Recovering from COVID-19: Laying the foundation for future growth

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Introduction

The outbreak of COVID-19 has caught the international community off guard, costing human lives and causing extreme and unexpected economic damage as the virus spread around the globe. The EU and its member states reacted quickly launching a number of initiatives to coordinate responses, share best practices, reorganise supply chains and provide financial support. The EU should now focus its efforts on strengthening the Single Market, particularly in response to damage caused by some national or regional measures. Despite the enormous challenges, there are clear opportunities to grasp: Ongoing negotiations on the next Multiannual Financial Framework are currently being reframed and should form the basis for future growth by investing in digital technologies and a more sustainable economy.

The digital transformation and a push for more sustainability are seen as the two pillars for the reconstruction of our economies. The intention of this paper is to propose specific policy actions on the national and the EU level, based on the most recent insights from the digital sector.[1]

Overall, the digital economy has been less severely hit than other sectors but remains on a clear downward trajectory: The Bitkom-ifo-Digitalindex, which is measuring business activities and operational outlook, indicated that business confidence shrunk sharply by 20.1 points to a total of 0.9 points over the course of March and April 2020. To compare, in the beginning of 2019 the index was above the 50 points mark. Expectations for the next six months were also reduced by 10.6 points to a total of -36.3, which is the lowest result since the beginning of this particular survey in 2006.[2]

At the same time, the crisis has emphasised the importance of digital technologies for our daily lives: At the moment, public services, business activities and education programmes mostly run on video-conferencing, ecommerce solutions and other software tools. The rapid shift towards a more digital mode of work has also visibly exposed

[1] Mainly based on Bitkom's recently published position paper "Digitalpakt Deutschland" (in German)
[2] Bitkom-ifo-Digitalindex (April 2020) Link

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Germany's and Europe's shortcomings on digital skills, the necessary infrastructure as well as the availability of IT equipment.[3]

The EU level

Establishing a voucher system for a wide roll-out of digital technologies

The wide roll-out of digital technologies across all economic sectors and companies of all sizes is a major challenge. A voucher system could push modernisation by incentivising transformation projects towards more digital and sustainable processes to replace outdated systems in enterprises. That way, public authorities could effectively trigger the digitalisation of management structures, supply chains, business models and investment in software and infrastructure. Moreover, it can incentivise the reskilling of employees, particularly for SMEs and freelancers, which usually lack the resources to do so. Priority should be given to measures that emphasise the digital transformation of our economy while also enhancing sustainability, resulting in more targeted support. We envisage a voucher system for companies, depending on their size, on the basis of a simple online registration process (as was practiced during the COVID-19 crisis in Germany).

Even before the crisis, the regulatory objectives of the Green Deal and the digital agendas of the Commission were ambitious, requiring substantial investment by companies to comply with new rules and regulations. In the current economic climate, savings are evaporating as they are being used to cope with regular running costs to keep businesses afloat. In other words: Liquidity is reduced, while loans will likely become scarce and be subject to less favourable conditions. Companies are squeezed by financial pressure on the one side and additional regulatory requirement on the other. To ensure necessary investment in both digital and sustainable technologies, especially SMEs will need concrete support for their investments as well as easy access to funds. A voucher system, if implemented properly, can provide both.

Investing in infrastructure and research

A central requirement for the use of digital services is a highly performant digital infrastructure - in telecommunications, but also in transport. We urgently need a boost in areas such as broadband, 5G, data centres and high performance computing. The most important leverage in order to mobilise and accelerate private investments in infrastructure is removing regulatory barriers.

[3] Bitkom Position Corona Schaden begrenzen, Digitale Lösungen nutzen (März 2020) Link

Another important instrument at EU level is the Digital Europe Programme, which should be used to stimulate the deployment of crucial technologies such as AI and Blockchain, as well as the dissemination of digital skills. Unfortunately, the current state of MFF negotiations foresees cuts to this crucial funding programme. Instead, the programme should be increased given its relatively small size.
The digital transformation as a phenomenon is cutting across all industries. Consequently this also means that investment in digital technologies should be strongly pronounced across all relevant funding programmes, for example on infrastructure, agriculture, culture or regional cohesion. Investments in hybrid infrastructure, where old infrastructure is supplemented with digital components (such as in the case of smart electricity grids) deserve particular reflection and support for their roll-out, as they can effectively make existing infrastructure both more performant and sustainable.

In addition, tax incentives for research are an important tool: research and development significantly contribute to the competitiveness of the European economy. Therefore, R&D investment needs to remain stable for the period after the crisis, for instance by expanding tax-based research funding. EU Member States, the European Commission and the European Parliament should provide the framework programmes for research and innovation with adequate funding. "Horizon Europe" should be provided with at least EUR120 bn for the length of the financial framework.

Leveraging digital technologies for a more sustainable economy

The digital transformation can contribute to a more sustainable economy if both the political sphere and companies actively pursue synergies between these two key challenges of our time. Achieving these synergies should be a principal objective of Europe's economic recovery.

Exploring the interplay between digital transformation and greening of the economy is work in progress: A recent Bitkom study (in cooperation with the Borderstep Institute and Zurich University) found that the production and operation of digital devices and infrastructure is responsible for 1.8 to 3.2% of global greenhouse gas emissions.[4] While this contribution to overall emissions is significant, digital technologies have an even greater potential to reduce emissions: Through effective digitisation of sectors like energy, building maintenance, transport and mobility as well as the agricultural sector and industry, our study estimates a possible reduction of up to 20% of greenhouse gas emissions. In Germany, emissions may even be reduced by 37% until the year 2030.

[4] Bitkom Studie Klimaschutz durch digitale Technologien (Mai 2020) Link

There are many examples for potential digital levers for the reduction of emissions: Smart grids may improve overall electricity grid efficiency, smart mobility can optimise utilisation of different modes of transport & logistics, industrial waste heat from data centres can be used to heat people's homes. Both the voucher system as well as direct investment in research and infrastructure should encourage the digitisation of existing infrastructure and sectors - such as the examples above - with a view of increasing their environmental efficiency. This effort requires not simply relabelling existing financial resources, but an ambitious investment plan that provides additional funding.

Adapting existing regulation: Support for medical appointments online and digital payments

During the Corona crisis, **telemedicine** underlined its potential and played a significant role in relieving the overburdened health system. As a consequence, the importance of telemedicine should be politically and legally recognised. Projects that promote the collaboration of players in the healthcare system must be given the resources and support they require. Medical appointments should be put on an equal footing with on-site care legally and become a component of standard care.

Following the outbreak of the pandemic, **digital payment transactions** and **contactless payments** have ensured that purchases in brick-and-mortar shops could continue while reducing unnecessary risks and that payment processing in e-commerce continued without interruption. The acceptance of at least one electronic form of payment should be made mandatory at all points of sale in the European Union.

National level

A paradigm shift in education

Education is a fundamental part for the reconstruction of economies in a more digital and sustainable way. The key question is how we can transform our educational systems and promote digital skills. In the short term, funding should be provided for digital teaching material and content with the necessary licenses and platforms. In addition, reasonable technical supervision and support for teachers should be provided by trained IT specialists. To effectively learn at home, pupils require basic IT equipment. For this purpose, grants for the acquisition of the necessary equipment, especially for children in need, should be provided.

Working conditions: Incentivise the uptake of telework

During the crisis, telework helped many organisations to stay afloat and productive. In order to ensure that working conditions at home really match the needs of both the workforce and the employer, employees should receive a one-off tax bonus on the purchase of IT equipment. In return, a deduction from the income tax liability should be granted. The amount deducted should reflect the cost of IT equipment for professional use at home throughout the year. At the same time, member states should examine whether their national labour laws provide the necessary legal flexibility to encourage telework or other working models. Possible knock-on effects of such measures should be analysed and quantified - telework could for instance lead to a significant reduction of traffic congestion in cities and thereby contribute to sustainability goals.

Establishing a joint initiative for the modernisation of public administration

The crisis has also shown that companies need digital administration just as much as citizens. We foresee a Joint Initiative for the Modernisation of Public Administration, both on the national and the EU level. After all, when it comes to technical equipment and the digitization of administrative processes, public administration as a whole was not sufficiently prepared for the crisis. The aim of the Joint Initiative for the Modernisation of Public Administration is to ensure that all public services can be handled digitally. To achieve this, the national and EU level must agree that internal and inter-administrative processes are in principle processed digitally. A funding programme could be envisaged for disadvantaged and remote regions to this end.

International level

The Corona crisis has made it clear that global health emergencies cannot be managed by individual nation states alone. Cross-border challenges of a scale and nature as the current pandemic require European and global cooperation. In practice, governments in many places are falling back into the old patterns of seeking national solutions. The digital economy in particular thrives on international exchange and global division of labour. Instead of giving in to protectionist tendencies, Germany and Europe must continue to adhere to the principles of free trade and multilateralism. In international trade, the exporting industries are dependent on reliable framework conditions. The promotion of foreign trade should continue to be supported by state export credit insurances even beyond the crisis.

At the same time, companies have to acknowledge that in some sectors pronounced unilateral dependencies have led to fragile supply chains. The Covid-19-pandemic has again underlined the importance of economic sovereignty. In order to be able to act independently times of crisis, it is necessary to build up political and economic capacity to act and increased resilience of the German and European economy.

Bitkom represents more than 2,700 companies of the digital economy, including 1,900 direct members. Through IT- and communication services alone, our members generate a domestic annual turnover of 190 billion Euros, including 50 billion Euros in exports. The members of Bitkom employ more than 2 million people in Germany. Among these members are 1,000 small and medium-sized businesses, over 500 startups and almost all global players. They offer a wide range of software technologies, IT-services, and telecommunications or internet services, produce hardware and consumer electronics, operate in the digital media sector or are in other ways affiliated with the digital economy. 80 percent of the members' headquarters are located in Germany with an additional 8 percent both in the EU and the USA, as well as 4 percent in other regions of the world. Bitkom promotes the digital transformation of the German economy, as well as of German society at large, enabling citizens to benefit from digitalisation. A strong European digital policy and a fully integrated digital single market are at the heart of Bitkom's concerns, as well as establishing Germany as a key driver of digital change in Europe and globally.