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a secure,
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prospering
DANUBE REGION

STATUS REPORT
ON THE DANUBE COUNTRIES
AND THE EU STRATEGY
FOR THE DANUBE REGION



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DANUBE REGION



I. FOREWORD

It is with great pleasure that I present to you this comprehensive summary on the EU Strategy for the Danube Region and its countries, which I hope will serve as a basis for the discussions on the economic performance and general wellbeing of our region.

As you may know, Hungary assumed the Presidency of the Strategy in November 2016, when the organization of the Forum also officially commenced. Bearing the title 'A secure, connected and prospering Danube Region', the event aims to present the strategic directions the region should take until 2020 and beyond, with a strong focus on energy security, transport infrastructure development and environmentally friendly transportation.

The topics for the event have been chosen with the intention of presenting areas in which regional cooperation is of strategic importance. Energy security, transport infrastructure development and environmentally friendly transportation alike have a profound impact on our everyday lives. Even so, it has to be borne in mind that the prosperity of our region depends not only on the availability of energy resources and the development level of transport connections, but it is also subject to events and processes on a wider macroeconomic scale. A promising sign of a strong and stable economic development is that in 2016 the Danube Region achieved an average annual GDP growth of 2.7%, which is a laudable performance when compared to all the other macroregions.

Nevertheless, we have to be aware that the European Union is currently going through a difficult period, as it is faced with a number of major challenges and forced to make several difficult decisions. The Danube Region countries, the EU28 and the other macro-regions all have to confront a steady decline in the average rate of working age people compared to the total population. In terms of aggregate competitiveness, there are significant disparities and extremities among the member countries.

Furthermore, the EU Strategy for the Danube Region gathers the largest number of non-EU countries in the existing macro-regional frameworks of the European Union (Bosnia and Herzegovina, Moldova, Montenegro, Serbia and Ukraine), thus making it instrumental in fostering future cooperation in the areas of EU enlargement and neighbourhood policy as well. In this sense, the Strategy is central to the objectives of the EU as a whole.

The Hungarian Presidency of the EU Strategy for the Danube Region has put together this publication to provide the reader with a general understanding of the underlying motives and fundamental principles that drive our region. I am confident that the discussions and conclusions of the 6th Annual Forum will provide the necessary framework that can contribute to the EU Strategy for the Danube Region becoming an even more secure, connected and prospering region in the European Union.

ISTVÁN JOÓ

*Ministerial Commissioner for Water Diplomacy,
Export and the Danube Region Strategy*

II. EXECUTIVE SUMMARY



The Danube River, which once separated the Roman civilization from the rest of the World, now serves as a major highway and a connecting force for more than ten countries in the Central and Eastern European region. Linking EU Member States, candidates for membership and partner countries alike, this mighty European waterway symbolizes that all of the countries on its banks are destined for cooperation.

European integration was and remains the key driving force to better utilizing the main waterways - critical infrastructure networks in and of themselves in terms of the efficient transportation of goods. The river serves as a gateway to the Black Sea basin and quite possibly to the Caucasus region and Central Asia.

The recognition of the profound importance and the inherent potential of the Danube led to the establishment of the EU Strategy for the Danube Region (EUSDR), a strategy prepared by the European Commission on the request of

the European Council. In 2010 the Commission adopted its communication for the EUSDR, which was endorsed by the Council in 2011, making the EUSDR the second macro-regional strategy after the EU Strategy for the Baltic Region.

The EUSDR encompasses nine EU Member States (Germany, Austria, Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania and Bulgaria), and five non-EU countries (Bosnia and Herzegovina, Serbia, Montenegro, the Republic of Moldova and Ukraine), home to 115 million people, a significant market not only for products and services, but also a source of skilled labour for the European Union.

Key challenges to be tackled by the EUSDR are manifold: besides the fact that the participating countries are at vastly different stages in terms of their economic development, nearly all of the members are faced with different environmental issues. In addition, the region is largely characterised by an ageing and inefficient infrastructure. Joint actions, together with a transnational

approach, can make better use of the potential which the 14 EUSDR countries possess: the research potential in the region is enormous, and enhanced cooperation in higher education – one of the EUSDR's main goals in the period until 2020 – can meaningfully tackle these challenges. Cross-border cooperation in managing environmental issues, providing security and combating organized crime are also priorities of the EUSDR, and results are already justifying the initiatives that the Commission has put forward. The overall objective according to which the Danube Region shall become the most attractive region in Europe in the 21st century is obtainable, as the EUSDR countries are offering great economic growth potential, which is underscored by the recent economic successes and growth rates of recent years.

The cooperation rests on four pillars: connectivity, protecting the environment, strengthening socio-economic aspects and enhancing prosperity through better security and capacity-building. Connectivity is one of the most important areas, as the utilization of the Danube as a transit route still has room for development. Port facilities and fluvial navigation procedures could be upgraded and harmonized, all the while adhering to the highest environmental standards. The 'Waterway Mobility' and 'Rail-Road-Air Mobility' Priority Areas address these challenges and promote better connectivity as well as intermodality.

Protecting the environment is the second pillar of the Strategy and is of enormous importance for the region. One has to balance the need for transportation, flood-prevention and management, tourism, wildlife preservation and pollution-prevention in a way that simultaneously enables economic growth and realizes the Danube's potential as a source of energy and as a transit route. Priority areas in this field include 'Water quality', 'Environmental Risks' and 'Biodiversity and Landscapes'.

The third pillar concerns prosperity, economic cooperation and coordination. The Danube Region is characterized by a wide range of disparities, comparing the living standards of Germany and the Republic of Moldova clearly highlights the challenges which the Strategy faces in the field of the economy. Promotion of financial and institutional contacts would help all participating countries, as it would ease the flow of capital and labour in the most effective way, thereby benefiting all EUSDR countries. The percentage of citizens with tertiary education is lower in the region than other parts of Europe, while one-third of Europe's citizens who are at risk of poverty are found in the region. The most important priority areas are 'Knowledge Society', 'Competitiveness of Enterprises' and 'People and Skills'.

Finally, security is a cross-cutting issue which permeates all the other pillars: without the possibility of safely conducting business, effectively combatting organized crime and adequately addressing corruption, the potential of the region will never be realised. Human trafficking, narcotics and illicit goods pose a significant challenge for some of the EUSDR countries. Priority areas in this pillar are 'Institutional Capacity and Cooperation' and 'Security'.

In order to implement the above-stated goals, the EUSDR has a multi-layered body that can manage the challenges emanating from the various countries and policy fields. The European Commission is assisted by the High Level Group, involving high-level officials from the participating states of all the macro-regional strategies. Specific fields are managed by the Priority Area Coordinators (PACs), in the Steering Groups, which consist of not only the PACs, but also their civil society and academic counterparts. At the national and regional level, we find the National Coordinators, who follow and monitor the implementation of the EUSDR objectives in their respective countries.



Regarding the economy, the Danube Region is a success story of the European Union. In 2016 the Danube Region clearly outperformed the benchmark regions in terms of average annual GDP growth, with every economy of the region delivering a positive result. Top performing Danube Region countries were Romania (4.8%) and Moldova (4.1%), with Austria (1.5%) and Germany (1.9%) found on the lower end of the spectrum. Between 2011 and 2015 the Region surpassed the Adriatic and Ionian and the Alpine regions (the latter is one of the most developed regions in Europe and, therefore, a moderate growth rate can be considered normal). For the coming three years we expect the Danube countries to witness higher average annual GDP growth rates than the EU28, including the other macroregions. When analysing separately the EU and the non-EU members of the Danube Region, the latter group is forecasted to deliver higher growth rates in the near future.

The development of a culture of cooperation in the concerned administrations can be considered to be one of the greatest achievements of the EUSDR. This paradigm shift in terms of the mindsets of the countries in the region – the emergence of a sense of common responsibility – helped bring together decision-makers and to better connect and involve existing transnational institutions. The EUSDR likewise clearly contributed to the EU enlargement and neighbourhood policy agendas by intensifying thematic cooperation and improving the administrative culture in the non-EU countries. The creation of solid networks and partnerships between public and private actors aids the stabilisation and development in critical fields.

At national level, a spill-over effect is also discernible. Besides laying the groundwork for numerous projects, in some cases the Danube Region Strategy also served to orient national policies and develop projects



at regional or local level which have a transnational dimension. The EUSDR clearly helped to strengthen the coordination of policies at national level, leading to an improved dialogue and the creation of synergies between public actors and various institutes. It enhances the effectiveness of policy-making and implementation. Furthermore, the EUSDR facilitates the dialogue with NGOs as well.

This publication showcases the Danube Region Strategy, its successes, challenges and opportunities. It deals not only with the institutional framework of the EUSDR and the economic outlook of the region, but also presents the achievements of the last few years. We intend to demonstrate that the EUSDR will enable Central and Eastern Europe to be one of the most competitive regions within the European Union, one

which boasts robust economic growth, a high potential for further educational expansion, all the while reducing security threats. The success stories herein outlined originate from all corners of the region. They will not only evince the importance of the EUSDR in establishing these opportunities, but will likewise illustrate just how the EU and the regional strategy changes people's lives for the better.



III.
THE EUROPEAN UNION
STRATEGY FOR THE
DANUBE REGION



INTRODUCTION OF THE DANUBE REGION

The Danube has always played a vital role in the settlement and political evolution of Central and Southeastern Europe. Once a long-standing frontier of the Roman Empire, the river serves as a scene for some of the most remarkable events of Europe's history. Its banks, lined with castles and fortresses, formed the boundary between great empires, and its waters functioned as an essential commercial highway between nations. In the 21st century the river continues to play its role as an important trade artery. It has been harnessed for hydroelectric power, particularly along the upper courses, while the cities along its sides rely heavily on the advantages of the river for their economic development.

The Danube flows through ten countries, more than any other river in the world. Classified as an international waterway, it originates in the town of Donaueschingen, in the Black Forest of Germany, at the meeting point of the rivers Brigach and Breg. The Danube then flows southeast for about 2,850 km, passing through four capital cities before emptying into the Black Sea via the Danube Delta in Romania.

Being the most biodiverse region in Europe, the Danube's basin is home to a number of habitats

of international significance. The Danube Delta is also the best-preserved river delta in Europe, being a UNESCO World Heritage Site since 1991. Its wetlands support vast flocks of migratory birds of over 300 species. Due to its fascinating landmarks and sights, the region is an important tourist destination as well. With its well-established cycling infrastructure, hiking and travel possibilities, the region along the Danube attracts a high number of visitors from all over the world every year.

As a result of the events of the past decades, the Danube Region has changed dramatically. Due to the waves of EU enlargement in the 2000s, the future of the world's most international river basin is largely influenced by the European Union. New opportunities have emerged to address its challenges and to fully exploit its economic potential. Enhancement of socio-economic development, increased competitiveness, improvement in environmental management and resource efficiency, modernisation of transportation corridors are all areas of great potential. The Danube can also support the strengthening of relationships between the EU and its Eastern neighbours, the Black Sea region, the South Caucasus and Central Asia.

THE EU STRATEGY FOR THE DANUBE REGION

In order to achieve the above-mentioned goals, in the Presidency Conclusions of 18 June 2009 the European Council requested the Commission to prepare an EU Strategy for the Danube Region (EUSDR). The Commission adopted a Communication on 8 December 2010 (with an annexed Action Plan identifying concrete actions and examples of projects in priority areas), which was then endorsed in April 2011 by the Council. The EUSDR is the second EU macro-regional strategy, following the EU Strategy for the Baltic Sea Region.

The Danube Region is a functional area defined primarily by its river basin. While cooperation bodies such as the Danube Commission and the International Commission for the Protection of the Danube River address specific issues, the EUSDR widens this approach to meet challenges and take advantage of opportunities in an integrated way. Synergies and trade-offs should be identified, e.g. developing cutting-edge green technology, working towards better alignment of policies and funding to improve the impact on the ground and overcome fragmentation.



The EUSDR encompasses 9 EU Member States (Germany, Austria, Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Romania and Bulgaria), 5 non-EU countries (Serbia, Bosnia and Herzegovina, Montenegro, the Republic of Moldova and Ukraine) and covers a territory that is home to approximately 115 million people.

It must nevertheless be highlighted that the 14 participating countries differ largely in terms of their economic performance. Hosting the world's most international river, the Danube Region is a major transportation axis, a crucial interconnected hydrological basin and a world renowned ecological corridor all at once.

The underlying rationale of the Strategy is to connect ideas with the actual needs of the people in the region. Transport interconnections should be modernised and internet access should be improved. As a result of two-way interconnectors and alternative sources, energy can be cheaper and more secure. Joint actions in environmental protection can contribute to sustainable development goals. A transnational approach is required to minimise the risks of disasters such as floods, droughts or industrial accidents. By building on its considerable research and innovation potential, the region can become the driver of Europe's future economy. Disparities in

education and employment can be overcome. The Danube Region can be transformed into a more secure area, where conflicts and crime are managed effectively.

One of the Strategy's central aims is to ensure that by 2020 all citizens in the region enjoy better prospects of higher education, employment and prosperity. The Danube Region would accordingly meet the challenges of the 21st century and become one of the most attractive areas in Europe.

PILLARS OF COOPERATION

The cooperation of the Strategy focuses on four pillars: connecting the region, protecting the environment, strengthening the socio-economic aspects and enhancement of prosperity through security and capacity-building. Within the four pillars, 11 Priority Areas have been identified in order to focus and prioritise efforts more effectively.

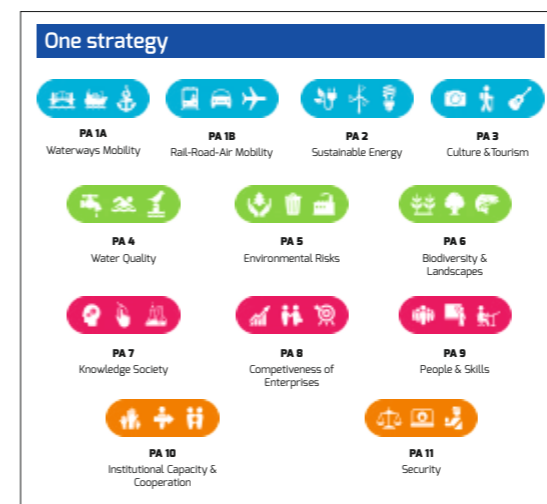
PILLAR 1 - CONNECTING THE REGION

Improved connections are important factors in the development of the Danube Region, either internally or to other European and global regions. For example, inland waterway transport offers substantial environmental and efficiency-related benefits and, as such, the potential offered by the River should be fully exploited in the future in line with the EU environmental legislation. Priority areas 'Waterways mobility' and 'Rail-Road-Air Mobility' are focusing on these aspects of the cooperation.

Sustainable and affordable supply of energy is a common challenge of the region. The low number of external suppliers increases the vulnerability of the region highlighted by periodic



winter crises in the recent past. Priority area 'Sustainable energy' targets the increase of efficiency, including the consumption of less energy and the extension of the renewable sources as well.



Despite its shared history and traditions, the Region is home to very diverse communities, this being reflected both in the culture and arts found within the region. Combined with the outstanding natural heritage, the Danube Region is an attractive destination for visitors

from any nation. Priority area 'Culture and Tourism' focuses on the improvement of cooperation in this field.

PILLAR 2 - PROTECTING THE ENVIRONMENT

As an international hydrological basin and ecological corridor, the Danube Region requires a cross-border approach to wildlife conservation and pollution prevention which is one of the reasons why there is an increasing demand for sustainable water management in the region. Over the past decades, major flooding, droughts and industrial pollution have affected the Danube Region. Inhabitants living in the Danube basin need to be protected from serious disastrous events with negative trans-national impact by jointly implemented disaster management programs. Fragmentation of ecosystems, land-use intensification and urban expansion are all issues that should



be addressed. The priority areas in this pillar include 'Water Quality', 'Environmental Risks' and 'Biodiversity and Landscapes'.

PILLAR 3 - BUILDING PROSPERITY

The Danube Region is characterised by a wide range of disparities, being the location of some of the most successful and at the same time some of the least developed regions in the EU. Lack of financial and institutional networks and cooperation is a persistent issue. Enterprises do not make the most of the international dimension of marketing, innovation or research and development. The rate of highly educated people in the region is lower than the EU average, illustrating the existing differences between the different regions. Furthermore, marginalised communities require social assistance, as one third of the EU's population at risk of poverty lives in the area. In the framework of this pillar, priority

areas 'Knowledge Society', 'Competitiveness of Enterprises' and 'People and Skills' are jointly developing initiatives to find a sustainable solution to these challenges.

PILLAR 4 - STRENGTHENING THE REGION

The region has been struggling with the problem of security and organised crime for several years. Human trafficking and smuggling of goods afflict several of the countries. Corruption undermines public and investor confidence and hinders social and economic progress. All these challenges need to be addressed by reinforcing security and legal discipline across borders. The process of private and public sector decision-making has to be improved, including good planning and enhanced international cooperation. These are the fields of action under priority areas 'Institutional Capacity and Cooperation' and 'Security'.

IMPLEMENTATION AND OPERATION

The European Commission's Directorate General for Regional Policy helps to implement the Strategy by facilitating and supporting actions of the participating countries. They also coordinate the Strategy at the policy level, assisted by a High Level Group (HLG) on macro-regional strategies that involves official representatives from the Member States of all macro-regional strategies. The HLG assists the Commission in the policy coordination of the Strategy.

The specific fields of cooperation are managed by Priority Area Coordinators (PACs) – officials of national and regional administrations and experts in their fields. Supported by counterparts from across the Danube Region they are organised in Steering Groups, in which representatives of civil society organisations may also participate.

At national and regional level, the implementation is managed by the National Coordinators (NCs). They have a strategic coordinating function within their national or regional government. The NCs coordinate and keep an overview of the participation of their country in the implementation of the EUSDR, including all Priority Areas. They also promote the EUSDR and inform at the national and regional level all the relevant stakeholders on the key developments, ongoing initiatives, covering alignment of policies and funding.

The Danube Region Strategy also uses the institution of a Trio Presidency, which is meant to set the strategic and political direction of the

Strategy for a period of three years. The one-year Presidency cycle concludes with the most important event of the Strategy, the Annual Forum. In 2017 Hungary, as the Presidency of the Strategy, is organizing, together with the European Commission, its 6th Annual Forum in Budapest on 18-19 October. The Forum is entitled 'A secure, connected and prospering Danube Region' and it focuses on regional energy security, transport infrastructure development and clean connectivity issues. The Forum will also present all the financing possibilities available to the region. Covering the whole territory of the EUSDR, the Interreg Danube Transnational Programme directly contributes to the Strategy's implementation through its thematic priority axes (aligned with the Strategy's priorities) and supports the Strategy's governance mechanisms and structures.

According to the Commission's perspective, setting targets is essential in order to focus and prioritise efforts. Since the launch of the Strategy joint efforts have been undertaken to commonly develop projects aimed at implementing the Action Plan of the EUSDR. In some cases, the already existing projects formed the basis for joint actions in the priority areas. All participants are responsible for the implementation of the actions at country, regional, urban and local level as well. Overall, a wide range of initiatives are ongoing in the framework of the EUSDR. Reporting and evaluation are done by the Commission in partnership with the Priority Area Coordinators and other stakeholders.



IV.
THE DANUBE REGION
IN FIGURES:
AN ECONOMIC OUTLOOK

The Danube Region is evidently characterized by substantial disparities in a number of socio-economic indicators reflecting economic development and prosperity levels, labour market conditions and competitiveness. As a consequence, these economic and social features of the Danube countries pose a number of challenges to the implementation of a coherent regional development strategy. At the same time, the regional economic and cultural diversity offers many opportunities which may be exploited for boosting economic development and competitiveness.

This Chapter compares the Danube Region with the EU28 and other macroregions, in order to evaluate and provide a benchmark for the Danube countries' economic performance. The analysis also compares subgroups of the Danube Region countries in terms of competitiveness to explore those fields in which cohesion should be particularly strengthened.

In figures referring to the Alpine macroregions Liechtenstein is not included due to lack of available data.

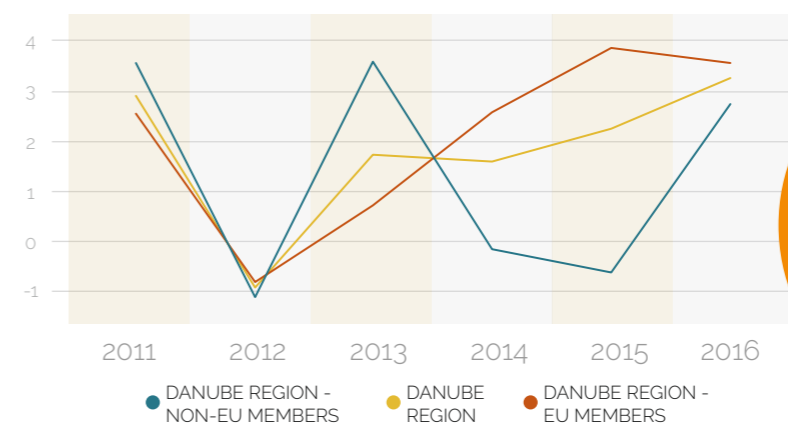
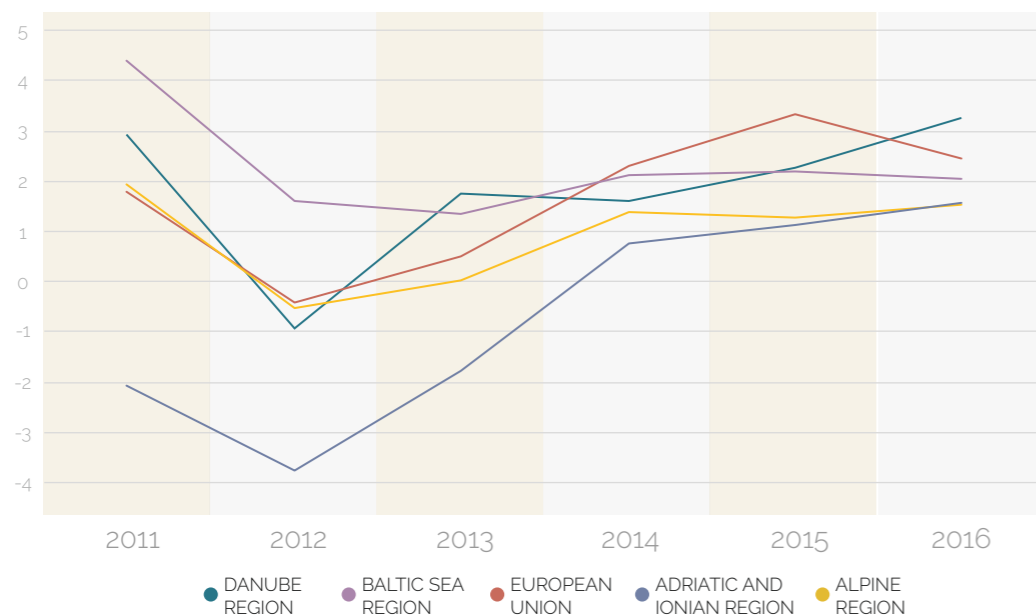
MACROECONOMIC AND PROSPERITY INDICATORS

GDP GROWTH

The market value of final goods and services produced in an economy over the course of one year is expressed in terms of an economy's

gross domestic product (GDP). The growth rate of GDP is generally regarded as an indicator for the pace of economic development of a

Figure 1



Average GDP growth (%) 2011-2016

Note: 2015 EU data are distorted by 26.3% growth of Irish GDP, which is a result of foreign companies being included in national statistics

Source: calculation based on World Bank data

country or a region. To get an impression of the performance of the Danube Region and the benchmark regions in the near past, the average annual GDP growth rates from 2011 to 2016 are displayed in Figure 1.

In 2016 the Danube Region clearly outperformed the benchmark regions in terms of average annual GDP growth, with every economy of the region delivering a positive result. Top performing Danube Region countries were Romania (4.8%) and Moldova (4.1%), with Austria (1.5%) and Germany (1.9%) on the lower end of the spectrum. Between 2011 and 2015 the Region surpassed the Adriatic and Ionian and also the Alpine regions (the latter is one of the most developed regions in Europe, therefore a moderate growth rate can be considered as normal). Altogether the figures of the last half decade show that with positive external economic conditions, the Danube Region's economies have the capability to grow faster compared to other macroregions and the EU28.

GDP PER CAPITA

The per capita GDP is especially useful when comparing one country to another, as it shows the relative performance of the economies. A rise in per capita GDP signals growth in the economy and tends to reflect an increase in productivity. GDP per capita is likewise commonly used as a proxy to measure welfare. However, GDP per capita only measures the

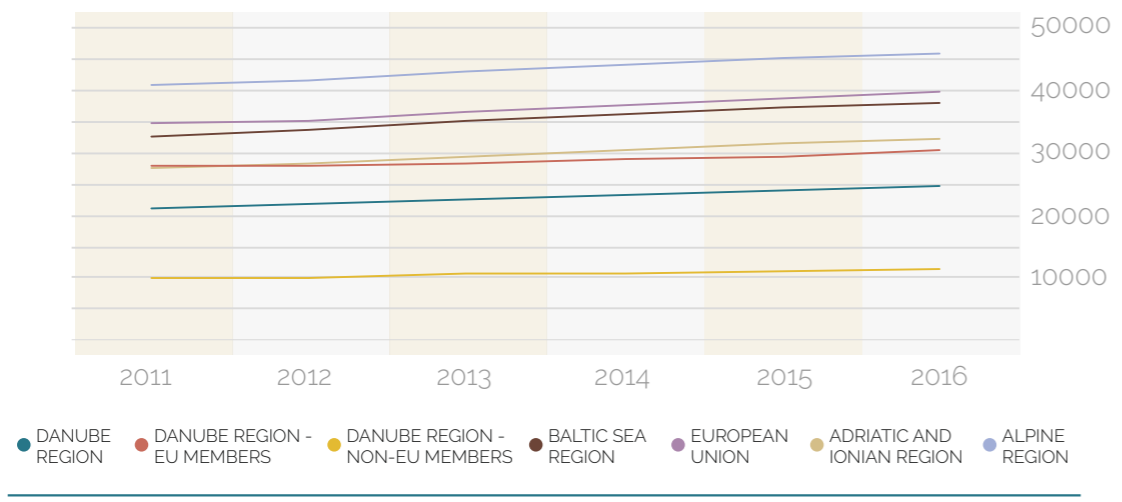
level of the income on a national level, but not its distribution within a given country.

There can be substantial disparities between cities and regions, especially in less developed countries. Figure 2 compares the Danube Region to other macroregions of the EU and to the European Union itself.

For all country aggregates included in the analyses, we witness a steady increase in the past five years. Nevertheless, the Danube Region lags substantially behind all benchmark regions, which indicates the prevailing differences in terms of prosperity. The EU members within the Danube Region are in a

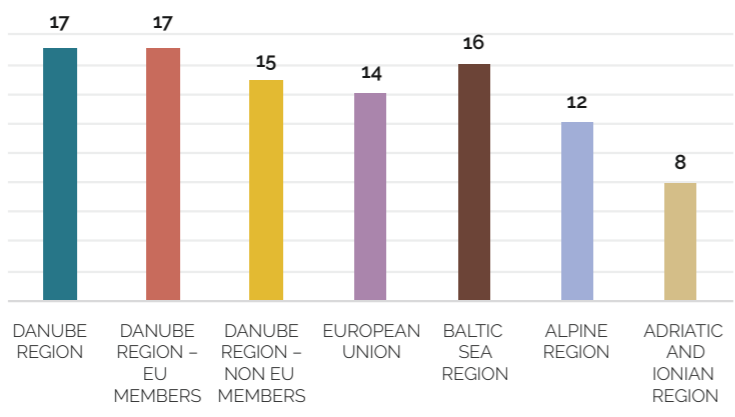


Figure 2



Average GDP per capita (ppp, USD)

Source: calculation based on World Bank data



Average growth in GDP per capita (% 2011-2016)

Source: calculation based on World Bank data

slightly better position, surpassing the average GDP per capita level of the Adriatic and Ionian Region, but they are still at a considerable distance from the EU28 or the Alpine Region average. On the other hand, when comparing the non-EU countries of the Danube Region to the other country aggregates, it becomes clear that the non-EU countries are not only far behind their EU counterparts, they are in fact at

risk of falling even further behind. Accounting for less than half of the total Danube Region's and less than one third of the EU28's average GDP per capita, these countries represent an entirely different dimension in terms of welfare. However, the Danube countries' GDP per capita growth of 17% from 2011 to 2016, indicates a catch-up effect, as the EU28 and other

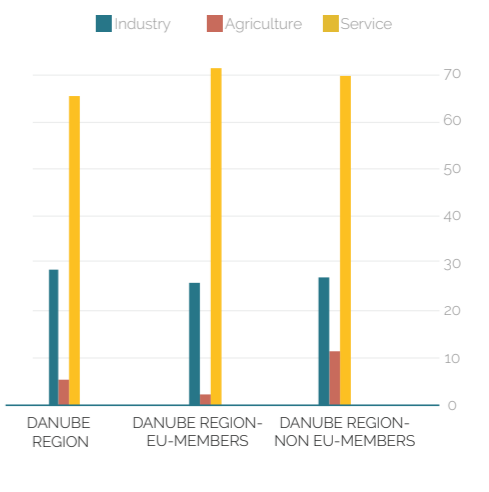
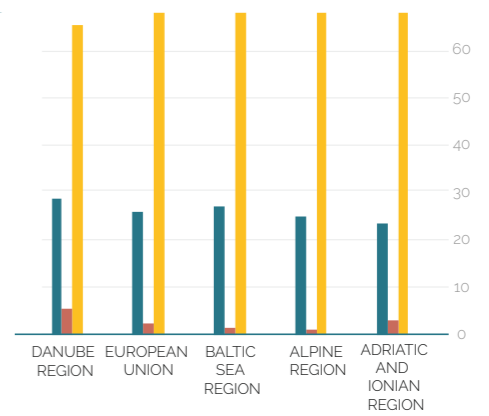


macroregions grew by only 8-16% respectively. When looking at the growth rate, non-EU members of the Danube Region are in a better position with a 15% increase in five years. With this result, they slightly surpass the EU28 average growth rate (14%). Considering the low base effect this minor surplus does not mean that this group of countries has a real chance for a quick convergence process to the more developed regions.

GDP COMPONENTS BY SECTORS

Contribution of industry, agriculture and services to total GDP reflects the structure of a country's or region's economy. Figure 3 illustrates the average added value of these three sectors as a percentage of GDP. Due to lack of available data, Switzerland and Serbia are not included in the figures for the Alpine Region and the Danube Region.

As seen in the comparison between the macro-regional strategies, the contribution of industry and agriculture to GDP is the highest in the Danube Region and contrarily the average rate of services is the lowest. On the country level, the Czech Republic is the most industrialised economy in the Danube Region with a 37.7% contribution to the GDP in terms of value.



GDP components by sectors Value added (% of GDP)

Source: calculation based on World Bank data



Moldova (14.3%) is far the least industrialised country in the group, nevertheless the proportion of agriculture (14.3%) and services (71.4%) are the highest in the region. Based on the figures, the EU member Danube countries are more industrialised than their non-EU member counterparts, with a lower average rate of agriculture in total GDP.

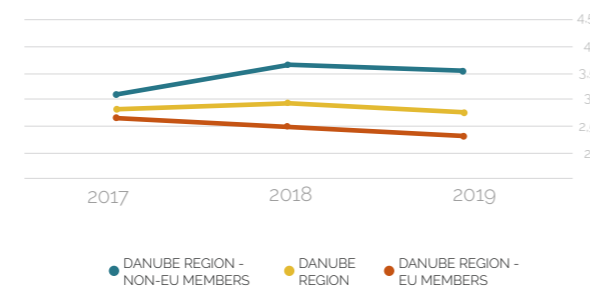
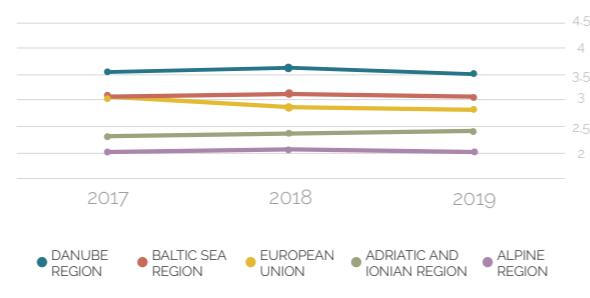
ECONOMIC GROWTH PROSPECTS

Economies of the Danube countries and the benchmark regions are representing very different development levels. The achievable future growth rate is an indicator that reflects whether the cohesion of a region is going to increase and whether the catch-up of less developed countries is realistic or not. *Figure 4* displays prospects for GDP growth of the Danube Region and benchmark groups of countries.

For the coming three years, it appears that the prospects of the Danube countries in terms of average annual GDP growth are higher than that of the EU28 and other macroregions. When analysing separately the EU and the non-EU members of the Danube Region, the latter group is forecasted to deliver the higher growth rates in the near future. However, in their case the low base effect should not be ignored. The EU Member States in the Danube region are

also expected to achieve higher growth rates in average than the EU28 and other benchmark regions. With respect to leading countries in terms of GDP growth, in 2017 Romania, in 2018 Hungary, Moldova, Bosnia and Hercegovina, and in 2019 Ukraine are anticipated to be the fastest growing economies.

Figure 4



Economic growth prospects 2017-2019
GDP growth (%), average
Source: calculation based on World Bank data

POPULATION AND LABOUR MARKET

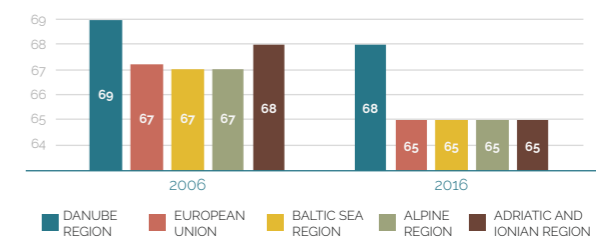
Starting a couple of decades ago, the phenomenon of an ageing population has become a common feature affecting the EU countries as well as the Danube Region countries. We use the term to refer to when there is a rising proportion of older persons and a declining proportion of the working age people in the total population. The ageing of society is likely to accelerate in the coming decades in the EU28 and most probably in the Danube Region as well. This tendency will likely pose a significant challenge to the welfare system of these countries.

WORKING AGE POPULATION (15-64)

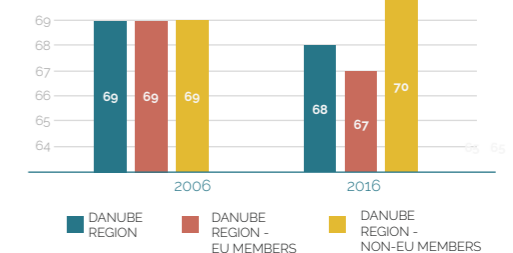
When analysing trends in the change of population, understandably a longer time period has to be selected. *Figure 5* displays the change in the average rate of working age people in the total population for the Danube countries and benchmark regions from 2006 to 2016.

As illustrated in the diagram, the Danube region, the EU28 and the other macroregions all had to face the negative tendency mentioned above. However, there are minor differences in the rate of decline: the Danube Region with a 1% average drop in 10 years, while the EU, the Baltic Sea

Figure 5



Population age 15-64 (% of total, average)
Source: calculation based on World Bank data



Population age 15-64 (% of total, average)
Source: calculation based on World Bank data

Region, the Alpine Region and the Adriatic and Ionian Region facing a 2-3% decline in the rate of working age population. In this regard, the non-EU member Danube countries may be considered a positive exception, as the proportion of the working age population

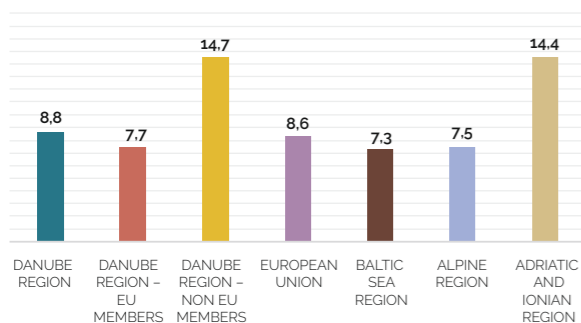


increased from 69% to 70%. This positive trend likely has a correlative relationship to the growth recorded in Moldova, Montenegro and Ukraine. This could offset the 2% decline recorded in the "new" EU member Danube countries, as is the case with the figures pertaining to the more developed regions. All these statistics show that there are still reserves in the labour pool in some of the less developed parts of the Danube Region, a factor that can be a valuable characteristic in the future.

UNEMPLOYMENT

From the perspective of a region's economic development, it is crucial to offer people the opportunity to work in the proximity of where they live. The creation of jobs and the reduction of unemployment is a determinative factor in setting an economy onto a sustainable growth trajectory. Figure 6 illustrates the average proportion of unemployed people within the total population in the Danube Region and other country aggregates.

Figure 6



Average unemployment rates in 2016 (% of total population)

Source: calculation based on World Bank data

As we can see in terms of unemployment rates, the Danube Region has a lower rate than that of the EU28 average and the two more developed macroregions of the European Union. When zooming into the subgroups of the Danube countries, we see a, perhaps surprising, disparity between the "new" EU



members and the non-EU countries. Average unemployment rates in the latter are virtually twice as high as in the "new" EU member countries. However, this also represents an opportunity for these economies. With historically low unemployment rates at present, the more developed Central European countries, like Hungary, Czech Republic or Slovakia, may lose their attractiveness for investment projects requiring relatively cheap labour. As a consequence, the less developed Danube countries with higher unemployment rates may step into the spotlight. This has already been the case in Serbia, as the country has become an increasingly popular location of manufacturing investment projects in recent years.

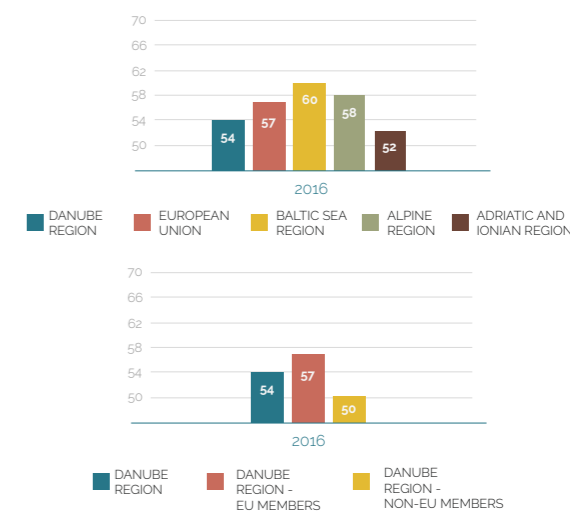
At the country level, huge differences are discernible in the Danube Region, with the lowest rate recorded in the Czech Republic (4%) and the highest in Bosnia and Hercegovina (25.8%).

LABOUR FORCE PARTICIPATION RATE

The participation rate is a measure of the active portion of an economy's labour force. It refers to the number of people either employed or actively looking for work. It is an important metric to use when analysing unemployment data. Figure 7 displays the average labour force participation rates for the analysed regions and groups of countries.

As we can see the average participation rate in the Danube Region is lower when compared to the rates of the EU28, the Baltic and Alpine macroregions. When it comes to the availability of the labour force, which is a key factor in locating foreign direct investment projects, attracting traditionally passive groups to the labour market can be a promising approach in the Danube Region. There is a measurable difference between the "new" EU members and the non-EU countries of the Region, suggesting that the labour force participation rate has to be in context with the overall level of economic

Figure 7



Labor force participation rate (% of total population ages 15+)

Source: calculation based on World Bank data

development. Not surprisingly, among the Danube countries, Austria and Germany have the highest rates (both 60%) while Moldova (42%) falls on the other side of the spectrum.



COMPETITIVENESS

The competitiveness of the Danube Region's countries is analysed below based on the rankings they hold in the Global Competitiveness Report. The yearly report, which has been published annually since 2004 by the World Economic Forum, ranks countries based on the Global Competitiveness Index. This indicator integrates the macro- and microeconomic aspects of competitiveness into a single index. A lower rank suggests a better performance. The index displays

the competitiveness of a country's business environment, which is crucial in attracting foreign direct investments. When analysing the competitiveness of the Danube Region, it makes sense to display the "traditional" EU members (Germany and Austria), the "new" EU members (that joined the EU in the 2000s) and the non-EU members separately. *Table 1* shows the rank of selected variables of the Global Competitiveness Report 2016-2017 and the improvement since 2011-2012.

	DANUBE REGION			
	TOTAL REGION	AUSTRIA AND GERMANY	NEW EU MEMBERS	NON-EU MEMBERS
Global Competitiveness Index	64 (-)	12 (↑)	58 (↑)	93 (↓)
Intellectual property protection	80 (↓)	18 (↓)	69 (↓)	121 (↓)
Burden of Government regulation	98 (↑)	34 (↑)	115 (↓)	99 (↓)
Business costs of crime and violence	57 (↓)	43 (↓)	41 (↑)	86 (↓)
Quality of overall infrastructure	67 (↑)	11 (↓)	58 (↑)	101 (↑)
Flexibility of wage determination	72 (↑)	132 (↑)	64 (↑)	58 (↑)
Country capacity to retain talent	105	21	114	127
Internet users (% of population)	49 (↓)	22 (↓)	45 (↓)	66 (↓)



The first and most important observation is that there are overwhelming disparities and extremities in terms of aggregate competitiveness and selected variables. This illustrates the serious need for taking steps to increase the level of cohesion in the Region in the future.

As for the overall competitiveness of the countries, interestingly there is no change in the average rankings of the Danube countries compared to 2011-2012. On the country level, disparities become visible as Germany captured a 5th place out of 138 countries worldwide, whereas Bosnia and Hercegovina is 108th.

Interestingly, the average level of intellectual property protection has dropped in the whole Region and in the country groups as well. Again, besides the average figures, extremities are evident with Austria being ranked 17th and Serbia placed as the 127th country. Concerning

the burden of government regulation, the performance of Germany and Austria secured a positive change for the entire Danube Region; on the other hand, both the "new" EU members and the non-EU members experienced a drop in the average rankings. The non-EU members accounted for the better performance.

A negative change can be seen in the business costs of crime and violence on a region-wide level. It is worth mentioning that the "new" EU members improved their average ranking and slightly surpassed the "traditional" members. The average rankings of the three subgroups show a moderate difference compared to some of the other variables, but extremities at the country level are substantial (Slovenia 14th and Ukraine 116th).

Quality of infrastructure highly influences a country's attractiveness for investments. In this category, both the "new" EU Member States



and the non-EU members contributed to an improvement in the average ranking. Despite slipping slightly further down in the rankings, Germany and Austria still offer top quality infrastructure in the global comparison.

Flexibility of wage determination is also an influential factor when identifying foreign direct investment projects. From this perspective, the relatively good average ranking of the non-EU members is a sign of competitiveness in this field. At the same time, the relatively low ranking of the "traditional" EU Member States does not mean the opposite, as it is a general characteristic of mature and more developed economies. Altogether, the entire Danube Region and the subgroups of countries all managed to increase their competitiveness in this regard since 2011-2012.

A relative homogeneity is discernible when analysing the *rate of internet users within the*

population. Although, average rankings fell back at a regional and country group level as well, this is the category where differences are moderate when compared to other variables. Between the period of 2016-2017 Austria attained the best ranking (25th) with the lowest ranking member of the region being Ukraine (80th).

There is a strong connection between the countries' *capacity to retain talent* and their *capacity for innovation*. It therefore makes sense to jointly observe these two variables. As for the capacity to retain talent, this category was not included in the World Competitiveness Report 2011-2012. For this reason, the change in the rankings is not included in Table 1. Innovation is the number one factor that determines the future role of an economy in global value chains. Only the countries improving their research and development structures and increasing their



capacity for innovation can join the group of developed and wealthy states. Retaining talent is one decisive ingredient of success in this field. Unfortunately, this is the category in which the most significant disparities can be observed. In retaining talent there is an enormous gap,

Austria and Germany capturing an average ranking of 21st while the "new" EU Member States being just ahead of the non-EU members with 114th and 127th average rankings.

Besides the burden of government regulation, this is the variable wherein the "new" EU countries attained the worst average ranking. Regarding the overall capacity for innovation, the average rankings show a slightly better picture; however, the performance of the total Danube Region, the "new" EU members and the non-EU members all dropped compared to the 2011-2012 period. The top performers in this field, Germany and Austria, managed to improve further their average position. This means that the gap between the most and the least developed countries of the Danube basin is widening in respect to one of the most important factors that is essential for future economic development. The largest extremities can be observed also in the category of capacity for innovation, Germany being ranked 5th, while Bosnia and Herzegovina sits at 134th.





V.
SUCCESS STORIES
AND PROMISING AREAS
OF COOPERATION

EU STRATEGY FOR THE DANUBE REGION, PRIORITY AREA ON SECURITY: ACHIEVEMENTS AND CHALLENGES

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Priority Area 11 of the EU Strategy for the Danube Region, coordinated by Germany and Bulgaria with the involvement of a wide network of key stakeholders from the rest of the 12 countries of the Danube Region, aims to enhance regional security and tackle organized crime. One can only assume how difficult it is to cope not only with the differences in the national legislative frameworks, but also with the socio-economic and political dissimilarities of participating countries in order to make their joint work a success.

However, considering the importance of enhancing regional security, all these states have accepted partaking in a joint and coordinated effort. These countries are especially aware that the increased mobility of people across the region and within the EU as well – especially considering growing economic integration and the increase of cross-border trade – could easily trigger the rise of organized crime in the region.

This is why these 14 countries, regardless of their differences, have decided to work together on improving regional cooperation in order to combat organized crime. By its virtue, organized crime can not only cause social distress, but can also deter business development and hinder economic growth. As such, all the interested parties have a clear incentive to share a strong commitment and strengthen their police force, law enforcement and judicial authorities. For that purpose, six years ago, the following targets were set:

- Efficient information exchange between relevant law enforcement agencies with the aim of improving security and tackling serious and organized crime in the 14 countries.
- Effective cooperation between relevant law enforcement agencies.
- Promoting the rule of law by assisting participating countries in their efforts to



deepen the rule of law principles while also strengthening and further developing their democratic structures.

- Promoting (legal) certainty for the people by fighting against corruption.
- The actions envisaged within the framework of their cooperation:
 - strengthening police cooperation;
 - strengthening the law enforcement cooperation through contact centers;
 - European Anti-corruption Training; and
 - implementing a comprehensive and integrated approach in the prevention of and fight against corruption (rule of law).

Considering the effective battle against organized crime such as drugs and human trafficking, corruption, and cybercrimes, member states developed various projects aiming at enhancing the exchange of information and strengthening cooperation

between their law enforcement agencies. This action helps to promote security, to tackle organized crime and to achieve a high and common level of qualification for all the organizational units involved. All these projects were conducted with a balanced approach in terms of their activities and the implementation of their targets. Efforts were made to ensure that the work corresponds to the current EU and regional security challenges, especially by introducing two topics of the utmost importance: combating terrorism and migration management.

In the past six years, satisfactory progress has been achieved in the implementation of PA 11 targets. The four targets are as follows:

- security offensive – enhancing police cooperation with the aim of improving security and tackling serious and organized crime in the EUSDR countries while also strengthening the efforts against terrorist threats;

- developing strategic long-term cooperation between law enforcement actors along the Danube River by strengthening networks for cooperation until 2020;
- improving border control systems, document inspection management and cooperation on consular-related issues in the Danube Region; and
- promoting the rule of law and enhancing the fight against corruption.

The challenge of monitoring the success of the EUSDR is obvious. While some targets can be easily measured (e.g. "rise of annual co-publications by 15%"), others might still be operationalized with regard to quantifiable outcomes (e.g. "fight corruption"). In many cases, no concrete schedule or deadline has been defined, which depends on political dynamics and opportunities. The period of six years of implementation is undoubtedly a short time, yet significant achievements can nevertheless be observed.

The project "Setting up the Structure of a Danube River Forum" (DARIF) became a flagship project within EUSDR Priority Area 11 aimed at enhancing the transnational law enforcement cooperation along the Danube in order to tackle the increasing threats of illegal activities and accidents on the Danube waterway. Growing

cooperation with NGOs (e.g. Hanns Seidel Foundation and Konrad Adenauer Foundation) also confirms the importance of nurturing the spirit of partnership and shared values. The increase horizontal cooperation between PA 11 and PA 1a "To improve mobility and multimodality: Inland waterways" of the EUSDR, which resulted in a manual on border controls along the Danube and its navigable tributaries, is considered a success as well. Projects like "Cooperation Southeast – Danube Region" that primarily aimed at combating international drug crime and "Cybersecurity in the Danube Region" that targeted to strengthen the Computer Security Incident Response Team's (CSIRT) institutional capacities are other good examples of how cooperation and exchange of best practices can result in increased security.

These different types of activities conducted by the EUSDR have indicated that the traditional means of cooperation have changed, new stakeholders became involved and a new dynamic has developed. The overall impression is that the EUSDR has led to a higher visibility of activities. Although the majority of them have addressed many of the challenges related to the Danube River, certain challenges remain. Firstly, there is a necessity to maintain cooperation and networks between the experts of the member states followed by continuing the efforts to create new networks in other working fields.

Furthermore, the challenges related to horizontal cooperation could be a powerful tool for creating synergies within the EUSDR. For example, horizontal cooperation could add a new impetus in cooperation within the EUSDR and this is why possibilities for establishing such cooperation with other PA ought to be further explored and utilised.

Last but not least, it is necessary to identify funding sources in order to secure the implementation of PA 11 projects and activities. In that respect, both the involvement and the support of DG Home in PA 11 work is needed.



CLUSTERING AS A PROCESS OF ECONOMIC AND CROSS-CULTURAL EFFICIENCY IN TOURISM OF THE REPUBLIC OF MOLDOVA

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The concept of clustering, having emerged in industrialized economies, is still quite new for the Republic of Moldova. It has only been implemented with a relative success in the textile industry and, more recently, in rural tourism. Regional clustering is considered a phenomenon that is derived from the complex processes of the evolution of local companies and entrepreneurial activities, the cluster generated by this process being considered a newly formed organization. In our opinion, the

poor result of the clustering process, as well as the relatively low representation of clusters in the national economy, is largely due to the inefficiency of the cluster management centers and the underestimation of clustering itself.

In its general concept, clustering as a means of efficiency involves cooperative activities within a group of specialized economic units. Clusters serve as local (domestic) market growth centers and start-up platforms for



expansion across national economies. However, the understanding of the cluster definition does not allow full exploitation of the new clusters formed, as well as the efficient management of the clustering process.

In 2011, the European Commission endorsed the EU Strategy for the Danube Region (EUSDR) to launch the second macro-regional strategy. THE EUSDR comprises all the countries in the Danube basin: Germany, Austria, Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Romania, Bulgaria, Moldova and Ukraine (all member states of the World Tourism Organization). The Culture and Tourism Priority Area of the Danube Region Strategy states as one of its targets to ensure the sustainable preservation of cultural heritage and natural values by: 1) developing relevant clusters, and networks of museums, and 2) by providing adequate interpretation and visitor centers within the Danube Region. Moldova has an observer role in the Danube Tourist Commission (DTC).

At the national-level economy, about 13,5 thousand (3.7%) of the employees are in the hospitality industry, out of which only one out of ten employees works in the hotel business, while the rest are employees of restaurants, cafes and other public catering establishments. The importance of cluster development for tourism in rural areas is based on the need for associations between service providers (as a source of competitiveness growth). Rural clustering in the southern region of Moldova is represented by "Lunca Prutului de Jos", which specializes in exploiting the natural potential of the area, with the entry of foreign tourists mainly through the Danube cruise route, as the Prut River is one of the largest rivers on the territory of the Republic of Moldova. It begins in the mountainous massif of the Chernogora Carpathians Forest and flows into the Danube near Giurgiulesti village, where for around one km it provides the country with access to the Black Sea. This segment is connected to the



water basin of Central and Eastern Europe, as well as Lake Beleu, which is a relic of the Prut River on the Danube.

The cluster includes several localities (Cahul, Giurgiulesti, Slobozia Mare, Valeni, Pelinei, Gavaveasa and Cotihana) within a radius of about 50 km, in an attractive area for rest, recreation and studying the flora and fauna of the natural reserve of the lakes: Beleu (1,000 ha) and Manta (1,100 ha). The Prutul de Jos Reserve boasts a huge biodiversity and an especially

large number of migratory birds. Part of the Ramsar site has also been declared a Natural Park – the Lower Prut Nature Park. Other places of interest are the Golden Hills, museums, the Giurgiulesti International Port, 10 wineries, peasant farms specializing in traditional cuisine and authentic local beverages, local tourist routes, ethno-folklore and handicraft programs. Given that little touristic emergence occurs in the region, the introduction of a Danube hiking trail would positively contribute to the development of the regions.

The accommodation capacity of the cluster is approximately 510 places per day, and the service and guiding ability (50-100 persons per group). At the same time, the importance of this cluster at a regional and European level is represented through the promotion of the Danube Region by the strategic objective of creating a common institutional infrastructure for the region (strategy, management and promotion).

Given the fact that there is already an existing cross-border cooperation among some



countries, there is still great potential to extend the cooperation networks. A good example was the Joint Operational Programme Romania-Ukraine-Republic of Moldova 2007-2013, with the project "Sustainable Tourism Development in the Lower Danube Region of Ukraine, Republic of Moldova and Romania". As a result, the capacity of tourism has been enhanced in the Lower Danube Region by developing and providing sustainable tourism offers. The creation of a network of cross-border sustainable tourism stakeholders, the improvement of information flow about and access to local attractions and the promotion of tourism in the Lower Danube, including the development of a Brand identity for Lower Danube are all considered achievements. Another good initiative concerning Moldova's participation within the promotion and development of tourism in the Danube region is the ITB Berlin 2017 event. Here, local stakeholders from around the Danube Region

presented a number brochures, one of which was entitled "A Day on the Danube – Culinary Culture" with information about authentic, local products from the Danube region as well as a list of recipes. The brochure was developed by countries such as Germany, Hungary, Serbia, the Republic of Moldova and Ukraine.

Moldova aligns with the Danube region strategy for culture and tourism by promoting culture and tourism, people-to-people contacts and ensures the sustainable preservation of cultural heritage and natural values by developing relevant clusters, one of which is "Lunca Prutului de Jos". The fact that it is included in the international touristic cruise offer for the Danube route is of a great importance at national and international level as well. It can be mentioned that the Danube should be subject to as many projects as possible in order to strengthen the Danube Region.





JOINTISZA PROJECT

The Tisza River is the longest tributary and the largest sub-basin of the Danube River. JOINTISZA focuses on the interactions between two key aspects of water management — river basin management (RBM) and flood protection — while taking into account the relevant stakeholders who play a pivotal role in the Tisza RBM planning process. The project brings together 17 partners from Hungary, Romania, Serbia, Slovakia and Ukraine, sharing the waters of the Tisza River Basin, who are ready to work towards developing an updated Integrated Tisza River Basin Management Plan (ITRBMP).

The first step in attaining this goal will be the basin characterisation, which includes water status assessments and updated information on significant water management issues. In parallel, an evaluation of water demand and groundwater status will be carried out. Measures that will sustain balanced water quantity management and achieve good water status will then be proposed. The project will also ensure that flood risk management planning is more deeply embedded in the RBM planning process by developing a strategic paper on the integration of the ITRBMP and Tisza Flood Risk Management Plan.

The project strives to identify solutions to common challenges identified across the Tisza River Basin, including over-exploitation, water regime modification, contamination and growing flood events amplified by climate change. It considers the international dimension of these issues and can build momentum in order to address them in a coordinated way at transboundary level. The International Commission for the Protection of the Danube River (ICPDR) Tisza Group and the EU Strategy for the Danube Region (EUSDR) Water Quality Priority Area and Environmental Risks Priority Area platforms will build a



bridge between stakeholders for conveying information from expert level to policy level.

The main outputs of the implementation of the JOINTISZA project will be an improved geographic information system, guidelines on best management of urban hydrology, a guidance paper on climate change-induced, water quantity issues to assist in overcoming challenges, a final draft of the updated ITRBMP and a strategy on public involvement and participation.

A long-term goal of the project will be to generate momentum for improved implementation of the EU Floods Directive and EU Water Framework Directive, targeting four specific groups: national water administrations, water research institutes, international organisations and other interested stakeholders, and NGOs.

Commenced in January 2017, the overall budget of the project amounts to EUR 2.25 million, co-financed by EU funds (ERDF and IPA) and by the project partners.

DARLINGE - DANUBE REGION LEADING GEOTHERMAL ENERGY

The aim of the DARLINGe project (Danube Region Leading Geothermal Energy), carried out by 15 partners from Hungary, Slovenia, Croatia, Serbia, Bosnia and Herzegovina and Romania is to contribute to energy security and energy efficiency by enhancing the efficient use of deep untapped geothermal resources in the heating sector and by introducing the "cascade use" of geothermal energy. In "cascaded systems" various users are sequentially linked according to their decreasing heat demands, i.e. district heating systems, industrial applications first, followed by individual space heating, and having low-temperature users at the end, such as fish-farming, snow melting or even balneology.

The potential geothermal reservoirs – targets of the project studies – are linked to large-scale geological structures, often cut across by country borders. Therefore, a common approach and joint working methodology by the partner countries are needed to elaborate an integrated Danube Region Geothermal Strategy and Actions Plans for sustainable uses, which are among the main outputs of the DARLINGe project.



First, the project aims to increase the use of the geothermal energy and help the penetration of the energy efficient cascade systems (where users are sequentially linked according to their decreasing heat demand) and matching them with heat-markets. The second objective of the project is to establish a market-replicable toolbox consisting of three complementary modules for sustainable management of geothermal resources (an independent indicator-based benchmark evaluation of current uses, a decision tree to help developers and a geological risk mitigation scheme to maximize the success rate of a geothermal well reaching the expected yield and temperature). Lastly, the project aims to advance stakeholder cooperation (establishment of a Transnational Stakeholder Forum) to foster geothermal developments and to create a strong geothermal value chain.

Commenced in January 2017, DARLINGe has already passed some important milestones. The communication plan for the whole project period has been elaborated. The Transnational Stakeholder Forum has been established, consisting of 3 representatives chosen from the 6 countries: their role will be to assist the consortium's work throughout the duration of the project. Revision of all available geological, hydrogeological and geothermal data is ongoing in the partner countries for outline and characterization of regional geothermal reservoirs. The first version of the conceptual data model for the Danube Region Geothermal Information Platform (DRGIP) has been elaborated and discussed among consortium members. The DRGIP portal will serve in future as an interactive site to show all results (maps, databases,

evaluation reports) in a user-friendly form for all stakeholders.

As a main result, the intensity of cooperation among key-players of the geothermal sector in the participating six countries will increase and contribute to energy security and energy efficiency by enlarging the use of geothermal energy in the heating sector, which will make the Danube Region less dependent on imported fossil fuels, also respecting the environment.

The overall budget of the project amounts to EUR 2.52 million with contributions from the European Regional Development Fund (ERDF) and Instrument for Pre-Accession (IPA).

VI.
CURRENT CHALLENGES
OF THE DANUBE REGION



As part of a vibrant and rapidly changing geopolitical, economic and natural ecosystem, the Danube Region faces a wide range of challenges,

some of them have already been mentioned above in this brochure. This chapter focuses on the most significant challenges related to the economic development of the region.

NEED FOR STRENGTHENING COHESION

From an economic development perspective, the main challenge for the Danube Region is to improve cohesion. As analysed in Chapter IV, economic development and competitiveness indicators show significant differences within the group of states in the region. The less developed economies need to catch up with the wealthier Danube countries at

a faster pace than they did in the past. In order to stimulate economic growth and increase the level of employment, the less developed countries in the region have to attract investments by improving their business climate. Higher labour productivity, which can be secured by improving labour force qualifications and technological performance, is essential.



REGIONAL DIFFERENCES

Lack of cohesion can apply both on a country as well as a regional level. Enormous heterogeneity of regions within the Danube Region is also a major challenge, one which the Strategy must address in the future. Economically strong regions, like capital cities or industrialised metropolitan areas, are to be contrasted with underdeveloped agricultural regions. There are fundamental differences in the attractiveness and economic potential of these regions and without tailored actions, lack of cohesion is likely to increase in the future. In order to avoid this outcome, less developed countries and regions in the Danube basin have to support capital accumulation and investment in order to establish economic

core areas around cities. Experiences of prosperous regions may be valuable for the less developed ones. Even in Austria, agricultural regions have more difficulties in generating employment and income for their population compared to the more industrialised regions. Over time, structures have evolved to manage such challenges, and they might provide interesting experiences for similar regions elsewhere in the Danube Region. However, it remains to be seen whether transnational and interregional cooperation projects can help in this respect, as the countries and cities of the region are generally competitors in attracting foreign direct investment projects of Western companies.



NEGATIVE TENDENCIES ON THE LABOUR MARKET

Labour market performance and the migration of the workforce represent major challenges for most countries in the Danube Region. Education and training systems in the less developed countries are inadequate in terms of curricula and the skills taught. These are traditionally countries of origin for migration, for whom remittances are an important source of their income. By contrast, Austria and Germany are among the most favoured destination countries in the EU for potential migrants from other countries of the Danube Region as well. As seen through the competitiveness rankings analysed in Chapter IV of this brochure, vast majority of

the countries in the region are struggling with retaining their talents. As wage differences between the most and the less developed states of the region will not disappear in the short run, it is unlikely that the EUSDR alone can address this challenge. However, improving cooperation and best practice exchanges surely contribute to the reforming of existing vocational and educational training systems in the less developed Danube region countries. Considering the different levels of development of the Danube region countries' labour market, tailor-made responses are needed, with approaches that vary considerably from one country to another.

NEED FOR ADAPTATION OF THE INFRASTRUCTURE

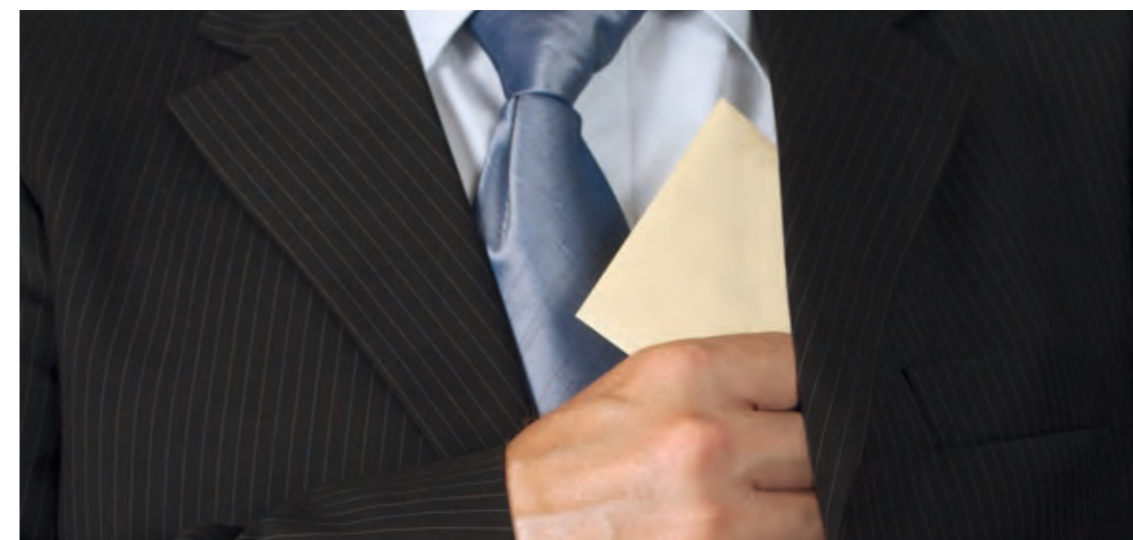
Taking into account the effects of climate change, it is a major challenge for the Danube Region as well to meet increasing future energy demand and, at the same time, identify new renewable energy sources. Such changes not only result in economic costs, but also represent a significant challenge to transport and energy infrastructure. The countries of the Danube Region need to adapt their infrastructure in order to ensure stable economic conditions.

Providing a modern transportation network is essential to increasing competitiveness. Especially in the case of the Eastern countries of the Region, this requires an upgrade and expansion of existing transportation systems. The Danube River might play an important role in this regard. Besides this, the enhanced use of the Danube River for transportation and preserving its natural habitat at the same time means a considerable challenge.

HIGH LEVEL OF CORRUPTION

The high level of corruption is still one of the main concerns in the Danube Region that has an effect on the economy as well. Corruption seriously hinders the operation of existing business entities, while new companies can be discouraged from making their first steps in a given country.

Attempts to reduce the level of corruption in the region have not resulted in a breakthrough so far. Finding effective measures in order to restrict corruption is still a major challenge for improving the climate for entrepreneurship in the region.



ENTREPRENEURSHIP

In general, entrepreneurs and start-ups have the potential to play a major role in increasing the competitiveness of the Danube basin. Entrepreneurs make efforts to introduce new methods, products and services onto the market, thereby challenging existing players and their business models. This can result in accelerated innovation, initiated by existing companies in response to enhanced competition resulting from the entry of new comers. However, corruption is not the

only factor that hinders entrepreneurship in the region. In some of the countries, entrepreneurial traditions simply do not exist. Other issues concern the burden of government regulation, administrative obstacles of starting business and relatively low level of protection of intellectual property. There is a need in the Danube Region for further efforts to cut administrative burdens and more experience in identifying high-potential start-ups.



RELATIVELY LOW CAPACITY FOR INNOVATION

The role of a country or a region in global value chains is highly determined by its capacity for innovation. Entrepreneurship is important, but not the only aspect that defines whether a country or a region is capable of becoming a hub of research and development and activities of high added value. The quality of research institutes, academia-business collaboration in R&D or availability of scientists and engineers are all

determinative factors in this regard. According to the Global Competitiveness Report cited in Chapter IV of this brochure, the Danube Region is strongly divided as the rest of the countries lags far behind Germany and Austria in terms of innovation capacity. The cross-border collaboration of universities, research institutes and joint research projects may have a positive influence; however, disparities in this field are likely to prevail in the middle run as well.

LACK OF MOTIVATION FOR COOPERATION

Conflicts of interests should not be ignored when analysing the possibilities of cross-border cooperation in the region. As discussed earlier, in some cases, countries, regions and cities are competing with each other in certain fields of economic development, which may result in frustration and a lack of motivation for cooperation. This problem may be even more relevant in case of countries that are engaged in fierce political debates on various issues. It has to be declared that there will always be fields wherein countries are simply unable to cooperate effectively due to conflicts of interest. Altogether, this does not preclude the possibility to cooperate or collaborate in other issues and topics. The challenge could be addressed through improved communication within the framework of EUSDR.



VII.
PROSPECTS OF THE
EUROPEAN UNION
STRATEGY FOR
THE DANUBE REGION





Macro-regional strategies (MRS) are politically established frameworks that contribute to bringing EU policies close to the people of Europe. Concerning the current debate on the future of the European Union, they may play a vital role in identifying the adequate answers to some of the key questions. Nevertheless, despite the political significance, MRS have remained to be a tool primarily for policy coordination.

Since its inception, a wide range of initiatives were launched under the umbrella of the EUSDR, which shows that the Strategy has been delivering results. However, the achievements of the EUSDR should not be measured exclusively through project milestones. One of the main results is the development of a culture of cooperation amongst the stakeholders of the concerned administrations. The EUSDR contributes to a change of mind-set, thereby creating a sense of common responsibility.

It thus helps bring together decision-makers and to better connect and involve existing transnational institutions. It creates and has already created new opportunities for access to information, know-how and best practices; it has therefore tangibly contributed to finding solutions to common problems. It has also served to intensify dialogues and cooperation with existing international organisations operating in the region, which in turn helped to raise the political relevance of the region.

The EUSDR, including fourteen countries, nine of them being EU Member States, clearly contributed also to the EU enlargement and neighbourhood policy agendas by intensifying thematic cooperation and improving the administrative culture within the non-EU countries. The creation of solid networks and partnerships between public and private actors aids stabilisation and development in critical fields.

At national level, a spill-over effect is also discernible. Besides laying the groundwork for numerous projects, in some cases the Danube Region Strategy also served to orient national policies and develop projects at regional or local level which have a transnational dimension. The EUSDR clearly helped strengthen the coordination of policies at national level, leading to an improved dialogue and synergies between public actors and institutions. In short, the Strategy enhances the effectiveness of policy-making and implementation.

Despite all these remarkable positive impacts, as is the case with other macro-regional strategies, the EUSDR currently cannot entirely fulfil its potential due to the low number of programmes and lack of available resources for funding projects. In general, macro-regional strategies are not sufficiently embedded into EU policy frameworks and corresponding funding programmes for several reasons. On the one hand, some of the macro-regional strategy elements were launched at a time when the EU programme preparations were in an advanced phase and there was no real opportunity for harmonisation. Moreover, different EU funding instruments have their own intervention logic, timelines and decision-making procedures that are not always compatible with the approach of the EUSDR, or macro-regional strategies in general. As a result, possibilities for mobilizing support for MRS governance structures are limited.

In order to fully exploit the potential of the Danube Strategy, it is necessary to embed macro-regional strategies into EU policies in the next fiscal period of the European Union. The overall aim is to enhance synergies between MRS, the regional multilateral agreements and the EU Programmes like Horizon 2020, Erasmus+, Creative Europe, COSME, LIFE, CEF and the EU Fund for Strategic Investments.

When preparing the Danube Strategy, the Commission declared that the EUSDR did

not imply special treatment in budget or legal terms. Specifically, this meant that the Strategy provides no new EU funds, requires no changes to EU legislation and creates no additional structures. These fundamental criteria should not be infringed when exploring the possibilities of embedding macro-regional strategies into EU policies and programmes. Experts emphasize that through specific synchronisation and the coordinated utilization of available funding, it would be possible to effectively support macro-regional strategies. This would enable the EUSDR to boost the future development of the Danube Region and the EU itself.

As an important step, MRS should be recognised in legislative documents in a more emphatic way. MRS should be taken into account already during the planning and drafting phases of future programmes and related legislation. It should be highlighted that macro-regional strategies are integral parts of the relevant programmes or initiatives and this has to be reflected in the future policy framework. In parallel, the political relevance of MRS objectives has to be emphasized.

The improvement of institutional frameworks for implementing MRS is also a key issue of the future. Reflecting its political relevance, an adequate positioning and coordination within the European Commission would contribute to the improvement of the MRS framework.

In line with other MRS, the success of EUSDR depends on whether promising projects can benefit from funding opportunities offered by the EU programmes. This requires there to be a deep consistency with the EU and national strategies. Experts underline that operational programmes should better assist macro-regional objectives and projects through improving the exchange of information and best practices, enabling coordination between relevant stakeholders and streamlining project selection. Due to their cross-border approach and geographical coherence with MRS,



INTERREG programmes should play a key role in funding such projects.

In case of the EUSDR, one of the most visible results includes the setting up of an INTERREG Danube Transnational Programme providing support to the Danube Strategy's governance and contributing directly to the Strategy's implementation. Danube Transnational Programme provides financial support to the EUSDR through financing activities of the Priority Area Coordinators and the Danube

Strategy Point and through a seed money facility directly benefitting the EUSDR. Nevertheless, complex EU regulations, lack of flexibility and the lack of funds all limit the efficiency of financing from the Danube Transnational Programme's side. In order to make the Programme a more efficient tool in supporting the EUSDR financially, a result-oriented approach should be pursued, flexibility in the programme implementation should be improved and coordination has to be enhanced at national level.

Undoubtedly, the question of financing the EUSDR is one of the major issues affecting the future prospects of the EUSDR; nevertheless, there are other factors that should not be ignored. Governance is expected to remain the basis of the success of the EUSDR. Efforts should focus on maintaining the political momentum of the Strategy's implementation, as a lower priority seems to be given in the political narrative at national level. This applies primarily to those countries in which the administrative capacity allocated to the

cooperation is an issue. The involved states will have to assume their responsibilities and ensure their sufficient participation in meetings and joint activities. Motivation can be instilled through the execution of a more robust communication strategy. Lastly, better internal coordination within and between countries, together with an advanced monitoring system, would contribute to the more efficient implementation of the Danube Region Strategy.



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