

Manifesto 2030

EUROPEAN DIGITAL **NEW DEAL**

WHY A DIGITAL NEW DEAL?

The world we live in has drastically transformed since 2019 when the European DIGITAL SME Alliance published its last Manifesto. The COVID-19 pandemic, the climate crisis, and geopolitical turbulence have generated a polycrisis for Europe. Nonetheless, advances in digital technologies are providing us with new tools that can help us tackle the polycrisis and create a future that is fairer, more sustainable, and more prosperous. That's why, in 2019, the European Union stated its vision to become fit for the digital age and establish itself as the world's trusted digital leader.

Four years later, progress has been made on all aspects of Europe's digital transition. Yet, it is also safe to argue that the continent remains far from reaching global digital leadership.

*Moreover, Europe is currently still heavily dependent on digital technologies from abroad, particularly from the USA and China, in crucial areas. This claim is based on evidence that has been released by the European Commission. Only 8% of European businesses have taken up artificial intelligence and only 14% of them have adopted big data. **The EU currently relies on foreign countries' imports for over 80% of digital products, services, and infrastructure.** The EU's share in the global ICT market was halved in the last decade, from 21.8% in 2013 to 11.3% in 2022. The train of the Fourth Industrial Revolution is about to depart, and Europe might miss it.*

At the same time, much of present-day value creation is increasingly taking place in the digital realm. This implies that prosperity in the future stems from digitization. It is insufficient to merely declare ambitious goals - we must empower ourselves to compete globally in digital markets, thereby ensuring that Europe maintains its status as a modern, high-performing economic region. The degree of digital sovereignty is crucial in this endeavor.

Simultaneously, the mentioned dependencies pose a threat to the EU's political room for maneuver. Technological independence enhances our resilience against global power shifts. In an era where digitalisation permeates nearly every aspect of life, retaining control over key technologies such as AI and cloud computing is of paramount strategic importance. It is imperative to ensure that we do not relinquish control and that we can rely on European solutions whenever we wish and whenever necessary.

From these developments, we deduce the urgent necessity to vigorously advance Europe's digital sovereignty with the highest priority. Digital sovereignty shall be the guiding principle.

Definition:

Digital sovereignty is the foundation for a strong and independent Europe in the digital age. It means that businesses, governments, and society can rely on trustworthy hardware, software, and digital services from European digital companies for their core processes. Only in this way, with technology designed in Europe we can secure the prosperity and technological resilience of Europe as a business location for the future. Digital sovereignty stands for freedom of choice in global competition, not for protectionism and isolation.

Meanwhile, Digital SMEs are increasingly at risk of being stifled in their growth by excessive regulation that has been adding up recently. If we want our IT sector to produce globally competitive technology champions, we need to give companies more freedom to innovate and grow.

To achieve this goal, it is apparent that the old way of doing things will not suffice. This Manifesto aspires to provide a blueprint to decision-makers for a European Digital New Deal that can put the European Union back on course for digital leadership by 2030, through forward-thinking, innovation-friendly frameworks that strengthen the IT sector, which is characterized by medium-sized companies and foster digital business models. Only in this way, Europe can succeed in shaping the digital transformation according to our European values, rules, and standards while reducing dependencies and securing prosperity. The concept of the Digital New Deal also bridges the conceptual gap between the green and digital transition, two processes that are often considered in silos. In the case of the European Green Deal, decision-makers understood the urgency to put in place ambitious measures that would transform Europe into the first climate-neutral continent. These ambitious measures were put forth due to the realisation that Europe had no other choice.

DIGITAL SME believes that the same observations can be applied to Europe's digital transition. There is an urgency to spearhead innovation and catch up with our digital competitors or else be locked to the role of digital consumers. To achieve such a shift, there is a need for out-of-the-box thinking and a holistic understanding of Europe's digital ecosystem. But most importantly, Europe needs to place digital SMEs at the front and centre of all its efforts, by improving competition conditions for digital SMEs and maintaining a level playing field.

Digital SMEs represent 99% of all digital companies in the Single Market and account for 2/3 of employment across Member States. They are Europe's only chance to obtain and secure digital sovereignty. Digital SMEs are the enablers of SMEs' twin transitions and the drivers of the European Digital New Deal mission. In particular, they deliver a "tailor-made digitalization", by following a sector-specific approach. As such, digital SMEs' industrial partnerships with traditional SMEs are the key success factor to make Europe's SME ecosystem fit for the digital age. Digital SMEs have the needed unique domain-specific knowledge to address the challenge of digitalising specific industrial sectors. They are Europe's only chance to obtain and

secure digital sovereignty.

Europe's digital SMEs, including start-ups and scale-ups, should also be considered the providers of software and services that enable the digital transformation of all other companies and public administration. Furthermore, Europe's digital SMEs are the only actors that can deliver an alternative paradigm of technology that is more sustainable, ethical, and human-centric. Finally, digital SMEs drive positive economic change by reducing wealth concentration and bringing competition to the market through bottom-up innovation. Furthermore, they contribute to opposing social inequalities by turning the EU industrial base more diverse and by closing the gap between rural and urban regions, reducing wealth and social inequalities among Europe's communities.

WHO ARE THE DIGITAL SMEs

The European DIGITAL SME Alliance (DIGITAL SME hereafter) represents over 45.000 digital SMEs across 30 national and regional associations from EU Member States and neighbouring countries. **DIGITAL SME represents and voices the concerns of modern SMEs**, enterprises embracing the digital revolution and embarking on a journey to master technology and digitalise their local ecosystems with innovative solutions. It is estimated that companies represented via DIGITAL SME employ about 600.000 workers and generate a total of EUR 5 billion in revenues per year across Europe. Furthermore, digital SMEs offer digital solutions that are aligned with the EU's approach to human-centered technology, often competing with tech giants in their respective markets.

DIGITAL SME provides genuine representation for tech SMEs, in contrast with associations claiming to have a broad SME membership but in reality, being part of the so-called 'astroturfing' practice, brought forward by large technological corporations from overseas which makes these associations dependent on their interests.

To create the DIGITAL SME 2030 Manifesto, we have drawn upon the expertise of the community of European digital SMEs, experts, and policymakers. The presented ideas took shape during our annual DIGITAL SME summit in November 2023, followed by an open consultation process. Based on the above considerations, DIGITAL SME puts forth a blueprint to define the 2024-2029 mandate of both the European Commission and the European Parliament. The blueprint includes 18 policy recommendations, based on the three steps of SME digitalisation:

1. **Mastering digital innovation;**
2. **Doing business in the Single Market;**
3. **Creating Alliances for digital leadership.**

PRESIDENT'S FOREWORD

'Tailor-made digitalisation: Europe's path to global leadership'

In 2024, Europe stands at a crossroads. While the digital transformation increasingly shapes our economy and society, we must face the reality: our dependence on foreign technology giants poses a significant risk to Europe's digital sovereignty and thus to its prosperity. We must acknowledge that Europe still lags behind global leaders in key areas such as artificial intelligence and digital infrastructures. As the European Commission itself acknowledges in a recent DG Connect study, Europe has lost 50 percent of its share in the global market for digital solutions since 2013. Closing this gap requires bold decisions and consistent action. It is not only about the economic success of our companies, but also about our technological independence and ultimately our security and resilience as a continent. The document at hand is an urgent appeal to the decision-makers of the European Union to set the course for a thriving digital future for Europe.

We need to ask ourselves: Do we want to shape the digital future on a global level – with trustworthy and competitive technology based on European values and standards? What should a digital Europe look like in 2040? This manifesto is a call for a shift away from an approach that tends to produce overregulation and might stifle our own innovative spirit. Efforts should be made towards an environment that fosters the competitiveness and innovation of our small and medium-sized tech companies. Regulation can help to create such environment, as the Data Act or the Digital Market Act, two best-practice examples of innovation-friendly EU laws, show. Therefore, we should not focus only on rule-making that primarily aims at restricting competitors from overseas. But rather promote an approach to regulation which enables innovation by the European tech sector, driven by SMEs, to unfold its full potential.

Current legislation in the digital sphere – despite being well-intended – has often become an impediment to innovation and ultimately drives our economy further into a digital dependence on non-European actors. We must find a better way to reconcile regulation and innovation, to enable our companies while maximizing their growth opportunities, if we want to make the desired progress. For the success of this mission, the importance of our digital SMEs for Europe's digital sovereignty cannot be underestimated. They are the forges of our future, the engines of our innovation, and the guarantors of a digital transformation based on European values. Strengthening them is not only an economic necessity, but a strategic priority.

We have to follow a European path, it's not about copying or preventing Silicon Valley. We have a global market-leading SME sector that cannot be found anywhere else on the planet. Digitalization made in Europe can also be a projection of the success model of the traditional SME sector - namely targeted digitalization in niches driven

by digital SMEs. With this tailor-made digitalization, we can develop world market-leading digital products that solve real problems instead of just launching the next global platform as a supposed all-in-one solution. Let us pave the way together for a future where European innovation and European values go hand in hand.

European DIGITAL SME Alliance President

Dr. Oliver Grün



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MASTERING DIGITAL INNOVATION

A paradigm shift is required for Europe to become a leader in technological innovation in the upcoming six years. Such change should focus on eliminating the structural limitations, asymmetric dependencies, and unfair conditions that have been imposed on the digital ecosystem and which can restrict the ability of SMEs to innovate. This will further allow SMEs to become masters of technologies themselves and digitalise their local industrial ecosystems by providing sovereign and trusted solutions.

ARTIFICIAL INTELLIGENCE

AI is a crucial element to be considered if such a paradigm shift is to take place. **AI is a technology that is already transforming our economies, societies, and everyday lives.** Digital SMEs need to be at the forefront of the AI revolution, as they build solutions that directly enhance the competitiveness of European industries and the lives of consumers. Nevertheless, the EU has not been able to fully realise the potential of AI. A series of challenges, from the shortage of talent to the lack of computing capacities are threatening to narrow the pool of potential innovators in the AI ecosystem.

Moreover, frontier AI models need significant investments (mostly lacked by SMEs), and the AI markets are currently characterised by winner-takes-all dynamics. **The concentration of advanced AI technologies within the hands of a few large businesses could have dire consequences** both for the competitiveness of our economy and for the safety and fundamental rights of users. The AI Act will provide SMEs with legal certainty, but at the same time, it risks turning into a regulatory hurdle. Digital SMEs are about to face enormous compliance costs resulting from the AI Act, further weakening their market position towards large-scale competitors. Europe must intervene to change this trajectory and build democratic, competitive, and thriving European AI ecosystems.

What our SMEs think: *"Nextcloud is dedicated to fair technological solutions, particularly for local governments. A focus lies on creating a digital sovereign space. We embrace open-source values and foster an environment where advanced AI can support business growth."*

Frank Karlitschek - CEO and Founder at Nextcloud (Germany)

Digital SMEs can position themselves at the heart of a thriving ecosystem, which includes larger companies and academic researchers. An SME-led AI ecosystem can advance more trustworthy solutions as well as more tailored-made AI solutions that are specifically made for the B2B sector. The power of SMEs lies in the unique domain-specific data they possess, which they can utilize to develop so-called vertical foundation models. Vertical foundation models are essential for SMEs because they offer tailored, domain-specific solutions addressing the unique challenges and requirements of particular industries or sectors. Unlike generic AI models, which typically lack the specificity and customization needed to address niche use cases, vertical foundation models are trained on domain-specific data and insights. By leveraging on SMEs, the EU can excel in smaller AI models, more energy efficient, easier to use, and cheaper to build and operate. These can in turn address niche challenges and use cases, and ultimately contribute to the digitalisation of the EU's industrial ecosystems. Finally, an SME-led AI ecosystem can help further promote European digital sovereignty and be a leader in innovation. However, to truly grasp this opportunity, Europe needs a dedicated initiative, bringing SMEs together with leading AI researchers, and larger companies to develop public AI foundation models, openly accessible to European companies and citizens.

Policy Recommendation #1: Support the development of smaller vertical foundation models. Establish and promote pan-European consortia of SMEs and researchers to develop AI foundation models as digital public goods to de-risk the development of AI systems in Europe from strategic dependencies.

DATA ECONOMY

AI is at the forefront of Europe's digital transformation along with Big Data and the Internet of Things. Digital connectivity has enabled an explosion of data-driven, intelligent, and automated digital products and services. These technologies are revolutionising a series of domains including transportation, healthcare, manufacturing, energy, and smart cities. Data collected through smart devices and applications can help increase efficiency and resource allocation within examined domains. Moreover, these technologies allow us to closely monitor the environmental impact of industries and governments; optimise energy efficiency rates through targeted measures. Finally, **data-driven technologies can allow key industrial sectors and governments in Europe to remain competitive** amidst the growing digitalisation of the ecosystems of other countries.

The sum of these technologies and their impact on our businesses, cities, and everyday lives can be **described as the smart everything revolution**. Within this transition, the development of virtual worlds and digital twins also plays a pivotal role as it allows for testing, experimentation, and simulation in a cost-efficient manner.

The data economy needs to be inclusive and beneficial to all. Industries especially cities must be transformed by users' needs, whether they are employees, clients, or citizens. **European digital SMEs create and deliver tools helping to proliferate the benefits of the Smart Everything Revolution.**

The data-driven solutions provided by digital SMEs are in line with fundamental rights and principles. This is especially important, as the Internet of Things and smart devices pose risks to the users' privacy. Moreover, digital SMEs create specialised and targeted solutions, in contrast to off-the-shelf solutions provided by larger corporations. As a result, they provide industries and cities with more options to choose and tailor their digitalisation path in line with local circumstances and priorities.

To further support the participation and growth of SMEs in the data economy, SMES must gain more access to quality data sets, with data coming from Europe's strategic traditional sectors, such as agriculture, health, and others. More efforts need to be undertaken towards standardisation of dataset description, ontologies, and vocabularies, in light of fostering SMEs' participation in the data economy. While the Data Act that was agreed during the previous mandate has the potential to unleash some of the untapped power of the data economy, more can be done in this regard.

Furthermore, efforts by all governments across Europe to foster the one-time storage of government data, such as citizen data, should be supported. This "once-only" principle, as established in Estonia, for example, supports digital transformation. Access and changes to this once-only stored data are then made via a standardized interface and, for data protection purposes, every citizen can see when which of their data was accessed or changed by any public body.

Policy Recommendation #2: Complete the Single Market for Data by establishing a European marketplace as a central reference point for governments and market players in the interoperable exchange of non-personal data. Build a common, open data interface and support the "once-only" principle for the one-time storage of government data.

What our SMEs think: *"The Internet up to 4.0 was designed around user's engagement and data collection observation and capitalization by few companies, all vertically integrated. Today, thanks to the EU digital sovereign policy, to which DIGITAL SME actively contributes, the online competitive landscape is changing. New opportunities, in data sharing, data reuse, and data pooling, arise from the ability of end users to exercise instant data rights management. The implementation at scale of these innovative features is where European SMEs will innovate and will lead".*

Isabella De Michelis , CEO at ErnieApp (Ireland)

CYBER RESILIENCE

As our lives depend on interconnected digital technologies, it is also imperative to ensure that technologies are secure and resilient. The impact of cyberattacks has dramatically increased in recent years, with citizens and businesses falling victim to phishing attacks and flawed digital products.

As the DIGITAL SME ISAC 2023 Report 'The Ransomware Landscape in Europe' demonstrates, there was an increase of up to 87% in cyber attacks from 2022 to 2023 when comparing the number of attacks experienced in the first half of the two years. Cybercrime has been targeting specifically micro and small enterprises, and this trend has increased since automation tools which make it easier. The goal of security and resilience becomes even more important in an age of geopolitical volatility, where foreign actors may utilize digital technologies to destabilise European societies and economies. **It is time to work towards building the world's first cyber-resilient continent by 2030.**

It is crucial to emphasize that European digital SMEs can play a major role in the area of cybersecurity. They have the potential to offer reliable and cyber-secure software solutions in nearly all application fields.

What our SMEs think: *"The cyber resilience of Europe starts with its digital SMEs. At Nemetschek Bulgaria, we have been providing IT solutions to other SMEs for the past 25 years, and together with our partners from CyResLab ensuring that their digital transition was not only effective but also cyber secure."*

George Brashnarov - CEO at Nemetschek (Bulgaria)

Cybersecurity is a key element for the success of any SME. Efforts should be made to produce easy-to-use, clear, and structured implementation guidelines and to assist SMEs in bridging the cybersecurity gap. Coupled with this, providing

sufficient resources for SMEs and harmonising them across Europe (as provisioned for in recent legislation) will allow them to find support, offer services and level up their cybersecurity state.

Cybersecurity legislation shall recognise that digital SMEs are also part of the solution. The recent EU legislation in the area of cyber should be thoroughly assessed for its effectiveness in the new legislative term and adjusted if necessary to prevent digital SMEs from being put at a disadvantage in the development of digital business models by disproportionate requirements.

The compliance requirements for SMEs providing products with digital elements are an actual burden and appear disproportionate overall. They will likely produce additional costs for software SMEs and hamper their growth, while cyber attacks often derive from human mistakes (ransomware), not product-related insufficiencies. The implementation of cybersecurity frameworks should therefore take place placing a minimum burden on digital SMEs while providing a high level of cybersecurity and offering broad support to them.

Finally, harmonised support is an additional measure to avoid market distortions through the differing level of support being offered across Member States. This could be coordinated by strengthening the role of agencies, such as in the case of ENISA.

The evolving digital threat landscape poses a significant challenge for SMEs, demanding a proactive and adaptable approach to cybersecurity. These threats, characterized by increasing sophistication, present a continuous struggle for SMEs to keep pace with the evolving landscape. Weak credential management and protection, inadequate network security measures, and difficulties in maintaining effective patch management strategies further compound the cybersecurity obstacles faced by SMEs. Digital SMEs are best suited to provide support and the necessary tools to improve other peers' cybersecurity. Therefore, they should be at the centre of every effort to improve SMEs' cyber resilience.

Policy Recommendation #3: Support application development specifically in the area of cybersecurity by European IT companies, as cyberattacks are the greatest threat to all companies in Europe. Furthermore, create a structured forum of public-private cooperation on cybersecurity, by bringing together ENISA, national governments, and digital SMEs to pool resources and expertise. Create an Information Sharing and Analysis Centre (ISAC) for SMEs to share knowledge on evolving cyber threats as well as develop the right cyber skills and tools to address them.

ICT STANDARDISATION

ICT standardisation is a crucial element of digital innovation. ICT standardisation is a method to achieve interoperability of technologies and open proprietary and closed ecosystems. ICT standards enhance competition and can provide benefits to both industry and consumers. However, standards are never neutral as they reflect the strengths and the values of those who develop them.

The critical importance of the standardisation process means that **we should strive for an inclusive vision where standards are suitable for the many and not the few**. SMEs often lack the awareness, financial means, and more importantly time to participate in standardisation workstreams, effectively handing decision-making to other actors. Because SMEs represent 99% of all companies in the Single Market, this poses both issues of inclusiveness and suitability of standards.

SME participation in standardisation workstreams should be both direct - at the company level, by getting involved in standardisation technical committees - and indirect - through the collective representation of SMEs at the European level. Both should be further nurtured, with dedicated funding, direct collaboration streams between standardisation technical committees and SMEs, and an increased emphasis on sectoral SME collective representation.

It is also crucial to underline that the nature of technical standardisation has considerably changed over the last decade. The European Commission's Standardisation Strategy unequivocally calls for a European standardisation ecosystem able to deliver standards, supporting a 'green, digital and resilient EU single market'. Yet rapid technological changes and increased global competition around new technologies have largely urged the need for a more specific focus on ICT standardisation. Moreover, ICT standards are often agreed upon within global organizations, some of which (IETF, W3C) are led by non-European large companies and see scarce representation of European SMEs.

DIGITAL SME believes that the "digital" component of the overarching Commission objectives should be better reflected in the prioritisation of its activities. EU financing for European standardisation activities could thereby be reassessed based on this rationale – notably in the framework of the ongoing evaluation process of Regulation 1025/2012, the core legislation underpinning the European standardisation system. Standardisation actions should also be closer tied to the objectives of the twin transition, emphasising sustainability considerations adjacent to ICT standardisation.

Policy Recommendation #4: Increase funding for SME representation in ICT standards, notably by reassessing the increased importance of ICT standardisation for the Single Market in the ongoing evaluation of Regulation 1025/2012.

Additional efforts should be focused not so much on the sole development of new standards but on their **effective deployment**. Besides the role of certain standards as tools of regulatory compliance, the importance of voluntary industry standards should not be omitted. In the last year, some of these standards have succeeded, such as the oneM2M standard for the Internet of Things (IoT). Their proper uptake by SMEs is essential to avoid excessive overload of the latter, through a plethora of multiple standards, sometimes poorly suited to their specific business needs. Beyond, it would also reflect a considerable industrial policy achievement due to the increased large-scale interoperability standards enable. This decisive role of ICT standards is all the more important within SME ecosystems, which unlike larger companies do not have the capacity of vertically integrating their products, services or processes. Mandating the use of relevant industry standards in public procurement at the Member State level could, in that sense, constitute a positive step towards better deployment across the European Union. By choosing standards which federate industrial ecosystems, the public sector can enable its industrial base (largely embodied by SMEs) to better operate with one another in a clear and interoperable way.

This work should stem from a larger coordinated effort from the European Commission. **A more holistic approach to standardisation is needed, bridging policy and standardisation circles**. ICT standardisation cannot operate in silos. Digital technologies are both a complex matter and a global affair. Effective collaboration between the European Commission, national governments, and industry should be bolstered on all strategic topics. While the High-Level Forum on Standardisation (an offshoot of the 2022 Standardisation Strategy) is a positive development in that sense, for instance, it could play a more central role in coordinating the strategies of industry and governments in international standardisation bodies.

Policy Recommendation #5: Promote the deployment of voluntary industry standards, notably by mandating the use of relevant standards in public procurement to federate industrial ecosystems; Tie these efforts to a more comprehensive approach to standardisation, aligning respective efforts of the European Commission, national governments, and industry bases towards a strong European international leadership.

DOING BUSINESS FOR DIGITAL SMEs

European SMEs that strive for digital innovation, are required to focus on product development or the digital transformation of their operations. Meaning that they have limited resources to dedicate elsewhere. As a result, **heavy bureaucracy tends to slow down SMEs' journey towards technological mastery or prevents it from starting in the first place.** For the EU to achieve digital SME-led technological leadership, Europe needs to take a close look at the status quo of conducting business in the Single Market. Only by stepping into a digital entrepreneur's shoes, policymakers will be able to better understand how to optimise these conditions.

DIGITAL SINGLE MARKET

Digital SMEs suffer from the de facto fragmentation of the Digital Single Market. Instead of a harmonised and streamlined process of setting up and conducting business, **tech SMEs are faced with 27 legislations significantly diverging when it comes to corporate, taxation, dispute resolution, and employment laws.** Difficulties to transpose EU legislation at the national level and insufficient integration of services represent a major barrier that may prevent many digital SMEs from trading and investing across borders. That is why to fully realise the potential of the Digital Single Market, it is important to introduce a proposal for the careful harmonisation of rules on the establishment and taxation of corporate entities in the Single Market.

In this context, harmonisation is a first step to address other issues reported by SMEs, for instance, difficulties with market rules compliance and uneven access to public procurement. Despite the introduction of the concept of 'Societas Europea', which sought to alleviate similar burdens, there has only been a limited number of SMEs taking advantage of the provision. It is high time for an examination of the status quo for the EU to reach its digital competitors, who benefit from simplified corporate rules.

What our SMEs think: *"By securing its independent digital infrastructure and networks, Europe can safeguard itself from external interference and ensure that its citizens and businesses have access to cutting-edge technologies. EU policymakers should foster the emergence of European providers of digital infrastructure and networks that are secure, resilient, and aligned with its values. Citypassenger, a leading European provider of SDWAN and Wi-Fi solutions, exemplifies this commitment to homegrown innovation. The company's solutions are built on open-source software, designed with security in mind, and compliant with European regulations."*

Bruno Duval - CEO at Citypassenger (France)

Europe should make it easier for small businesses to leverage the potential of an integrated Single Market to propel their innovation capacity to the next level. This means that the *'think-small-first'* and the *'once-only'* principles should be fully applied, to reduce the over-transposition of EU law at the national level. This also allows for small companies to carry out their administrative and compliance procedures across the EU in a central place and a streamlined manner. In this way, digital SMEs would be able to develop their innovative services in a more innovation-friendly European market. The commitment of the President of the European Commission von der Leyen to cut reporting obligations of enterprises by 25% is a welcoming step in the right direction. It is important to remain on this course of action and consider how to further help SMEs operate within the regulatory environment of the single market.

Policy Recommendation #6: Support harmonisation and create one-stop shops for SMEs in every Member State to support compliance with EU legislation and provide data to improve the regulatory environment and realise a fully integrated Single Market.

Furthermore, SMEs report several barriers to cross-border sales in the Single Market, including, but not limited to difficulties in finding market opportunities and business partners, complex tax and administrative procedures, and problems registering business activity in other Member States.

So far, well-placed operators to navigate these obstacles are large e-commerce marketplaces and other multinationals, which can afford to set up operations in multiple countries. Through that, marketplaces benefit from the economies of scaling up and expanding into additional services along the e-commerce value chain.

While online marketplaces offer SMEs the possibility to reach new markets and customers, concerns remain about the possibility of anti-competitive and anti-innovative behaviours and lock-in activities from marketplace providers. These concerns led to the establishing of the Digital Markets Act and the designating of several online marketplaces as gatekeepers, among other EU and Member State level actions. Proper, strong enforcement of the Digital Market Act is necessary, making sure that it has an actual impact on market structures and extending it to further digital services. However, the next steps are needed to create a lasting alternative - a European Digital Public Infrastructure, which would improve Europe's digital sovereignty and level the playing field in the Single Market trade.

Policy Recommendation #7: Create an open European e-commerce marketplace for the Single Market within the next 5 years; utilize open, interoperable software components, that should cover all the stages of the e-commerce value chain and allow buyers and sellers to connect seamlessly, irrespective of the platform they use.

Further to promoting a more streamlined regulatory environment in the Single Market, the EU should promote a level playing field and make sure to maintain the diversity of its industrial base. This is especially the case taking into account the challenges brought by digitalisation, which may enhance market dominance by a few players.

As small companies are often not best placed to take advantage of economies of scale, they face a comparative disadvantage concerning larger enterprises. This is especially true when it comes to taxation. Until recently, big corporations, including tech giants, have benefited from a fragmented landscape in EU Member States' tax systems. Europe needs to make sure that large enterprises have no advantageous position concerning smaller competitors when it comes to abiding by tax rules.

As a result of a global deal on international tax reform, a new framework including a minimum effective tax rate of 15% for multinational companies active in EU member states came into effect. This mechanism should be fully implemented by the Member States and its enforcement should be ensured.

To further promote fairness, though, the EU Member States should be prompted to use the revenues coming from an increased effective taxation on multinationals, to decrease the current levy on tax rate for SMEs.

Policy Recommendation #8: Harmonise rules on the establishment of multinational entities and their taxation in the Single Market, promoting the enforcement of a minimum effective tax rate of 15% for multinational companies across EU Member States. The latter should use a share of these new public revenues to grant reduced tax rates to smaller European companies.

An additional key dimension of the Single Market is **access to growth capital by digital SMEs**.

To foster the emergence of new technology market leaders, tailored forms of capital participation are needed to meet the requirements of growing digital SMEs with high prospects of success. Established and consistently profitable companies

have the opportunity to quickly ascend and secure technological sovereignty for digitization. However, they require appropriate stimuli for this advancement.

Strengthen digital sovereignty, requires a comprehensive investment in the most promising European companies active in key technological areas such as AI, cloud, or quantum computing. To close this gap, we propose the creation of new access to growth capital specifically for medium-sized tech scale-ups. The aim should be to stimulate growth for fast-growing, established tech SMEs that are not sufficiently covered by the existing offerings. Such a program should be designed to provide a real boost for medium-sized scale-ups and at the same time minimize risks for investors.

A second pathway is initial public offerings (IPOs), which are a crucial step for companies on their path to global prominence and to acquire fresh capital for growth. Tech SMEs, through an IPO, enable the emergence of new jobs in future industries and investments in new technologies. However, due to high bureaucratic hurdles and resulting costs, a large part of companies abstain from this step, which leads to a significantly lower number of IPOs in Europe compared to the U.S. Consequently, rapidly growing startups or mid-sized companies often have no choice but to sell their firms – mostly abroad – as the opportunity for an exit is lacking domestically. This prevents the creation of world market leaders and stifles the ecosystems of surrounding businesses. Thus, a spiral of selling off the most innovative companies abroad emerges, weakening our digital sovereignty prospects.

The key levers, therefore, involve reducing overregulation and bureaucratic requirements faced by small issuers such as SMEs when planning an IPO. IPO regulations should be better tailored to the size of companies so that the compliance effort – especially regarding transparency and reporting obligations – does not prevent IPOs outright and remains in a realistic proportion to the benefits.

Policy Recommendation #9: Following recent legislative efforts such as the EU Listing Act, reduce bureaucratic hurdles for SMEs with regards to IPOs to create an improved incentive for tech companies to stay in Europe.

Policy Recommendation #10: In a joint effort by all member states, the EU should set up a Tech Champions Fund to provide targeted support for those companies that are on the verge of market leadership and need to be kept in Europe.

INTELLECTUAL PROPERTY

Intellectual Property Rights (IPR) are one of the core elements underpinning innovation.

With Directive 91/250/EEC of 14 May 1991 (now codified version 2009/24/EC) on the legal protection of computer programs the EU has chosen copyright as the legal framework for protecting software and software solutions. The copyright law offers a range of claims for the rightsholders to take action against infringers without monopolising product features.

However, software-related patents are still granted at a high rate in the EU: this practice prevents other software developers from using, reproducing, or distributing their implementation of the patented software solution. This, in turn, undermines innovation and competition in the software market.

A more balanced approach is needed when granting of software patents as a tool for IP rights protection. The majority of software-related patents effective in Europe are held by non-European companies. As such, the status quo jeopardises the EU's digital sovereignty. Hence, patent protection in the field of software should be limited to cases where copyright protection for software is not sufficient.

Policy Recommendation #11: Promote an open and competitive Digital Single Market in Europe, by streamlining the protection of intellectual property rights, and safeguarding the copyright approach, to underpin digital innovation. In line with this, implement a smarter approach to software IP rights, less dependent on patents, to foster EU industrial leadership and digital sovereignty.

SKILLS

A significant part of being a digital SME entrepreneur involves finding the right people, with the right skills for the right job. As outlined in a recent Eurobarometer survey¹, digital skills are critical to maintaining European competitiveness and increasing prosperity in the age of the Fourth Industrial Revolution. The Digital Decade Programme² highlights the importance of skills and aims to equip the European industrial ecosystems with both basic digital skills as well as with a pool of ICT experts. However, Europe is underperforming as only

¹[Survey highlights skills shortages in small and medium-sized enterprises \(SMEs\) - European Union \(europa.eu\)](#)

²[State of Digital Decade Targets report in 2023](#)

one-quarter of Europeans possess above-basic digital skills. **This means that employees in traditional industries are unable to take up and implement solutions of digitalisation and are at risk of becoming less competitive.** Shortage of important skills, including digital skills, thus contributes to fewer employment opportunities, a less healthy job market, and a less healthy economy overall, which in turn fuels wider societal issues.

What our SMEs think: *"We are witnessing a paradox where companies look for talents, while young people and professionals struggle to find a job to express their talents. To solve this, we need concrete, active policies that reward the effectiveness of employment and not education for its own sake. Moreover, we need to work with European SMEs to help promote new Digital Skills programs, assisting young people to train in an integrative, 360° way. Without real human growth, skills themselves soon become fragile."*

Max Costa - CEO of Develhope (Italy)

Despite the steady growth in the demand for ICT experts over the past years and the expected continuation of this trend in the next decade, the participation of individuals in education and training programs focused on digital technologies is insufficient. **Only one in five traditional small companies and two in five traditional medium companies provided training to their staff to enhance their ICT-related skills, compared with 69.5% of large companies.** Adult participation in educational training is low, including in digital skills.

To remain globally competitive, the EU needs to attract talent from third countries. However, the process of international job matching remains excessively complicated and expensive for both non-EU nationals and employers, especially SMEs facing resource constraints. This not only impacts the EU's competitiveness but also results in a skills mismatch, where third-country nationals end up working below their qualifications.

Furthermore, digital SMEs are the protagonists in the process of upskilling workers in traditional sectors. **That's why it's crucial to foster the link between digital SMEs and traditional small companies in skills training.** To do this, fiscal incentives, including tax incentives, can provide an important boost in the upskilling and reskilling efforts of Europe. The EU should build on existing initiatives³ such to support pilots that foster novel and innovative collaborations through new actors in the digital realm, particularly in rural areas.

³ For instance, the AURORAL project: <https://www.digitalsme.eu/projects/auroral/>

This is strategic for digital SMEs to take the lead in fostering upskilling and reskilling and in promoting peer-to-peer learning schemes and training in the SME workforce.

To further support synergies in local ecosystems, such training could take place within established large-scale partnerships that bring together SMEs, technical universities, Vocational Education and Training providers, and other actors in the skills area that can provide structured training.

Policy Recommendation #12: Establish concrete incentives for SMEs, including but not limited to vouchers, funding, and tax credits, for the reskilling and upskilling of their workforce; digital SMEs will promote the development of advanced digital skills for 40 million people in the European SME workforce by 2030.

Policy Recommendation #13: Harness the leading role of digital SMEs and structured alliances, such as the Pact for Skills and the Large-Scale Partnerships, as well as relevant state agencies operating in the skills ecosystem in EU member states, to upskill and reskill Europe's workforce relevant in cooperation with higher education institutions and training centres.

GREEN-DIGITAL

In an era of climate change and energy insecurity, SMEs face the challenge of making their operations more sustainable, resilient, and energy-efficient while addressing the growing demand for information on their business activities' environmental impacts.

On the one hand, digital technologies have a significant environmental impact throughout their lifecycle, characterised by high energy consumption, utilisation of raw materials and resources, and the generation of waste. On the other hand, digital technologies hold the tremendous potential to accelerate the transition towards net zero by allowing them to save more emissions than they generate. Indeed, the convergence of green and digital transitions presents a unique opportunity for mutual reinforcement, if managed effectively.

However, while President von der Leyen announced that “Leading the twin transition in this changing world is the driving force of this Commission” in March 2020, little has been done during the current Commission's mandate to exploit and boost the synergies between the two transitions. By 2030, the EU aims to achieve the Digital Decade's goals on the one hand, while achieving the Fit for 55 targets on the other hand. Their interrelation and their reinforcement have been overlooked.

What our SMEs think: *"The green and digital transitions should not be viewed separately but rather be integrated under a common framework which requires systemic change and meaningful collaboration between the private, public, finance and civil society sectors. In this new framework, digital solutions must be developed with a net-zero objective, playing a crucial role in curbing carbon emissions and boosting the circular economy. That's why forward-thinking digital SMEs must lead the digitalisation of the European economy and society, providing innovative business models and solutions for a greener and fairer future."*

Carsten Waldeck - CEO at SHIFT GmbH (Germany)

Digital SMEs play a pivotal role in the twin transition process by spearheading the transformative power of digital technologies for the environment. They actively contribute to a greener future by designing, developing, and deploying solutions that help reduce carbon emissions, mitigate climate change, or enable a more circular economy.

To further enable the innovative capacity of digital SMEs in the green transition, solid legal and financial instruments are required. As the Recovery and Resilience Facility comes to an end, the EU is faced with a green investment gap that must be overcome to meet its climate ambitions. In addition, EU-wide action plans can pave the way for the sustainable digital transition of carbon-intensive sectors utilizing digital SME solutions.

Policy Recommendation #14: Adopt and implement sector-specific action plans for the digitalisation of Europe's major industrial sectors to accelerate the uptake of net-positive digital solutions in the most energy-intensive sector.

These action plans will leverage net-zero digital solutions developed by SMEs to decarbonise key European industrial ecosystems, such as mobility, manufacturing, and agriculture. **Key actions would include developing a Green-Digital Matchmaking Platform to connect SME suppliers of net-zero solutions with demand in these sectors**, defining indicators to measure the progress of sustainable digital transformation efforts, facilitating the adoption of standardised methods for calculating the net positive impact of digital solutions in these, providing financial support for research, innovation and market uptake of digital technologies, fostering green-digital skills for decision-makers, businesses and citizens alike.

The additional investment needed to achieve the Green Deal objectives is

estimated at 620 billion EUR annually while bridging the digital transition investment gap requires at least 125 billion EUR annually. DIGITAL SME recommends bridging both gaps in a common Investment Plan for Green & Digital.

Policy Recommendation #15: Introduce a Green-Digital Investment Plan to support SMEs that research, develop, and implement digital solutions that have a net positive impact or mitigate climate change and accelerate the market deployment of these solutions.

AN ALLIANCE FOR DIGITAL LEADERSHIP

Europe's technological leadership starts by creating an environment that is favourable to SMEs and by allowing these SMEs to create, develop and provide sustainable digital solutions. But for Europe to catch up to its competitors by 2030, meaningful synergies must be created that will allocate resources efficiently, avoid duplication of efforts, and create direct channels of communication between stakeholders. To this end, DIGITAL SME believes that the public sector, the private sector, and academia must all come together to form an Alliance for the digitalisation of SMEs.

For Europe's industrial base to be fit for the digital age, its SMEs must be able to digitise and develop their business. So far, the European Union has undertaken a variety of initiatives to promote a business-friendly environment for SMEs. It has also granted different sources of funding opportunities to digitise businesses. Although these initiatives go in the right direction, **the landscape of EU initiatives in digital transformation remains fragmented**, thereby resulting in duplication of efforts, inefficiencies, and lack of awareness among SMEs about opportunities they could access to digitise their business models.

PUBLIC-PRIVATE PARTNERSHIP

It is high time for the EU to follow an entrepreneurial approach to innovation policy. In the domain of digital, **the EU should design its policies to actively shape digital markets in line with its overarching objectives of EU digital sovereignty, industrial policy, and green transition.**

Public-private partnerships (PPPs) are those frameworks in which public and private resources are blended to achieve goals deemed to be beneficial to both the private entities and the public.

This approach is particularly valid in innovation-intensive and high-risk industries such as the digital one. The history of most important contemporary technological breakthroughs shows that strategic public investments often arrive at an early stage, to absorb major uncertainty and risks on the market, thereby creating the conditions for businesses to take over those risks and develop innovation once prospects of growth become more evident.

The allocation of risks and rewards of innovation in PPPs provides a unique opportunity to advance innovation, making it more responsive to fast-growing technological advancements and capable of generating tangible economic and social benefits.

PPPs are thus increasingly effective for driving successful digital transformation of industrial sectors. For businesses, partnering with academia and public institutions can help solve problems related to market uncertainty and generate value through cooperation and co-production. For the public sector, PPPs can be a convenient tool to address both market and coordination failures and leverage private investments into innovation and technology.

These partnerships combine the efficiency, innovation, and agility of the private sector with the stability and scalability of the public sector. **This model is particularly effective in large-scale digital transformation projects** that require substantial investment, innovation, and technical expertise. Successful schemes of this kind have been adopted to deliver digital transformation of public service provisions; to support the development of digital infrastructure such as broadband connectivity and cloud services; to empower the interoperability of public and private services.

Policy Recommendation #16: Establish a public-private partnership focused on the digitalisation of SMEs to mobilise private investments for the sustainable digitalisation of the EU industry; leverage digital SMEs to make this happen while promoting EU sovereignty and providing SME innovators with a single portal for EU funding, initiatives, and pool for skills.

PUBLIC PROCUREMENT

The public sector is the largest client in Europe for IT and software projects. To create a genuine Alliance between the public sector and the digital SMEs, it's important to include and mobilise Member States as well. EU Member States hold

legal competency when it comes to a series of important areas for the digital transition, such as education and fiscal policy. For example, public procurement is a relevant area that can be utilised to fuel innovation, especially in capital-intensive markets such as AI. **Public procurement is an alternative source of funding for most digital SMEs** which can help them diversify or move away from R&D funding or venture capital. That's why it's important to consider the revision of the existing public procurement rules across EU Member States. This would not only benefit digital SMEs but also the public administrations themselves in regions and cities which would be able to complete their digital transition using local, trusted, and sovereign tools.

The above-mentioned objectives become even more important when the challenges and pressures posed to the EU by its global competitors are considered. In 2022, the Inflation Reduction Act came into force which puts forth \$430 billion on tax breaks and subsidies to attract investments. This is indicative of the coordinated resources that other players are willing to invest to fulfil strategic goals such as the green or digital transition. For the EU to achieve digital leadership **it's important to step up to the same level of commitment, coordination, and coherence.**

Policy Recommendation #17: Introduce a Buy European Tech Act which would oblige public authorities across the EU to give priority to EU-made products and promote the strategic objectives of the twin transition within public procurement procedures.

INTERNATIONAL PARTNERSHIPS

An Alliance between the EU institutions and digital SMEs can strengthen and benefit the EU's position in the landscape of global digital governance. The EU has already launched a series of initiatives that include bilateral and regional digital partnerships as well as investments in sustainable digital infrastructure. These international initiatives serve two main purposes. Firstly, **to establish a productive dialogue with partner countries and advance a democratic and human-centered approach to technology and ICT standards around the world.** Secondly, they also provide an alternative offer for the EU's international partners to derisk their local digital ecosystems and infrastructure from the weaponised interdependencies that other actors are seeking. The pinnacle of this effort is the EU's Global Gateway which aims to mobilise up to €300 billion in investments before 2027.

It is vital that in all its efforts in global digital governance, the EU explores avenues

for coordinated action with the digital industry and especially with Europe's digital SMEs. European SMEs create and provide digital solutions that embed the principles of human-centric technology, such as respect for privacy. European SMEs don't pose risks of capturing local markets and distorting competition. Finally, due to their agility, **European SMEs can provide targeted solutions that address the needs of their partners sustainably**. For all these reasons Europe's digital SMEs are the ideal actors that can implement investments in digital solutions, whether in the Business-to-business (B2B) or Business-to-government (B2G) sectors of the EU's partner countries. In this way, the EU can also provide concrete incentives for digital SMEs to access global markets and accelerate their growth by trading beyond the EU's borders.

What our SMEs think: *"In the digital era, small and medium-sized enterprises (SMEs) in the software sector play a crucial role as architects of innovation. As dedicated providers of management software for research centres, healthcare research, and universities in Spain and Latin America, our vision extends globally. We advocate for a collaborative framework that prioritizes the promotion of interoperability standards, the implementation of robust cybersecurity measures, and equitable access to cutting-edge technologies."*

Natalia Alciturri - CEO at SEMICROL (Spain)

It is also critical that the EU prioritises Western Balkans and Ukraine and pursues synergies with their local digital ecosystem. As the Western Balkans and Ukraine remain committed to a prospective future within the EU, we must seek to accelerate the uptake and adoption of new technologies in these areas. It is also important that the development of innovative solutions in the Western Balkans is fully aligned with European values and fundamental rights.

Policy Recommendation #18: Lead the establishment of a Global Partnership for digital SMEs to coordinate efforts from like-minded countries, especially in the fields of standards, B2B matchmaking, and digital sustainability, and deliver on the priorities of the EU's Trade and Technology Councils and the Global Gateway.

CONCLUSIONS

All in all, the European DIGITAL SME Alliance is committed to working with the community of digital SMEs and EU policymakers to achieve European tech leadership by 2030. For this purpose, DIGITAL SME has created a blueprint for a European Digital New Deal and calls for a swift adoption of such a framework.

Any plan that seeks to put Europe in the driver's seat on technological innovation, must start by considering the strengths and needs of SMEs which are the backbone of the Single Market and play a critical role in boosting digital sovereignty, competitiveness, and empowering societies. **Digital SMEs are the enablers of SMEs' twin transitions. In particular, they deliver a "tailor-made digitalization", by following a sector-specific approach. As such, digital SMEs' industrial partnerships with traditional SMEs are the key success factor to make Europe's SME ecosystem fit for the digital age.** Decision-makers must put themselves in the shoes of modern SMEs to better understand their journey towards building and sustaining a competitive tech business.

Firstly, this journey starts by mastering digital innovation and developing innovative solutions in the most critical areas of technology including artificial intelligence, the Internet of Things, and ICT standardisation. **Digital infrastructure as a public common good can help lower the barriers to SME innovation** in these sectors while participation and dedicated funding for decision-making bodies is essential. Secondly, digital SMEs must navigate a complex Single Market where red tape is increasingly hampering their growth. At the same time, digital SMEs are competing with large companies to attract talent and are also making a considerable effort to make their businesses more sustainable. It's important to **support digital SMEs in this area by simplifying regulatory processes and taxation** and by generating attractive incentives for the upskilling, and reskilling of the workforce in traditional ecosystems by digital SMEs. Finally, DIGITAL SME calls for the establishment of an Alliance between all actors in the digital ecosystem that will facilitate coordination and **boost the adoption of digital SME solutions through a Buy European Tech Act** and a scheme for international partnerships.

DIGITAL SME hopes that decision-makers will seize on the above-mentioned opportunities and deliver a European Digital New Deal.

