

To:
Charles Michel
President
European Council

Open letter from European DIGITAL SME Alliance and 48 SME associations to President Michel and the European Council

Associations of digital SMEs call for a 50% SME quota in EU's digital innovation budget

Signatories:



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Dear President Michel, dear Members of the European Council,

As the COVID-19 crisis is hitting Europe's economy, SMEs will suffer particularly hard.

Whenever we talk about “the economy”, it is important to stress that 99% of companies are SMEs. While SMEs are largely traditional and non-digital, many European small and medium companies, startups and unicorns create new technologies and drive the digital transformation of other sectors. Digital SMEs, the “hidden champions”, are the enablers of the digital transformation of other sectors and the base layer for Europe's digital future.

Yet, even before the current pandemic, these innovative SMEs were facing serious challenges: A lack of funding for Research and Innovation, stifling regulations and a severe shortage of skilled workers are crippling our SMEs' innovativeness and growth. In addition, our SMEs compete for EU funding with other recipients, in particular large companies, universities and research organisations. **SMEs receive only around 20% of the EU Research and Innovation budget, while up to 80% goes to large enterprises, universities, research institutions, public bodies, and others.** This does not reflect the weight of SMEs in our economy and their contribution to Europe's digital innovation.

It is in this time of crisis that Europe needs your strong leadership. Forward-thinking decisions will allow us to come out of this crisis stronger than we entered it. Beyond improving our pandemic responsiveness and stabilising the economy, this crisis could provide an opportunity to invigorate Europe's digital transformation.

The new Multiannual Financial Framework is a chance to correct previous imbalances and leverage the economic power of the member states to level the playing field for European SMEs.

On March 26-27, you will discuss Europe's digital policy at the next European summit in Brussels. As European associations of small and medium-sized enterprises, **we appeal to the**

European Council to guarantee that 50% of all funding for the digital innovation in the new MFF goes to SMEs.

Let us look at the facts to understand why this step is direly needed:

- **SMEs don't have enough resources to invest in Research and Innovation.** In EU-funded innovation programmes, SMEs only make up around 20% of the budgets. This means that over 80% of the already scarce EU budget on innovation and digital transformation goes to large, often multinational enterprises or other bodies like e.g. universities and research organisations. This is despite the fact that these other players do not bring as much innovation to the market as SMEs do. In other words, those who already avail of abundant resources and public subsidies are receiving even more from the EU while the vast majority of enterprises are left with the crumbs.
- **SMEs suffer from a severe lack of digital skills.** The digital skills gap currently amounts to 1,000,000 missing digitally skilled workers. In addition to being very hard to find, talented IT specialists often cannot be retained in the long term. They are not only attracted by higher salaries in big firms but also by the more challenging and innovative environment those companies offer, which stems from their greater R&I resources.

In light of these issues, we urge the European Council to elevate the importance of funding for SMEs in the digital budget. The new Multiannual Financial Framework will shape the continent's digital future at the most crucial of all times. Digitalisation, the fourth industrial revolution, is happening at full speed. The framework has correctly identified and earmarked budget for the digital transformation, but the amount is not nearly enough. 3% of the EU budget for digital transformation of a whole continent will not do. **Even more importantly, however, is who will benefit from those funds. Will it be predominantly going to big firms and consultancies, like some SME budgets in the current MFF, or will SMEs get their fair share? It's in your hands.**

As the representatives of SMEs throughout Europe, we recommend the European Council to consider the following steps:

1. **Introduce a quota of 50% for the allocation of all budgets relevant to innovation and digital transformation to go to SMEs**, including Research and Innovation for digital solutions in “traditional” sectors like e.g. agriculture or transportation.
2. **Refocus the Digital Europe Programme, and especially the European Digital Innovation Hubs, on the real business ecosystems** to ensure they actually support innovative SMEs that develop digital solutions.
3. **Increase overall spending on digital in the EU budget.** Allocate 10% of the EU budget to the digital transformation and increase the share of the Digital Europe Programme from €9.2 billion to €25 billion.

We strongly believe that SMEs are the force that needs to be strengthened to facilitate Europe’s Digital Transformation writ large. They are the force that will jumpstart Europe’s economy after the Coronavirus crisis. **SME, i.e. 99% of enterprises, should receive at least 50% of the allocated funds for digital innovation.**

We remain open to discuss this matter with you further in a personal conversation.

Yours sincerely,

Dr Oliver Grün

President of European DIGITAL SME Alliance



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