

## **Digital Innovation and Scale-up Initiative for Central, Eastern and South Eastern Europe (DISC)**

### **Background**

Central, Eastern and South Eastern Europe (CESEE)<sup>1</sup> are at a critical point in their economic development. Since the early 2000s, CESEE countries have been the fastest growing countries in Europe and the region consistently ranks globally at very high levels in terms of educational achievements in math, science and technology. Recently, their convergence towards EU-15 countries has however slowed down due to the limitations of the existing economic model that has been predominately driven by the inflow of foreign direct investment with relatively low adoption rates for innovation.

The rapid rise of digital innovations and deep technologies, such as artificial intelligence and blockchain provide unprecedented opportunities for the leapfrogging of CESEEs economies and can become a major engine for long-term economic growth. They are critical for fostering innovation, competitiveness, promoting sustainable economic development and addressing societal challenges.

Innovative startups and entrepreneurs however face important challenges in the region, in terms of the need to strengthen local innovation ecosystems, improve the enabling environment and enhance the access-to-finance for highly innovative and early stage startups and companies.

In fact, there exists an important investment gap for digital innovations and startups in the region<sup>2</sup>. The lack of access-to-finance is a major bottleneck for CESEEs to move towards a new innovation-driven growth model. The empirical data indicate that both public and private investments are suboptimal. Investments from private equity and venture markets in CEECs only reach approximately one-third of the overall EU average. Public R&D investments in the region reach only approximately 1.2% of GDP in comparison to 2.0% of GDP of the EU average and rely heavily on government and EU-funding, in particular European Structural and Investment Funds (ESIF)<sup>3</sup>. Finally data on the geographic distribution of the European Fund for Strategic Investment<sup>4</sup> and InnovFin programs indicate the need to further strengthen the geographic targeting of these financial instruments to increase investments in highly-innovative and early-stage growth companies in CESEEs.

At the same time, success stories from startups in the region, such as UiPath from Romania and Taxify from Estonia demonstrate that, in spite of these important barriers, entrepreneurs can be highly successful in developing and scaling up their businesses.

### **Overview of Digital Innovation and Scale-up Initiative (DISC):**

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<sup>1</sup> The CESEE region covers the following countries-- the Czech Republic, Slovakia, Hungary, and Poland, which we group as Central and Eastern Europe (CEE); the Baltics, consisting of Latvia, Lithuania and Estonia; EU member countries in South East Europe (Bulgaria, Croatia, the Republic of Cyprus, Greece and Romania), as well as non-EU member countries in South-East Europe Albania, Bosnia and Herzegovina, Kosovo\*, Northern Macedonia, Montenegro and Serbia (\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence).

<sup>2</sup> EIB and European Commission (2019) Innovation investment in Central, Eastern and South-Eastern Europe

<sup>3</sup> Ibid. page 12-13

<sup>4</sup> The evaluation of EFSI shows that as of 31 of December 2017, 12% of signed investment amounts were focused on CEEs countries and 88% were for operations in EU 15. After normalising for GDP, the results are much more balanced with 41% of signed amounts in the EU-15 and 59% in the EU-13. Source: Evaluation of the European Fund for Strategic Investments, Operations Evaluation, EIB, (June, 2018).

DISC will (i) enhance investments; (ii) strengthen technical assistance and (iii) promote an enabling environment focused on digital innovations and digital startups in the CESEE region.

**Objectives:**

The Digital Innovation and Scale-up Initiative (DISC) aims to address this existing market gap and to enhance investments and strengthen technical assistance programs focused on digital innovations and the scale-up of digital startups in the CESEE region.

First, the initiative will develop a dedicated investment facility to enhance the access to finance to smaller and higher risk projects and to promote the scale-up of highly innovative digital startups in the region.

Second, the initiative will support the financing of project promoters that foster the development of digital innovation ecosystems and promote an enabling business environment for innovations and the scale-up of digital startups. Specifically, the program will support the development of regional digital initiatives, including regional digital connectivity; digital government and skills that provide the foundations for digital innovations

Third, the initiative will include an advisory services component. This component will build on existing technical assistance programs and support the strengthening of institutional capacity of project promoters from central and regional governments to prepare and implement digital economy and innovation programs.

**Value Proposition:**

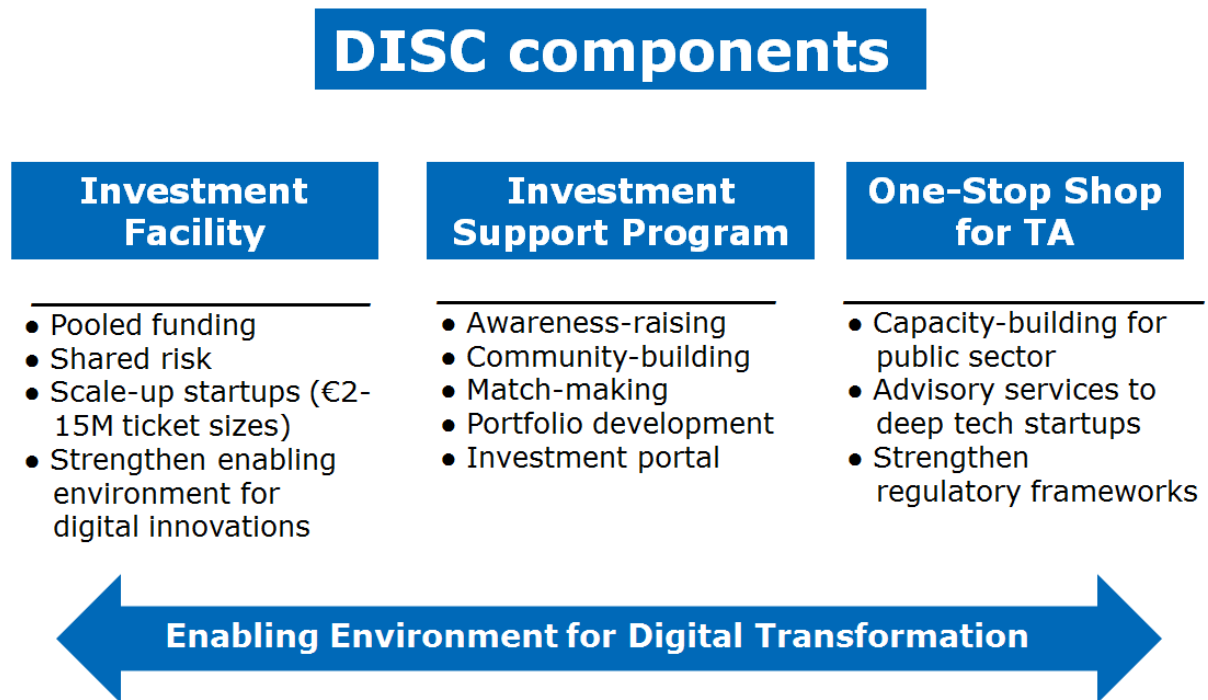
**DISC value-added**

Investment Gap	Knowledge Gap	Capacity Gap
<p><b>Investment Facility</b></p> <ul style="list-style-type: none"> <li>• <b>leveraged</b> financing</li> <li>• <b>targeted</b> to CESEE</li> <li>• <b>for</b> deep tech startups</li> <li>• <b>for</b> smaller and higher risk projects</li> </ul>	<p><b>Investment Support Program</b></p> <ul style="list-style-type: none"> <li>• <b>connect</b> innovators with finance</li> <li>• <b>enhance</b> visibility for digital champions</li> <li>• <b>link</b> digital innovation ecosystems</li> </ul>	<p><b>One-stop Shop for Technical Assistance</b></p> <ul style="list-style-type: none"> <li>• <b>strengthen</b> public sector administrative capacity</li> <li>• <b>improve</b> investment readiness of tech companies</li> <li>• <b>support</b> digital ecosystems</li> </ul>

- Set up a joint investment facility between the EC and IFI’s (World Bank/IFC, EIB/EIF and EBRD) which pools and leverages financing for a greater impact;
- Develop first regional investment facility targeting the scale-up of deep tech startups from CESEE;
- Expand technical assistance to public project promoters to enhance their capacity to prepare and implement digital economy and innovation programs;
- Strengthen digital innovation ecosystems that support the incubation and scale-up of digital startups;

- Expand investments and technical assistance in programs that strengthen national and regional digital foundations.

### Components:



### Digital Innovation Ecosystems and Enabling Environment

Another key objective of the initiative is to support the overall enabling environment and digital ecosystems in the CSEE region. Evidence has shown that to foster investments into digital innovations and startups it is critical to simultaneously enhance regional and local digital ecosystems. In particular, it is important to strengthen the foundations for digital innovations through increased investments and technical assistance programs focused on supporting a digital enabling environment. Thus, the DISC initiative will include strategic complementary activities focused on strengthening the foundations for digital innovations:

- (1) **regional digital connectivity**, aimed at catalyzing private investment for improved cross-border regional and global digital connectivity, including potential submarine cables over the Black Sea and the Caspian Sea with onward connectivity via Central Asia;
- (2) **digital inclusion**, aimed at improving within country broadband connectivity and uptake in lagging regions and rural areas, with a focus on low income households and disadvantaged communities;
- (3) **digital government**, including national and regional cloud computing infrastructure, cybersecurity, digital identity, interoperability platforms, geo/open/big data management platforms, and digital government portals, for delivery of services to citizens and businesses on a cross-border basis, as well as at the central, sub-national and municipal levels;

- (4) **digital skills, empowerment and youth employment**, focused on training of local women and youth, aimed at online employment, with a particular focus on lagging regions and rural areas.

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