

**Draft report on**  
*Digitalisation of the SMEs in the Mediterranean region*

This draft report has been prepared by the rapporteur Lizi Delaricha, Mayor of Ganei Tikva (Israel), for discussion at the 6th meeting of the ARLEM Commission for Sustainable Territorial Development in Brussels on 29 October 2020, and with a view to its adoption in the 12th ARLEM plenary session.

## Introduction and Background

Today, 99% of businesses are micro, small and medium Sized Enterprises, and only 1% are large businesses. Small-Medium Businesses (SMEs) are usually less innovative, find it difficult to reinvent themselves, and often do not have the budget that is put at the disposal of larger organizations. Yet, they are the core of the economy. When they are innovative and strong, they create more jobs, reduce production expenses, grow profitability, adapt their business model to the ecosystem, and increase their access to sources of finance.

Their success in overcoming the digital and innovation obstacles is not only a task for business owners, but for society at large, and for local authorities mayors in particular. The role of local government leaders is to help businesses overcome five main obstacles and promote local solutions.

This report focus on the obstacles and solutions and was written by the Israeli Mayor of Ganei Tikva, Ms. Lizi Delaricha, together with Mr. Nir Koren, CEO & Founder at "Buildinn Innovation Consulting & Technology", and the Foreign Relations Administration of the "Federation of local authorities" . It is based on questionnaires answered by mayors, and on a preliminary research conducted by the Polish consulting firm "Case", which studied the operations of local authorities in the Mediterranean. The report was written at the request of the ARLEM organisation in order to help local authorities learn what is being done globally and consolidate a model for aiding businesses move to digital quickly.

I would like to take this opportunity to thank Arlem for the opportunity to lead this report.

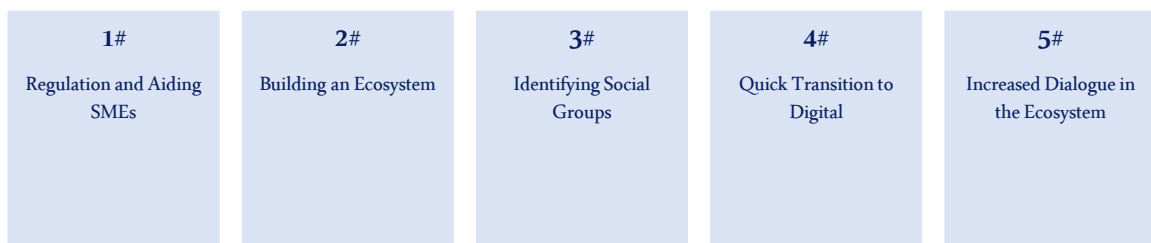
## Organizing Framework (Why Is It Important?)

When the local authorities mayors request to make a change, they face numerous challenges, one of which is the ability to correctly identify how to lead the process. To do this properly, four stages should be followed.

- **Why?** - Studying and understanding the obstacles faced by local authorities, especially when it comes to helping businesses enter the digital world. To do this right, we must understand why the change is necessary and what needs it creates. Only then it is possible to move to the next stage.
- **What?** - The next step in the path to create a change in a local authority, before managing the process itself, is to define the desired results and the expected strategy.
- **Who?** - The third stage in the change process is to clearly define the stakeholders. The ability to understand who will be affected by the change and who will be involved is critical for continuity (possible entities that may be involved are the local authority, the government, businesses, entrepreneurs, donors, the public at large, and others).
- **How?** - The fourth step in the process towards innovation has to do with the How. How can we implement the process successfully? How will we do it and get businesses to move towards digital? How can we ensure continuity? And how can we promote an ongoing implementation of the program that creates value and can be properly measured?

The order of the stages is critical. Only by beginning with the Why will the local authority be able to ascertain throughout the process that it is working towards a realizable goal, rather than choose a path in advance and then try to justify its rationale.

After answering this 4 questions, barriers can be found in five dimensions. The five main dimensions that local authorities must take into consideration to promote digitalisation among its businesses are:



## Dimension 1: Promoting Regulation and Aiding SMEs

A significant aspect in the promotion of businesses towards innovation and digitalisation demands understanding what the commitment of the local authority towards those businesses is. And more than that, whether it is a driving or an immobilizing force. The first two dimensions ( this one and the one after it) deals with the ability of the local authority to effect a structural change, that focuses on legislation, regulation, and on creating fast or hindering tracks.

### Why Are These Important? Eight Possible Obstacles for Local Authorities

The following are some obstacles detected during the study among local authorities in the Mediterranean:

- (1) There is no strategy for developing and promoting entrepreneurship and innovation;
- (2) Local authorities are not part of the national digitalisation effort;
- (3) Local authorities do not have the budget, are not digitalized and are immersed in bureaucracy;
- (4) Lack of legislation to protect the rights of entrepreneurs and encourage innovation;
- (5) Governments are slow in adopting legislation on digitalisation in the private sector;
- (6) Lack of available and reliable data about digitalisation;
- (7) Non-transparent, outdated public procurement processes;
- (8) The size of the shadow economy (black market).

If you encounter one of these obstacles in your local authority or identify them as a factor that prevents businesses to transition to digital, you can adopt one of the following solutions. When these are the obstacles, the right connections should be made.

## What Can You Do? Seven Relevant Solutions and Examples from Israel

Dimension	Obstacles (Why)	Solution (What)		Example from Israel
Promote Regulation and Aid SMEs	(1) There is no strategy to develop and promote entrepreneurship and innovation	Prepare a national plan for digitalisation with the cooperation of local authorities		Israel National Enterprise 265 is a development and knowledge-sharing platform created to promote digitalisation in local authorities. It is aimed at expanding digital services and making them available to local authorities and bridging the gaps between local authorities using digital tools. The project is executed in collaboration with the Ministry of Interior, Emek Yisrael, and the Ministry for Social Equality - Digital Israel Headquarters. The enterprise engages in the establishment of a professional and objective infrastructure (national, nonprofit) that provides local authorities with a knowledgebase infrastructure, a platform to consult one another, and support in the digital transformation process. It also helps them develop and promote digital services.
	(2) Local authorities are not part of the national digitalisation effort	Collaborate with local authorities and authorize them to be part of the government's digitalisation efforts		
	(3) Local authorities do not have the budget, are not digital themselves and are bureaucratic	Promote electronic government services and digitalisation of public administration		
		The government must facilitate processes for establishing SMEs	Reinforce the protection of patents and promote effective competition laws	
	(4) Lack of legislation to protect the rights of entrepreneurs and encourage innovation	Develop a national digitalisation plan in cooperation with local authorities		
	(5) Governments are slow to adopt digital-related legislation in the private sector	Adding local authorities to the effort of mapping businesses		
	(6) Lack of available and reliable public data about digitalisation	Protecting patents and promoting effective competition laws		
	(7) Non-transparent, outdated public procurement processes	Creating incentives for digital transformation		
(8) Size of the shadow economy (black market)				

## Mayor voice: How do you help?

### What incentives are offered to sme's in your local authority?

one of the questions we've asked mayors was about the incentives offered to SME's in their cities. based on the answers of mayors from Spain, Italy, turkey, France and others we found out three main incentives:

- **coordination** - some mentioned the promotion and coordination of economic and social development while creating connections in the ecosystem.
- **funding** - others are focusing on Funding for Startups Growth such as Grants for collaborative RD projects with technology centers, bringing international companies or other SMEs.
- **vouchers** - some offer Vouchers for innovation to create a strategy, IPR, Industry 4.0, and circular economy implementations and to support their digital transformation programs, and give restart assistance after Covid 19.

## Dimension 2: Building an Ecosystem and Reinforcing Its Key Players

Another major aspect is the ability to define a specific issue where the municipal ecosystem should focus. The more the local authority is able to define a specific area it wants to lead at the regional, national and global level, the easier it will be to enlist important players, help promote innovation and online transformation, with an emphasis on the core topics selected.

### Why Are These Important? Two Possible Obstacles for Local Authorities

According to local authorities in the Mediterranean, there are two obstacles in this area:

- (9) Difficulty obtaining access to finance among businesses;
- (10) Lack of donor support for the long-term success of businesses.

When a local authority is not focused on a specific issue, it is difficult for additional players to take part in and encourage the effort. When these are the obstacles, the emphasis should be on empowerment.

### What Can You Do? Five Relevant Solutions and Examples from Israel

Dimension	Obstacles (Why)	Solution (What)	Example from Israel
Building an Ecosystem and Reinforcing Its Players	(9) Difficulty obtaining <b>financing</b> among businesses	Governments must improve access to credit for young and innovative entrepreneurs	the Israeli company Buildinn created the Platform " <b>360 for businesses</b> " that connects between large businesses, SMEs, local authorities and service providers. The platform was developed in response to the needs that arose during the COVID-19 crisis. It enables to find messengers, liaise with experts, and helps businesses in their digital transformation through local businesses. The platform was implemented in the city of Ashdod.
		Building a platform that connects between players (entrepreneurs-investors-government-local authority)	
	Help by the local authority so that entrepreneurs can find sources of finance (providing information about international financing programs in local platforms, technical assistance submitting requests)		
	(10) Lack of support of contributors to the success of businesses in the <b>long term</b>	International donors must focus their activity vis a vis the needs of the authorities (needs, due diligence, training)	
International donors for digital processes must join representatives of local authorities that are familiar with the field (and promote collaborations between authorities, associations and organizations)			

## Mayor voice: How do you choose?

### any focus on specific sector?

Another question was whether they focus on a specific sector, or help all sectors.

- **Those who focus by sector** - have special grants and assessment services for clusters and public-private collaborative communities such as tourism, retail, trade & consumption sectors, agriculture & animal husbandry.

- **Those who focus on technological drivers** - define and promote technologies that can foster economic development of regional SMEs and the community at large.
- **Those who focus on local** - as long as it was produced here, we promote it.

### Dimension 3: Mapping Social Groups and Encouraging Their Growth

The third aspect focuses on the ability to identify different groups in the municipal arena, empower them and understand their needs. This enables to better find the required skills, those things that enable a city to operate better, and to create empowering social partnerships that can reinforce the relationships between businesses in the city.

#### Why Are These Important? Three Possible Obstacles for Local Authorities

According to the study of local authorities in the Mediterranean, there are three possible obstacles in this dimension:

(11) Inappropriate skills and capabilities;

(12) Lack of cooperation between universities, research centres and the private sector;

(13) Business owners who do not understand the importance of digitalisation.

When the skills are not relevant and there are no partnerships, when businesses themselves do not understand the value of digital, the main issue here is trust.

#### What Can You Do? Five Relevant Solutions and Examples from Israel

Dimension	Obstacles (Why)	Solution (What)	Example from Israel
Mapping Social Groups and Encouraging Their Growth	(11) Inappropriate <b>skills</b> and capabilities	Connecting between <b>stakeholders</b> (public, businesses, academy, institutions), the government, and local authorities	<b>MASHAM</b>
		Developing <b>training</b> for communication, critical thinking, customer service, science in the local education system	
	(12) Lack of <b>cooperation</b> between universities, research centres and the private sector	Repository of <b>international case studies</b> supervised by the European Union describing how the change is led by local authorities	
		Cooperation and <b>learning between cities</b> ; creating a repository of case studies about businesses that transitioned to digital	
	(13) Business owners do not understand the <b>importance</b> of digitalisation	Promoting <b>digitalisation in the bank sector</b> and encouraging financial education and inclusion	

### Mayor voice: who do you help?

benefits the municipality offer for social businesses or businesses owned by specific groups (i.e. minorities, disabled, etc.) in the community?



Next question was about specific group.

- **Those who support:** we've heard about some specific programs for the third sector, especially in the field of internationalization and digital skills. programs for disabled and minorities. The assistance is mainly by writing grants and implementing projects to open small businesses for the disabled people.
- **Those who don't discriminate :** some said they don't create a positive discrimination policy but support SMEs for the social and solidarity economy.

## Dimension 4: Encouraging SMEs to Enter the Digital Age and Promote Innovation

Once the right infrastructure and the players in the ecosystem are in place, and the groups are empowered, the fourth dimension is to help SMEs drive innovation. Here the local authority wears the hat of innovation-enabler.

### Why Are These Important? Four Possible Obstacles for Local Authorities

Mediterranean local authorities face several possible obstacles when they attempt to promote innovation:

- (14) Internet connections are expensive, slow and unavailable;
- (15) Digital divide and differences in connectivity between cities (concentration of innovation and digitalisation in large cities);
- (16) Shortage of digital platforms to connect entrepreneurs and investors;
- (17) Slow adoption of digital applications by businesses.

These obstacles in fact indicate that the local authority must promote subjects that will help it become an enabler.

### What Can You Do? Seven Relevant Solutions and Examples from Israel

Dimension	Obstacles (Why)	Solution (What)	Example from Israel
Encouraging SMEs to Go Digital and Promote Innovation	(14) Internet <b>connections</b> are expensive, slow and unavailable	Improve <b>connectivity</b> and access to fast, reliable and cost-effective communications	the Israeli company "KULU" developed a local currency platform that enables local authorities to empower their businesses and reinforce the local economy. The platform was implemented in the city of Tel Aviv.
	(15) <b>Digital divide</b> and differences in connectivity between cities (innovation and digitalisation concentrate in large cities)	Create <b>incentives</b> for digital transformation of businesses	
		Promote <b>electronic trade</b> and virtual markets that replace physical stores	
		Promote <b>digitalisation in the bank sector</b> and encourage financial education and inclusion	
	(16) Shortage of <b>digital platforms</b> to connect entrepreneurs and investors		
	(17) <b>Slow adoption</b> of digital applications by businesses	Repository of <b>international case studies</b> supervised by the European Union describing how the change is led by local authorities	
		<b>Training</b> on communications, critical thinking, customer service, science in the local education system	

## Mayor voice: how do you innovate them?

### How does the municipality/region encourage small-medium sized business to digitalise their business and promote innovation?

The next question was about promoting digitalisation and innovation, and we found out two verticals of assistant:

- **The municipality as an enabler:** From specific programs with mentors, to assessment and vouchers and grants for technology implementation and innovation projects. We've heard about training, partnership with universities and large Enterprises, and even Award ceremony for innovative companies
- **The municipality as a role model:** the other vertical focus on the implementation and integration of digital technologies in all spheres of the municipal sphere. From promotion and development of smart technologies on a country-wide scale, as well as advanced digital technologies, such as big data, blockchains, supercomputer vision, and mobile technologies, among others.

## Dimension 5: Dialogue between Local Authorities and Businesses and among Businesses

The fifth dimension has to do with the connections and communications between the players. We surveyed this dimension that creates a good regulatory framework, obstacles that may be related to the mapping of players in the ecosystems, understanding of the needs of the different groups, and the ability to lead businesses to venture into the digital world. The last group of obstacles in this dimension focuses on the ability to create more connections between the players themselves.

### Why Are These Important? Possible Obstacle for Local Authorities

There is a single main obstacle here according to local authorities of the Mediterranean is:

(18) Lack of connection to an ecosystem of entrepreneurship, research and innovation.

When there are no relationships between the players and no entrepreneurship impact from the outside, in fact there is no learning. This obstacle actually points to the fact that local authorities must encourage mutual learning and fertilization.

### What Can You Do? Four Relevant Solutions and Examples from Israel

Dimension	Obstacles (Why)	Solution (What)	Example from Israel
Dialogue between Local Authorities and Businesses and among Businesses	No connection with the ecosystem of entrepreneurship, research and innovation	Formulating a national program for digitalisation with the cooperation of the local authorities	<b>Municipal Innovation Centre (MIC)</b> - the centre provides a technological, innovative and advanced experience. The centre offers experiential exhibitions, the possibility to view and experiment with advanced systems, collaborations with leading-edge technology companies, and more. Many diversified technologies present to the visitor the most innovative developments in the area of Smart City, enriching all those interested in moving forward with residents, businesses, and service providers in the local authority. The centre holds seminars, meetings between local authority officials and Smart City solution providers, and offers tours to special groups, workshops, and more.
		Connecting between stakeholders (public, businesses, academy, institutions), the government and the authorities	
		Collaborating and learning between cities; building a repository of case studies of businesses that went digital	
		Training on communications, critical thinking, customer service, science in the local education system	

## Mayor voice: how do you create an ecosystem?

Does the municipality/region promote and participate in the urban/regional economic ecosystem?

How do they create an effective ecosystem we've asked, and they gave some examples such as:

- promoting the **development and the improvement** of the standard of strategic public services intended for SMEs, across the various municipalities.
- sharing **know how** and resources.
- provides young local politicians the formation necessary to understand the best business practices about "**Circular economy**" and "**Respect for the environment**".
- support of businesses and ongoing **Smart initiatives** throughout our territory.

## The special Case of COVID-19

The unique case of COVID-19 created many difficulties for local authorities and for all of us as a society. The good thing to come out of it, is that it accelerated digitalisation processes, forcing local authorities, businesses, schools and every life-loving organization to quickly enter into the digital world. In this area too, we wanted to learn from similar local authorities whether they created channels of open dialogue with local businesses, with an emphasis on SMEs.

### Does it operate an open channel with small-medium sized businesses, particularly in times of crises, such as during the COVID-19 epidemic?

Most of the municipalities did operate an open channel. Those who didn't, did so because it was under the Government role. Open channels were mainly to support SMEs with the problems derived from the COVID-19 epidemic, by setting up a specific call number in order to help with:

- Online support for digital transformation, innovation, and internationalization,
- specific calls to foster digitalisation of businesses and by providing contributions upon simple request to all regional businesses, commercial and artisanal activities in order to alleviate the weight of the economic losses caused by the lockdown
- support with a local product label in a "'short system'" in order to consume locally.

## Recommendations (How Is It Actually Done?)

At the end of the day, the responsibility lies with the mayor. It is up to the mayor to decide, lead, effect change and formulate a new agenda. Above all, the mayor must take responsibility for businesses in its jurisdiction, be familiar with their operation, and help them move quickly into the digital age.

The following is a plan that every local authority should adopt. It is an implementation guide of 10 steps to promote and reinforce businesses and help them in their digital transformation journey.

1. **The mayor must make a decision and formulate a vision** - this is the first step in the process and demands a clear understanding of the following question: "Why do we want this?"
2. **Appointment of a person in charge of businesses** - this must be someone who can put businesses on the municipal agenda in collaboration with the local authority or council. Budgets or partnership with the state should also be procured so that the authority does not have to 'foot the bill' alone.
3. **Mapping all SMEs in the city** - this is the ability to assess all businesses in the city, understand what they do, how many are already digital and in which sectors. It is critical to map and understand the target audience and to measure the basis for the process.
4. **Mapping SMEs challenges** - this includes specification of the challenges that arise from the field and preoccupy business owners, including the reasons why they have not yet gone digital. The proper implementation of this stage enables to elicit rapid and focused responses.
5. **Specification of the main obstacles** - only after listening to the businesses it is possible to start mapping the main obstacles. Eighteen obstacles are mentioned in this document; there are surely many more. The main question is: What are the pain points in your city?
6. **Formulating a dedicated workplan** - while at the same time appointing an administrative group to lead the process. It is possible to create a forum of businesses owners that can provide advice, or foster collaborations between businesses, present value propositions to them, and create tracks that help businesses that come to the city (green track to regulation) and want to embark in the digital journey (how should they do the transition quickly).
7. **Presenting the program to the mayor** - this step includes presenting the plan and starting the journey after formulating clear roles and responsibilities and consolidating the proper budget.
8. **Building an innovation ecosystem**- to build an innovation ecosystem , it is necessary to decide on the core subject that will be the focus among businesses in the city and the main driver for attracting new enterprises while promoting citywide topics. The ecosystem must rely on the strengths of the city and its industry and can be sector focused while connecting between other partners and businesses.
9. **Measuring and controlling the transition to digital** - defining the basic elements of the third stage will constitute the framework for assessing progress from time to time, and the ability to help businesses in their transition to full online operations.
10. **Connection between all city divisions and to the national government** - this is critical for joining the various divisions of the local authority while at the same time learning and sharing knowledge with similar authorities in Israel and worldwide.

I would like to call upon Arlem to adopt this methodology, which relies on a preliminary study, on our experience, and on the responses of city mayors. Should Arlem call upon city mayors to lead the change process, it should show them the way.