

7 May 2020

## COVID-19 ECONOMIC RECOVERY:

### A RECOVERY STRATEGY BUILDING ON DIGITAL

#### *Position paper*

#### Background:

Every crisis offers opportunities to change course. As representatives of small and medium-sized businesses in the Information and Communication Technology (ICT) sector in Europe, we strongly believe that the EU needs to focus on the digital transformation to support the economy's recovery from the crisis.<sup>1</sup>

Building on our letter to President Michel and the heads of state of 24 March 2020, we believe that SMEs need to receive a fair share of the EU's budget for digital innovation. In this position paper, we argue that small businesses should also be the **focus of the EU's recovery strategy**. SMEs represent 99% of EU companies and should thus **receive at least 50% of public funding spent on supporting digital innovation and transformation efforts**.<sup>2</sup> At the same time, we believe that there are other important measures that need to be put in place to set the course for Europe's successful digital transformation and economic recovery. **Quick actions are needed in six key areas:**

1) liquidity support, 2) digital skills, 3) investment, 4) cybersecurity & standards, 5) digital sovereignty, and 6) taxation.

These areas and the corresponding recommended actions are backed by SME surveys performed by our national member associations. In Germany, for instance, 63% of the

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<sup>1</sup> **DIGITAL WILL PLAY A 'CENTRAL' ROLE IN CORONAVIRUS RECOVERY, SAY EU LEADERS:** "The Green transition and the Digital transformation will play a central and priority role in relaunching and modernizing our economy," the leaders of the European Council and the EU's executive arm wrote [in a "roadmap for recovery"](#), ahead of the virtual summit of April 23. The text calls for investment in digital technologies to foster growth: "It will also help make us more resilient and less dependent by diversifying our key supply chains. Read more from [here](#)."

<sup>2</sup> SMEs should receive 50% of the EU's funding on digital innovation (e.g. via the Horizon or Digital Europe programme, but also other MFF budget lines).

companies surveyed have already experienced losses in sales due to COVID-19, whereas only around 30% of the companies report minor or no negative impacts.<sup>3</sup>

As a result of the crisis, many companies have switched to teleworking and may need to transform their business models. **This requires a sufficient level of digital skills. Digitalisation is not just about going online or doing e-commerce. Digitalisation is a transformation process that changes the entire business model of companies and that needs to be supported by an eco-system and digital skills. There is a need for EU companies and citizens not only to be users, but to become shapers of technology.**

Coincidentally, the crisis may lead to a rise in unemployment while there is a structural lack of IT specialists and other digital talent in many sectors. **Governments could take the opportunity to invest in large scale up- and re-skilling programmes in digital technologies and digital literacy. Local authorities should identify the exact needs and develop effective training** in collaboration with business associations, businesses, chambers of commerce, education institutions and training providers.

At DIGITAL SME, we believe that the EU's economy can emerge more strongly out of this crisis if we use this opportunity to change course. The digital transformation is ongoing, and now is the time to ensure that EU companies and citizens will not stand by the side-lines but become active shapers of this process.

DIGITAL SME recommends the following actions for the recovery strategy after COVID-19, building on the EU's digital and SME strategy:

#### 1) Bridging the liquidity gap

- **Access to finance and liquidity support to SMEs via EU grants and schemes and national measures** is necessary to allow companies to bridge liquidity gaps caused by the crisis. SMEs need support to compensate for loss in revenues, to finance fixed costs and avoid bankruptcies.

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<sup>3</sup> <https://www.bitmi.de/lockerung-des-corona-lockdown/>

- These emergency measures need to be followed by instruments which allow the **financing of investments and innovation, notably in digital technologies.**
- In the short run, governments could **make financing available to support digitalisation efforts**, i.e. in technical equipment, software, or services, which allow them to stay operational. At the same time, finance mechanisms should promote a sustainable and effective digital transformation process that drives real competitiveness and growth, rather than just helping SMEs become end-users of ICT tools or services.

## 2) Digital skills

- **Build on comprehensive public-private partnerships and invest in and re- and upskilling programmes in digital technologies and digital literacy**, especially for the unemployed or those at risk of unemployment due to COVID-19.

## 3) Investment

- **Provide financial support for digitalisation to SMEs.** At least 50% of the public money for digitalisation efforts and research & innovation needs to reach SMEs and the SME ecosystem rather than going to large ICT providers or academic institutions only.
- **Make sure that investment is aligned with a wider digitalisation strategy to digitalise the economy via business ecosystems, including SMEs.** Programmes such as the Digital Europe Programme and associated Digital Innovation Hubs should connect to SMEs and business ecosystems (including both digital companies and traditional SMEs).
- **Invest in internet infrastructure across rural or more peripheral areas and regions:** Infrastructure is the basic necessary condition for digitalisation and many countries/regions in Europe are lagging behind other world regions in this respect. For instance, the European Commission has earmarked up to €37 billion of unused EU structural funds. These funds could be spent on investment with substantial spill-over effects on local economies, such as the completion of key Trans-European Transport Network (TEN-T) infrastructure projects and the deployment of high-speed internet across the EU.

#### 4) Cybersecurity & standards

- **Develop a hands-on European strategy to increase cybersecurity:** SMEs are a very heterogeneous group and solutions need to be tailored to different levels of expertise and requirements. Standards coming from ISO or other Standards Bodies are useful for digitally advanced or big companies. Traditional SMEs need more practical guides and technical solutions. A basic one-stop-shop providing lightweight guidelines and advice would be useful, as well as SME guides that translate recognised standards into easier, practical language. Cyber authorities and national administrations should collaborate with the private sector to develop such a platform.
- **Increase SMEs' access to ICT standards:** ICT standards are the base layer of all modern, digital technologies that citizens and businesses use every day, especially during the COVID-19 crisis. It is important to ensure SMEs' access to and awareness of ICT standards to innovate and provide more tailored digital solutions. In the longer term, European Standardisation Organisations should gear their strategies towards offering more knowledge services to SMEs, especially in support of the SME-sector's digital transformation.

#### 5) Digital sovereignty

- **Raise awareness about issues of technological dependency and lock-in among decision-makers:** It is important for the economic recovery to build on digital tools that avoid lock-ins and pave the way for continuous innovation. Users, be they public authorities, administrations, private users or companies, need to be aware that there are **advantages of an open digital ecosystem and digital markets**, which is accessible to smaller providers that can function as partners and develop tailored solutions for governments, administrations, cities and regions, or business partners. For instance, digital solutions such as "local" online platforms for local businesses could serve as alternatives to dominant platforms.
- **Create national/European platforms collecting and scaling up solutions for Covid-19.** [DIGITAL SME has collected digital solutions provided by SMEs based in Europe](#), which extend to teleworking, e-health solutions, etc. These solutions need to be scaled up and connected to those who need them.

- **Re-think supply chains and provision of ICT products, infrastructure, and services:** It is currently challenging for some companies to provide IT equipment to their clients, since a lot of the hardware is produced outside of Europe. Make sure that supply chains are functional, borders remain open, and ICT products can be easily procured, while re-thinking how to mitigate the risk of dependence in the long term.

## 6) Taxation

- Cross-border taxation within the EU remains complex for SMEs. **We propose to amend existing rules on e-commerce taxation to encourage SMEs to sell products online across borders.** VAT thresholds in online sales set out in the EU rules should be revisited to make sure they are SME-friendly and support the uptake of e-commerce.
- Introduce a digital tax: Now could be a good time to **create a fair and level playing field in taxation and to introduce a Europe-wide digital tax that tackles imbalances and focuses exclusively on large providers**, e.g. in areas such as e-commerce, video streaming, online gaming, online gambling and other digital services. This framework needs to be built in a way that it does not put additional burden on small and upcoming players and innovation.

To conclude: the current COVID-19 crisis has jump-started a wave of digitalisation which can go two ways for Europe: the way of sustainable, integrated digital transformation of its economy, or the dangerous path of turning non-digital enterprises into minimally-skilled end-users of ICT products and services.

The first option necessitates decisive action by EU and national policymakers in the key areas outlined in this position paper. Financial support to buy off-the-shelf ICT solutions by tech giants will not increase Europe's digital sovereignty. Sustainable digital transformation is a long-term process that involves trusted partnerships between non-ICT businesses and SME providers of tailored digital solutions, or what we call "digital enablers". Such partnerships are the result of a rich and supportive local business ecosystem and are the only viable basis for long-term sustainable skills development and technological innovation.