European Economic and Social Committee

REX/519
Digitalisation and SMEs in Euromed

INFORMATION REPORT

European Economic and Social Committee

Digitalisation and SMEs in the Mediterranean region

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Introduction

The EESC Euromed Follow-Up Committee has decided to focus on digitalisation and SMEs in the Euro-Mediterranean region. A preliminary analysis was presented at the 2019 Euromed Summit of Economic and Social Councils and Similar Institutions in Barcelona on 22-23 October with a view to deepening dialogue and interregional exchange in the follow-up committee's forthcoming activities. The current document consequently includes comments and recommendations from the debate held at the Summit.

The purpose of this document is to:

- analyse as far as possible the current state of play of the digitalisation of SMEs in Northern, Southern and Eastern Mediterranean countries, as information on this topic is currently not readily available;
- highlight the specific challenges in terms of digitalisation facing SMEs compared to larger firms and the costs of non-digitalisation;
- stress the importance of bridging the digital skills gap which is hampering the digitalisation of SMEs, while recognising that under certain conditions, this gap is also an opportunity to step up SMEs' contribution to creating job opportunities for young people;
- encourage the inclusion of women and other groups usually more exposed to marginalisation in SMEs, through the adoption of digital technologies and more flexible, autonomous business models, while preventing the deterioration of working conditions;
- stimulate joint analysis and debate to prevent the emergence of new digital dividing lines in the Euro-Mediterranean region, as Mediterranean EU Member States, encouraged by the EU, scale up their digital policies, such as the Digital Single Market and the Digital Europe Programme.

1. Conclusions and recommendations

1.1 The EESC considers it necessary to support the digital transformation of SMEs with adequate policy measures that are tailored, as far as possible, to the specific needs of different types of companies. These measures should be part of a broader policy agenda aimed at strengthening the decisive role of SMEs in the socio-economic development of Euro-Mediterranean countries and, most importantly, in the fight against unemployment.

1.2 Digitalisation is not a priority in the current framework of cooperation between European Union and Euro-Mediterranean partner countries. The EESC calls for prioritising investment in digital infrastructure and the educational reforms needed to mainstream digital skills among teachers and students in future revisions of the European Neighbourhood Policy and bilateral Association Agreements.

1.3 There is an evident lack of readily available and reliable data on digitalisation in most Euro-Mediterranean partner countries. The EESC recommends extending the international dimension of the Digital Economy and Society Index to all Euro-Mediterranean partner countries and, if necessary, assisting their national statistical offices to produce the required data, e.g. through a new MEDSTAT initiative.

1.4 The EESC appreciates the efforts of the European Commission to create a network of Digital Innovation Hubs and its reinforcement under the new Digital Europe Programme. The EESC

welcomes the eligibility of Euro-Mediterranean partner countries for funding under the programme, but expresses its concern that without commitment from partners to include the hubs in their digital agendas, there is no guarantee that action will be taken.

1.5 The EESC calls for greater involvement of the social partners, including civil society organisations, in the activities of Digital Innovation Hubs. In particular, SME associations have an important role to play in mapping needs at the local level and promoting the hubs among their members. It is important to note, however, that this should not come at the expense of SMEs that are not members of any association.

1.6 The main objective of the new Digital Europe Programme is to scale up public investment in advanced digital technologies and support their adoption by companies. The EESC points out that the majority of SMEs have not yet adopted basic digital technologies and are at risk of being left behind.

1.7 Digital readiness is key to a successful digital transformation. The EESC recommends investing in awareness campaigns to inform SMEs about the opportunity costs of non-digitalisation and supports the development of online self-assessment tools to help them get started with the development of a digitalisation strategy.

1.8 In particular, the EESC stresses the importance of enhancing SMEs' awareness and assessment of digital risks and incentivising them to develop a cybersecurity strategy at an early stage of their digital transformation.

1.9 Protecting sensitive business data or personal data processed as part of business operations from intrusion by a third party, including governments, should become a priority for digitalising SMEs storing and using increasing amounts of data. The EESC welcomes the General Data Protection Regulation recently adopted by the European Union and advocates for similar regulations in Euro-Mediterranean partner countries.

1.10 To smooth the transition to a digital business model, workers should be adequately informed about and where possible involved in the development of a digitalisation strategy. The EESC reiterates its previous calls for a human-centred approach to digitalisation, focused on increasing workplaces' productivity.

1.11 The gender gap in labour force participation is substantial in virtually all Euro-Mediterranean countries, to some extent due to deep-rooted traditional views on gender roles. Digitalisation can help reconcile work and family life by allowing for flexible working arrangements and telework. The EESC considers that the promotion of women's participation in the labour market should be an explicit objective of national digital strategies and recommends creating incentive schemes for SMEs to include women.

1.12 Digital entrepreneurship is a promising avenue for the creation of employment opportunities for young women and men in unemployment-ridden Euro-Mediterranean countries, but its potential remains largely untapped. The EESC points to the importance of nurturing entrepreneurial attitudes and digital skills at all levels of education.

1.13 The available data show that the majority of SMEs lack in-house digital skills. The EESC supports initiatives to incentivise and facilitate the reskilling of workers, such as paid educational leave or the introduction of learning apps in the workplace, while protecting their rights.

1.14 The EESC sees the necessity of bridging the digital skills gap as an opportunity to tackle youth unemployment, especially in Euro-Mediterranean countries with expanding populations of digital natives. At the same time, the EESC expresses its concern that in the absence of complementary measures, this will reinforce the exclusion of older workers from the labour market.

1.15 The EESC recommends that the European Digital Competence Framework (DigComp 2.1[1]) be implemented on both shores of the Mediterranean to standardise required skills and digital education programmes. University degrees that comply with DigComp 2.1 should be recognised throughout the Mediterranean region.

1.16 The EESC encourages easier access to time-limited labour visas to allow qualified IT specialists to offer their services within the EU for temporary specific projects. Such mobility of service providers would significantly reduce digital brain drain from the Southern Mediterranean region.

1.17 The rapid urbanisation experienced by virtually all Euro-Mediterranean countries is a major challenge for their sustainable development. The EESC stresses the importance of reducing the urban-rural digital divide to keep rural areas attractive, especially for young people, and counter rural depopulation.

1.18 Boosting connectivity and digital skills in rural areas is a precondition for the development of smart farming, which is a major opportunity to better manage increasingly scarce water resources in the Euro-Mediterranean region. The EESC calls for the creation of a legislative framework conducive to the uptake of modern equipment by small agri-businesses.

2. General comments

2.1.1 Digitalisation is having a pervasive and profound impact on all aspects of society and the economy: production, distribution, consumption, work and leisure. SMEs are increasingly under pressure to adapt their business models accordingly and adopt the necessary digital technologies to remain competitive and attractive to customers. Against this backdrop, SMEunited defined digitalisation as the biggest challenge ahead for the majority of European SMEs in the build-up to the 2019 European Parliament elections[2].

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1 Reference model of the European Commission (DG EAC, DG EMPL and JRC): eight levels of digital competence linked to education and employment. https://publications.jrc.ec.europa.eu/repository/bitstream/JRC106281/web-digcomp2.1pdf_(online).pdf.

2 https://smeunited.eu/news/digitalisation-is-the-biggest-challenge-for-smes.

2.1.2 The benefits of digitalisation are manifold. SMEs can boost their competitiveness by rationalising and accelerating processes from design to delivery, expand their market access and value chain integration by means of digital platforms, and improve customer relations using social media and digital customer service. The EESC has already acknowledged this in previous opinions[3]. In addition, digitalisation can enable SMEs to innovate by offering new digital products or services or enhancing their existing range of services with additional digital services.

2.1.3 On the other hand, there are a number of challenges associated with digitalisation. SMEs have to deal with uncertain returns on investment in the digitalisation of business processes, as customers are not necessarily willing to pay a higher price for goods and services. At the same time, they are faced with higher price competition in increasingly digital and global marketplaces. The EESC also expressed its concerns about the impact of digitalisation on the organisation of work within SMEs, whereas automation might reduce the number of available jobs, at least in the short run[4].

2.1.4 Digitalisation is not a one-off project. The adoption of even basic digital technologies might open the door to a deeper digital transformation, as new needs emerge and have to be addressed (e.g. managing cybersecurity risks, analysing increasing amounts of data, safeguarding software inter-operability). In the absence of a properly designed digitalisation strategy, the resulting snowball effect on costs can lead to enhanced risks of bankruptcy for SMEs lacking access to finance. In a previous opinion, the EESC identified in the current trend towards the democratisation of information technologies (e.g. through cloud computing) an opportunity for SMEs to access digital services at a lower cost[5].

2.1.5 The opportunity costs of non-digitalisation are bound to increase for SMEs as digital business models become a standard, not merely a source of competitive advantage. SMEs opting to postpone their digital transformation might find themselves forced to adopt some digital technologies anyway and without adequate preparation as transactions with business partners, the public administration and customers become increasingly digitalised. SMEs failing to adapt to evolving consumer expectations will be gradually side-lined by competitors with higher visibility and a more active online presence. This trend is bound to accelerate as the share of digital natives among consumers increases.

3 INT/823 EESC opinion on *A Digital Single Market Strategy for Europe*, OJ C 71, 24.2.2016, p. 65.

4 CCMI/136 EESC opinion on *The effects of digitalisation on the services sector and employment in relation to industrial change*. OJ C 13, 15.1.2016, p. 161.

5 TEN/494 EESC opinion on *Unleashing the potential of cloud computing in Europe*.

2.1.6 The limited availability of data makes it difficult to analyse the current state of play concerning the digitalisation of SMEs in the Euro-Mediterranean region. In the EU, relevant data on adoption of digital technology by firms, broadband coverage of households and digital competences of individuals are produced by Eurostat and compiled in the Digital Economy and Society Index[6]. The latter has an international component covering 17 extra-EU countries including Israel and Turkey, while in the other Mediterranean partner countries data on digitalisation is virtually non-existent. The World Bank Enterprise Survey comprises an innovation module, but the information collected is too broad to analyse advances in digitalisation by the firms surveyed.

2.1.7 Euro-Mediterranean countries have all progressed in laying down the building blocks of an SME policy, although with significant differences between countries in the degree of progress achieved[7], and have all adopted digital agendas. In virtually all cases, SME policies do not mention digitalisation and in practice, support for the digitalisation of SMEs is only partially addressed at best, even in those countries with a digital agenda. The EESC stresses the importance of building synergies between SME policy and digital agenda.

2.1.8 Encouraged by the EU, Mediterranean EU Member States have taken steps to create a Digital Single Market and to support the adoption of digital technologies by firms, most notably through the Smart Anything Everywhere initiative and investment in a pan-European network of Digital Innovation Hubs. They are also taking steps to scale up investments in advanced digital technologies, which is the main objective of the forthcoming Digital Europe Programme. The EESC welcomes these developments but expresses concern regarding the deepening of the digital divide across the Mediterranean.

2.2 Availability of digital infrastructure and adoption of digital technologies by companies

2.2.1 The availability of digital infrastructure is a precondition for SME digitalisation. Mediterranean countries have all made significant progress in extending broadband coverage, as attested by Eurostat data available for EU Member States and Turkey. In 2017, between 95% and 100% of companies had access to basic broadband, with the exception of Greece where coverage remained 85%[8]. In 2018, more than 80% of households had access to fast broadband in all Mediterranean EU Member States except Greece (65%) and France (59%). The situation regarding ultra-fast broadband coverage is much less homogeneous, with more than 80% of households covered in Malta and Spain and well below 50% in Croatia or Italy. In Greece, ultra-fast broadband is not available.

6 https://ec.europa.eu/digital-single-market/en/desi

7 OECD, EU and ETF (2018), The Mediterranean, Middle East and North Africa 2018: Interim Assessment of Key SME Reforms, SME Policy Index.

8 The data on basic broadband coverage are available for both households and companies, whereas data on fast and ultra-fast broadband coverage are available only for households.

2.2.2 Substantial disparities in broadband coverage exist both between and within countries and most particularly between urban and rural areas. In Mediterranean EU Member States, the gap between rates of urban and rural coverage did not exceed a few percentage points in 2018, except in Greece (95% in urban areas compared to 85% in rural ones). The same cannot be said of fast broadband. In all countries but Malta, urban coverage was substantially higher than rural coverage in 2018, twice as high in some cases (e.g. Italy or Croatia). In several countries, rural coverage remained below the 40% threshold the same year, i.e. Italy, Spain, Croatia and France. The gap further increases when ultra-fast broadband is considered, which in many countries only covers urban areas, e.g. Greece, Cyprus, Italy and Malta.

2.2.3 The availability of digital infrastructure does not automatically lead to the adoption of digital business models and technologies by firms. In the EU, the data used to compile the 2019 DESI index attested that more than 50% of firms in Mediterranean EU Member States such as Greece, Spain, Italy, Croatia and France have very low levels of digital intensity[9] compared to below 20% in frontrunners such as Finland, Denmark and the Netherlands. In fact, less than 15% of firms have high levels of digital intensity in most Mediterranean EU Member States, with only two countries above the EU average, namely Malta and Slovenia.

2.2.4 SMEs lag behind large firms when it comes to adopting digital business models and technologies. The 2019 DESI report shows that this is also true for basic digital technologies such as electronic information sharing (adopted by roughly 30% of SMEs compared to almost 80% of large firms) and social media marketing (47% compared to 75%).

2.2.5 The available data show that only a minority of SMEs have adopted a cybersecurity strategy and the necessary digital tools to protect themselves from cyber-attacks, whereas a substantial share of the latter target SMEs[10]. It is crucial to increase SME awareness and assessment of digital risks, as a single cyber-attack can lead to bankruptcy for smaller firms with limited resources.

2.2.6 The obstacles facing the digitalisation and, more broadly, the development of SMEs are well-known and have been the subject of several opinions published by the EESC[11]. SMEs lack access to finance and skills, whereas the adoption of digital business models and technologies requires both financial investments and in-house digital skills. They are also disproportionately affected by red tape, but here the development of e-government promises to reduce the burden of administrative procedures and ease the delivery of government services.

9 The digital intensity index used in the DESI measures the availability at firm level of 12 different digital technologies.

10 https://www.smesec.eu/

11 ECO/372 EESC information report on *Access to finance for SMEs and midcaps in the period 2014–2020: opportunities and challenges*, EESC opinion on *Smart regulation: Responding to the needs of small and medium-sized enterprises*. OJ C 327, 12.11.2013, p. 33. See also: Ayadi and De Groen (2013), *MSMEs with high-growth potential in the Southern Mediterranean: Identifying obstacles and policy responses*.

2.2.7 Furthermore, SME sectors in the Euro-Mediterranean region are dominated by micro firms, often established to meet subsistence needs rather than to exploit business opportunities. In micro firms, the digital orientation of business owners is a decisive factor in the decision to digitalise, and the lack thereof a major obstacle to (successful) digitalisation.

2.3 Impact of digitalisation on management practices and working arrangements

2.3.1 Digitalisation is leading to new patterns of work organisation in SMEs. The adoption of innovative working arrangements involving a certain degree of remote work and providing greater autonomy for workers by establishing a better work-life balance can accommodate the needs of managers and workers forced to wear many hats, often the case in smaller firms. On the other hand, it can lead to new forms of instability and alienation that run the risk of undermining workers' satisfaction and working environments within SMEs. The EESC has called for more dialogue between the social partners concerning the need for additional protection of privacy that has arisen with digitalisation[12].

2.3.2 The impact of automation on employment is a hotly debated topic which remains largely fraught with ambiguity. It is still unclear how far it will result in job losses or gains, but it is safe to say that automation exclusively motivated by strategic cost reduction will be always detrimental to workers. The EESC has called for the adoption of a human-centred approach to digitalisation, focused on the use of digital technologies to enhance the productivity of workplaces, and in any case for the promotion of dialogue with workers before the introduction of digital technologies[13].

2.3.3 At the same time, SMEs are likely to face increasing pressure from larger companies embarking upon cost reduction strategies and they already lag behind in the use of robots. The available data for the EU show that less than 7% of all SMEs in countries like Italy and France, frontrunners among Mediterranean EU Member States, used robots in 2018 compared to 25% of large firms.

2.3.4 The adoption of flexible working arrangements can pave the way for enhanced female labour force participation, which in MENA countries is currently the lowest worldwide: 21% on average compared to 51% for OECD countries according to World Bank data.

2.3.5 The development of digital entrepreneurship is increasingly touted as part of the solution to female and youth unemployment in the Euro-Mediterranean region[14]. In countries such as Lebanon, Egypt or Morocco, digital start-ups are already proliferating along with business incubators[15]. The establishment of digital clusters would be beneficial to sustain the success of these digital start-ups. That said, the potential of entrepreneurship remains largely untapped in the

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12 CCMI/136 EESC opinion on *The effects of digitalisation on the services sector and employment in relation to industrial change*.

13 OJ C 237, 6.7.2018, p. 8 – SOC/570 EESC opinion on *Future of work – acquiring of appropriate knowledge and skills to meet the needs of future jobs*. See also Byhovskaya (2018), Overview of the national strategies on work 4.0: a coherent analysis of the role of social partners.

14 Ayadi and Mouelhi (2019), *Female labour force participation and entrepreneurship: the missing pillar for inclusive and sustainable economic development in MENA*, EMNES Policy Paper 2.

15 https://www.iemed.org/publicacions-en/historic-de-publicacions/papersiemed/20.-digital-entrepreneurship-expanding-the-economic-frontier-in-the-mediterranean

region, as attested by rates of business creation well below the world average (4.7 per 1 000 people in 2017) in countries such as Jordan (0.6), Morocco (1.6) or Tunisia (1.7), according to World Bank data.

2.4 **Digital skills**

2.4.1 The lack of in-house digital skills is a major obstacle to the effective adoption of digital technology. In the EU, the available data show that only 13% of small firms employed ICT specialists in 2018, compared to 42% of medium firms and up to 74% of large firms. In the absence of staff responsible for identifying, developing, purchasing and integrating appropriate digital solutions, SMEs run the risk of becoming excessively dependent on providers of digital services. The EESC expresses its concern about this issue and supports the development of self-assessment and self-learning tools for SME digitalisation. One example is the "EvalNumPME" tool launched by the French confederation of SMEs (CPME), an online, free self-diagnosis tool enabling business owners to assess the digital maturity of their companies and the margin of progress in digitalisation.

2.4.2 SMEs often lack the room for manoeuvre needed to hire additional staff, reducing the options to either retraining or replacing part of their workforce when it comes to meeting the challenge of digitalisation. Replacing could lead to the creation of employment opportunities for young people, much needed especially in those Mediterranean countries with growing populations of digital natives and high levels of graduate youth unemployment. However, this would come at the expense of adult workers, who face the highest risks of marginalisation in increasingly digitalised labour markets.

2.4.3 Retraining remains the most viable option, insofar as it would bring benefits to both firms and workers, while contributing to a smoother transition to digital business models. In previous opinions, the EESC stressed the importance of enhancing the participation of workers in lifelong learning and, together with employers, in defining the content of on-the-job training. The introduction of paid training leave in some EU Member States is a best practice that could be replicated in other Mediterranean countries. The EESC also recognised the potential of digital learning platforms to facilitate training, but warned that their use should not infringe on working time provisions and workers' free time[16]. The rapidly decreasing half life of knowledge makes retraining and lifelong learning all the more important.

2.4.4 SMEs with the resources to hire additional staff are by no means sure to find workers with the digital skills they need on the labour market. The shortage of digital skills and the widening of skills gaps and mismatches brought about by digitalisation is an issue that has attracted considerable attention from EU institutions and international organisations such as the OECD. The EESC took stock of the resulting literature to provide an overview of key issues in a previous opinion[17], and it is not our intention here to replicate the exercise. It is important to note, however, that the issue of skills is particularly worrisome in the Euro-Mediterranean region, where the

16 SOC/570 EESC opinion on *Future of work – acquiring of appropriate knowledge and skills to meet the needs of future jobs,* OJ C 237, 6.7.2018, p. 8.

17 Ibid.

incidence of skills mismatches is high and the quality of vocational education and training is low. The EESC previously stressed the importance of providing better and more efficient vocational education and training systems linked to on-the-job experience to prepare workers for a largely globalised and increasingly digitalised working world[18].

2.5 Digitalisation to counter rural depopulation

2.5.1 Boosting connectivity in rural areas and with urban areas is fundamental for their restructuring in the face of population shrinking and their revitalisation from both an economic and social point of view[19]. The EESC pointed out in previous opinions that broadband access is an important factor influencing the extent to which people choose to stay in rural areas, and welcomed the 2016 Cork 2.0 Declaration on *A Better Life in Rural Areas*[20] which highlighted that boosting connectivity is essential for an innovative, integrated and inclusive rural policy in the EU[21].

2.5.2 The failure to bridge the urban-rural digital divide will reduce the attractiveness of rural areas especially for young people and reinforce the trend towards rural depopulation. The available Eurostat data show that less than 10% of total farm managers are aged under 40 in all Mediterranean EU Member States except Croatia (10.5%) and France (15.5%).

2.5.3 Rapid urbanisation is increasing pressure on farmers in Euro-Mediterranean countries to produce more with less resources, while also putting further strain on already scarce water resources. The adoption of smart farming technologies is a major opportunity for farmers to increase their productivity and optimise water consumption. It might also lead to an improvement in working conditions and therefore make rural jobs more attractive for young people. Digital transformation can also facilitate direct sales of agricultural products and thereby create additional income for farmers.

2.5.4 Rural areas are more dependent than urban areas on SMEs[22], suggesting that supporting their digitalisation lies at the intersection of strategies for rural development and youth employment, especially in those Euro-Mediterranean countries where youth populations are growing and agriculture sectors still provide a substantial share of the available jobs. The OECD also stressed the importance of digitalisation for the competitiveness and sustainability of rural economies in a recent policy statement[23].

Brussels, 11 December 2019

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18 REX/506 EESC information report on *Education and vocational training in the Euro-Mediterranean region.*

19 ESPON (2017), *Shrinking rural regions in Europe: Towards smart and innovative approaches to regional development challenges in depopulating rural regions*.

20 https://ec.europa.eu/agriculture/sites/agriculture/files/events/2016/rural-development/cork-declaration-2-0_en.pdf

21 NAT/709 EESC opinion on *From Cork 2.0 Declaration to concrete actions,* OJ C 345 13.10.2017, p. 37

22 In the EU, the share of total employment provided by SMEs is about 10% higher in rural areas compared to urban areas, according to data reported in ESPON (2017): *Shrinking rural regions in Europe: Towards smart and innovative approaches to regional development challenges in depopulating rural regions*.

23 http://www.oecd.org/cfe/regional-policy/Edinburgh-Policy-Statement-On-Enhancing-Rural-Innovation.pdf

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