it’s very important. It’s where we tend to go, where we have to go, where we are connected with.”

#22: “It is our natural environment.”

#20: “Yes, this is our mirror to the world. We don’t have any other sea than the Danube.”

Interestingly, the most enthusiastic comments – and also the most pronounced critique as we have already seen and we will see in the following – were expressed by the participants of the focus group 1. This is important because the participants of the focus group 1 represent the countries of the Danube Region which are most developed and which potentially can play the role of the engine for the development of the whole Danube Region. If there would be no interest from the countries of the upper part of the Danube in the Region then it would be much more difficult to enhance the competitiveness of the Danube Region.

From a professional perspective, the participants of focus group 1 see the Danube Region as an economic area for the firms of the upper part of the Danube Region:

#01: „But for us a very, very important economic area, also for SMEs from Baden-Württemberg.”

More specifically, they view it as a market for the products of the Western companies and as a production location for Western firms:

#07: „At first, point one, this area is of course a sales market. That means it’s an export market for our firms. The first thing our firms said: Where can I sell my machines, my devices, where my medical technology, my things? [...] Second one, this is, of course, an important production location for our companies. [...] So, there is the second level, which is this production site, the favorable wage conditions, the extended workbench, the production possibilities in these countries. So, in this respect it has also been a great advantage, still, to be able to produce more economically even for our companies in the international competition, so in the mixed calculation, that is if components are moved there, and then in the final production they can so act more cost-effective on the world market. [...] The third level is the whole issue of services. We have been trying to bundle a group of engineering services, so there in this region, in Bulgaria in particular, in the sector of sewage technology, sewage-treatment facilities. We saw a huge market there when we arrived. No waste incineration plants, no ordered sewage removal, of course a great need, you could really feel it.”

That is a perfectly legitimate interest because there must be benefits for both sides, for the helping and for the needy. Or as #01 puts it:

#01: „That means, we have a vital interest in this as well, since we see the economic area in total, the Danube region as an important area, for our SMEs, for the service providers definitely, we have a vital interest for the SMEs to go out.”

What is interesting in this context is that there seems to be a strong preference on the side of German and Austrian for the investing and producing in the Danube Region compared to doing the same in China:

#01: “So, obviously there, especially for our small and medium-sized companies, we have seen an economic area which is, for reasons of

proximity, to the cultural background, relatively easier to develop than the distant markets like China [...].“

#10: “ [...] we want to start an initiative to draw back electronic industries from China. Yeah, you are laughing, but this is very ... let me say, I have enough electronic end-producing companies, companies who produce industry-products, and they explain me: if you are able to set up some competence in East Europe we will buy our products there. We hate to buy these products in China. First it's more expensive than producing it in East Europe and it's more far away. [...] Because China is China. So, this is the special market. So, we don't care about this. They handle all their problems by themselves. We should care about Europe.”

It is worth noting that the participants of the focus group 1 are aware of the fact that the upper part of the Danube Region, to some extent, has to take on the role of a development worker for the Group B countries:

#01: “I think you have to distinguish two things: Do we compete more or less, to a certain extent as some kind of development aid workers to help put up structures there, or do we also compete to establish our companies there as well. I think, it has to be seen both somehow.”

And the upper part of the Danube Region is also ready to provide this help:

#01: “And our offer, that's what we tell people we're discussing with over and over: We would really be happy to help you. In fact, not to impose our ideas on you, but only to show: How are we doing it and can you derive anything from it?”

However, the participants of the focus group 1 do not only have a professional interest in the Danube Region but also a personal attachment. What they think is most attractive is that there is a high creativity and culture in the Danube Region, that the people are very hospitable and that there are many possibilities for shaping the living conditions in the countries:

#11: „And that actually is to date what fascinates me. This creative potential of that area, actually the different cultures, where I have always been saying: wow, that must/could maybe be used economically a bit.“

#07: „But what did we get? It’s of course, let’s say, culture, music, we have the Danube festival here in Ulm. So, evidently it’s also something, an enrichment for our lives, that made it definitely more divers. Suddenly music from Hungary, food, history, all those things.”

#07: „What then fascinated me, that I really have to say, when I went to these regions, is the hospitality, the openness, the interest, the view from this area towards the West.”

#07: „And I always found that interesting, especially countries and regions on the move. [...] That means, if everything is still more or less completely open and not yet solidly baked and not yet solidly cemented, so where processes can just still develop, where you can design. [...] In this respect it was really an exciting thing in the last 10-15 years, because then you could see: Yes, there you can still generate impact with a chamber of commerce, with this small organisation.

#26: „But now, I think, the chance is there. We are now in a flexible system, we’re not as bricked up as we have been over long, long decades and to make the best out of it is my personal conviction, that’s why I’m sitting here, too, to make some more out of this, where from my point of view still relatively few exists.”

4.1.2 Current situation

However, what also should be mentioned is the current relationship between Baden-Württemberg, Bavaria and Austria and the Group B countries of the Danube Region cools down a bit:

#13: „And what I see as well, on the political-administrational level, we see some development towards hostility against, as you like, the West. [...] but it is a bit of anti-imperialism [...]

#13: „And then, I think, this story, Eastern Europe/the Danube region as a chance it’s all gone flat. That’s my impression.“

#26: „Our connections with Austria are great, they’re super. We have excellent interconnections with Hungary, too, both as investment location of our companies and also in goods trade and other things. And then there are problematic locations. And these problematic loca-

tions, there I think you're totally right, they leave their marks on the mental maps of this story right now. At the moment many decision makers surely perceive problematic situations more strongly than the positive aspects that surely come somehow from this cooperation.”

Most likely this has to do with the feeling of the Group B countries that they are grown up a bit since the fall of the iron curtain and the wish in these countries to move up the value chain mentioned in Section 3.3.2. However, another explanation could be the increasing frustration about the rate of change which seems to be arising on both sides and on which we elaborate below.

4.1.3 Heterogeneity of the region

One decisive characteristic of the Danube Region is that it is highly heterogeneous with respect to the level of development of each country. This is also not new and we as a research team understood it that the inventors of the EUSDR explicitly put the countries together *because* of their different development levels. The idea is to help the less developed countries of the region by increasing the cooperation with the more developed countries.¹³ However, this heterogeneity also provides significant challenges which are, for example, reflected in a statement of a participant of our focus groups:

#08: “When I was participating in some other discussions, I would strongly agree with my colleague who started, that from the point of view of the Czech Republic the biggest problem was the big differences, especially in technology and innovation levels.”

Other experts even wonder whether the degree of heterogeneity in the Danube Region is too high to put the countries under the heading of one strategy:

#08: “We cannot pretend that we are on the same level and there Just to be connected because we are located in one geographical area ... I don't know.”

¹³ This is the economic perspective. From the political perspective we understood that the goal of the EUSDR is to attach the more downstream countries of the Danube Region, which are either rather new member states of the EU, accession countries or only neighbourhood countries, more to Western Europe and the EU.

#26: „If you look at it completely unbiased, you may wonder: Is the Danube really a band? [...] But it's a very heterogeneous structure that meets there [...].”

#30: “I guess, the main problem of the Danube Region is that that there are enormous [...] territorial disparities in this region which influences almost all sectors, almost every fields of life and that's how the cooperation is quite tricky in some fields in this region because we have different problems in this region.”

These challenges have to be taken into account when designing projects for the Region and developing the EUSDR further. It is therefore helpful to analyse how the heterogeneity is seen by the experts of the Region.

Taking on a broad perspective, the Danube Region seems to be perceived of consisting of two parts. On the one hand, there are Baden-Württemberg, Bavaria and Austria and on the other hand, there are the other countries. There is as strong orientation of the Group B countries towards the countries of the upper part of the Danube. Or as a participant of the focus group 2 put it:

#29: “Personally, I see the Danube Region, I see two subregions, one is upstream and one downstream from Croatia. And upstream is where we want to be, what we want to achieve in terms of competitiveness, in terms of wealth, prosperity, etc. etc.”

This means that, saying it figuratively, all the Group B countries stand with their back to the East looking at Germany and Austria but do not turn around and look at their neighbours further down the Danube. Especially, for the countries represented in our focus group 2 (CZ, HU, SK, SI, and HR) considering the countries further down the Danube in the EUSDR is something they at least need getting used to:

#08: “So, of course, there might be some questions about the relation between Czech Republic and the other countries in this region which are less developed. Because we mostly make all the comparisons towards more developed countries. This is a bit new view for us.”

#03: “...if we compare, we also like to compare ourselves to more to more developed countries, we compare ourselves to Finland...”

Consequently, there are rather weak relationships between the Group B countries themselves, if they are existent at all:

#30: “Of course, there are some group relations and the importance of Germany and Austria is there everywhere in the region. But, for example, between Serbia and Romania or between Serbia and Bulgaria, these relations are very weak, almost not there.”

Another implication of the strong orientation towards Germany and Austria of the Group B countries of the Danube Region is that they expect a lot from these countries:

#07: „In this respect it has, of course, been a very emotional thing in the sense that also great expectations have been set on us, as if to say: Just bring us anything, for example employment, technology, firms and so on.”

#20: “What could be the role of the Danube Strategy in this part? We know that in the Upper Danube these things work very well. This is what we would like to transfer in order to learn to use our potential, which is substantial in the area of research and innovation.”

As mentioned above, there is a general willingness in Baden-Württemberg, Bavaria and Austria to also provide this help. However, the experts of the focus group 1 explicitly point to that there are countries or regions with which the cooperation is rather easy but that there are also countries with which cooperation is difficult or even impossible. The countries with which cooperation is rather unproblematic are HU and, although not explicitly mentioned in the respective statement, the Czech Republic, Slovakia and Slovenia because these countries have been rather early oriented towards the West (keyword: third way). When it comes to Romania the assessment of the situation is mixed: cooperation with regions in the North of the Carpates seems to be rather easy but the regions in the South of the Carpates are regarded to be problematic. The reason given is that the “influence of the orient” (#07) is too strong in these regions. Likewise, cooperation with Bulgaria is perceived as difficult. The reason is here is that the Bulgarians seem to lack the ability to get things done, even if it comes to relatively simple things such as developing a marketing campaign that would position the country positively in the Western part of Europe.

Also, the Balkan countries are regarded as problematic. Serbia as well as Bosnia and Herzegovina still suffer from the Balkan war in the 1990s regarding their image among Western investors. This is, although, for example, Serbia has a quite high potential because of its industrial cores:

#07: „Well, I always thought that Serbia, for example, has had a lot more potential as what it made out of it, because it had industrial cores. But this, for political circumstances, has just melted somehow between their fingers.”

Croatia is regarded as difficult because it has no manufacturing sector and obviously has no clear strategy where to go.

Completely neglectable from the Western perspective are Moldova and the Ukraine:

#07: “So shortly, of course I say that Moldavia can be neglected/forgotten, also in the Ukraine we have been trying [unsuccessfully] to do some things.”

What is important here to note is that the mentioned countries are not attractive for Western investors because they do not have economic potential. It is obviously also often the case that the countries market themselves badly.

4.2 View of the EUSDR

4.2.1 Positive aspects to mention about the EUSDR

Although the experts are in general sympathetic with the Danube Region they are much more critical when it comes to the EU Strategy for the Danube Region (EUSDR). This may have to do with the fact that we explicitly asked for the factors that impede the improvement of the competitiveness in the Danube Region in order to identify the weak points. So, it may be the case that people have been already framed in the “mentioning problems” setting so that they simply moved on with this when we discussed the role of the EUSDR for improving the competitiveness of the Danube Region. However, the experts expressed their dissatisfaction with the EUSDR without prompting and sometimes they even criticised the EUSDR instead of the proceeding of their country or country group with respect to improvements in competitiveness. So, there seems to be a high degree of frustration regarding the EUSDR in the

Danube Region countries. We think that it is important to look carefully at the expressed views in order to adjust the EUSDR accordingly.

Having said that, let's start with the positive aspects mentioned about the EUSDR. There are not many but at least a few.

Fundamentally, according to the experts the EUSDR has a role to play in directing the attention of the Western European countries and the European Commission to the south-east part of the continent, which otherwise probably has not taken place:

#11: „I mean, wouldn't there have been the Danube strategy, then, I think, the Danube area in the end would have gone into nirvana, at least from our Western perspective's point of view or from Brussels' point of view.“

This view was expressed in focus group 1 and there seemed to be general agreement about this. So, there is obviously a need or even a necessity for an initiative that leads the Western European countries to commit themselves to deal with its rather new EU members and the neighbours from the south-east.

To already pour some water in the wine, it is not quite clear from our discussions whether this assessment is shared by the Group B countries. There has been an explicit statement from an expert from Serbia that the EUSDR is more important for the country than other strategies developed for South-East Europe:

#20: “The EUSDR is more important than the SEE2020 strategy, from my perspective. [...] From my perspective, the Danube strategy is what we are following, what we are more familiar with. To my knowledge, I don't know to what extent this SEE strategy is operational and what is in it for us.“

Also, a Romanian expert explicitly stated that the EUSDR is important for his/her country although not generally seen as this. But there have also been voices saying that the EUSDR is only one strategy among others and we also made the experience when putting together the lists of our experts that there is a rather high degree of ignorance about the existence of the strategy. Yet, in general we think that also the Group B countries value that there is some initi-

ative for their countries. As far as we know, the idea for the initiative came bottom-up so that we assume that there is some need for this kind of activity.

What is valued at the EUSDR is that it covers elements that go beyond pure economic cooperation:

#19.: "My point of view, my personal point of view, Danube Region is not just economic cooperation. But I can say or I could say more than economy cooperation, social, cultural, etc."

That it tries to diminish physical and, even more, mental borders:

#18: "I think with this, with knowing this major problem of Croatian competitiveness in some way looking outside of the borders could help it in many, many ways, in particular by removing obstacles to the private sector development that are created by the former national borders that still exist in some other ways, not physical barriers, but in some, let's say, obstacles to cooperation between private companies. So, the first of all would be to try to remove those obstacles."

And that it encourages the countries to look outside their own borders for best practice examples:

#04.: "Concerning the Danube Region, personally what I see as an advantage of belonging to this kind of project is that it covers countries which have more or less the same political organisation in 1990, ex-communist countries as we did but now they are EU members. It is a very good opportunity to see what they did to enhance their economy and become an EU member, which is the goal of Bosnia, in very far future obviously. This is the advantage. We are not far away from the Danube, let's say 50km. That's not so important. What is important is that it covers Slovakia, Budapest, Romania and countries who used to have worse economic situations in the 1980s than we had but now are better than we are."

4.2.2 Critique

Although there is the general understanding that there should be some initiative or activity especially for the South-East part of Europe, the experts we spoke to all have been highly dissatisfied with how the EUSDR is designed and

how it works. It starts with that the experts are sceptical about whether a macro regional strategy is the right instrument:

#31: “I try to be maybe slightly provocative but from my perspective very broad European strategies more or less in many times fails, they are not very successful.”

#09: “But to be quite honest, I think there has been a lot of initiatives, a lot of regional ideas, especially in this region. Most of them didn’t really turn out that well, to be quite frank.”

Nice label but not much more

The main criticism is that macro regional strategies tend to remain nice labels but nothing really important happens:

#01: „However, what we then tried to make clear over and over again, and still make clear, is that we have to be careful that this all together doesn’t remain only a political event. I may say casually: that it goes beyond mere speech bubbles and fig leaves.”

#31: “Yes, sure there is potential to improve the competitiveness and prosperity of these regions. But everything depends on the focus of the strategy, on the projects that will be done in the coming years and maybe we can find here some solutions for the strategy as such.”

#09: “So, I think what is in general missing here is this part because there are great papers, great strategies, great things to do, but things that have not been done.”

#07: „Yes, I would just say: It’s a nice label, this Danube strategy, it makes everything great and wonderful and everyone, when they’re sitting somewhere in our committees, thinks: “Come on, Danube strategy. That must be something amazing. EU-Danube strategy...” But once you probe, once you ask ...”

#17: „ The EUSDR is still only a headline and your initiative to make it a useful instrument is very much appreciated. At present this slogan was used to create more than 20 organisations dealing with subjects related to the Danube but doing nothing than talking and issuing wonderful looking brochures empty of substantial content. As long as

self-supply of the “Danube conference community”, the always same members of which you can find nearly every week with another Danube meeting, is the only objective of EUSDR you will not have any tangible results.”

#21: „In the moment we have different levels of proposals, which are in general not always elaborated. The Priority Areas have a long list of good ideas, but nobody is working on the consequences.”

#17: „The idea of having a specific body dealing with Danube related initiatives makes only sense when it is an instrument developing and implementing concrete projects. Equipped with political and financial powers. Another platform for non-binding discussions is for sure not required. Role of governments is at the moment that they are giving nice words but doing nothing.”

#06: „I do not know about the others appetite for the same topic today, however personally I am not so confident this political issue will become reality as long as the approach is lacking a lot the creativity, the non-conventional solutions and imagination. And, more than that, the hard work in implementing things, and accepting failures and having feed-back, and redoing things etc. In other words, this project is missing life (sorry for saying that).”

This leads people who have originally been enthusiastic about the EUSDR to question the whole strategy and asking whether there are enough common interests at all ...:

#07: „Well I’d like to ask a general question about this whole Danube strategy. The question is: Is there a chance at all? [...] I have also been thinking over the last years: Can that be a success strategy after all, this Danube strategy? I exemplified that basically, I’ll just put it in a nutshell: What does Ulm have to do with Tulcea on the Black Sea? Niente, nothing at all. [...] The question is: Is that an endeavor without any chance to be successful? Because, let’s say, in the initial euphoria we also said: Sure, there is a historical link, [...], but the question is: Are the mentalities [...] because of history and those things diverged so much that after all there is no common link? Which we maybe just read into it but that in reality doesn’t exist, or believe that it could ex-

ist. [...] But I have already wondered: Does that whole thing have a chance or hasn't it just come into being in a phase of euphoria, when people thought: cool, awesome, and the whole thing was given a label and people thought, something will develop, let's make some huge conferences and maybe in the end something happens.“

... and to finally turn away and to find other ways in order to develop projects in the Region:

#07: „You know, the discussions ..., Sometimes I really run out of patience only seeing all the discussions about the Danube Strategy. On how many conferences has this already been discussed, how many hundreds of persons have been brought together, and if you once draw a line and ask: What came out of it? To be honest, I can't hear it anymore. I refused to join on podia because I wouldn't want to waste my time on them. Since they only discussed air bubbles. Finally, nothing came across I think. I may not have the whole overview, but sometimes you really have to ask yourself what the whole thing is supposed to mean.“

#01 :„And I also do it like #07. I don't even join these journeys anymore. Plain and simple. We try it via out networks. So, it's not that we would stop the cooperation, but: this is not our format.“

A worrying fact about this is that these statements were made by participants of the focus group 1, i.e. from representatives of the countries which probably have the highest capacities for designing and implementing projects as part of the EUSDR. So, the strategy runs the risks of losing the engine for its drive.

Weak identification

Another issue is the level of identification with the EUSDR in the countries of the Danube Region. As one expert put it:

#02: “In order to make a strategy take effect, it needs a certain amount of enthusiasm and identification.“

And this degree of enthusiasm and identification does not seem to be there. One reason of this that some countries, such as the Czech Republic and Slovenia, do not feel part of the Danube Region as it is defined by the EUSDR:

#08: "We always start a discussion about the Danube Region... The Czech Republic is not a Danube country at all, so..... Well, for the Czech Republic we always look to the west, maybe a bit north, because of Poland and around because of Visegrad. So, the Danube Strategy in the Czech Republic is completely, I will say new, it's completely no kind of not important."

#03: "Well, I would just like to add that the location of Slovenia is also in the Adriatic Region. So, I would say that the general understanding is more towards the Adriatic Region. [...] But I would say that in the current state of the economy, the companies that are searching for new markets and traditionally this Danube Region wasn't the focus of the exports."

Another reason mentioned is, that the EUSDR has been, and seemingly still is, a project of the political elites that did not made it further down to the public administration and the population:

#13: „Well there we're, so to speak, at a similar topic that for many in exactly this region also an elite... the positive thing of all those openings has also been to some extent an elite project for many and therefore comes under pressure."

This led to the fact that the EUSDR is not well integrated, if it is integrated at all, in the national strategies and actions of the public administration:

#23: "However, a better visibility of EUSDR at national level is highly needed, so that priorities identified in the EUSDR are embedded in the national priorities/funding programs to facilitate implementation."

#23: "There seems to be little awareness on EUSDR role and goals at national level, and hence, the government does not pay much attention to the priorities identified in the strategy."

#16: "The Romanian public administration is not aware and has no inwardness on EUSDR. There are people appointed by the central government for each PAs in several ministries, but they are not properly prepared for the job. It looks like our government take as marginal the EUSDR."

Another indication of an only weak identification with the EUSDR is that the strategy is regarded as one of many strategies but as not necessarily the most important as it seems to be the case in Montenegro:

Moderator: Is the Danube of any importance in Montenegro?

#14: “That’s a good question. [...] There is the South-East Europe Strategy, 2020 European Strategy. There are other strategies which are really relevant for Montenegro. Of course, this is one of the strategies which we have already decided to follow [...]. But, of course, it is not relevant like it is for Serbia, for example, or other Danube countries. [...] As I’ve said, both [EUSDR and SEE2020] are relevant, but when we are asked to mention key strategies on the European level and the national level for coming steps, this is first of all Europe 2020. [...] We have to follow the same goals of the development of the European Union until the year 2020 and for Danube, from my perspective, how to be focus on some key aspects which are specific for these region of Danube countries, not the broader region of South East Europe.”

Unclear definition of an EUSDR project

One of the factors that contribute to the high degree of frustration and low level of identification with the EUSDR is that it is obviously completely unclear what an EUSDR project is ...:

#05: “We have to define the Danube Strategy, it is also difficult for the business associations to identify ways to suggest projects in the Danube Strategy.”

#33: „One problem also lies in the strategy itself. There is no sharp definition what an EUSDR project really is (at the moment it could be anything, local, national or international that somehow brings forward the Danube region and the estimation whether it is an EUSDR project could be made by anyone).

... and, even more importantly, what the value added of an EUSDR project is:

#33: “And up until now it was very difficult for potential project responsables to identify an added value in applying for the allowance at one of the PACs to be labeled as "EUSDR project". Because this meant no

extra money, no extra support, but more work (for the application). Therefore, the question is still open: Why should a project responsible who plans a good project somewhere in the Danube region run this project under the label of EUSDR? This is valid for project responsables from administration, private companies and NGOs.”

What happens at the moment, if there happens anything at all, is that people who are in favour of the Danube Region develop projects on their own initiative and then put the label of the EUSDR on them just to show that there is something going on. However, the projects would have been carried out anyway, which means that the EUSDR is not necessary for them:

#01: “We got together with him and also put up a lot in Baden-Württemberg with him, and then over the years he probed, since his idea is to put up a masters’ course in the field of innovation along the Danube with different colleges, universities via a cooperation treaty. And now he managed that they introduced a cooperation, he organised the whole thing and put together eight universities from five EU-states. [...] And then we say: We’ll move that into the Danube strategy. But to be honest, this rather came from a private or college initiative, we would have done it anyway. But of course we put it in, so that we can say once, Mr. #07, we have a project here ...”

Organisation of the EUSDR

Another source of frustration is the organisation of the EUSDR. This starts with that meetings partly are organised quite badly:

#07: „There is so few professionalism ... [...] to invite, to have an agenda, to be on time when you arrive at the meeting.”

Then it is unclear who is responsible for taking up the initiative, the EU or the countries:

#21: “The participating states are convinced, that the European Commission has to do the job. The European Commission is convinced that the governments are involved or some institutions have to do it on their own and the European Commission can assist.”

Also, there seems to be no clear reporting system. Or at least no transparent reporting system that can be understood by the people who are not directly involved in the implementation of the EUSDR in their country:

#34: “Generally, there is a little awareness, little visibility and thus little interest, difficult communication with on the side of public authorities, especially the regional ones. How and to whom do the official representatives of the national and regional public authorities report about what they have done for the EUSDR inside their country? I have not heard much about it in the Czech Republic.”

However, the most important aspect is that the governance of the EUSDR is regarded to be insufficient. The result is that there is no effective incentive and sanction system in place that causes people to act and to behave in line with the strategy. This is probably best reflected in the following dialogue:

#13 „I think, at the end of the day, if you don't have an institutionalised body or something like that, where you can, for example, meet institutionally, exclusively the heads of government in the region for instance. Where you address problems that turn up on the administrative and/or entrepreneurial level. I think then it becomes really difficult. Because, if you don't really have a committee where people commit to cooperate... where usually you can solve a problem eye to eye. Why did you ... and so on. I think this is really important as well. If this doesn't exist, then it also dries up more. And that is then also really difficult to put up an institution, now we have the EU, we have ____ and so on and it's very complicated to put up a really serious institution where people meet. We now see that in the banking sector how complicated that was during the crisis, those bilateral, not-institutionalised meetings with the other supervisors, that was for nothing. And only now with the bank union, with the institutionalised cooperation the problem fields have to be worked through and that is probably often the point in such initiatives. Where it difficult, there is no pressure to decide.

Moderator: “And then the projects stop and so on.”

#13: „Exactly“.

#07: „Yes, there is no incentive system. There is no incentive and sanction system. That means, if, of course, such an institution exists and says: We'll have a meeting every six months and then we'll regulate who has to participate in it and only in this case they get something ...”

#13: “Yes, where the points just have to be worked off. With minutes where it's written what they said.”

#07: „Exactly.”

#13: “And you have to be able to refer to them. And that's in fact the problem. Then it easily remains indefinite.”

#07: „And these three „Nos”, probably this is the flaw of this Danube strategy. Maybe it has been tried, without money, without institutions, without a legal frame, but it appeared that only because of good will and stroking, and we're all friends, no cooperation comes about just somehow, since in the end there are no incentives and no sanctions. Maybe you just have to state that it is like that.”

The result of the insufficient governance structure of the EUSDR that it obviously provides chances to tap money which the Group B countries are more than happy to accept given their experience with the working of the institutions in their countries as described in Section 3.1:

#16: “The local or regional authorities are looking to EUSDR as a cash resource, inventing common projects which are not linked or endorsed by their stakeholders and community members. During previous PA8 meetings, I observed similar behaviour too also from other participants not Germans.”

#07: „Then there is money available and you wonder: There have been 100.000 paid in. So, what has been done with that money?”

Bureaucracy in EU projects

The last criticism relates to the bureaucracy in EU projects. This does not apply to the EUSDR in particular but to EU programmes more general. But, of course, because the EUSDR is part of the set of EU programmes one of the reasons why the EUSDR does not really come into operation must be seen in

this aspect. Although everyone would agree that there must be some monitoring for EU projects, the administrative burden is perceived as too high, especially as it exceeds the competences and the capacities of the Group B countries both on the side of the public administration and of the SMEs:

#35: “Well, we have to point out that bureaucracy do exist at EU level, however, a national bureaucracy - Managing Authority and Paying Agency in particular make the life of project applicants a nightmare. I haven’t seen any improvement in this matter during the last decade.”

#07: “Well, I can tell you: For me it’s a horror, all these administrative things. And I can only say, the people in these countries that really don’t have the infrastructure and these things, they struggle extremely to generate those things.”

#01: „But I’m really careful with the formulation, because once we put on an EU program, we have more work on evaluation and overhead and all that, so a bunch is spent there. So, unfortunately this is the problem.”

#13: „Well, when my colleague tells me that, [...] how much documentation is necessary there, well, we just managed that, because we just have the intellectual capacities as a big company.”

#36: „EU funds related to EUSDR are partly covered by INTERREG projects (in our specific field). The administrative burden in these projects is huge. In particular for the eastern countries it is difficult to participate in terms of the required resources and also experience in transnational activities.”

#14: “Maybe this is not directly related to education or knowledge, but still information, companies are not so well-informed about possibilities of financing of their businesses or some new business ideas, not only about national sources but international sources, from the EU different programmes like, for instance, COSME which is a new perspective for them.”

#14: “But for enterprises it’s not a high percentage of them which are really in a position to prepare the project, to develop application for the project.”

#04: "So, just to add what Nina said concerning the projects from the companies. Almost all of them are not capable to prepare projects by themselves. But what is also important is to raise the awareness among the management that they should employ qualified persons to prepare such projects because sometimes when they have ideas they waste their time in finding what to do with the ideas. Sometimes they also prepare projects but their applications are really not successful because there have been some situations where the government finances some innovation projects but many of them were just rejected because probably of a bad application because they prepared the applications by themselves without engaging qualified people to do it."

#19: "But, let's say, what are the Hungarian SMEs hope for the Danube Region Strategy? They think that they could finance their export or they could finance their activity and they lack of knowledge unfortunately, here in Hungary the companies lack of knowledge regarding the EU financing, for example, the COSME or Horizon 2020. So, I think, they think the Danube Region Strategy could help them for financing their projects, for financing their activity or export."

In the end, this leads to the situation that the people shy away from even considering applying for funds from EU programmes:

#07: „And when you then see [...] the net effect and documentation ... I tell you honestly: If today I had the choice to get EEN or not, I would say: Forget it, forget it. Because: In the end it's a documentation and work without end."

#37: "Governments in the eastern countries often do not have the know-how and the human resources to apply or to implement EU funds. They are very reluctant to engage and initiate large scale transnational projects because of the burden of responsibility and coordination between 6-8 countries and their administrations to realize a project."

5 Programmes at the meso level and potential thematic fields for projects

In this chapter, we describe more extensively what we call ‘programmes at the meso level’ and ‘thematic fields for projects’ in chapter 4.1.4 of the main report. The information given here is intended to the reader who is interested in the suggestions in more detail in addition to the short description given in the main report. In addition, some further programmes are listed which are not directly related to tackling the issue of enabling the Group B countries to successfully implement large and long-term projects on their own.

5.1 Programmes at the meso level

There are two types of projects at the meso level. On the one hand, programmes that increase the knowledge transfer in the Danube Region directly, and on the other hand, programmes that specifically aim at developing the SME sector. In a sense, the essential point regarding the latter is also transferring knowledge because developing the SME sector concerns the question how things are done. Or to put it differently: Developing the SME sector is about how to set the framework conditions so that small and medium sized firms can flourish. This kind of knowledge could flow down the Danube from the Group A countries, which have been quiet successful in the past in establishing a viable SME sector, to the Group B countries. We list this as an extra point because there were many comments on this in the focus groups and the online discussion.

5.1.1 Programmes that increases the knowledge transfer in the Danube Region directly

In the following, the programmes that aim at increasing the knowledge transfer in the Danube Region directly are listed.

Establishing exchange programmes: A first set of projects centres on establishing exchange programmes. The idea here is to not only addressing students, which is usually done with this kind of programmes, but extend the target group to trainees and young officials. One participant of the focus

groups reported that there are several initiatives between Bavaria and Bulgaria where young Bulgarians do a vocational training in Bavaria. The Bulgarians make a contract with a Bavarian firm for at least five years, three of which are intended for the vocational training and the additional two years are a mandatory working period at the educating firm. After this period the employment contract is extended or the young Bulgarians turn back to their home country. Apparently, both countries benefit from this approach: Bavaria because its firms can draw from a larger pool of future professionals and Bulgaria because it can benefit from the skills of the trained people that return home. Of course, there are also some risks related to this approach. The Bavarian firms might get a lower rate of return for their investment in the trainees from Bulgaria compared to trainees from Germany just because the Bulgarians may turn back to their home country. And in Bulgaria taking up initiatives to establish an own system that better matches labour supply and labour demand can be slowed down because the country gets educated young people as reimport from Bavaria. However, the benefits of transferred skills are likely to be higher, at least at the moment, than the associated costs so that it might be worth considering extending this kind of programmes to other countries of the Danube Region.

Equally, one could think about establishing exchange programmes for young officials. Also for this there is an example from Bavaria. Bavaria invites young officials from several countries of the Danube Region to follow the work in the public administration including the chambers of commerce, public cross-border organisations and municipal bodies. The idea here is to show the young officials how administrative actions look like in a rather well-functioning state and what the principles are that guide these actions. The hope is that the young officials are set into the position to implement some of the things they have seen in Bavaria in their own agency thereby changing gradually the way the public administrations works in their home country. The experts of the focus groups consider this approach worth scaling up to a higher level.

There also has been the suggestion to establish exchange programmes for students. More concretely, the proposal is to establish a Danube Valley University where getting the degree requires that students have attended courses at universities of at least two different countries of the Danube Region. Although this is also an idea worth considering it must be noted that there are

already some activities going on in the Danube Region in this respect. One example is the Central European Exchange Program for University Studies (CEEPUS) which finances individual mobility grants for students and university members in the first line. This programme exists since 1995 and currently covers 15 countries many of which are Danube Region countries. Another example is a course of studies on the master's level in the area of innovation where eight universities in five EU countries cooperate. So, before establishing new exchange programmes for students it seems to be advisable to make an inventory of the already existing activities in this respect.

Mentoring programmes for the public administration: An alternative way to improve the working of the public administration in the Group B countries of the Danube Region could be to establish mentoring programmes. The idea here is to bring together business people and 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. There is an example from the Czech Republic which shows that this seems to work quite well. However, this type of project needs not to stop at a national border. The business people who give advice to the public administration may also come from abroad.

Mentoring programmes for SMEs: Besides developing mentoring programmes for the public administration there is also room for doing something similar for SMEs. One of the observations of the participants of the focus groups is 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. As with the

mentoring programmes for the public administration the mentoring programmes for SMEs can be designed internationally in order to increase the knowledge flows of best-practice examples between countries.

Establishment and expansion of town twinnings: A further proposal that relates to increasing the knowledge flow between the countries concerns the establishment of town twinnings and the expansion of existing ones. 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. The participants of the focus groups emphasized that town twinnings might be 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”. The incentives to actually take action are therefore especially high on this level.

There are already some town twinnings in the Danube Region. An example for a well-functioning town twinning with visible outcomes is Landshut-Sibiu. However, the participants of the focus groups stressed that this instrument could be used more extensively. In addition, they recommended that the rural hinterland should be included when establishing town twinnings in order to avoid that flourishing islands surrounded by suspended areas emerge. The integration of the hinterland into a concept for a town twinning should occur regardless of whether or not there is a border in between. This could then also result in increased cross-border mobility.

Training for developing project applications for EU projects: One of the reasons why many of the Group B 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, the interviewed experts from the Group B countries unanimously called for trainings on how to do project applications for EU projects. In principle, this can be provided in two different ways. One option is to do it classic by offering seminars on this subject. The other option would be to organise it in a more learning-by-doing manner in the process of applying for funds in joint projects. The idea here is that a joint project is defined, for example between an Austrian firm and a Romanian firm and then the Austrian

firms shows the Romanian firm how an application for an EU project should look like to be have a chance to get funded. We are sure that at least the latter option is already pursued in one or the other way. However, there seems to be a need for transferring skills in this respect so that it might be worthwhile to think about a sort of education programme on this topic.

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. Thus, setting up training projects in this area seems also worthwhile considering.

Harmonising regulations between countries: For the sake of completeness we also would like to mention that there has been a suggestion for harmonising the regulations between the countries. However, this is rather a project for all of Europe because it does not make sense to make an effort to harmonising regulations for a part of Europe if the new regulations do not match with the ones in the rest of the continent. Harmonising regulations is also already an ongoing project as part of establishing the European Single Market. We think that the fact that this proposal has been made rather reflects that different regulations are regarded as a severe impediment for cross-country cooperation and eventually for the competitiveness of the Region.

5.1.2 Developing the SME sector

Developing the SME sector has been one programme that has been given much room in the focus group and in the online discussion. The support of small and medium sized firm is regarded as a kind of helping people help themselves and has been especially emphasised by the participants of focus group 1:

#01: “We are strong in SMEs, but there is no way around supporting strongly this topic of a SME sector in those states of the Eastern European region which want to progress.”

The strong emphasis of this aspect in this particular group of experts can be explained by the fact that the experts came from a region of Europe which had made particular good experience with relying on the strategy of fostering SMEs (or fostering the so called German 'Mittelstand'). In Baden-Württemberg, Bavaria and partly also Austria the economic basis had to be completely rebuilt after the Second World War but nowadays these regions belong to the areas in Europe with the highest economic output.

As already indicated above, there is, of course, also the opposite idea, i.e. relying on large firms in the first line in order to foster economic development. However, the current consensus in the literature is that all types of firms, small medium-sized and large, are needed because there is no indication that one type of firm is superior to the others in every aspect.

As explained in Section 3.3.2, the prevailing strategy of economic development in the Group B countries of the Danube Region in the recent past has been to rely on foreign direct investments (FDI), which are typically large firms. What is missing is a corresponding strategy for the local small and medium sized firms. There has been a consensus among all experts not only from the participants of focus group 1 that this is highly needed. One reason given for this is that without a competitive SME sector the Group B countries cannot benefit from FDIs in a sustainable way without a competitive SME sector:

#25: "The other issue is related to FDI in Romania. We were open for FDIs but most of them are based on short term profit gain and they are not sustainable."

#10: "Of course there are also problems around. Then this is very, very important: you talked about FDIs and that this is not sustainable. Yes, I agree but it is not sustainable because the countries forget to develop the supplier structure."

But also, looking at the other side, the companies from Baden-Württemberg, Bavaria and Austria would clearly appreciate it if they could rely on good suppliers in their guest countries:

#07: "[...] and it's also true that the firms [the FDIs] partly didn't even want it, since, of course, they partly have to transport all the screws from the Black Forest to Kecskemét to assemble an outside mirror. So

it would be helpful for the firms if they could get the screws from Kecskemét or the surroundings.”

And thirdly, a good and competitive SME sector provides the chance that some national champions can develop which can then serve as a role model for others:

#09: “What I think is the most important is you have to have a good case. That’s a case of a company that has succeeded. If you have a case of a company which made it a really big time then that company attracts other young entrepreneurs and that brings ideas from students. This is actually what is, in my opinion, the biggest problem.”

#08: “It can work quite good, but still you must have some strong domestic player. At least one in theory. When there are only foreigners, it’s difficult because there is not much confidence and dividends are paid abroad, so they go abroad, so it’s a bit suspicious. When there is one strong domestic player, at least one, it really can change a lot the situation.”

This can also have some psychological effects which should not be underestimated.

Key elements for developing the SME sector

The experts mentioned a number of elements which are key for developing the SME sector. Partly, these elements are related to the problems on the institutions mentioned in Section 3.1. A list of them includes:

- Good public administration and administrative practices
- Protection of property rights
- Reliable enforcement of contracts
- Lowering the costs for business registrations and cutting red tape
- Introduction of a law for the development of the SME sector such as the German ‘Mittelstandsfördergesetz’.
- Alignment of demand and supply of qualifications of the workforce
- Establishing a system of subsidies, loans and grants.

- Support of visits of national and international trade fairs
- Improvement of the business skills of present and future entrepreneurs.
- Establishment and development of business associations
- Establishing communities of practice, i.e. informal networks of people who deal with similar kinds of problems
- Establishing/improvement of services for businesses e.g. support in writing business plans, in applying for funding (including EU funds), information about how to upgrade the business technology, in how to do marketing, in how to do business internationally or to supply products to the big international companies that invest in the country. Also long-term companionship of companies should be considered by, for example, experts from the chambers of commerce.
- Increasing the knowledge and technology transfer between business units
- Focussing on sectors where there is already some basis in the countries either in terms of (natural) resources, (industry) structure or competences
- Development of the digital infrastructure of the countries

These elements are regarded to be as basic. On a higher level the list can be extended by:

- Development of collaboration between universities and firms
- Support of academic spin-offs
- Creation of an eco-system of innovation
- Development of a guarantee-system in order to support risky investments
- Development of a system for providing public equity

Besides these elements the experts emphasised a number of further aspects. One is that it is not only relevant that labour demand and labour supply is aligned but also to make sure that the appropriately trained people want to

stay in their home country (or more broadly: in the countries of the Danube Region). According to the experts, this requires some sort of urban development, if not country development, such that people find it attractive to live there:

#10: I am employing in Stuttgart currently for example a Romanian lady. Very well educated, fluently, I think, in six or seven languages. This is excellent. But why do these people work in Stuttgart, why not in Bucharest or wherever? This is, and I come back to the entrepreneurship and to the SMEs ... I think the governments should more focus to develop the total environment so that these qualified people can stay wherever they want in the world. And if they live in London, Munich or wherever they will never come back to, let me say, Craiova or wherever. Because there is nothing, there is no environment. If governments do not learn that it is not enough to address investors it is also necessary to develop the whole infrastructure, not only roads, this is basic, of course, this is necessary but the whole environment, let me say, nice apartments, activities, that people are happy to live there, to invest in leisure activities and a lot of things.”

Another aspect is that it is also important to pay attention to how it is talked about business owners and entrepreneurs in order to replace the old image of entrepreneurs with a new, more positive one:

#22: “But what is more important, and that is strictly from my point of view, is that you have entrepreneurship coming from the bottom-up, because you can stimulate it, but if it is not from the ground, if it is not sensed in the people who should take this risk and do it, then it is going to give that fruitful results. So, one important measure is that you try to put it as a good value, to promote it in the nation as a good value, as something that should be valued and something that is good to do.”

Finally, it might be worthwhile to concentrate on low and medium tech sectors first in order to establish skills for running a business without being too much concerned about the complexity of products:

#11: „Yes, maybe just do add or to develop your thoughts a bit further, maybe in orientation towards Austria or as well Bavaria 30 years ago.

What did Austria or Bavaria do, also large parts of Lower Bavaria or the region of Regensburg? After all, we focused on middle-tech, we didn't do high-tech, but we tried to do this [middle-tech] well. And that actually is the success that many Lower Bavarian companies currently have in the Danube Region."

#26: „Just shortly to this: In fact, it is like that, it's not always high-tech, sometimes it's low-tech, I think of XXX for instance, 80% world market share and this at a production site which is generally known to be difficult for such simple things. Works as well, I'm totally with you there."

It must be noted that we encountered a bit of opposition against this kind of statement in the online discussion on discuto.io. However, we had the impression that this is rather a matter of wording than a matter of content. A more appropriate phrasing would probably be that the countries should focus on the sectors first in which they already have some sort of assets in terms of (natural) resources or competencies. Nevertheless, catching-up strategies usually start in sectors where entry barriers are low or in which a country has comparative advantages. As in many Group B Danube Region countries cost advantages compared to the Western countries exist and in many so called low and medium tech industries costs and prices are a decisive factor for selling products focusing on these sectors might be worth considering as a strategy for developing SMEs and countries. But, of course, we do not want to suggest that the Group B countries should in no way try themselves in high tech industries. What we suggest instead is that the Group B countries should concentrate on the sectors where they have particular strength which is also consistent with a smart specialisation approach. This line of thinking is supported by a statement of a participant of focus group 1:

#07: „And the second is: In my opinion, many countries have, I mentioned this term before, industrial cores. For example Slovakia: They have Kosice. Earlier, it was one of the largest steel mills in Slovakia. Several German firms or firms from our region have settled in the surroundings of Kosice. I wondered: So why? [...] That means [...] there has to be a certain technological understanding from history. That means, in my opinion, one has to look in the countries: Where are cer-

tain fertile grounds and industrial cores for a specific industry? Maybe they're down or because of the migration of the people not existent anymore, but at least you can start there. It doesn't make sense to just somehow implement a new high-tech initiative in any middle of nowhere-place, I'm saying that a bit drastically, but you always have to start somewhere where there already is something. In my opinion these would be to approaches how a SME sector could be generated.”

What also fits perfectly in here and again underlines that it is more the strength than specific sectors that the Group B countries should concentrate on are the remarks of the experts on the IT sector in these countries. Obviously, there is a lively IT scene in many Eastern European countries which could, of course, be integrated in a strategy for developing the SME sector either by supporting the sector itself or by promoting the application of ICT by businesses and individuals:

#08: “And what is interesting is the segment of start-up which are high-tech, especially in IT, of course, Czech Republic is kind of strong in the IT sector, IT services, but this is in other countries in Eastern Europe as well.”

#08: “So, I think that, because, I'm talking about this, because we have this IT-sector, of course, it's a big, it's very cool, you have a lot of companies which are very successful and so on. And we saw it also in Eastern Europe very well, Romania and we have this IT-sector.”

Moderator: “In which areas are these fast growing companies?”

#20: “Both of them are in the IT sector. One is more in the embedded sector and the other does software development.”

#22: “We have very strong clusters in IT, several strong clusters.”

#20: “Okay, we have four strong IT clusters here in Serbia covering all the four major regions, where these companies are situated mainly around the southern big universities, not mainly. Because of the obvious presence of the distinguished universities, the companies are located around them.”

#18: "The other one is not so well-known, there are a number of small companies in the ICT sector."

#01: "Well, in Romania there is a well-functioning IT-network, they're strongly oriented towards software, of course, they also try, since the market is limited, to move towards us or, in the case where we also start, because we also have been bringing up such networks, aerospace. Romania has an aerospace industry where it could be possible to develop something."

#12: „But we have very progressed in e-governance. So, here we can speak about e-business, e-health and social. Why our IT-sector is like a priority strategic sector for the Republic of Moldova and we have a lot of success stories related to the IT sector. And this kind of background we can share with countries from the region."

Some more specific suggestions for supporting the SME sector

The experts made some more specific suggestions of how the development of the SME sector could be supported. These are listed below.

Introduction of a law for developing SMEs: As mentioned above the interviewed experts agreed that it is important for the development of the competitiveness of the Group B countries of the Danube Region that an environment conducive for SMEs is created. According to the experts, one important element for reaching this goal is the introduction of a law for developing the SME sector such as the 'Mittelstandsfördergesetz' of the German federal states. If the Group B countries are interested this could be the basis for a consulting project where experts from Baden-Württemberg, Bavaria and Austria give advice to the Group B countries.

The idea of having a law for the promotion and development of SMEs is to make the policy regarding SMEs explicit and to designate someone, e.g. the minister for economic affairs, who is responsible for implementing that policy. Of course, a law is only as good as it is respected but, according to the experts, formulating a law for developing SMEs would result in at least some sort of commitment and would constitute a statement that SMEs are really considered an important element for the development of the country. The experts

from Baden-Württemberg, Bavaria and Austria could provide help in formulating such a law by relying on their experiences made in their home countries.

Introduction of a system of dual vocational training: Another important element identified for developing the SME sector is the alignment of labour supply and labour demand in terms of qualification. A solution provided has been the introduction of a system of vocational training. The benefits of such a system are seen in what a participant of focus group 1 called “endogenous potential”. If a reasonable system of vocational training is implemented 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. This happens by combining practical and theoretical elements in the education of trainees which is completed with an exam.

There are already some attempts to introduce systems of vocational training in the Danube Region. Hungary is the forerunner in this respect but also Slovakia passed a law for introducing dual education in the country at the beginning of 2015 and in some regions Romania German FDIs cooperate in vocational training projects.

Although dual education seems to be a sensible measure to better align labour supply and labour demand there also have been some critical voices. One participant of focus group 1 pointed to the fact that a system of vocational training contains the risk of exploiting employees. The reason for this is that dual education allows the employer to pay wages below averages for a certain period of time but it is a bit tricky to check that the education really takes place. If there is not a certain level of commitment to the educational part on the side of the employers, trainees run the risk to be simply employed as cheap labour. There are also some signs that the introduction of a system of vocational training is used by the government to keep young people from going to university in order to reduce the number of critical minds in the country which can eventually stand up against the government. And finally, there already emerged some problems in the practical implementation. For example, in some countries underaged people are not allowed to enter into a working relationship. And it appeared that a lot of persuading has to be done because there is also some resistance in part of the population as the introduction of a dual educational system comes along with a redistribution of funds and prob-

ably also influence. (If young people get the possibility to do a vocational training less of them will attend the university. This reduces the relative importance of the universities in the educational system which is most likely also reflected in fewer funds.) Thus, although a sensible idea, the introduction of a dual educational system seems not to be an easy task.

Organising start-up weekends: As mentioned above, the interviewed experts identified the low level of skills and spirit for entrepreneurship as one of the hindering factors for improving the competitiveness of the Group B countries of the Danube Region. One rather simple way to improve the situation in this respect to organize so called start-up weekends, such as the Google start-up weekends. Start-up weekends rely on a mix of speed dating and learning by doing. 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, or, to be more precise: from Friday to Sunday. 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 – which is the most likely outcome – 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.¹⁴

Establishment of start-up or technology centres: A more classical way to develop business skills and foster entrepreneurship in the Group B countries of the Danube Region would be to establish start-up centres. Although it is not quite clear how effective start-up centres are in general it might be worth considering this strategy for the Group B countries of the Danube Region because the facilities are there and not much money is involved. The idea of start-up or technology centres is to provide people who want to implement a business idea with cheap premises and some sort of coaching and business advice. According to the interviewed experts, there are many empty buildings in the

¹⁴ We want to emphasise that we are not in any relationship with Google nor did we ever made a project for them. We only want to demonstrate this option for improving the business skills among the population of the Group B countries of the Danube Region because we think that it is rather easy, cheap and simple way to set a visible project on the track and where people also can have fun which is often the best motivator for doing things. Having said that we dare to also provide the website of the start-up weekends for the interested reader: <http://startupweekend.org/>.

Group B countries that could be converted into spaces for entrepreneurs in the seed and start-up phase with little effort. The starting point for making this kind of approach a cooperation project in the sense of the EUSDR is be that the coaching and mentoring of the residents of the start-up and technology centres is provided by people with experience of giving this kind of advice and with knowledge about best practice examples regardless from whether they are from the country where the start-up or technology centre is located.

Using crowdfunding as a means for selecting promising companies: This is not really a project nor is it an idea for promoting cooperation between the regions and countries of the Danube Region. However, we would like to list this aspect because it might be worth considering in general.

When it came to developing the SME sector in the focus group the experts pointed to the fact at several times that it is difficult to select companies which are worth supporting because they are likely to create jobs or provide other benefits for society. This is not only a problem in the Group B countries but one for every official in the world who is in charge of implementing a SME support programme because nobody can really anticipate what kind of business ideas are valuable. A means to solve this kind of problem, at least a bit, might be to rely on crowdfunding. Crowdfunding works such that many people provide small amounts of money for a project which is only started if a pre-defined minimum total amount of money is reached. The money lenders are rewarded by either a share of the returns from the project or in non-monetary terms (right or benefits in kind). On the one hand, crowdfunding is an ex-ante type of funding of project. But on the other hand it is also a kind of market test and can serve as a signal: If the crowdfunding auction does not lead to that the minimum amount of money is reached then this can be interpreted that the project idea has not a high market potential.

However, it must be noted that crowdfunding is a rather new way of funding projects which means that there are still open questions concerning the regulation of this kind of funding. An example here is that it is not quite clear yet how the lenders can be saved from substantial losses because crowdfunding projects or even firms is an activity accompanied with high uncertainty. Nevertheless, crowdfunding has the potential of helping selecting promising companies.

Creation of a fund for feasibility studies: Besides the proposals for projects that relate to a kind of knowledge transfer in one or the other way there were also claims to improve the funding possibilities for projects. One of the suggestions in this respect relates to creating a fund of feasibility studies. As mentioned above, projects often stop already in early stages because there are either no funds for feasibility studies or decision makers in the Group B countries shy away from releasing money for such studies. One solution would be to set up a special fund from which feasibility studies can be financed.

Establishment of a state guarantee scheme for SME loans: Also, according to the experts, the financing situation of the SMEs has to be improved. One proposal in this respect has been to establish a state guarantee scheme for SME loans. Such a system would alleviate the problem that SMEs most often have problems in getting appropriate funding for their projects because they cannot provide enough securities for a bank credit. A state guarantee scheme could serve as a substitute for missing securities by the state's promise to stand in for the loan if the borrower fails to pay back the credit. This proposal has been made against the background of the good experience with such a scheme in Germany. But of course: A guarantee scheme will only work if there is a sufficient amount of trust and reliability on all sides (the state, the borrower and the creditor). Therefore, establishing state guarantee schemes for SME loans on the level of the states of the Danube Region this proposal is probably rather something for the future when the problems described in the Section on the institutions (Section 3.1 above) are solved satisfactorily. In the meantime, help can be provided so that SMEs of the Danube Region countries can benefit from state guarantee schemes on the European level such as from the Inno-vFin SME Guarantee from the European Investment Bank (EIB).

Establishment of 'Mittelständische Beteiligungsgesellschaften': This proposal grew out from the experience of financing SMEs in Germany as well. To complement the state guarantee scheme for SME loans, Germany makes use of special investment companies for SMEs, called Mittelständische Beteiligungsgesellschaften. Every federal state maintains an independent one, each financed by banks, insurances, unions and chambers. The holdings act as a typical silent partner and provide the enterprises with equity capital in order for them to be rated better when applying for external capital or wanting to become more independent from the turbulences in the banking system. How-

ever, as with the state guarantee schemes above investment companies for SMEs presuppose that there is enough trust and reliability in the system because it includes elements of a social partnership. Thinking about such investment companies therefore might again be something for the future.

Mapping of the value chains in the Danube Regions: As mentioned above, there is a strong wish in the Group B countries of the Danube Region to move up the value chain. In addition, it has been suggested that the countries might establish joint value chains. However, at the same time it seems that is not really clear what kind of value creation in what sectors goes on in the countries of the Danube Region. One proposal therefore has been to make an inventory and to map the current value chains. This would be a more scientific project.

This suggestion got much support in the online discussion (25 positive votes but only two negative votes). However, it is not quite clear what this means in concrete terms. Value chains normally relate to one specific industry. This would imply that all Group B countries would agree to at least partly specialise in one industry which might be not sensible because the countries have different strength. In addition, it is also not clear whether and for how long countries would accept to be at the beginning of a value chain as the profit margins tend to be higher at the end. So, this suggestion needs some further clarification.

Reindustrialisation of the countries

In the focus group, repeatedly the claim that the countries have to be reindustrialised came up:

#10: "Second, I think it is necessary to reindustrialize the countries. Because it's very simple and you can see it from the figures, if you have no big investments in industries which employ a lot of people, then there is no increase of GDP, though it is not necessary to invest in power plants and things like that, these are very big investments but they employ less people. So, you can directly see in Czech Republic, in Slovakia and in other countries, also in Romania, if you have, for example, automotive investments, then you have a big increase of GDP. So, very simple."

#29: "Because we finally realised that we need to re-industrialise the country. For too many years we relied on services and now we see that this is not sustainable and that there is a real need for re-industrialisation. [...] So, we definitively have an understanding that re-industrialisation is absolutely necessary."

#19: "In Hungary, the re-industrialisation began back in 2010 when the government just launched the new re-industrialisation programme and they wanted to create the most efficient industrial country, here in Hungary."

However, this claim did not go unchallenged. In the discussion on [discuto.io](#) it got almost as many negative votes as positive (12 positive and 11 negative). One reason for this is that it is country specific whether or not it makes sense. There are some countries such as the Czech Republic which are already industrialised:

#08: "Well, the Czech Republic has the highest share of manufacturing. This is still the highest share in the EU, so we actually don't have re-industrialisation."

Another comment qualified it in saying that if a strategy of industrialisation is followed it must take on a cross-border perspective:

#05: "Globalization and GVC [global value chains] speaks against old concept of industrialization. We cannot re-industrialized based on old industrial base sector monolithic and a high degree of vertical integration in one country and region. The new industrial base should more cross-sectorial and more specialized in intermediary products, services and even tasks."

On the other hand, reindustrialization is regarded to be an instrument for supporting the SME sector because manufacturing firms often rely on a series of service firms that support their processes:

#26: "This concentration on industrial questions, you got this right. But for me, I think, it's not harm by nature and in fact for a simple reason, it's not new at all. We just have the situation [that] we must ask ourselves: Do I feed the snake at its head or do I powder a tail? I mean, there are evidently many, I would say, service sector questions that

take care of themselves. But meanwhile we have a share of employees which is still quite high in the manufacturing sector, around 35%, we have a share of value creation that already reaches almost 30%, one has to see that. But, of course, we know that a lot of everything else regarding strengths we develop in the IT sector, is linked to the fact that the other things are on-site. So you must not always attribute this to those quotas only, but also to the resulting value chains in the broader sense.”

So, it depends on the context and the objectives whether the reindustrialisation of a country is a goal to pursue.

Basis for cooperation projects?

When going through the suggestions for projects which are related to developing the SME sector the question may come up to what extent this area is a field for cooperation between countries and not only a matter for each country. (The exception is the proposal on the creation of joint value chains for the Danube Region which is inherently an area for projects across countries.) In fact, the development of the SME sector and the decision about whether or not to reindustrialise the country seems to be above all an issue for national policy. However, in contrast there seems to be a huge potential for cooperation also in these fields. This consists in that Baden-Württemberg, Bavaria and Austria are willing to provide help and advice, partly motivated by self-interest because they want to prepare the ground for their own businesses. But there is also some amount of altruism and goodwill:

#01: “We are willing to help, too, with assembling of such organisation or chamber structures, I mean, not like chambers of foreign trade, but for the respective regional development. I think you have to distinguish two things: Do we act more or less, to a certain extent as a kind of development aid workers to help put up structures there, or do we also compete to establish our companies there as well. I think, it has to be both somehow.”

#01: „And our offer, that’s what we tell people we’re discussing with over and over: We are happy to help. In fact, not to impose our ideas on you, but only to show: How are we doing things and can you derive

anything from it? Only this way you get an entrepreneurship off the ground.”

#01: „It could be done in a structured way, however. We really have the people, too, which then a) can carry out a project and b) of course help to create the formal conditions as well, in order for the financing to come.”

#01: “You only get an SME if you leave all the possibilities of market entry up to it. First, to let it get a taste of it, then see, maybe to build up a sales structure or even better to find a corporation partner. And so this would be an approach to put up an SME structure likewise through such a corporation partner.”

What is interesting in this context is the role that is ascribed to Austria. There have been not that many comments in this respect but it seems that Austria is somehow regarded to be a bit nearer, not only geographically but also mentally, to the Group B countries of the Danube Region than the two German regions: Maybe this must not be exaggerated but it might be good to know in order to use it strategically:

#13: „But what I always wonder is, if not Austria is a role model for this region. Because Austria after all caught up to Germany so closely regarding growth and income – or, off the record, has actually overtaken it if you look at Germany as a whole – especially in the ‘70s and ‘80s, among others also at the time the German industry and also the middle class firms started to outsource, for cost reasons with the strikes at that time and so on. And arising from that, however, still a SME sector has developed in the meantime in Austria. We have companies, in fact SMEs, that are naturally strongly linked to the FDIs, Siemens or all the automotive companies, and nevertheless some kind of SME sector has been created, partly from the ruins of the nationalised industries as well. [...] But for this region Austria could of course be a role model, how to put up a bit more interconnected structures from an extended workbench.”

#32: „But also if it will come the experience of the best practices of the European Union countries, especially from Germany. It will be very

fruitful. And from Austria of course because this is a generic connection, I can say.”

#04: “But maybe when I talk about Bosnia, I think that very useful would be the cross-border cooperation with countries with which we have traditional, historic connections. Of course, ex-Yugoslavian (?) countries are always welcome, but Austria, let’s say Austria is a very interesting country because I think that they can understand our situation much better than the other Danube countries and, of course, concerning foreign direct investment we used to have Austria as one of the leading investors in Bosnia. [...] Because, somehow Austrians can understand and they have more knowledge about our political organisations, situation and they can easily understand, more easily understand, our organisation than the others.”

However, the experts from Baden-Württemberg, Bavaria and Austria also strongly emphasised that their willingness to provide help must not be over-used and that the actors in the Group B countries must always bear in mind that there is competition between locations:

#01: „And one thing also has to be said very clearly: The issue of competitiveness is one thing, the proximity of the cultural background, the proximity for the SME, is a real plus. But: Our companies, especially the SMEs, don’t have large staff units. They can’t afford one or two flops and they look where the emerging markets are, where the biggest growth prospect are. And if then they get negative news [...], an SME won’t go there. [...] We have competition between locations, that’s a crucial point. That’s where I, at least at the moment, rather see a certain retention concerning the Eastern European region along the Danube. [...] So this just has to be seen. That also has to be, if you propagate a Danube Strategy and then want to translate it into projects, it has to be taken into account, that there is a real clear competitive situation among the locations.”

#01: „Out of sheer fun that doesn’t work. That means, they need structures in the countries: available contacts, infrastructure, of course, we need educational structures and also such a business climate around.”

#01: „And then it’s clear, then you know: Our SMEs, they’re small engineering offices, suppliers of components, then we have the big plant constructors, yes well, they look where the markets are, where they get a contract. That’s really easy, plain and simple. This is not to be seen selflessly. But there are experiences, we could offer this again at any time, but we need the local partners.”

5.2 Thematic fields for projects

In this section we describe the thematic fields for potential projects more extensively.

5.2.1 Agriculture/Wood processing

With respect to agricultural and wood processing the experts made the statements below. What is probably quite interesting here is the idea of aligning agriculture to organic production:

#24: “On the other hand, we have really good opportunities for organic production in the area. This has been of great interest from many European countries, countries of the European Union. Many business people from Germany and Italy visited our area and who have been interested in the promotion of organic culture in the area ...”

#32: “The second what I have to say concerns the agriculture. I have spoken with Moldavian colleague because this is developed. We have under the support of GIS, the first Ukrainian agricultural cluster in our area. I can show you some pictures of them. It is also necessary to develop using the potential of Northern Moldova and the experience of Romania and other countries. But also if it will come the experience of the best practices of the European Union countries, especially from Germany. It will be very fruitful. And from Austria of course because this is a generic connection, I can say. The third area what I should nominate here, this is the foresting wood. And it is also coming from the large scale and very important. It seems to me this is the main project in the Danube area: this is reforestation of herbs and Carpathians using the common experience of further developments of wood

production. Because this is the question of under the climate change, I say this as a specialist, this is the water for Danube.”

#29: “Well, I will be short. The agriculture is the next thing that comes to my mind. It’s also very common to all of us. River means fertile ground, so agriculture could be something interesting.”

#04: “So, areas for possible cooperation, that’s the issue. From my point of view, the area that is very interesting for stakeholders in my country is generally the agricultural sector. Because we think agriculture is one of our advantages concerning the economy.”

#20: “Thinking about what we could do together, I think we agree that wood processing industry, or what could be made out of the waste from the wood processing industry could be the subject of knowledge transfer between academia and business. Based from wood processing could be the base for biotech technology.”

#04: “What I just want to add concerning the first question about the sectors, I forgot to mention the wood processing industry is also very important in Bosnia throughout the whole country in both entities. We have a very good tradition in this sector.”

5.2.2 Tourism

When it comes to tourism the experts especially point to the potential of health and wellness tourism but also to the fact that it can be an advantage that at least part of the countries are still dominated by agriculture. The suggestion here is to develop appropriate offers for rural tourism:

#24: “On the other hand, I already told, we have some really good capacities in the area for tourism development, agricultural development. And so we have to think about how to improve the legislation and business conditions to encourage people to do business in this area. And now in our area many people are interested in the development of rural tourism as we have very good capacities for this.”

#10: “Because I think it’s a pity that we don’t have use to the hot water because it’s available, we have to develop it.”

#25: “And also services for healthcare.”

#10: Yes, of course.

#25: Also for some time of treatment, post-surgery treatment could be also very interesting, because we have the natural resources, why not using this and to connect with other type of business, small business.

#18: "Well, just to not finish with so grey, or dark picture: There are still some success stories. Firstly, it is in tourism, for the well-known reason. There are really factors of competitiveness by natural position and natural resources and also the heritage of Croatia that brings success in several SMEs, but also in large ones."

#04: "Tourism is also always interesting because of the mountains we have. But, of course, we also lack capacities that are necessary for, let's say, skiing, necessary for attracting foreign tourists. And, of course, the service, the skills necessary for them. Of course, we also have potential for developing thermal water, spa centres, and using the thermal water for heating. So, some kind of such experience would be very interesting and there is potential for developing because in those areas we lack access to finance as well as the know-how for developing that."

#14: "There is one more cross-border cluster example in health tourism together with Croatia. So, this initiative is possible to be part under this strategy."

#14: Exactly. And this is very, let's say, successful. This spa tourism is more and more successful. With Serbia there is collaboration in this area.

5.2.3 Green economy

Besides the more traditional areas of economic activity mentioned above as the interviewed experts see the green economy in the broadest sense as a potential area of projects in the Danube Region:

#23: "I think the Danube Region has a great potential to develop the green economy in the real meaning (i.e. sustainable on long term, working with nature), and become an example to be replicated at EU level.

If one looks at the contributions made with respect to this topic more closely, it appears that this area is probably one of the most interesting which even has the potential of serving as a guideline for the EUSDR as regards fields of activity, especially because three of the four pillars of the strategy (“Protecting the environment”, “Connect the region”, and “Building prosperity”) could be aligned to this kind of economic activity. The most obvious reason for this is, of course, that climate change is a current problem of mankind which also affects the Danube Region:

#23: “In the context of climate change impact, one of the major challenges mankind has to face, that already lead to water scarcity along the Mediterranean coast or to severe floods/droughts, the EUSDR is the perfect tool to tackle the problems before they worsen even more.”

However, it might be that the Danube Region is especially apt to benefit from the chances that come along with this problem. The experts point to several reasons for this. First, the Region seems to have a variety of resources that are favourable for developing the green economy:

#23: “The region encompasses numerous areas that could offer clean water, healthy and tasty food, a very diverse cultural heritage, and a unique biodiversity - managed wisely, they could support not only the mitigation of the climate change impact, but also the development of economic sectors such as eco-tourism, aquaculture, organic agriculture, food and wine industry, etc.”

#10: “And I think we have selected a location and the location is really in the middle of nowhere and it’s really 100% green. And at the end, this is important, there we have hot mineral water, 65 degrees, and with the solar cells on the roof of the plant, and with the near mountains I think we can create really 100%, or an investment with 100% renewable energy.”

This also relates back to what the experts said about agriculture/wood processing and tourism where they pointed to organic food production and rural tourism (which also can be interpreted as a kind of eco-tourism) as potential areas of development. Usually, these areas are regarded as part of the green economy.

Second, at least part of the Danube Region is currently looking for an area of activity in which they can develop comparative advantages in the world economy:

#32: "You see, we have now a very interesting situation in general because at the equilibrium between the old ___ we should protect nature and protect eco-systems and sustainable development with ___ and ___ anthropogenic environment. The general answer was given in Davos two years ago, which is the green growth and the green infrastructure."

Although this search process might be more pronounced in the countries further down the Danube, also the Group B countries at the headwaters might find worthwhile thinking about a reorientation of the current alignment of their economic activity. The reason for this relates back to what was described in Section 3.3.2 under the heading "Quality of products". The quotes there point to the fact that the Group B countries would like to get more money for their products but are obviously not able to meet the quality standards already established in the world market (especially in the automobile sector) because the standards are uncatchable high. In addition, the experts of focus group 1 noted that it is also not worth investing too much in the automobile sector because suppliers in this sector normally do not earn very much. Instead, they suggest that the Group B countries apply the knowledge gained from the automobile sector in related sectors and develop genuine areas of economic activity where the competitive pressure is not so high. Realigning economic activity to the green economy in general and green technologies in particular seems to meet these criteria: Green technologies are at the beginning of their development and provide a variety of yet untapped business opportunities. And it seems that green technologies are an area where knowledge gained in the automobile sector can be transferred to as the following quote shows:

#01: " And that's why in Baden-Württemberg you can feel a strong tendency that companies which have a high share in automotive suppliers try to develop more into the sectors of renewable energies, industry or aerospace, because they simply see problems there."

A further advantage of green technologies is that this is an area which is definitely of interest also for firms from Baden-Württemberg, Bavaria (just to mention the German Energiewende in this context) and Austria so that there is a large potential for cooperation projects with a corresponding knowledge transfer:

#04: “And Austria would also be a very good example for environmental protection issues, waste and water management and so on.”

And lastly, green technologies also provide the opportunity to gain some independence from fossil energy sources and their providers which might be especially relevant for some countries in the Eastern part of the Danube Region:

#24: “Another thing which is _____ wouldn’t know to ask about renewable energy and alternative energy sources in the Ukraine. We have had a few projects in the Danube delta area to promote such activities using glycol biomass or other sources for example. But in Ukraine now it’s a big open market in this area and this is not only a market for European technologists, European equipment, but this is important to think in terms of job creation in Ukraine too. On the one hand, it sounds a bit funny, when we are telling about introduction of renewable energy sources which is related to job creation. On the other hand, we have preliminary estimations with this and, for example, for small villages etc. It may a very interesting think in terms of energy independence and on the other hand in terms of job creation. So, I think maybe it’s a very, very interesting and important thing now and you can also take into consideration that they can taken again into account the situation in Ukraine.”

Thus, developing the green economy in the Danube Region might be worth pursuing. However, in order to pour a bit of water into the wine: Green technologies are a new area of economic activity which definitely requires a lot of initiative and long-term commitment. So, aligning the EUSDR to the green economy and profiting from green projects will only succeed if the economic agents in the Danube Region are willing to come up with ideas in this area and feeling responsible for these projects in the long run.

5.2.4 Water

Having made the point for aligning the EUSDR to the green economy it is necessary to go into what the expert mentioned about water as an area for potential joint projects. The comments in this respect are a bit unexpected but we think that they reveal again something about the relationship of the economic agents in the Danube Region to the EUSDR.

Looking from outside on a construction which is called Danube Region and a strategy that is named after a river one suspects that water is regarded as a common resource and a unifying element. However, this does not seem to be the case between the countries of the Danube Region. Of course, there are statements that water is an area one should think about. Examples of this include (partly already quoted in Section 3.1):

#12: "The water quality is the lowest in the region. We could not find the standard for the water quality, especially in rural area, water was polluted. People do not have access to qualitative water. As well, as you take cooperation in urban and rural areas, in rural areas, only 1% have access to sewage system. In urban area it is a little bit better, about 50%. Everybody has access to water, but not everybody has access to a sewage system."

#24: "On the other hand, we have a lot of water resources in the area. On the other hand, we have big problems with water supply especially for irrigation purposes. Now we have to think over more efficient system of water supply to maintain agriculture in the area."

#32: "Because this is the question of under the climate change, I say this as a specialist, this is the water for Danube. This is not free. I can speak about Schwarzwald and it will be three main sources of Danube water. And if they will be exhausted under the ... because you know the glaciers, the snow is practically poor perspective for the further sources. Therefore only the high mountain forest can be the alternative source of water and conservations of sources of water for the Danube. Because we can do in the valley what we want but without water it will stop immediately."

#32: “No, I can speak about the large projects in the water management and flood prevention but it’s not a good area for SMEs.”

#32: “What is the core idea? We have partners and we look for partners in many European countries, where the regions can be concentrated on one or maybe two topics, for instance waste management, water management, transport systems, each another.”

#24: “We have been closely involved in the harmonisation of the water quality and water management standards in the Ukraine ...”

#27: “As regarding the paragraph “Ecological Impact”, page 129, under the chapter of transport (respectively navigability) I would like to draw attention about the statement that the water quality of the Danube River is relatively bad.”

However, this kind of statements is almost exclusively made by the experts from the Ukraine and Moldova. This can be related to the fact that these countries are the only ones who experience serious restriction with respect to their competitiveness resulting from the bad condition of their infrastructure (of which sewage and irrigation systems are one part). For the experts of the other countries water as an economic resource came only to their mind during our focus groups in a brainstorming sort of thought:

#09: “Thank you, I might be totally of mark here but again I look at this as a brainstorming session. So, there are no stupid questions or suggestions, or whatever. In order to determine the common projects, or something that could be an output, we have to look at the common resource. And the obvious resource is water of course, the river itself. So maybe we should go in that direction, although I’m sure that in other pillars, in other priority areas, they are looking at the river as a resource, whether it’s environment protection or energy efficiency or whatever. But we should also focus maybe first on the river and the water itself and then see the potentials for cooperation because this is the resource that connects all the countries, so it’s only natural to look at it first.”

... or in the context of thermal water the quotes of which were already presented in the Section on tourism above (Section 5.2.2). There even has been a

remark that expressed the tendency that people cannot much do about the idea of treating water as the basis for economic activity in the Danube Region.

#31: [...] I try to look at the Danube Strategy as a tool that should foster the businesses in this region and in our companies. Before, ok, water for me is something very abstract, I drink water, but nevertheless I would like to see some business behind this project, ok ships is ok, it's clear. But what could be interesting for all countries is development of maybe technologies related to water which can be sold at foreign or third markets, for example, in Africa or, I don't know, South America. Before water, if water, ok, but we should think where is the market potential for the projects related to water.

This is not to say that water projects are completely pointless in the Danube Region. On the contrary, we think that projects related to the water quality, the biodiversity of the river system, the navigability of the Danube and the sewage as well as irrigation system are of course worth pursuing. In our view, what these statements reveal instead is that water in general and the Danube in particular is not regarded as a unifying element between the countries of the Danube Region. As a result, the identification with the Danube Strategy must come from something else.

5.2.5 Social entrepreneurship

Another promising area for joint projects identified by the experts is social entrepreneurship. This topic came up in all three focus groups with experts from the Group B countries.¹⁵ There is no commonly agreed definition of social entrepreneurship but in general social entrepreneurship is understood as a combination of the pursuit of social goal and economic profitability. The European Commission for example defines a social business as “an enterprise whose primary objective is to achieve social impact rather than generating profit for owners and shareholders; which operates in the market through the production of goods and services in an entrepreneurial and innovative way; which uses surpluses mainly to achieve these social goals; and which is man-

¹⁵ Maybe it would also have been mentioned in our focus group with the expert from the German speaking countries if we had if it would have been composed with person with a less strong industry focus as we had.

aged by social entrepreneurs in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.”¹⁶

The reason why the experts think that social entrepreneurship is an area for joint projects is that there are some social issues which are common across all countries of the European Union:

#08: “Because there is a big sector which is the sector of non-profit sector or social services sector which is very dynamic and challenging and I think that the problems are very similar. And in this respect maybe the countries are closer to each other than maybe in the case of industry when they are more linked to their multinational mothers and fathers. But in our experience the problems in these sectors are very, very similar across countries, even if we have countries with much more resources.”

Examples for activities that can be tackled in this respect include technologies that support older people (smart aging), care for older people, ecology and green economy (which relates back to what has been said about the green economy in Section 5.2.3 above) and, in a bit more fuzzy way social inclusion and “social services for everyday life”.

5.2.6 Infrastructure

Of course, infrastructure has also been mentioned as an area for joint projects. The concrete areas in this respect are:

- Establishment and improvement of the water infrastructure: sewage systems, irrigation systems, flood prevention
- Modernisation of roads and extension of the road network
- Modernisation of railroads, extension of the railroad network
- Waste management
- Public transport in cities

¹⁶ http://europa.eu/rapid/press-release_MEMO-11-735_de.htm?locale=en, approached on 25.08.2015.

However, as explained in Section 3.1, the condition of the infrastructure is only perceived to be a serious restriction for the improvement of the competitiveness of the Ukraine and Moldova. For the other countries, although there is a need for upgrading the infrastructure it is not that urgent in comparison to the problems that arise from the misbehaviour of people as a result of detrimental incentives in the system of rules and regulations. However, if these problems can be solved working together in infrastructure projects would be definitely a sensible area which lies also in the interest of companies from Baden-Württemberg, Bavaria and Austria.

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List of persons who provided input to part II of the study

The following persons provided us with input for this study (in alphabetical order):

- Aleksic Miric, Ana**, University of Belgrade, Serbia
- Ammerl, Thomas**, Bavarian Research Alliance, Germany
- Andronie, Iustin**, Spiru Haret University, Romania
- Angelkova, Nicolina**, Ministry of Tourism, Bulgaria
- Arifagic, Sanjin**, Regional Cooperation Council, Bosnia and Herzegovina
- Ariton, Doinita**, Danubius University of Galati, Romania
- Árvay, Szilárd**, Ministry of Foreign Affairs, Hungary
- Astl, Klaus**, Federal Ministry for Agriculture and Forestry, Environment and Watermanagement, Austria
- Balog, Miroslav**, Slovak Innovation and Energy Agency, Slovakia
- Banjari, Ines**, University of Osijek, Croatia
- Barth, Stefan**, Agapedia GmbH, Germany
- Bauernfeind, Maximilian**, Federal Ministry for Transport, Innovation and Technology, Austria
- Beke, Márton**, Tempus Public Foundation, Hungary
- Berislav, Čížmek**, Management Consulting & Business Building Company, Croatia
- Borcea, Alexandru**, ARIES, Romania
- Bos, Ellen**, Andrásy Universität Budapest, Hungary
- Broyde, Zinoviy S.**, State Scientific and Technical Centre for Inter-Sectorial and Regional Problems of the Environmental Safety and Resource Conservation, Ukraine
- Bruckbauer, Stefan**, Bank Austria - Member of UniCredit, Austria
- Brugger, Katrin-Marina**, Montanuniversität Leoben, Austria

Busek, Erhard, South-Eastern Cooperative Initiative and Institute for Danube Region and Central Europe, Austria

Chrian, Daniela, Steinbeis Europa-Zentrum, Germany

Cornel, Ionescu, Academy of Science, Romania

Čordašić, Zvonimir, Vukovar-Srijem Regional Development Agency Hrast Ltd., Croatia

Cosmin, Crisna, Romanian Departement of Energy, Romania

Cuckovic, Nevenka, Institute for International Relations and Politics, Croatia

Dall, Elke, Centre for Social Innovation, Austria

Dandea, Petru, Cartel ALFA Confederation, Romania

Deac, Radu, European League for Economic Cooperation, Romania

Dedovic, Tanja, Regional Office for Eastern Europe, South Eastern Europe and Central Asia, Austria

Dinga, Ene, Romanian Banking Institute, Romania

Dragomir, Doru, Bilateral Chamber of Commerce Bulgaria-Romania, Romania

Dully, Stefan, Continental, Germany

Farčnik, Daša, University of Ljubljana, Slovenia

Farkas, Erika, Fort Monostor Non-Profit Ltd., Hungary

Fentsyk, Oksana, State Ecological Inspection in Transcarpatian Region, Ukraine

Ferrarese, Luca, Central Europe Programme, Austria

Fodor, Oliver, Ministry for National Development, Hungary

Frank, Anton, Leibniz Supercomputing Centre, Germany

Gantar, Pavle, Assembly of the Autonomous Province of Vojvodina, Serbia

Ghituleasa, Pyerina Carmen, The National R&D Institute for Textiles and Leather – INCDTP, Romania

Ginzler, Birgit, TINA VIENNA Urban Technologies and Strategies GmbH, Austria

Goleminova, Savina, Sofia University "St. Kliment Ohridski", Bulgaria

Großschädl, Elisabeth, Federal Ministry of Science, Research and Economy, Austria

Gyulai, Tamás, Regional Innovation Agency of South Great Plain Region, Hungary

Habjanic, Anton, University of Maribor Techno Center, Slovenia

Haidvogel, Gertrud, Universität für Bodenkultur Vienna, Austria

Hajas, Pál, DAGENE - Danubian Allixance for Preservation of Animal Breeds, Hungary

Hamanova, Mariyana, Bilateral Chamber of Commerce Bulgaria-Romania, Bulgaria

Hansen, Hendrik, Andrásy Universität Budapest, Hungary

Hanta, Costel, Galati Municipality, Romania

Hartl, Martina, Federal Ministry for Science, Research and Economy, Austria

Harvánek, Lukáš, University of Economics Bratislava, Czech Republic

Hilpert, Rumanja, Umwelttechnik BW, Germany

Hinterdorfer, Bianca, Werbegemeinschafts Donau OÖ und WGD Tourismus GmbH, Austria

Hörl, Bardo, Technical University Vienna, Austria

Huber-Kirchberg, Michael, BHAK Linz, Austria

Goranova, Katia, BSC SME, Bulgaria

Gryga, Vitalii, Institute of Economics and Forecasting, Ukraine

Hörcher, Günter, Fraunhofer IPA, Germany

Iliescu, Iuliana, Pro Democracy Association, Romania

Ionescu-Heroiu, Marcel, The Worldbank, USA

Jaschitz, Mátyás, Central European Service for Cross-Border Initiatives, Hungary

Johannis, Klaus, President of Romania, Romania

John, Holger, Trickfilmerei, Germany

- Jungwirth, Christian**, Okto. Community TV-GmbH, Austria
- Jurlin, Kresimir**, National Competitiveness Council, Croatia
- Justinek, Gorazd**, Centre for European Perspective, Slovenia
- Kaderabkova, Anna**, University of Economics and Management, Centre for Innovation Studies Prague, Czech Republic
- Kalmar, Timea**, Embassy of Hungary in Ottawa, Hungary
- Ketels, Christian**, Harvard Business School, USA
- Kerekes, Gabor**, Essence Foundation Romania, Romania
- Koch, Walter**, Steinbeis Transfer Center IMCHI, Austria
- Kocháňová, Alena**, Ministry of Industry and Trade, Czech Republic
- Kollarits-Grubinger, Claudia**, PRISMA Solutions IT-Services GmbH, Austria
- Knapp, Martin**, Delegation der Deutschen Wirtschaft in Serbien, Serbien
- Kranjac, Mirjana**, Business Center for Standardisation and Certification BSC, Serbia
- Krsmanovic, Ana**, Deputy Minister of Finance, Montenegro
- Kunze, Ulrike**, Project Management Agency at German Aerospace Centre, Germany
- Landwehr, Klara**, KultUnio Alapítvány, Hungary
- Lianu, Costin**, Ministry of Economy, Romania
- Lintner, Peter**, Chamber of Commerce and Industry Swabia, Germany
- Littvay-Kovács, Áron**, Budapest Chamber of Commerce and Industry, Hungary
- Ljubic, Maja**, SEECEL – South-East European Center for Entrepreneurial Learning, Croatia
- Loyko, Lesya**, NGO FORZA, Agency for Sustainable Development of the Carpathian Region, Ukraine
- Lucius, Irene**, WWF Danube-Carpathian Programme, Austria
- Lugić, Edin**, EU Strategy for Danube Region, Croatia

- Macak, Lubomir**, Institute of Spatial Planning, Slovakia
- Makkos-Kaldi, Judit**, City School Council Vienna, Austria
- Manahl, Caroline**, Centre for Social Innovation, Austria
- Mandl, Benedikt**, UN Office Vienna, International Commission for the Protection of the Danube River, Austria
- Marić, Zorica**, Ministry of Economy, Serbia
- Mirkovic, Milika**, Institute for Strategic Studies and Prognoses, Montenegro
- Mosoia, Cristian**, Asociatia Ivan Patzaichin – Mila 23, Romania
- Muraru, Cornelia**, National Institute for R&D for Machines and Installation designed to Agriculture and Food Industry, Bucharest
- Nagyvárad, Aliz**, Ministry for National Development of Hungary, Hungary
- Neuhäuser, Bettina**, Austria Tech, Austria
- Obiltschnigg, Brigitte**, European Office of the Vienna Board of Education, Austria
- Ostojic, Srdan**, Chamber of Commerce and Industry, Bosnia and Herzegovina
- Orban, Leonard**, Former European Commissioner for Multilingualism, Romania
- Oruc, Nermin**, Centre for Economic Development and Research, International University of Sarajevo, Bosnia and Herzegovina
- Paierale, Oxana**, Academy of Public administration, affiliated to the President's Office of the Republic of Moldova, Moldova
- Pavla, Břusková**, National Cluster Association, Czech Republic
- Petkova, Desislava**, Environmental Technologies BW, Germany
- Pabst, Gudrun**, EuroVienna - TAF-DRP & Start, Austria
- Pfaffenwimmer, Günther**, Federal Ministry of Education and Women's Affairs, Austria
- Pilko, Krunoslav**, Zagreb County, Croatia

Pietschmann, Dieter, Wiener Hafen und Lager Ausbau- und Vermögensverwaltung GmbH, Austria

Pokaz, Tomislav, Ministry of Economics, Croatia

Popescu, Sorin Gabriel, Technical University of Cluj Napoca, Romania

Puchinger, Kurt, Priority Area 10, EU Strategy for the Danube Region, Austria

Radisic, Mladen, University of Novi Sad, Serbien

Raizner, Jürgen, Steinbeis Danube Center, Germany

Reinel, Therese, NÖ Sprachkompetenzzentrum, Austria

Reiter-Pázmándy, Matthias, Federal Ministry of Science, Research and Economy, Austria

Rosner, Katja, via donau – Österreichische Wasserstraßen GmbH, Austria

Rubel, Oleg, National Academy of Sciences, Ukraine

Rusić, Vesna, Crafts - Cluster for the Revitalization of Traditional Crafts in Serbia, Serbia

Rybaczek, Franz, BIENE - Boden und Bioenergienetzwerk NÖ – EU, Austria

Šášiková, Maria, BIC Bratislava, Slovakia

Sandu, Christina, Institute of Biology Bucharest, Romania

Schick, Karl, Chamber of Commerce and Industry Ulm, Germany

Schneyder, Peter, PAN PLAN GmbH, Austria

Scopetta, Anette, ZSI – Center for Social Innovation, Austria

Škrábalová, Lenka, Ministry of Industry and Trade, Czech Republic

Šegvić, Sonja, South East European Centre for Entrepreneurial Learning - SEE-CEL, Croatia

Sengstbratl, Helene, Public Employment Service, Austria

Setzen, Florian, Europa Zentrum Baden-Württemberg, Germany

Simeonova-Ganeva, Ralitsa, Sofia University St. Kliment Ohridski, Bulgaria

Sorantin, Elisabeth, CEEPUS – Central European Exchange Program for University Studies, Austria

Stanchev, Krassen, CASE – Center for Economic and Social Research, Bulgaria

Stepan, Dorothea, Danube University Krems, Austria

Stratan, Dumitru, National Institute for Economic Research, Moldova

Stratenschulte, Eckart D., European Academy Berlin, Germany

Stoev, Georgi, Bulgarian Chamber of Commerce and Industry, Bulgaria

Studennikov, Igor, Centre for Regional Studies Odessa, Ukraine

Suciu, George, BEIA Consult International, Romania

Szaplanczay, Orsolya, Innoskart Nonprofit Ltd., Hungary

Szekely, Daniel, Banca Transilvania, Romania

Szokolay, Örs, CEURINA - Central European Urban research and Innovation, Hungary

Todor, Cornel, GEODIS Todor, Austria

Todor, Razvan, GEODIS Todor, Austria

Truckenmüller, Till, Automotive Cluster Bulgaria, Bulgaria

Uhlíř, David, South Moravian Innovation Centre JIC, Czech Republic

Vasile, Valentina, Institute of National Economy- Romanian Academy

Veskovic, Miroslav, Joint Research Centre, International, Interinstitutional and Stakeholder Relations Unit, Belgium

Vojin, Golubovic, Institute for Strategic Studies and Prognoses, Montenegro

Vonhoff, Katja, Danube Strategy Research Network, Germany

Vujosevic, Nina, Ministry of Economy, Montenegro

Warncke, Kerstin, University of Augsburg, Germany

Weber, Jürgen, Government of Lower Bavaria, Germany

Willsberger, Barbara, L & R Social Research, Austria

Wolf, Wolfgang, Regional Association of the Industry of Baden-Württemberg, Germany

Zamfirescu, Sandu, EUROLINK - House of Europe, Romania

Zarkovic Rakic, Jelena, Foundation for the Advancement of Economics (FREN), Serbia

Zinke, Alexander, Zinke Environment Consulting for Central and Eastern Europe, Austria