

DIGITIZATION AND FINANCING OF SMES IN THE POST-COVID ERA

GLOBSEC 2021 BRATISLAVA FORUM - SIDE EVENT

TOPICAL BACKGROUND:

The COVID-19 pandemic has had a tremendous impact on the business landscape, including shifting consumer trends towards online shopping and mobile usage. These changes have created a pressing need for SMEs to digitize.

Small and medium enterprises (SMEs) represent the majority of EU businesses: they employ over 100 million people, significantly contribute to Europe's growth (55% of EU gross domestic product) and employment (65%).

However, SMEs are often constrained by lack of resources, time, knowledge, and finances to respond to the digital transformation of the economy. While there are many parties offering support and solutions for SMEs, the excess of information and touchpoints adds to the complexity for SMEs to understand where to start their digitization journey.

To get SMEs back on track after the pandemic, significant efforts and resources will need to be allocated to nurse them back to health. One potential way of financing is through capital markets, as additional capital will be needed to support overleveraged firms after the initial liquidity provision wave.

Capital markets can help with financing of start-ups and scale-ups, and therefore powering innovation-driven growth. Deeper capital markets that diversify the financial system and reduce bank reliance are empirically less susceptible to crises and are linked to higher growth. Cross-border risk-sharing, especially in equity ownership, may act as an extra shock-absorber for countries in times of crises.

EU-LEVEL PERSPECTIVE

- ▶ EU needs to create the base for whole process of digitization of SMEs
- ▶ European Digital Hubs: one of the most important tools for digitalization of SME in the EU
- ▶ There's an urgent need to increase provision of equity instruments for SMEs and establish new programs with quick access to funding
- ▶ Public-private cooperation is key to advance digitization of SMEs
- ▶ If we invest in digitization, impact can be very tangible: it leads to increase in revenue, reduces costs, improves financial performance, increases productivity. This leads to greater efficiency, increases the access to new customers and information, and stimulates innovations.
- ▶ If EU member states's index would score up to 90% in digital performance, this would lead to 7.2 % increase GDP per cap. in the EU. E.g. if index reached 90%, Romania would see 16% increase in GDP, Czech Republic – 10% increase etc., along with improved productivity (based on the DESI Index)
- ▶ We need to close the digital gap between Eastern and Western Europe, big and small companies, rural and urban areas

SMES: BARRIERS AND OPPORTUNITIES TO GO DIGITAL

- ▶ SMEs have lack of knowledge, resources and time to go digital. They usually concentrate only on day-to-day business, and don't have enough time to improve processes, looking for support mechanisms or EU financing.
- ▶ We need to make it simple for SMEs – so they have a single point of entry to get access to everything they need (access to information, financing, education)
- ▶ There should be one umbrella organization that will cover all SMEs programs and unites all the ecosystem players who are interested in helping SMEs go digital; both public and private actors should be involved

FINANCING OF SMES

- ▶ Slovakia has no legacy of privatization of capital markets when compared to other regions, and very little success stories to promote capital markets
- ▶ We don't necessarily need to invest in creating capital markets, as they are only a tool, but rather invest in creating the environment that will bring the future growth
- ▶ The role of state should be to focus on creating an enabling environment for digitization and financing of SMEs
- ▶ We need to look for the ways to provide easier access to financing of SMEs

ROLE OF BANKS IN DIGITIZATION OF SMES

- ▶ If SMEs have a banking partner which has access to all their business information, banks can help them at the right time, help them avoid future risks and educate them
- ▶ Linking SMEs with banks and creation of smart bank accounts can be one way of leading the process of SMEs digitalization.
- ▶ Digitization efforts go hand in hand with low equity financing, yet companies are not keen to have equity financing due to lack of knowledge
- ▶ When some companies try to scale up abroad, they tend to face barriers on local level (e.g. legislative barriers, different taxing systems)

SLOVAK GOVERNMENT PERSPECTIVES

- ▶ We should focus on fundamental issues such as educating SMEs on business fundamentals
- ▶ Investments facilitated by the Slovak Ministry of Investments and Informatization (MIRRI) falls into 2 groups:
 - ▶ a) EU-funded projects focused on education, presenting new technologies to small companies, networking, and finding new partners within EU
 - ▶ b) Infrastructure projects such as quantum and high-tech computing, AI
- ▶ MIRRI's agenda regarding digitization of SMEs is currently in the planning phase
- ▶ Ministry of Economy has already tested giving out 3 types of vouchers to provide quick access to financing innovations – good feedback from SMEs
- ▶ We don't need a lot of initiatives supporting SMEs, 2-3 programs are enough, but they need to be effective
- ▶ Schemes to support businesses post-Covid – negative experience with frauds
- ▶ Entrepreneurs should start communicating with state digitally – it would be faster and more effective, and state needs to provide the infrastructure allowing them to do so
- ▶ In Slovakia, we are missing an umbrella body responsible for the area; there should be a key leader driving this agenda

INSURANCE SECTOR PERSPECTIVE

- ▶ SMEs are not familiar with business fundamentals such as cash flow, CAPEX vs. OPEX, cybersecurity; it's important to make SMEs aware of these risks
- ▶ Insurance sector as a potential investor: the more they understand the SMEs, the more they can bring the balance into the system and invest
- ▶ Insurance sector could also help with raising awareness about the need to go digital for SMEs

KICK-OFF REMARKS:

Matej Ftáčnik, CEO VacuumLabs

Vazil Hudák, Vice-Chairman at GLOBSEC, Envoy of the European Commission for SMEs

Katarína Kakalíková, Government Engagement Director, Mastercard

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