BROCHURE

WORKSHOP

Financing industrial policy and competitiveness in the post-2027 MFF

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Financing industrial policy and competitiveness in the post-2027 MFF

Organised by the Budgetary Support Unit for the Committee on Budgets

Wednesday, 28 January 2026
14h30 - 16h30

European Parliament, SPINELLI 1G3, Brussels

PROGRAMME

Opening remarks and introduction

14:30 - 14:35 **Johan Van Overtveldt**
Chair of the Committee on Budgets

Panel 1: Lessons learned from financing competitiveness and industrial policy

14:35 - 14:45 **Daniel Gros**
Director of the Institute for European Policymaking at Bocconi University

14:45 - 14:55 **Judith Arnal**
Senior Fellow at the Elcano Royal Institute

Questions and answers

14:55 - 15:15 Q&A with the Members

Panel 2: Assessment of the budgetary and governance dimension of the Commission's MFF proposals

15:15 – 15:30	**Johannes Jarlebring** Senior Researcher in Political Science at SIEPS
15:30 – 15:45	**Philipp Lausberg** Senior Policy Analyst at the European Policy Centre (EPC)
15:45 – 16:00	**Sylvie Matelly** Director of the Institute Jacques Delors

Questions and answers

16:00 – 16:25	Q&A with the Members

Conclusions and closing remarks

16:25 – 16:30	**Johan Van Overtveldt** Chair of the Committee on Budgets

BIOGRAPHIES OF SPEAKERS

Daniel Gros
Director of the Institute for European Policymaking at Bocconi University

Daniel Gros is a professor of practice at Bocconi University, director of the university's Institute for European Policymaking, and distinguished fellow at the Centre for European Policy Studies (CEPS). He previously served as director of CEPS for twenty years. Gros is also an advisor to the European Parliament. He recently served as a member of the European Systemic Risk Board's advisory scientific council, held a Fulbright fellowship, and was a visiting professor at the University of California, Berkeley, and was a visiting research fellow at the Robert Schuman Centre of the European University Institute in Florence.

Gros previously worked at the International Monetary Fund and at the European Commission as economic advisor to the Delors Committee, which developed plans for the Economic and Monetary Union of the European Union. He has been a member of high-level advisory bodies to the French and Belgian governments and has advised numerous central banks and governments, including those of the United States, Greece, and the United Kingdom.

He has published extensively on international economic affairs, including monetary and fiscal policy, exchange rates, banking, and climate change. He is the author of several books and editor of *Économie Internationale* and *International Finance*. He has taught at several leading European universities and contributes a globally syndicated column on European economic issues to Project Syndicate. He holds a PhD in economics from the University of Chicago.

Judith Arnal
Senior Fellow at the Elcano Royal Institute

Judith Arnal is a Senior Fellow at the Elcano Royal Institute and at the Centre for European Policy Studies (CEPS) and the European Credit Research Institute (ECRI). She is also an independent Board member of the Bank of Spain and a member of the Board of Trustees of CEMFI. She is an Adjunct Professor at IE SPEGA and a columnist at EU Observer and El Mundo-Actualidad Económica. She has published in top peer-reviewed journals, such as the European Journal of Finance, the Journal of Financial Regulation, the Journal of Common Market Studies, the European Journal of Risk Regulation, Global Policy Journal, Capital Markets Law Journal, European Foreign Affairs Review and the Journal of Payments Strategy and Systems and has provided independent analysis to the European Parliament, the European Economic and Social Committee and the European Commission.

Judith has extensive professional experience, having been a Board Member of the Spanish National Promotional Bank –Instituto de Crédito Oficial–, the Spanish public company in charge of taking forward the Digital Agenda –*Red.es*– and the Spanish public company for the promotion of start-ups –ENISA–. She worked for 10 years in the Spanish Treasury, being the Head of the Financial Analysis Department and chairing several working groups of the Spanish Macroprudential Authority, *AMCESFI*. She has also been Head of Cabinet of the Deputy Prime Minister of the Government of Spain and Minister of Economic Affairs and Digital Transformation.

In the European field, for almost four years she was the chair of the Eurogroup Working Group Task Force on Coordinated Action. Her chairmanship saw the design of the technical details of the ESM reform: the common backstop to the Single Resolution Fund, the revamp of precautionary financial assistance programmes and the review of the debt sustainability framework. Other topics regarding Banking Union were also dealt with, such as liquidity in resolution.

Judith has a PhD in economics and finance, with a thesis focusing on the feedback loop between European banks and sovereigns and the role played by the Banking Union. She is also a Chartered State Economist in Spain and the recipient of several prizes, such as the Best Young Lawyers Award by Garrigues.

Johannes Jarlebring
Senior Researcher in Political Science

Johannes Jarlebring is a senior researcher in political science at Sieps and also serves as Uppsala University's EU strategist. His main research interests concern the EU's competitiveness agenda and the Union's response to the geopoliticization of its external environment. Johannes earned his PhD at Uppsala University with a dissertation on the EU's market power.
Johannes has previously held a number of key roles in EU policy and advisory work. Between 2010 and 2015, he ran the consulting firm Bring & Company in Brussels, focusing on providing strategic support in EU affairs to actors in high technology and finance. He also has nearly 10 years of experience from the Swedish Government Offices (the Prime Minister's Office, the Ministry for Foreign Affairs, and Sweden's Permanent Representation to the EU), where he worked in particular on negotiations regarding the EU treaties and institutional issues of the Union. He has a master degree from College of Europe and an MBA from INSEAD business school.

Selection of recent publications:

- One Fund to Rule Them All. An analysis of the proposed competitiveness fund. Sieps. 2025.
- Trump vs. EU Tech Regulation: High Stakes, No Easy Way out, Sieps. 2025.
- Betydelsen av EU:s marknadsmakt i en geopolitisk värld. Europaperspektiv. 2024
- The European Union's Market Power: Techniques, Constraints and Implications for External Action. Acta Universitatis Upsaliensis. 2024.
- Blacklisting and the EU as a global regulator: The institutionally predisposed norm breaker. Journal of Common Market Studies. 2023.
- 'Regime vetting': a technique to exercise EU market power. Journal of European Public Policy. 2022.

Philipp Lausberg
Senior Policy Analyst at the European Policy Centre (EPC)

Dr. Philipp Lausberg is a Senior Policy Analyst in the European Political Economy Programme at the European Policy Centre (EPC) and used to teach International Political Economy at the Université Catholique de Lille.
Before joining the EPC, he was a Marie Curie fellow at the University of Antwerp and the Hertie School Berlin, completing a doctoral thesis about EU reforms in response to the sovereign debt crisis, such as European Banking Union and reforms in European fiscal policy. He has also taught International Political Economy and International Relations at the University of Antwerp. Prior to that, he worked at the strategy consulting firm Roland Berger and in e-commerce and fintech ventures of the start-up incubator Rocket Internet in Moscow and Berlin. He also has experience as a freelance journalist focusing on Russia and Eastern Europe. Philipp is fluent in German, English, French and Russian and has a basic grasp of Spanish.
He holds a PhD from the University of Antwerp on European fiscal and banking policy during the eurozone sovereign debt crisis, as well as an MSc in Russian and East European Studies and a BA in History and Politics from the University of Oxford.
Philipp has expertise in EU economic governance, strategic investments, industrial policy, the single market and the politics and economics of Russia and Eastern Europe.

Sylvie Matelly

Economist and Director of the Institute Jacques Delors

Sylvie Matelly holds a master's degree in international economics with a specialization in financial and commodity markets. She earned her Ph.D. in 2000 from Université Pierre Mendès France in Grenoble, with a PhD on The Economic Determinants of Military Spending. She also pursued academic studies in Barcelona and Montpellier.

In 2001, she joined the French Institute for International and Strategic Affairs (IRIS) as a researcher in defence economics, becoming Director of Research in 2008. In 2009, she joined the Ecole de Management Léonard de Vinci (EMLV) as a faculty member, later heading the Department of Economics, Finance, and International Relations. She left EMLV in 2016 to become Deputy Director of IRIS, and in 2023, she was appointed Director of the Institut Jacques Delors.

In 2003, she launched the master's program in Economics and International Relations at IRIS Sup', which is now titled Geoeconomics and Risk Management.

Between 2001 and 2002, she worked with the Groupe Transition et Développement in Grenoble and the Institute for the Economy in Transition (Moscow) on a European TACIS project to establish a development agency in Kaliningrad. From 2009 to 2016, she served as Associate Professor at EMLV in La Défense, where she led the Department of Finance, Economics, Law, and International Relations from 2014 to 2016.

Her research sits at the crossroads of economics and geopolitics, focusing on issues such as industrial and defence policy, economic coercion (including export controls, investment screening, sanctions, and anti-corruption policies), and the financing of defence companies in the context of ESG and sustainable finance. She also explores the emerging concept of corporate geopolitical responsibility.

She has published extensively and is the author of several books, including L'Europe peut-elle faire face à la mondialisation? (2015, Documentation Française), Argent sale: à qui profite le crime? (2018), Géopolitique de l'économie (2021), and L'économie, tout simplement (2023, Eyrolles).

BRIEFINGS AND ANALYSIS

Briefing by Daniel Gros

Director of the Institute for European Policymaking at Bocconi University

Competitiveness in the current 2021-2027 MFF

Laudable intentions but a small budget oversold and funding subject to incumbent bias

KEY FINDINGS

Supporting competitiveness is rightly a major theme for the next multiannual financial framework (MFF). This analysis of existing policy instruments in the 2021-2027 MFF points to two broad issues:

Firstly, leveraging private investment can only create the illusion of a great impact with limited budgetary resources. When the EU contribution for projects is reduced to a few percentage points, it becomes difficult to have a large impact on project selection. Additionality and EU value-added become thus difficult to ascertain. This applies in particular to InvestEU (and its predecessor, the European Fund for Strategic Investments (EFSI)). The claims that they have mobilised hundreds of billions of additional investment should be toned down.

Secondly, there should be increased focus on disruptive as opposed to incremental innovation: Involving industry in the determination of the research programme seems attractive at first sight because industry should know better what research is needed to make them more competitive But this creates a status quo bias. European industry is strong in middle-technologies (machines, automotive) but virtually absent in software, ICT and AI and only a small proportion of competitiveness instruments aim at these sectors. Moreover, the direction of spending of many instruments (Pillar II of Horizon, including in particular the Joint Undertakings), the Chips Act, Important Projects of Common European Interest (IPCEI) seem to be determined to a large extent by industrial associations and national champions. These incumbents are of course interested in incremental innovation, but unlikely to favour disruptive innovation outside their existing business models.

Introduction

The EU budget and competitiveness: Where does the Competitiveness Compass point?

The growth performance of the EU has been disappointing over the last years, both in absolute terms aind relative to the US. In 2024 the 'Draghi report on the 'Future of European Competitiveness' provided an in-depth analysis of the problems and argued for a totally new approach to funding and policy design for comptetitiveness. In early 2025 the Commision published what it called "A new plan for Europe's sustainable prosperity and competiveness".

In presenting its Competitiveness Compass the European Commission emphasised three **necessities** for the EU to boost its competitiveness:

Closing the innovation gap
Decarbonising our economy
Reducing dependencies

This represents a much wider concept of competitiveness than that used by economists who usually equate competitiveness with productivity, as this is the key measure that determines growth in the medium to long term. The Draghi Report also starts with an analysis of productivity and this emphasis is taken up again in the proposal for a Competitiveness Fund. The implicit assumption in the Competitiveness Fund is that it is innovation that drives growth. This briefing will concentrate on this aspect and will examine whether EU instruments can support innovation-driven growth.

A key ambiguity relates to the concept of innovation - the first 'necessity' the Commission pinpoints. The Draghi Report documents that, in traditional industries, Europe has remained competitive in the sense that productivity in these industries has advanced as much as in the US. The key difference between the EU and the US is that the fast-growing information and telecommunications (ICT) industries are much weaker in Europe. This has been called the 'middle technology trap'. The real problem for Europe is its weakness in disruptive innovation, i.e. innovation in the newer fast-growing technology areas such as ICT and AI, whereas EU companies remain leaders in traditional, 'middle-tech' sectors like automotive. This creates a fundamental problem for the governance of EU innovation policy. To the extent that this policy is influenced by industry, it is likely to end up financing (incremental) innovations in existing sectors (the small ICT sectors in Europe have little political weight). This problem will be apparent in a number of the policy instruments discussed below.

The "necessity" in relation to decarbonisation refers to the idea that a decarbonised economy represents the way economies have to work in the future and that the ability to produce goods and services with decarbonised technologies makes the EU more competitive.

The last "necessity" identified by the Commission is related to another often used aspect of competitiveness, namely international trade. While the EU lags behind the US in terms of productivity, one could argue that it leads when measured by its trade performance because the EU runs a large trade and current account surplus whereas the US runs a very large deficit (the EU's surplus stands at about 2% of GDP, similar in size to the deficit of the US, about 3% of GDP). However, the Commission focuses on a more specific aspect namely "reducing dependencies". The concern here is to reduce the degree to which the EU depends on imports of some critical technologies and materials in particular with a view to potential over-reliance on geopolitically unreliable actors. This aspect of competitiveness is very sector-specific and more difficult to translate into general policy prescription.

The Competitiveness Compass and Fund can be considered as an example of industrial policy, understood as proactive government-led encouragement and development of specific strategic industries for the growth of all or part of the economy, especially in the absence of sufficient private sector investments.

Other examples of EU industrial policy would be the Critical Raw Materials Act, the Net Zero Industry Act, the Chips Act and the Important Projects of Common European Interest (IPCEIs). Not all of them can be discussed here, but they deal with specific aspects of competitiveness, mainly aiming at reducing external dependencies.

What are EU policy financing tools?

As this contribution deals with the question how the MFF can finance innovation-driven growth, one needs to distinguish between programmes and initiatives that involve financing from the EU budget and those that do not.

Policy instruments that do not have (direct) budgetary implications.

- The Strategic Technologies Platform (STEP), introduced at the time of the mid-term revision of the 2021-2027 MFF, is not a financing tool, but mainly an umbrella for existing programmes whose priorities are aligned with STEP objectives. *A priori,* one should not expect a significant impact from a mere reclassification of existing budget lines. However, STEP also contains some particular elements that are intended to have a concrete impact. This comes mainly from the platform element. The so-called 'Sovereignty Seal' should help to find financing for projects that under different programmes had been evaluated as being excellent but could not be financed because of limited budgets. For example, projects with this Sovereignty Seal become immediately eligible for Cohesion or Regional Fund support. In this sense, STEP allows for a redirection of cohesion funding from the standard 'hard' infrastructure towards other areas that are aligned with STEP objectives (digital or biotech, for example). It is difficult to judge to what extent this flexibility has been used.
- The Chips Act is (mostly) not an EU financing tool, but rather an exemption from state aid rules to allow under its Pillar 2 national subsidies for Chips production (an industrial policy tool). The Chips Act also contains about EUR 3.3 billion for Research & Development (R&D) from the EU budget. But most of this was not new money, but diverted from existing programmes like Horizon Europe (EUR 1.425 billion) and Digital Europe (EUR 1.45 billion), plus EUR 425 million for the Chips Fund via InvestEU and the European Innovation Council (EIC). Most of the state aid approved came from the three largest Member States (France, Germany and Italy), all which supported only projects led by domestic firms. All these projects are managed exclusively by national authorities with minimal EU involvement once the state aid has been authorised.
- Important Projects of Common European Interest (IPCEI) are also not a financing instrument, rather an exemption from state aid rules to foster cooperation and innovation in certain industries. The funding for IPCEIs thus comes from national treasuries, not the EU budget. However, the Commission proposes that, in the future, it should be possible to make contributions to IPCEIs from the EU budget. The funding rules under the IPCEIs differ from those for the Chips Act. IPCEIs are supposed to address a market failure, with projects focusing on Research and Development, rather than the construction of big factories. Moreover, unlike the Chips

Act, each IPCEI has participants from a number of Member States, with four being the minimum. IPCEIs are managed by Member States themselves, typically with one being in the lead to coordinate joint meetings. But, in contrast to the Chips Act, there must be effective cross-border cooperation and each recipient enterprise must prove effective cross-border collaboration (e.g. scientists working in laboratories abroad). Match-making events provide interested parties with the opportunity to get to know others in the same area (e.g. micro-electronics).

Funding instruments

There are a number of different policy instruments with resources from the EU budget. The biggest one in term of budgetary outlays is Horizon Europe (EUR 95 billion) whereas InvestEU is the largest in terms of mobilised resources (EUR 370 billion, but based on a much smaller budgetary commitment in the form of a guarantee).

- InvestEU is a real financing tool even if it does not involve direct budgetary expenditure, but only guarantees. In a first step the EU provides a guarantee to the EIB with only about 1/4th of the amount guaranteed reserved in the EU budget. In the second step, the EIB finds private sector partners that, based on the EU guarantee, agree to fund up to 3/4th of the project. The total multiplier could thus be 16 (4*4).
- Horizon Europe is the main tool for direct financing of innovation-based growth. It has three pillars that focus on different aspects: Pillar I on 'Excellent Science'(European Research Council), Pillar II more on competitiveness and Pillar III on innovation with the European Innovation Council.
- Part of Pillar II of Horizon Europe are the Joint Undertakings (JU), a sort of public-private partnership. JUs leverage private funding 1:1 as the recipient enterprises are supposed to contribute (mostly in kind) one half of the cost of each project.

Smaller programmes

- The Connecting Europe Facility (CEF) has an overall allocation of over EUR 33 billion (about EUR 4 billion annually). Most of this goes towards traditional infrastructure projects in transport and energy (railways and electric power interconnectors in the Baltics) and finances similar projects to those financed by the regional funds. These are typically less directly relevant for competitiveness. It will thus not be discussed further here. About EUR 2 billion is allocated to telecomms/digital projects, mainly for secure quantum communications and undersea cables.
- The Digital Europe Programme, with an annual budget of about EUR 1 billion (EUR 7 billion over the entire 2021-2027 Multiannual Financial Framework (MFF)). The purpose is to bridge the gap between digital research (funded by Horizon Europe) and the large-scale deployment of digital technologies. It finances projects in Supercomputing, AI and Cybersecurity (including the European Cybersecurity Competence Centre (ECCC)). The need to strengthen European presence in this area is clear, but the scale of the financing is negligible compared to the hundreds of billions spent annually by the US hyperscalers. This fund finances a mixed bag of research to the ill defined activities of the European Cybersecurity Competence Centre (ECCC), based in Bucharest, that manages grants, draws up a Cybersecurity Work Program and coordinates national Cyber-Hubs.
- The European Defence Fund (EDF) has an annual budget EUR 1.1 (total EUR 7.9 billion) aims to enhance the competitiveness and innovation capacity of the EU's defence industry by funding collaborative projects across Member States. It is thus similar to the Pillar II of Horizon Europe, but in the domain of military applications

that are generally not covered by Horizon programmes. Given the low level of investment in defence R&D in Europe, this fund could provide a significant contribution to improve the competitiveness of the European defence industry.

How to measure the effectiveness of individual instruments?

This evaluation will focus on the two largest financing instruments (InvestEU and Horizon Europe) and two of the other instruments that do not involve (additional) resources from the EU budget.

Any evaluation of funding instruments should be based on both the quantity and the quality of the spending. The latter is naturally more difficult to measure. This is one of the reasons why official evaluations tend to put the focus on quantity. An additional problem arises in the case of instruments that are designed to leverage private investment because this renders it more difficult to measure both quantity and quality.

Quantitative aspect: how much investment is being leveraged?

Commission documents increasingly use the vague terms like 'mobilised' or 'catalysed' to portray the quantitative impact of funding instruments. The term is vague enough to encompass a wide range of meanings.

For example, the Commission asserts that the "Chips Act has already catalysed more than EUR 80 billion in investments in chip manufacturing capacity". This figure refers to plans for investment for several years and contains projects that have since been put on hold (like the one in Novara Italy). Very little has been spent so far. Given the high rates of subsidies of most of the projects approved, about half of the total sum consists of promises of national state aid. These subsidies come from Member States and are thus not part of the MFF or the EU budget.

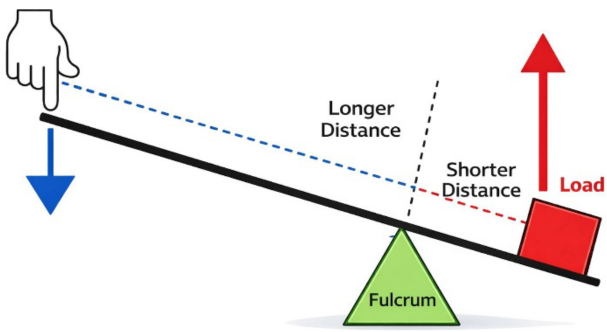
In the case of InvestEU, the key selling point has also been the 'multiplier', i.e. the amount of investment mobilised compared to the cost to the EU budget.

With the claimed multiplier of 15, InvestEU provided on average an implicit subsidy of about 6-7%. It is clear that such a small subsidy can only crowd in investment projects that are already close to being profitable under normal market conditions. A subsidy of 6-7% will not make radically new investment projects attractive enough to be undertaken. This consideration applies to all financial instruments that are supposed to multiply the effect of a given budgetary appropriation. The higher the multiplier, the higher the volume of investment that is affected, but most probably the investments that are 'mobilised' by the subsidy are only slightly different from what would have been undertaken anyway.

To use an analogy from physics: InvestEU is like the opposite of a lever used to apply a strong force on a small object. The small object (EU budget guarantee) can exercise only a very small force at the long end of the lever. Figure 1 illustrates this standard effect.

A small force, the finger at the long end of the lever, can lift a heavy force (red block at the short end). The lever thus magnifies the force exercised by the finger.

Figure 1



But one can also look at this standard picture the opposite way: even a strong force a the short end can only exercise a weak force at the long end. The simple analogy is that the load represents the guarantees in the EU budget and the hand the force with which investment is affected. The blue arrow is much smaller than the red one.

The general conclusion is that a higher leverage does not mean necessarily a stronger impact. A high leverage financial instrument might affect very large volumes of investment but can shift their destination only very little. This means that it also becomes more difficult to measure the qualitative aspects discussed below.

Another concern about the effectiveness of InvestEU is that the claims of very large financing volumes are difficult to reconcile with the stagnation of the balance of the EIB. The EIB is the implementing partner for 75 per cent of InvestEU. By the end of 2024, InvestEU was supposed to have mobilised EUR 280 billion. But one finds few traces of this large number in the balance sheet of the EIB as of 2024. Its overall loan book has fallen by about EUR 20 billion since 2021 (from EUR 490 billion in 2021 to EUR 477 billion. Overall assets have also slightly fallen since 2021 (by EUR 9 billion, from EUR 565 billion in 2021 to EUR 556 in 2024).

The increase in the activities of the European Investment Fund (EIF), which engages in more risky activities, has also been small. As of end-2021, the EIF had private equity investments of EUR 1.5 billion, which had increased to EUR 1.9 by 2024. There is thus little sign that the risky activities inside the EIB group have increased by an amount even remotely similar to the claimed sum for additional investment mobilised by InvestEU.

Most InvestEU projects are multiannual, with disbursements only coming gradually. Commitments have thus increased more than the total funding outstanding. But the present portfolio also contains the commitments made under the predecessor of InvestEU, the Juncker plan (European Fund for Strategic Investments (EFSI) that started in 2014), which was initially supposed to mobilise investment of over EUR 315 billion. In 2022 the Commission claimed that EFSI was expected to have 'triggered' in total investments of EUR 524.3 billion.

Total assets of the EIB in 2024 were still below the level of EUR 570 billion reached in 2015. In the meantime, the total claimed financing mobilised for EFSI and InvestEU amount to over EUR 600 billion (EUR 315bn for EFSI (initially) and EUR 280bn for InvestEU up to 2024). Even if one applies a multiplier of 4:1 for EIB lending crowding in private capital, one would have expected the balance sheet to increase by over EUR 100 billion. This has not happened.

Qualitative aspects: Additionality and market failure

Public subsidies to private investment projects are justified only if there is a market failure. InvestEU is thus supposed to be limited to financing projects that would otherwise not have

taken place and in areas/sectors where there are market failures. However, this additionality is only asserted and difficult to prove. As noted in an EP study, the European Court of Auditors had already recommended that the Commission develop a methodology for an ex post analysis of additionality. This recommendation was only partially accepted with the following statement:

> *The Commission will consider this for future programmes through qualitative methods such as surveys and interviews, but does not support full-scale causal studies due to cost and complexity.*

The latter part of this statement is difficult to accept. Rigorous scientific studies of causal impact cost in the hundreds of thousands of euros. This is negligible compared to the billions claimed for

InvestEU. It would be extremely important for the accountability of the EU before the European tax-payer to know better whether this important programme did in fact lead to hundreds of billions in investment or whether EU financial support just benefited projects that would have been undertaken anyway. The stagnant balance sheet of the EIB (and the minute increase in that of the EIF) increases the need for robust evidence on additionality.

A similar remark applies to the legal requirement that EU funding in general should support only projects where there is a market failure. (Excerpt from Article 8 of the InvestEU Regulation "The InvestEU Fund shall operate through the following four policy windows that shall address market failures or sub-optimal investment situations within their specific scope..."). In many of the projects financed by InvestEU, notably large infrastructure or energy investments, it is not clear what the market failure is. The interim evaluation on InvestEU asserts that its programmes addressed market failure but does not spell out what these market failures were. The only passage in this document of over 200 pages that comes close to defining the market failures is on page 146: "market failures such as uncertainty, financial constraints and lack of appropriability". The first two elements do not constitute market failures as definied normally in the economics literature. Uncertainty is a fact of life, not a market failure. The only element that undoubtedly constitutes a market failure is that firms undertaking a research project cannot appropriate the full social benefits from their activity and will thus invest too little in research.

The predecessor of InvestEU, the Juncker plan (European Fund for Strategic Investments, EFSI), had been motivated by a perceived lack of investment and persistent risk premia in parts of the euro area arguing that they represented a market failure due to the malfunctioning of financial markets. These risk premia have by now disappeared. The 2024 evaluation report seems to conflate market failure with 'sub-optimal' investment. But these two concepts are not the same. Moreover, funding in the EU budget for research was cut to provide the room for the EFSI.

Research and development are of course the areas in which there exists a clear market failure since the return on investment in research often cannot be fully appropriated by the firm undertaking it. But the share of InvestEU financing that goes to R&D projects is small. Support to R&D requires grants, not loans.

An analysis of the usefulness and effectiveness of different instruments, including lessons learned

Chips Act: Ambition versus reality

One of the main goals of the Chips Act was to 'enhance technological leadership and manufacturing scale' with the target being to double the EU's global market share in semiconductors to 20% by 2030. As the European Court of Auditors noted, this target is unlikely to be achieved.

A second aim of the Chips Act was to 'ensure supply chain resilience and strategic autonomy', which was driven by the perception of severe supply chain disruptions after the COVID-19 shock. As argued in Gros 2024, European car producers misjudged in early 2020 the length of the fall in demand and stopped long-term contracts for chips. The chips producers then retooled and were not able to deliver the chips European car producers needed when demand for cars recovered in 2021. How ever, this episode was interpreted as showing the need for more production in Europe. Chips production in Europe is mainly concentrated in mature nodes as this is what is demanded by the EU automotive sector.

The main effect of the Chips Act has thus been an indirect subsidy to the EU automotive industry. All of the large projects that are implemented involve the production of chips mainly used in the automotive industry. Countries have generally supported their national champions (Germany Infineon, France and Italy STMicroelectronics, Austria Osram). None of these projects are first of a kind globally, only first of a kind in Europe. There is also no noticeable cross-border element in any of these projects.

As an aside, one should notice that there is one production site for advanced node chips – Intel's plant in Ireland that produces logic chips with 3 nm nodes (the projects financed by the Chips Act are usually in the range 18-22 nm or above). This plant has not needed any subsidies and its existence is not mentioned in most discussions around chips. Unfortunately the only existing advanced nodes fab in the EU is in a small Member State and none of the large ones is ready to provide financing for a 'foreign' production site. This shows that, in the area of the Chips Act, national interests trump European ones.

As mentioned above, the Chips Act also contains EUR 3.3 billion in funding for R&D and pilot lines. These funds (redirected from other parts of the budget) are managed by the Chips Joint Undertaking in which industry (the incumbents) are responsible for drafting the work programme, the members of the associations that draft the work programmes are also the ones that are winning the project and they are also the ones that are expected to provide the private contribution (mostly in kind) to the JU that should match the EU funding. In a JU, industry is supposed to contribute 1:1 to the EU contribution. This redirection of funds from Horizon Europe would thus in principle double the amount available for research, but at the cost of a governance structure that redirects the research towards industry priorities.

This experience suggests two lessons for this type of policy:

First, the scale of financing must be commensurate to the ambition. To double the market share in an expanding global market in which many other countries provide generous support would require much higher sums. Moreover, the very high subsidy rates offered (40–50 %) suggest that production costs in Europe are much higher than elsewhere. This puts in doubt the aim of doubling the share of EU producers in the global market.

Second, the process has been captured by industry. The European Autombile Manufacturers' Association has been most vocal in supporting the Chips Act and all projects that are actually implemented concern chips for the automotive sector.

A potential Chips Act II should be radically different. Instead of providing large subsidies for specific factories that produce one kind of chips, funding should go towards the part of the chips supply chain where Europe does have a strong comparative advantage, namely the machines necessary to produce the most advanced chips. European dominance of this sector is built on competences in mirrors, lasers and other specialised machinery. These are the sectors that should be strengthened by funding R&D in this area, training skilled workers, etc.

STEP: What can be achieved by repackaging?

It is difficult to see why providing an umbrella to 11 existing – and very diverse - programmes via STEP should have a large impact. The first annual report says only that EUR 10 billion of EU funds were 'aligned' with STEP.

The official list of the 11 programmes brought under the STEP umbrella is:

- 5 funding programmes managed by the Commission for the internal market (Horizon Europe, the Innovation Fund, the European Defence Fund, Digital Europe, and EU4Health);

- 5 funds supported through national envelopes funded by the EU (e.g., the European Regional Development Fund (ERDF), the Cohesion Fund, the Just Transition Fund (JTF), the European Social Fund Plus (ESF+), and the Recovery and Resilience Facility (RRF));
- 1 instrument (InvestEU) implemented with the Commission's partners (e.g., the European Investment Bank (EIB)).

The funds/instruments brought under the STEP umbrella are of very different sizes and nature. Horizon Europe is by far the largest among the programmes managed by the Commission, with an annual budget of about EUR 13 billion, much larger than the others. The ERDF and the European Social Fund are by far the largest among the funding programmes under national envelopes, with annual budgets of over EUR 32 and EUR 14 billion, respectively, again much larger than the others.

The claim that STEP 'mobilised' new investment implies logically that the money previously spent under the existing programmes, e.g. ERDF, Horizon Europe or InvestEU, was misspent. Ultimately, STEP's contribution is one of political alignment rather than budgetary additionality.

The potentially largest impact of STEP could come from its portal for projects. The 'sovereignty seal' makes projecst immediately eligible for financing under other programmes. This could be particularly important for the regional funds since many Member States face difficulties absorbing their allocation under the ERDF as they have given priority to RRF funds, that have a hard deadline. *A priori*, one would thus have expected Member States to use this occasion to incorporate in their ERDF plans the advanced technology projects that have received the STEP seal. The Commission evaluation shows that by 2024 most (76 %) of the EUR 13.5 billion in funding redirected under the 5 directl management programmes went to the Innovation Fund. As for the funds under shared management, EUR 10.5 billion of the total EUR 13.7 billion that was reprogrammed went to the ERDF. In this sense STEP has had a noticeable impact. Given the size of the ERDF, more reprogramming of regional spending towards thetype of sectors and technologies covered by STEP should thus be possible, with a positive impact on competitiveness.

Horizon Europe: What impact on competitiveness?

Horizon Europe has by far the largest budget allocation among the programmes supporting competitiveness. Any evaluation of Horizon Europe must take into account the different aims of its different components. Pillar I on excellent science is generally regarded as a success. Excellence in basic research might contribute indirectly to competitiveness. But the other two Pillars are more directly relevant for this analysis – Pillar II on competitiveness and societal challenges and Pillar III on innovation. Pillar II is the largest of the three, absorbing about 2/3 of the Horizon Europe budget. Gros (2025) analyses to what extent it helps to close the competitiveness gap, the main finding being that Pillar II does not seem to work. The enterprises that benefit from project funding do not become more competitive in the sense that, after a short boost from the project, their sales (and employment) do not grow faster than other enterprises in a carefully selected control group. The only programmes that have a long-term positive impact on enterprise performance are those that aim at single beneficiaries, like the EIC and its predecessor, the SME programme. The collaborative projects are too unwieldy, often consisting of consortia with 20 or more participants, and do not provide incentives for participants to engage in path-breaking innovation as the benefits would have to be shared with the entire consortium. Unfortunately, the single recipient programmes are rather small. Fuest and Gros (2025) provide more detailed evidence, emphasising that one needs to look at the performance of the recipient enterprises after the projects end. Since most projects last about 3-4 years, it should not be surprising that the recipients experience a boost during this period. The key issue is what happens once programme funding stops. On this count, the evidence is not encouraging.

Another weakness of the way Pillar II is implemented is that the work programme is determined top-down through large committees dominated by Member States' representatives, who have limited scientific qualifications and tend to rely on suggestions from national champions or industry associations. This is also the reason why a small number of large established enterprises win hundreds of projects without showing any growth acceleration.

The evidence on Pillar III that supports innovation is also mixed. The core of Pillar III is the European Innovation Council, which has an annual budget of around EUR 1.3 billion, or about 10% of Horizon Europe overall. A 2024 report by the European Policy Analysis Group (Fuest, Cl., D. Gros, D. P.-L. Mengel, G. Presidente and J. Tirole 2024) finds that the working mechanisms of the European Innovation Council lack the independence and guidance by highly qualified project managers that characterise the famous US Defense Advanced Research Projects Agency (DARPA).

A special case under Pillar II: Joint Undertakings

Joint Undertakings are sometimes characterised as a 'Private Public Partnership' (PPP). The JUs do not fit the standard definition of a PPP under which the private sector provides a public service against performance-linked remuneration. The JU financing from the budget consists of straightforward research grants, as is the case throughout Horizon. There is no 'service' that the JU performs, other than selecting research projects.

The main difference with the rest of Horizon Europe is that the EU contribution for projects under JUs is limited to 50% of (eligible) costs. The reason given is that, for industrial research, at least part of the benefits can be appropriated by the firms that participate in the project

(for basic research projects under most Horizon programmes, the EU contribution is much higher, often 100%). While the principle of JUs is clear, the difficulties arise in determining the contribution of the private sector. In practice, the private sector part usually comes as a 'contribution in kind'. But the value of these private contributions (making testing equipment available, the time of researchers, etc.) is difficult to measure and it seems that there are no mechanisms in place to independently verify the value of these in-kind contributions as noted by the European Court of Auditors.

Overall, Horizon Europe seems to be the most impactful part of the MFF with largely positive effects on competitiveness, but it still contains large pockets of inefficiency.

Remedies for the next MFF

Two main reform recommendations emerge from this short review of EU industrial policy funding instruments in the 2021-2027 MFF.

1. Higher leverage does not necessarily mean bigger impact. The use of financing models that rely on crowding in large amounts of private finance should be limited. Using small budgetary resources from the MFF (whether guarantees or grants) to affect very large amounts of other funding creates the illusion of a large impact. But there is no free lunch here. The influence of EU funding on the use

of the overall resources thus 'mobilised' diminishes with the multiplier. This is particularly evident for InvestEU where it becomes very difficult to determine the additionality of the investment projects when the EU guarantee amounts to only a few percentage points of the overall project. Moreover, it seems that, by chasing ever larger multipliers, quantity becomes more important than quality. For many InvestEU projects, it is not clear what the externality is that the EU subsidy is supposed to remedy. The claim that InvestEU has 'mobilised' EUR 300 billion is difficult to reconcile with a stagnant balance sheet of the EIB, especially given that the Commission also claims that its predecessor, EFSI, had already mobilised EUR 500 billion.

2. Horizon needs reforms in two of its main three Pillars. Pillar II needs to be radically changed to render it effective for competitiveness. Pillar III could also be improved. Reforming Pillar II should be a priority. The funding dedicated to large collaborative projects has so far been ineffective in nurturing strong, competitive companies. Too much goes to the incumbents (who naturally favour this programme) and too little to innovative SMEs. This part of Pillar II should be reduced relative to instruments that allow for much smaller consortia or single firms to apply. Pillar III seems to be working much better than Pillar II. It is encouraging that, under the Commission proposal for the next MFF, the funding for the EIC would be increased. But more could be done to strengthen its governance and its management of projects following the US 'ARPA' (Advanced Research Projects Agency). The involvement of industry in the determination of the work programme should be reduced to minimise the incumbency bias. This applies in particular to the Joint Undertaking model that should not be extended without strong safeguards against this type of conflict of interest (for example by mandating strong, independent scientific committees).

As regards other instruments (without funding from the MFF), the following recommendations apply:

Outside the MFF, the same caution should apply to the IPCEI model where industry capture is also prevalent. One, admittedly radical, but simple rule to avoid Member States financing their national champions would be that, within any IPCEI, Member States are not allowed to provide state aid to enterprises with their headquarters in that country.The Chips Act has financed mainly national champions that produce mature nodes chips for the automotive sector. A potential Chips Act II should be radically different. Instead of providing large subsidies for specific greenfield factories that produce one kind of chips, funding should go towards the part of the chips supply chain where Europe does have a strong comparative advantage, namely the machines necessary to produce the most advanced chips. European dominance of this sector is built on competences in mirrors, lasers and other specialised machinery. These are the sectors that should be strengthened by funding R&D in this area, train skilled workers, etc. To the extent that one wants to boost the production of advanced nodes in Europe, one should support improvements in existing fabs.

STEP has the potential to redirect existing funding from the ERDF in traditional hard infrastructure towards more tech-heavy projects. This potential could be enhanced by making it administrative easier for regions/countries to make ammendments to their existing smart specialisation strategies.

Conclusions

A key issue for EU innovation policy is the difference between supporting (incremental) innovation in existing industries or fostering disruptive innovation in new sectors. The incumbents favour naturally the former. Their influence via lobbying through industry associations and as national champions through Member States is evident in the work programme of Pillar II of Horizon, the ICPEIs and also the Chips Act. A large part of EU instruments for competitiveness thus strengthen those industries in which Europe is already relatively strong. But these are in many cases also industries with low growth potential. A similar observation applies to the vast amount of investment that has been claimed to be mobilised by InvestEU.

If the aim of the next MFF is to support disruptive innovation, great care should be taken to insulate the influence of the incumbents on the work programme and strengthen those instruments that allow also single recipients to pursue disruptive ideas.

Another key issue is the use of leverage by using small amounts of EU funding to ‘mobilise’ large amounts from the private sector. As the EU contribution gets smaller, it becomes more and more difficult to influence the nature of the projects and it also becomes less likely that these projects are disruptive. The use of leveraged instruments should be limited and the claims of what they can achieve tempered.

The main issue for the next MFF is thus not so much whether one big overarching fund (the proposed Competitiveness Fund) substitutes existing dispersed instruments, but whether the management of EU funding for competitiveness can escape industry capture and whether EU institutions can resist the temptation to use leverage to claim very large impacts.

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Financing competitiveness in the EU

One year on from the Draghi Report

KEY FINDINGS

The EU's investment gap remains structurally large and dual in nature.
Closing it requires action on both public and private financing fronts: public finance can provide strategic direction and risk-sharing, but around 80 per cent of the required investment must ultimately come from private capital.

Administrative simplification in the proposed MFF is substantial, but governance weaknesses persist. The reduction in the number of EU programmes, the Single Rulebook and a unified access point significantly lower operational barriers. At the same time, the shift towards National and Regional Partnership Plans (NRPPs) raises concerns about performance measurement, multilevel coordination and the potential replication of shortcomings observed under the Recovery and Resilience Facility (RRF).

Under the proposed MFF, the EU has moved decisively towards greater strategic coherence, but implementation risks remain high.
The creation of the European Competitiveness Fund (ECF) and the consolidation of multiple programmes mark a clear structural improvement in EU public financing. However, the risk of internal fragmentation across policy windows and the reliance on complex governance arrangements mean that effectiveness will depend critically on coordination and execution rather than on institutional design alone.

Greater EU risk-taking capacity exists on paper, but risk appetite remains the binding constraint. The expansion and unification of EU budgetary guarantees strengthen the de-risking framework, yet past experience with InvestEU suggests that institutional conservatism among implementing partners may continue to limit the deployment of guarantees in higher-risk, strategic sectors.

The EU's fiscal capacity remains structurally constrained.
Despite the headline increase in the 2028–2034 Multiannual Financial Framework (MFF), there is no meaningful expansion of EU-level fiscal capacity once NextGenerationEU interest payments are excluded, no new common borrowing instrument, and no strengthening of the fiscal framework. This falls short of the scale envisaged in the Draghi Report.

Private-side reforms advance integration incrementally but stop short of systemic change. Measures to strengthen the European Security Markets Authority (ESMA), reduce market fragmentation, support supplementary pensions and revive securitisation move in the right direction, but remain constrained by national prerogatives and political limits. The continued paralysis of the Banking Union, including the absence of European Deposit Insurance Scheme (EDIS) and a country-blind jurisdiction, remains the most significant unresolved structural gap.

Main financing gaps and constraints as identified in the Draghi report

The Draghi Report highlights that closing Europe's investment gap—estimated at EUR 750–800 billion per year, or around 4.4–4.7 per cent of EU GDP—will require a dual effort. Historically, approximately four-fifths of investment across the Union has been financed privately, with only one-fifth funded through public sources. This distribution implies that the EU must address two sets of obstacles: those stemming from the EU's public financing architecture, and those that hinder the mobilisation of private capital at scale. Both dimensions are essential, and neither can compensate for the other. The main constraints on the public and private sides are summarised in Table 1 below.

Table 1: Overview of public and private financing constraints

Public financing constraints	Private investment bottlenecks
EU budget structurally small (≈1% of EU GDP) and insufficiently aligned with strategic priorities.	**High household savings not channelled into productive investment**, leading to slower wealth accumulation.
Spending still concentrated in cohesion and agriculture, limiting resources for innovation and competitiveness.	**Fragmented capital markets**: no single supervisor, no unified rulebook, divergent post-trade systems.
Fragmentation across 50 spending programmes undermines scale and impact.	**Divergent insolvency and tax regimes** hindering cross-border capital flows.
Administrative complexity and slow access to EU funds delaying implementation.	**Excessive reliance on bank-based financing** ill-suited for innovative, high-growth firms.
Low risk appetite of the EU budget and implementing partners, limiting crowding-in of private investment.	**Underdeveloped second and third-pillar pension systems** reducing the supply of long-term patient capital.
NGEU repayment cliff from 2028 reducing effective EU spending capacity without new own resources.	**Structural impediments preventing the expansion of equity and venture capital** markets across the EU.

Source: author's own elaboration

A first set of gaps relates to public financing constraints, which limit the EU's capacity to contribute effectively to strategic investment. The EU budget remains structurally small, at around 1 per cent of EU GDP, especially when compared with national budgets that jointly amount to roughly 50 per cent of GDP. Within this limited envelope, expenditure is still heavily oriented towards cohesion and agricultural policies rather than towards innovation, competitiveness or strategic technological deployment. Fragmentation across nearly fifty spending programmes prevents the budget from achieving the scale required for pan-European transformative projects. Access to EU funding is frequently described as slow and burdensome, leading to lengthy implementation timelines. Moreover, the EU budget shows limited appetite for risk; implementing partners such as the European Investment Bank (EIB) Group continue to prioritise low-risk operations, which constrains the ability of public finance to crowd in private investment in frontier technologies. Finally, the approaching repayment schedule for NextGenerationEU (NGEU)—around EUR 30 billion per year from 2028 onwards—risks mechanically reducing the EU's effective spending capacity unless new own resources are secured.

The second set of obstacles concerns private investment bottlenecks, which are even more consequential given that the bulk of Europe's investment needs—approximately 80 per cent—must ultimately be met by private capital. Despite significantly higher household savings than in the United States (EUR 1,390 billion versus EUR 840 billion in 2022), these savings are not efficiently channelled into productive investment, resulting in slower household wealth accumulation over time. The persistent fragmentation of EU capital markets prevents the efficient allocation of capital across borders. The lack of a single securities supervisor, the absence of a fully unified rulebook, and divergent post-trade infrastructures hinder the emergence of a truly integrated financial market. In addition, disparities in insolvency and tax regimes continue to discourage cross-border investment. The EU's heavy reliance on bank-based financing further limits the availability of risk capital, as bank lending is ill-suited for early-stage, high-growth firms that depend on venture capital and deep equity markets. The EU's underdeveloped second and third-pillar pension systems constrain the supply of long-term patient capital, reducing the scale and depth of equity markets and limiting Europe's capacity to support innovation-driven growth.

Together, these public and private gaps undermine Europe's ability to mobilise the investment required to meet its decarbonisation, digital and defence objectives. Addressing only one side of the equation will be insufficient; public financing reforms can strengthen the foundation, but the overall investment gap cannot be closed without overcoming the structural weaknesses that impede private capital formation.

Main financing recommendations reflected in the Draghi report

A coherent set of reforms is required to ensure that the EU can meet its investment needs. The Draghi Report argues that the Union must strengthen its capacity to finance strategic projects through a more focused and effective public budget, while at the same time removing the structural barriers that prevent private capital from being mobilised at scale. Productivity gains and reforms that enhance Europe's competitiveness are presented as essential preconditions for creating fiscal space and for ensuring that both public and private investment can contribute fully to the Union's strategic objectives. The main recommendations on the public and private sides are summarised in Table 2 below.

Table 2. Main financing recommendations in the Draghi Report

Public-side reforms	Private-side reforms
Establish a Competitiveness Pillar in the next MFF to concentrate resources on strategic projects.	**Transform ESMA into a genuine single supervisor** with full regulatory and supervisory powers.
Simplify and consolidate EU funding programmes, supported by a single interface for project promoters.	**Move towards centralised market infrastructures,** including a single Central Counterparty (CCP) and a consolidated Central Securities Depository (CSD).
Increase EU risk-taking capacity through a **larger InvestEU guarantee.**	**Expand and standardise second-pillar pension schemes** to channel long-term savings into capital markets.
Extend the EIB's mandate to allow direct equity investment and higher risk-taking in strategic technologies.	**Revive the securitisation market** through targeted prudential and transparency adjustments.
Develop new forms of common funding for European public goods, support regular issuance of common safe assets and strengthen fiscal rules	**Complete the Banking Union** with a country-blind jurisdiction for cross-border banks.

Source: author's own elaboration

A first set of recommendations focuses on strengthening the EU's system of public financing so that it can more effectively underpin strategic investment. In the next Multiannual Financial Framework (MFF), the report proposes establishing a dedicated Competitiveness Pillar to channel resources towards innovation, strategic technologies and cross-border industrial projects. This would allow the EU budget to deliver greater scale and focus on areas where coordinated action is indispensable. To address the persistent fragmentation of EU funding instruments, the report calls for a substantial simplification of spending programmes and the creation of a single interface for project promoters, reducing administrative burdens and accelerating implementation. Increasing the EU's risk-taking capacity is also considered essential, including through a larger EU guarantee under the InvestEU programme, which would enable higher investment volumes in frontier sectors. In parallel, the report recommends revisiting the mandate of the EIB, allowing it to undertake direct equity investments in strategic high-tech areas and to assume greater risk in support of European technological leadership.

Beyond the EU budget, the report underlines the need for new forms of common funding to support European public goods that are currently underprovided, such as breakthrough research, cross-border energy networks and joint defence procurement. Regular issuance of common safe assets—building on the precedent of NGEU—would help finance these projects while also deepening financial integration by providing a common benchmark yield curve and high-quality collateral. The expansion of common issuance would need to be accompanied by strengthened fiscal rules to ensure the sustainability of national public finances and to preserve market confidence.

These public-side reforms must be accompanied by a comprehensive effort to remove the barriers that prevent private capital from being mobilised at scale, as both dimensions are mutually reinforcing and essential to closing the EU's investment gap. Completing the Capital Markets Union is central to this effort. This includes transforming the European Securities and Markets Authority (ESMA) into a genuine single supervisor for EU securities markets, akin to the United States of America (US) Securities and Exchange Commission, with independent governance and full supervisory powers. The report also advocates moving towards centralised market infrastructures, including a single central counterparty platform and a consolidated central securities depository. To boost long-term savings markets, Member States should be encouraged to expand second-pillar pension schemes and standardise pension products, thereby increasing the supply of patient capital across the Union. Reviving the securitisation market is also essential, requiring targeted adjustments to prudential and transparency requirements so that banks can transfer risk and free up capital for additional lending. Finally, the report reiterates the need to complete the Banking Union by creating a distinct jurisdiction for banks with substantial cross-border activity—one that ensures supervision and regulation that are genuinely country-blind.

Together, these reforms, public and private, reflect a coherent strategy to raise Europe's investment capacity, enhance competitiveness and ensure that the EU can deliver on its decarbonisation, digital and defence objectives.

Assessment of recent EU initiatives in light of the Draghi Report (public-side reforms)

This section assesses how the Commission's recent legislative proposals for the next MFF reflect the public-side reforms outlined in the Draghi Report. The structure follows the key public-financing dimensions summarised in Table 2.

Establishing a Competitiveness Pillar in the next MFF

The Commission's proposal for a European Competitiveness Fund (ECF) is one of the most significant structural innovations of the MFF reform and responds directly to the call for a consolidated Competitiveness Pillar. By consolidating 14 existing programmes –including InvestEU, the European Defence Fund, Digital Europe, EU4Health, LIFE, parts of the Single Market Programme and others– into a single framework, and aligning them with Horizon Europe through a joint rulebook, the ECF replaces a dispersed and heterogeneous programme landscape with a more unified investment architecture.

The Commission structures the ECF around four policy windows – clean transition and industrial decarbonisation; health, biotechnology, agriculture and the bioeconomy; digital leadership; and resilience and security, defence industry and space – which in practice function as distinct opportunity areas. Although these windows sit under a single financing framework, their internal logic and policy communities remain highly differentiated. Ensuring that these areas operate in a complementary manner, rather than as new silos within the consolidated structure, will require strong coordination mechanisms within the ECF's governance framework.

Overall, the Commission's proposal moves clearly in the right direction. It operationalises the consolidation envisaged in the Draghi Report and provides a coherent structure for EU-level strategic investment. The critical question will be whether the governance of the ECF—through its Strategic Stakeholder Board and Investment Committee—can ensure coordination across the four windows and prevent the re-emergence of fragmentation within the new framework.

Simplifying and consolidating EU funding programmes, supported by a single interface

The Commission proposes a major simplification effort, reducing the number of programmes from 52 to 16 and introducing a Single Rulebook for the ECF and Horizon Europe, harmonising definitions, eligibility criteria and audit requirements across these two instruments, while streamlining rules for other components. A single digital entry point for the ECF and Horizon Europe will act as a unified interface for project promoters, while national portals will continue to support shared-management funds. These reforms significantly streamline access to EU funding and address one of the central operational challenges identified in the Draghi Report.

A key element of the Commission's proposal is the creation of National and Regional Partnership Plans (NRPPs), which consolidate 21 programmes covering cohesion, agriculture, fisheries, migration and social policies into a single national partnership framework for each Member State. This is intended to improve coherence across shared-management spending and to align national planning more closely with EU-level strategic priorities.

While this reorganisation moves in the right direction, the experience with the Recovery and Resilience Facility (RRF) suggests that several governance challenges will require careful attention. Extending a performance-based model to cohesion and agricultural spending may improve focus and delivery, but the implementation of the RRF showed that performance frameworks often relied on heterogeneous indicators, with substantial variation in ambition and limited measurement of outcomes. Moreover, the centralised design and monitoring of national plans during the RRF phase highlighted potential risks related to the involvement of regional authorities and sectoral stakeholders, whose effective participation is essential for policies with strong territorial and multi-level dimensions.

Against this background, the NRPPs could become a valuable tool for strategic coherence if appropriately designed, but their effectiveness will depend on ensuring meaningful multilevel coordination through binding partnership mechanisms and on developing performance indicators capable of capturing results rather than merely administrative milestones. The direction of travel is broadly positive, yet the governance model will need to be strengthened to avoid reproducing some of the limitations observed during the implementation of the RRF.

Increasing EU risk-taking capacity through a larger InvestEU guarantee

The Commission's proposal builds on the unified guarantee framework already introduced under the current MFF through the InvestEU programme and further develops it into an ECF InvestEU Investment Instrument, placing the EU budgetary guarantee at the core of a more strategic and targeted investment model. Under the ECF's basic act, this single EU budgetary guarantee for internal policies will be expanded and used to replace the remaining array of fragmented instruments, simplifying the framework for implementing partners and ensuring a more coherent deployment of the Union's risk-bearing capacity.

The ECF also introduces a standardised toolkit of grants, equity, loans, guarantees and procurement, supported by a unified set of technical rules for guarantees, financial instruments and blending operations. This integrated approach is intended to reduce administrative complexity and better align all risk-taking tools with the strategic priorities identified in the Competitiveness Action Plans.

While the final size of the EU guarantee is still subject to negotiation, the draft ECF regulation sets a flexible allocation for guarantees between EUR 17 billion and EUR 70 billion, with a minimum of EUR 17 billion of Union support from the ECF delivered through the ECF InvestEU Instrument. This envelope will be backed by provisioning from the ECF budget and complemented by advisory services and cross-cutting support. The architecture nonetheless strengthens the strategic focus of EU de-risking, particularly in priority areas such as resilience, security, the defence industry and space.

The ECF provides a flexible instrument for EU de-risking. However, alignment with Draghi's ambition depends entirely on implementation. The intermediate evaluation of InvestEU demonstrated that available guarantees were not exhausted due to institutional risk aversion, suggesting that the binding constraint is risk appetite, not budgetary availability. Consequently, the effective contribution of the ECF InvestEU Instrument to EU competitiveness will hinge on whether implementing partners deploy the full envelope in higher-risk sectors and whether the ECF Investment Committee exerts sufficient strategic pressure to overcome legacy conservatism.

Extending the EIB's mandate to allow direct equity investment and higher risk-taking

In March 2025, the Council adopted Decision (EU) 2025/504 amending Article 16(5) of the EIB Statute to remove the fixed 250 per cent gearing ratio and give the Board of Governors the discretion to set leverage limits. This reform, requested by the EIB Group in September 2024, eliminates a major operational constraint that had limited the Bank's ability to scale up higher-risk activities, including quasi-equity instruments and equity operations carried out through the European Investment Fund (EIF).

The ECF provides a unified rulebook for the EIB Group's instruments—equity and quasi-equity (primarily through the EIF), guarantees, loans and blended finance—allowing the Group to increase its support for frontier technologies. Recent developments, such as the expansion of the EIB Group's financing ceiling to EUR 100 billion in 2025, and new programmes, such as TechEU (EUR 70 billion) and Space TechEU, illustrate the Group's strengthened capacity to mobilise private capital.

While the statutory reform represents progress towards Draghi's call for a more risk-tolerant EIB Group, it remains constrained by Treaty-level limits, notably Article 309 of the Treaty on the Functioning of the European Union (TFEU), which prohibits the EIB itself from undertaking direct equity investments. This prohibition can only be modified through Treaty revision, which is not politically feasible in the near future. As a result, the Group's expanded engagement in high-risk sectors has advanced mainly through strategic prioritisation within its Operational Plans and through instruments implemented by the EIF, rather than through fundamental changes to the EIB's legal mandate.

Full alignment with Draghi's vision therefore depends less on additional legal reform and more on sustained political direction within the ECF framework, enabling the EIB Group to maximise the use of the instruments that are permissible under the current Treaties.

Size of the MFF and fiscal framework

The Commission presents the 2028–2034 MFF as a major step forward, emphasising a nominal increase of around 40 per cent and a total envelope approaching EUR 2 trillion. However, once NGEU repayments are excluded and the proposal is assessed as a share of EU Gross National Income (GNI), the picture changes substantially. In relative terms, the size of the MFF remains broadly in line with the current framework, and the modest increase that does appear on paper could be easily erased during the Council negotiations, as has happened in previous cycles. This falls short of the scale of reinforcement envisaged in Draghi's call for a significant expansion of EU-level fiscal capacity.

The proposal also does not provide for any new common financing instrument comparable to NGEU. The absence of fresh joint borrowing reflects the very limited fiscal space available at EU level, particularly given the sharp rise in annual NGEU repayments from 2028 onwards. Against this backdrop, the Commission has instead put forward a set of new own resources, but these would generate only modest revenues and, in several cases, raise questions of coherence with competitiveness and the broader objective of strengthening the Union's fiscal architecture. Some of the proposed levies, such as the Coordinated Revenue-Raising Instrument (CORE), would effectively operate as additional taxes on production and cross-border activity, increasing firms' cost base without offering commensurate gains in fiscal integration or simplification. Rather than moving towards a more integrated corporate tax framework, along the lines of the BEFIT proposal, these measures risk layering yet another set of charges on top of existing national tax systems, thereby complicating the environment for investment and eroding the attractiveness of the Single Market for globally mobile activities.

Nor does the proposal advance the strengthening of fiscal rules recommended by Draghi. On the contrary, the widespread use of national escape clauses to accommodate higher defence expenditure underscores that fiscal discipline is becoming increasingly fragmented. The reliance on nationally determined derogations runs counter to the idea of a coherent and predictable fiscal framework capable of supporting common investment and ensuring consistency across the Union.

Taken together, the Commission's approach maintains a structurally limited EU budget, introduces no meaningful expansion of common financing, and does not reinforce the fiscal framework. Despite being presented as a more ambitious package, the proposal remains constrained by the existing architecture and does not match the scale of the investment challenge identified in the Draghi report.

Table 3. Alignment of Commission proposals with Draghi's recommendations (public-side reforms)

Category	What the Commission proposes	Alignment with Draghi	Assessment
Competitiveness Pillar (ECF)	Creation of an ECF consolidating 14 programmes under a single framework with four thematic windows and a joint rulebook with Horizon.	Largely aligned: Draghi called for a consolidated Competitiveness Pillar and for reducing fragmentation across programmes.	Positive structural step, but risks of new internal silos and coordination failures. Impact depends on governance.
Simplification and single interface	Reduction from 52 to 16 programmes; Single Rulebook; single digital entry point; creation of NRPPs consolidating 21 programmes across cohesion, CAP, fisheries, migration and social policy.	Partially aligned: Draghi emphasised simplification and a single interface, but not the degree of renationalisation implicit in the NRPPs.	Directionally positive, but governance concerns persist. Performance-based logic risks repeating RRF shortcomings; regional authorities risk marginalisation; potential dilution of cohesion policy.
Increasing EU risk-taking capacity (InvestEU guarantee)	Single EU budgetary guarantee for internal policies; flexible guarantee envelope (EUR 17–70bn); unified toolkit for grants, equity, loans, guarantees and procurement; integrated technical rules.	Conditionally aligned: Draghi called for greater EU risk-taking capacity, but the constraint lies in implementation and risk appetite rather than in budgetary availability.	Architecture is sound, but effectiveness depends on whether implementing partners overcome risk aversion and deploy guarantees in higher-risk sectors.
EIB mandate and higher risk-taking	Removal of the 250% gearing ratio; expansion of financing ceilings; strategic prioritisation of high-tech sectors; unified ECF rulebook for EIB Group instruments.	Partially aligned: Draghi recommended revisiting the EIB's mandate and increasing its risk-taking capacity. The statutory step helps but remains limited by Treaty constraints.	Meaningful operational improvement but still bound by Article 309 TFEU. Alignment will depend on strategic guidance.
Size of the MFF and fiscal framework	Nominal 40% increase to EUR 2 trillion; but real size broadly unchanged once NGEU repayments excluded; no new common borrowing; new own resources, but some could put competitiveness at risk.	Not aligned: Draghi called for a significant expansion of EU-level fiscal capacity and for stronger, predictable fiscal rules. Neither materialises in the proposal.	Ambition is overstated. The EU budget remains structurally small; no NGEU-style financing; fiscal rules weakened through defence escape clauses.

Source: author's own elaboration

Assessment of recent EU initiatives in light of the Draghi Report (private-side reforms)

This section assesses how the Commission's recent legislative proposals reflect the private-side reforms outlined in the Draghi Report. The structure follows the key public-financing dimensions summarised in Table 2.

Transforming ESMA into a genuine single supervisor

On 4 December 2025, the Commission published its Market Integration Package, a set of legislative proposals aimed at reducing supervisory fragmentation in EU capital markets. The package expands ESMA's supervisory role by granting it direct oversight over selected significant and cross-border market actors, including in new areas such as crypto-asset services, and by strengthening its coordination of large asset managers and investment funds. It also introduces governance reforms—such as an Executive Board and a more stable funding model—and enhances ESMA's enforcement and supervisory convergence tools, including corrective powers and the ability to suspend passporting rights in cases of serious failures.

These measures only partially align with the Draghi Report's call for more centralised EU-level supervision of EU-wide risks. Rather than transforming ESMA into a fully centralised capital markets supervisor with comprehensive direct supervisory and enforcement Powers, comparable to the role played by the US Securities and Exchange Commission, the package confines centralisation to selected entities and activities, leaving the core supervisory architecture largely national.

Moving towards centralised market infrastructures

The 4 December 2025 package also seeks to remove structural barriers to the integration of EU capital markets by reducing unnecessary divergences in authorisation, operational and reporting requirements. The objective is to lower compliance costs, strengthen passporting—the ability to operate across the EU with a single licence—and enable more efficient cross-border market structures.

The package introduces more harmonised rules for trading venues and central securities depositories (CSDs), which handle securities settlement, a pan-European market operator licence, simplified passporting for UCITS (retail investment funds) and AIFMs (alternative investment fund managers), and measures to facilitate cross-border securities issuance and settlement, including greater use of TARGET2-Securities (T2S), the EU's settlement platform.

These reforms meaningfully reduce operational fragmentation and improve single-market functioning. However, they stop short of the deeper infrastructural consolidation envisaged by Draghi, leaving Europe's market architecture largely decentralised.

Expanding and standardising second-pillar pension schemes

On 20 November 2025, the Commission presented a package to strengthen supplementary pensions—both occupational and personal—with the aim of expanding long-term savings and investment. The initiatives include a Recommendation encouraging auto-enrolment into occupational pension schemes, improved pension tracking and EU-compatible pension dashboards; a revision of the IORP II Directive[1] (the EU framework for occupational pension funds) to facilitate consolidation,

[1] The IORP II Directive (Directive (EU) 2016/2341) sets prudential and governance requirements for institutions for occupational retirement provision, including the prudent person principle governing investment decisions.

strengthen saver protection and allow more diversified investment strategies, including higher equity exposure; and targeted amendments to the Pan-European Personal Pension Product (PEPP) to make it simpler and more attractive, notably through a low-cost "Basic PEPP", more flexible product design and more consistent tax treatment across Member States.

The reforms broadly support Draghi's call to expand second-pillar pensions and increase the supply of long-term capital. However, pension provision remains primarily a Member State prerogative; EU action can only steer at the margins rather than deliver the systemic expansion envisioned in the Draghi Report.

Reviving the securitisation market

On 17 June 2025, the Commission adopted a set of targeted amendments to simplify and modernise the EU securitisation framework, with the aim of facilitating issuance and investment while preserving financial stability. The initiative, presented as the first legislative action under the Savings and Investments Union (SIU) Strategy[2], responds to evidence that certain elements of the 2019 framework have unintentionally constrained market development. By streamlining rules and reducing unnecessary complexity, the package seeks to encourage greater securitisation activity and free up bank balance sheets for additional lending to households and firms, thereby supporting growth, innovation and job creation across the EU.

The Commission's proposals act within its regulatory mandate and follow the direction Draghi identified, although the broader scale of market revival ultimately depends on banks' willingness to use securitisation and on supervisory attitudes at national level.

Completing the Banking Union with a country-blind jurisdiction

The Banking Union remains stalled: the European Deposit Insurance Scheme is politically blocked and the Treaty establishing the European Stability Mechanism (ESM), which introduces the common backstop to the Single Resolution Fund, has not been fully ratified. This leaves Draghi's recommendations, including on a country-blind jurisdiction, entirely unmet.

[2] The SIU Strategy is the Commission's new framework that succeeds the Capital Markets Union agenda and brings together elements of the Banking Union, with the aim of better channelling EU savings into productive investment and deepening integrated European capital markets.

Table 4. Alignment of Commission proposals with Draghi's recommendations (private-side reforms)

Category	What the Commission proposes	Alignment with Draghi	Assessment
ESMA as a single supervisor	Expands ESMA's direct supervision; stronger coordination of large asset managers; governance reform (Executive Board, funding model); enhanced convergence/enforcement toolkit.	Partially aligned, but reforms remain limited to selected segments and rely heavily on national authorities.	Meaningful structural step, but far from the SEC-style centralisation envisaged by Draghi; effectiveness depends on implementation and national cooperation.
Centralised market infrastructures	Removes duplicative requirements; harmonises rules for trading venues, CSDs and asset managers; new pan-European market operator licence; improved passporting; T2S settlement requirement; strengthened open access and direct broker access.	Partially aligned: improves interoperability and reduces fragmentation but does not pursue the deeper consolidation of infrastructures advocated by Draghi.	Advances integration and efficiency but remains constrained by a decentralised architecture.
Second-pillar pension schemes	Auto-enrolment recommendation; expansion of pension tracking systems and dashboards; revision of IORP II to support consolidation and diversified portfolios; reforms to PEPP to increase accessibility and scale; clarification of prudent person principle.	Broadly aligned: supports Draghi's objective of expanding long-term savings, but pensions remain a Member State prerogative.	Positive directionally, but impact depends on national uptake; cannot deliver the systemic expansion Draghi envisaged.
Reviving securitisation	Targeted amendments to simplify the 2019 framework, remove undue barriers and reduce complexity; aim to increase issuance and investment, free bank balance sheets and boost lending to households and firms.	Largely aligned, though ultimate scale depends on market behaviour and supervisory attitudes.	Pragmatic and timely, but impact contingent on investor appetite and bank willingness to use the tool.
Completing the Banking Union	No new proposals; EDIS remains blocked; ESM Treaty (common backstop to SRF) not fully ratified.	Not aligned: Draghi's call for a country-blind jurisdiction and full Banking Union remains unmet.	Banking Union is effectively stalled, leaving a major structural gap in the EU financial architecture.

Source: author's own elaboration

Conclusions

One year after the publication of the Draghi report, the overall picture is one of partial but uneven progress. The Commission has launched several important initiatives, most notably the ECF under the MFF proposal, the simplification of EU spending programmes, the Market Integration Package, and reforms linked to pensions and securitisation. Together, these measures show that the Commission has taken the Draghi report seriously and has incorporated a large part of its diagnosis into its legislative and policy agenda.

However, the scale of the reforms remains below the level of ambition set out in the Draghi report. On the public-financing side, the 2028–2034 MFF does not represent a structural reinforcement of the EU budget, nor does it introduce new common financing instruments comparable to NGEU. The absence of stronger fiscal rules and the continued fragmentation of national approaches further limit the Union's capacity to finance strategic investment. These gaps suggest that the MFF, as currently designed, does not yet meet the long-term financing needs identified by Draghi.

On the private-side reforms, the Commission's initiatives move in the right direction but remain constrained by institutional and political realities. ESMA's powers are strengthened, but the supervisory architecture stays largely decentralised. Progress towards more centralised trading and post-trading infrastructures is real but incremental. The initiatives on supplementary pensions have significant potential but rely heavily on national uptake, which is uncertain. The reform of the securitisation framework is welcome but cannot, on its own, deliver the market depth Draghi envisaged. Meanwhile, the Banking Union remains effectively stalled, with no progress on EDIS and no full ratification of the ESM Treaty to activate the common backstop. Taken together, these developments show that the EU has started to act on Draghi's recommendations, but has not yet matched the scale of the challenges he identified.

Beyond Draghi's diagnosis, there are at least three dimensions that merit greater attention in debates on the future financing of competitiveness and industrial policy. First, the report does not address the potential role of differentiated integration or enhanced cooperation mechanisms as tools for advancing capital markets integration or fiscal capacity among willing Member States, an approach that could unlock progress where unanimity proves elusive. Second, the report pays relatively limited attention to the role of genuinely integrated corporate tax bases and "good" own resources –such as a BEFIT-type common base or well-designed green levies. Finally, Draghi touches only briefly on the political economy of implementation –in particular the tension between a more centralised industrial policy narrative and the need to preserve competition, state-aid discipline and trust in EU-level institutions– which will be critical for sustaining any expanded financing architecture over time.

Analysis by Johannes Jarlebring

Senior Researcher in Political Science

One Fund to Rule Them All

An analysis of the proposed European Competitiveness Fund

In July 2025, the EU Commission proposed a Competitiveness Fund as a response to Draghi's call for a European "investment shock." This analysis, which examines the main elements and the governance of the new fund, shows that it could have a huge impact on the EU's ability to act as an industrial policy player, the EU's internal balance of power and the future of the internal market.

Link Analysis

Briefing by Philipp Lausberg

Senior Policy Analyst at the European Policy Centre (EPC)

Can the European Competitiveness Fund deliver?

Strengths, shortcomings and recommendations for an effective EU industrial policy

KEY FINDINGS

The Commission's proposal for a European Competitiveness Fund (ECF) marks a significant shift in the EU budget towards industrial policy. Together with the closely aligned Horizon Europe programme, the new competitiveness heading would account for around 30% of the proposed 2028–2034 Multiannual Financial Framework (MFF), representing a substantial reprioritisation compared to the current framework. While this scale remains insufficient to close Europe's large investment gaps, it could have a meaningful impact if deployed in a sufficiently focused, coordinated and leveraged manner.

The proposal addresses several long-standing weaknesses of EU industrial policy, notably fragmentation and complexity. The consolidation of instruments under a single rulebook, the standardisation of financial tools, the strengthening of InvestEU as a horizontal instrument, and the closer alignment with Horizon Europe's innovation pillars provide a credible basis for improving coherence and accelerating the transition from research to market deployment.

However, important shortcomings remain. The ECF's windows cover an exceptionally broad range of technologies and sectors without a clear prioritisation framework or definition of EU added value, risking dilution of resources and weaker market signals. Leverage potential is further constrained by a low minimum allocation to InvestEU guarantees and limited incentives for blending. Coordination with other key instruments—such as the Innovation Fund, the Connecting Europe Facility (CEF) and National and Regional Partnership Plans (NRPPs)—remains insufficiently specified, increasing the risk of overlaps and inefficiencies. Finally, the proposed governance framework grants the Commission considerable flexibility but lacks robust safeguards, strategic prioritisation mechanisms and accountability, potentially undermining effectiveness.

Context and assessment criteria for the ECF

The European Commission has proposed a European Competitiveness Fund (ECF) as the EU's flagship industrial policy instrument to address today's competitive, technological, climate, and security challenges.

The proposal comes amid a global industrial-policy renaissance, at a time when free trade and the EU's export-led growth model are under increasing strain. At the same time, the speed and scale of ongoing technological, geopolitical, and environmental transformations require vast amounts of large-scale, long-term, and high-risk investment—well beyond what private investors have so far been willing or able to provide. The European Central Bank (ECB) estimates the EU's annual investment gap at around EUR 1.2 trillion in the security, digital, and green domains alone.

With a proposed seven-year budget of EUR 409 billion, the ECF's industrial-policy financing will not be able to fill these gaps alone. Unlike the United States and China—where industrial policy is largely financed and steered at the federal or central government level—EU-level spending amounts to only around 1–2% of EU Gross Domestic Product (GDP), while member-state budgets account for roughly 50% of GDP. The focus of EU industrial policy investment must therefore be on adding European value, crowding in additional public and private finance and fostering synergies across the EU's multilevel governance structure.

This briefing assesses whether the proposed ECF can deliver by evaluating it against the following eight criteria for successful industrial-policy design[1] and by offering targeted recommendations for improvement.

1. **Sufficient resources** to provide adequate risk-bearing capacity to make strategic projects bankable while effectively supporting a range of prioritised sectors.
2. **Clear strategic focus and prioritisation**, concentrating EU spending where it can have the highest impact.
3. **Powerful leverage** to mobilise additional public and private finance and expertise and multiply the effect of EU spending
4. **Coherence and simplicity of design**, reducing fragmentation and administrative complexity to lower costs and burdens for administration, applicants and beneficiaries alike
5. **Effective coordination** across different funding programmes, policies and governance levels to increase synergies and economies of scale
6. **High consistency and directionality** in investment decisions providing long-term predictability and strong investment signals to crowd in private sector investment
7. **Sufficient flexibility and responsiveness**, allowing for resources to be redirected swiftly in response to emergencies and rapid technological change
8. **Transparency and accountability** ensuring efficient use of public resources, limiting leakage, and encouraging evidence-based decision-making

Resources and focus: substantial volume but insufficient prioritisation

With a combined budget of EUR 409 billion, the ECF (EUR 234.3 billion) and the closely aligned Horizon Europe programme (EUR 175 billion) would amount to around 2.5 times the EU-level investment under the programmes they replace. This new competitiveness heading would represent around 30% of proposed Multiannual Financial Framework (MFF) spending, compared to 17% in the current MFF. This marks a substantial rebalancing of priorities within

[1] These criteria largely coincide with Mario Draghi's recommendations. See: Draghi, Mario (2024), *The Future of European Competitiveness*.

an overall proposed budget of EUR 1.98 trillion for the 2028–2034 period (1.26% of EU GNI), which in real terms - and after accounting for repayments related to Recovery and Resilience Facility (RRF) borrowing - represents only a modest increase compared to the current framework.

This budget alone will not be able to fill Europe's massive investment gaps, but it could have a major positive impact on growth and competitiveness if it focuses spending on where it can have the largest impact and concentrate sufficient financial firepower to de-risk and crowd in additional private and public funding for EU industrial policy goals.

The Fund focuses on the scaling-up, manufacturing and deployment of strategic technologies and on reducing strategic dependencies[2] in four broad windows dedicated to the digital transition (EUR 54.8 bn), clean transition and industrial decarbonisation (EUR 26,2bn), health and bio-economy (EUR 22.6 bn), and defence and space (EUR 130.7bn). Moreover, it proposes a doubling of Union research and innovation funding and a tripling of the European Innovation Council (EIC) Fund responsible for commercialisation of research - a key EU weakness compared to the United States.[3] This broadly follows Draghi's suggestion to focus on areas with European public goods features where European added value through economies of scale and cross-border spillovers are greatest.

At the same time, the four windows still include too broad a range of technologies and industries to finance them all effectively. For example, financing needs in just two industries under the cleantech and decarbonisation window—wind and batteries—already come close to exhausting the indicative size of that window, with industry estimates pointing to EUR 11.6 billion for wind manufacturing and EUR 20–25 billion annually to build a competitive European battery ecosystem.[4] Moreover, some listed priorities such as sustainable tourism are not as clearly linked to the stated goals of the Fund as others like cleantech and AI.

The ECF proposal lacks a prioritisation framework that could guide spending where it can have the largest impact. In particular, it does not define EU added value or specify how EU-level funding would deliver greater impact than national spending. This creates a risk that resources are channelled into largely national projects with limited genuine cross-border effects. Moreover, the text lacks a definition of strategic dependencies that the ECF aims to reduce. This opens the door to supporting an overly broad set of dependencies, including those that are not critical or that could be addressed more effectively through less costly policy instruments, such as trade or competition policy.[5]

As a result, the ECF risks spreading out scarce resources too much, compromising its ability to provide sufficient support and de-risking power to any of its priorities and undermining effective market signalling.

[2] European Commission (2025), *Proposal for a Regulation of the European Parliament and of the Council on establishing the European Competitiveness Fund (ECF)*, COM(2025)555 final, 16 July 2025.

[3] Draghi argues that the success of US public R&I is largely driven by its higher share of federal spending, in contrast to the EU, where R&I funding remains comparatively limited at EU level and fragmented across national budgets. See Draghi, Mario (2024), *The Future of European Competitiveness*.

[4] See: Wind Europe (2025), *European Commission proposes record EU budget to boost competitiveness – But wind needs a dedicated fund*, 21 August 2025; Recharge and Bepa (2025), *A Battery Deal for Europe*, p.37.

[5] Berg, A., & Meyers, Z. (2025), *Resilient growth: Aligning productivity and security*, Centre for European Reform.

Recommendations:

The Commission should introduce a framework for prioritising between technologies, industries and projects within the ECF, based on six criteria:

1. **EU added value**, specifying where EU-level intervention delivers greater impact than national action;
2. **Potential to develop an international competitive edge**;
3. **Indispensability for the EU's sovereignty and economic security**;
4. **Network effects** that simultaneously advance multiple strategic objectives, such as productivity, resilience, and decarbonisation;
5. **Appropriateness of policy instruments**, assessing whether a given industry would be more effectively supported through alternative tools, such as trade or competition policy;
6. **Appropriate governance level**, evaluating whether intervention is best undertaken at EU, national, regional, or local level, in line with the principle of subsi-iarity.

While key priorities should be set through the political governance mechanism recommended on page 8 in the section on consistency, flexibility and accountability, the above criteria should guide prioritisation within those priorities.

Leverage: strong instruments but inadequate ambition

InvestEU

The Commission touts InvestEU as the key increasing leverage in the ECF. The programme has generally been considered a success, generating on average around EUR 5.6 in additional investment for each euro provided as a guarantee in the current MFF. This has been achieved through an open-architecture approach that relies on implementing partners - including the European Investment Bank (EIB) Group, National Promotional Banks and Institutions (NPBIs), and International Financial Institutions (IFIs) - to crowd in additional public and private capital as well as investment expertise.[6] The ECF proposal aims to further strengthen this model by removing the current cap limiting the participation of NPBIs and IFIs to 25% of the EU guarantee. This is significant, as European NPBIs and IFIs bring valuable financial and territorial expertise and together held around EUR 2.6 trillion in assets in 2023—approximately five times the balance sheet of the EIB.[7] Moreover, the proposal allows private financial institutions as implementing partners, which could in theory increase speed, crowd in additional resources and expertise and generate stronger market signals. However, given high administrative burdens and great risk aversity of private banks, it is unclear how private financial institutions would be willing to participate in InvestEU without additional incentives.

The proposal also increases the provisioning rate of the InvestEU guarantee from 40% to 50% while allowing for a further increase by delegated act.[8] This augments the de-risking intensity of EU money, which could help to draw funds to riskier strategic projects, for example in scaling breakthrough innovation – something the existing InvestEU programme has struggled to do.[9] Moreover, the Commission envisages the use of InvestEU as a horizontal instrument

[6] European Commission (2025), *Interim Evaluation of the InvestEU Programme*, Final Report.
[7] European Investment Bank (2024), *Financial Report 2023*, Luxembourg.
[8] This could enable the guarantee to provide higher loss coverage, e.g. 50-70% for certain strategic high-risk portfolios to absorb failure risk of first-of-a-kind and industrial scale-up projects, for example in fields like deep tech, net-zero manufacturing or raw materials processing.
[9] See: European Commission (2025), *The road to the next multiannual financial framework*, Strasbourg; Draghi, Mario (2024), *The Future of European Competitiveness*, p. 289.

across the MFF. This has the potential to introduce more leverage across the EU budget and increasing market making and signalling effects of InvestEU financial instruments.

The downside however, is that the Commission proposes only a minimum of EUR 17 billion in guarantee cover and financial instruments.[10] This is significantly less than the current InvestEU guarantee of EUR 29.1 billion. The ECF proposal allows for this minimum amount to be increased by contributions from the work programmes of the different windows, but no minimum amount is given here. While the use of financial instruments under InvestEU is not limited, the maximum amount of the guarantee is set at EUR 70 billion, with the possibility of a 20% increase (or decrease). Even this number would ideally be further increased, given that the required budgeted EUR 35 billion for a EUR 70 billion guarantee cover would only be 15% of the EUR 234.3 billion Competitiveness Fund and only a tiny fraction of the MFF.

Blending

Blending, i.e. the combination of EU grants with financial instruments like loans or equity is one of the most effective ways to leverage EU spending by crowding in resources from additional financial institutions. Currently, NPBIs and IFIs blend financial instruments with EU grants through InvestEU and, on a case-by-case basis, in Connecting Europe Facility (CEF)-supported projects and as implementing partners at the CEF's Alternative Fuels Infrastructure Facility (AFIF). Blending is also fairly widespread in the EU's external and development funding. But there is no systematic approach across the MFF to incentivise blending. Blending operations are mentioned in the draft ECF regulation as one of the possible financing tools. But it does not include provisions stipulating or incentivising more blending, which is a missed opportunity to increase the leverage of the EU budget.

Scale-up facility

For the scale-up of breakthrough innovation, technologies and manufacturing, equity investment is often key. The success of the Advanced Research Projects Agency (ARPAs) in the US[11] and Government Guidance Funds (GGFs) in China[12] in scaling breakthrough innovation is largely based on direct equity investments. InvestEU and the EIB Group have, however, failed to provide sufficient equity financing, especially in higher-risk, later-stage scaleups. It is therefore important that the Commission follow through with its Scale-Up Europe Fund to be proposed in early 2026 and integrate this instrument as a scale-up facility in the ECF as suggested in the proposed ECF regulation.

Recommendations:

The minimum allocation for the InvestEU guarantee should be raised to at least EUR 29.1 billion, the amount of the current programme. The maximum amount for the InvestEU guarantee should be further increased or removed altogether.

To incentivise wider participation and more risk-taking among InvestEU implementing partners, incentives should be considered, such as capped, milestone-based fee premia to be paid from the programme budget or guarantee pricing margins.

[10] This is equivalent to an initial amount in the budget as a contribution to the InvestEU Instrument of EUR 10 billion. Of that, EUR 7 billion is to provision the EU guarantee (with a provisioning rate of 50% providing a guarantee of EUR 14 billion) and EUR 3 bn is for financial instruments (which are provisioned at 100%). EUR 14 billion + EUR 3 billion yields the minimum amount of EUR 17 billion.

[11] Azoulay, P., Fuchs, E. R. H., Goldstein, A. P., and Kearney, M. (2018), *Funding breakthrough research: Promises and challenges of the "ARPA model"* (NBER Working Paper No. w24674). National Bureau of Economic Research.

[12] Xuan Li, Xuan and Ban, Cornel (2025), *Financing Technological Innovation in China: Neo-Developmental Financial Statecraft through Government Guidance Funds*, Boston: Boston University Global Development Policy Centre.

Incentives to inject a blending component into EU grants should be set by making blending a selection criterion for receiving EU grants. This would incentivise a broader use of blended finance across the MFF, including in cohesion policy, which would further stretch scarce resources.

Coherence, simplicity and coordination: progress but sometimes lack of clarity

A key weakness of the EU's current investment and industrial policy architecture compared to the US and China is its fragmentation, complexity and limited coordination across programmes and governance levels, which often result in slow, rigid and diluted financing and limited private sector buy-in.[13]

The Commission proposal includes a host of useful measures that promise to reduce fragmentation, overlaps, administrative costs and improve coordination, accessibility and speed of funding compared to the current budget – crucial factors for more public and private sector buy-in and efficiency. These include the bundling of 12 existing instruments[14] into the ECF under a single rulebook, a standardised toolbox of financial instruments and unified advisory services in a Competitiveness Hub. Other proposals that promise similarly synergetic and simplifying effects across the entire MFF include the transformation of InvestEU into a horizontal financing instrument across all budgetary programmes, a single portal to consolidate information on funding opportunities, a Single Gateway to EU project promoters and a new, simplified and streamlined performance framework across programmes.

Moreover, allowing the ECF to top up IPCEIs would increase EU level steer in these member state-financed projects and facilitate greater alignment and synergies with EU industrial policy. This could ensure that a higher share of member state spending would be coordinated with EU spending.

The introduction of a Competitiveness Seal as a badge of excellence could simplify the promotion of strategic projects across the MFF, facilitating access to the ECF, National Regional Partnership Plans (NRPPs) or institutional investors, taking advantage of the assessment conducted prior to the attribution of the Seal. It could also facilitate the combination and cumulation of funding across programmes to create synergies and more coherence of industrial policy across the MFF.

Coordination with Horizon:

The introduction of a common rulebook and integrated work programmes for Horizon Europe's Pillars II and III and the ECF provide a logical structural basis for a better alignment in scaling innovation, while preserving the autonomy of upstream research activities. The proposal to steer Horizon's competitiveness-related collaborative research funding and selected EIC activities through ECF policy windows could strengthen strategic coherence and ensure that research and innovation investments are better aligned with downstream scale-up and deployment needs.

[13] The current MFF includes 52 programmes, resulting in duplications and overlaps as several programmes can cover the same policy areas. Programmes are managed by different parts of the EU machinery, shaped by layers of expert groups and committee structures. Moreover, there are various pots of money within programmes, for example 15 in Horizon Europe alone. For example see: European Parliamentary Research Service (2025), *EU BUDGET 2028-2034, Overview of the Commission's proposal*, Briefing.

[14] Including the Digital Europe Programme (DEP), Connecting Europe Facility – Digital (CEF), European Defence Fund (EDF), the Act in Support of Ammunition Production (ASAP), the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), the European Defence Industry Programme (EDIP), EU4Health, the European Space Programme, IRIS, InvestEU, Single Market Programme (SME Strand) and LIFE.

At the same time, the broadness of the common rulebook risks overlaps and inefficiencies in the programmes[15], which could undermine the goal of a seamless investment journey for scale-ups emerging from the EIC Accelerator into the ECF.

Coordination with Innovation Fund, CEF, NRPPs

Even less defined is the promised alignment between the ECF on the one hand and the Innovation Fund and Connecting Europe Facility on the other. For both, the Commission promises coherence when developing work programmes, while organisational structures and rulebooks remain separate. A clearer definition of focus areas and responsibilities would be useful to avoid overlaps and inefficiencies.

The Commission's planned NRPPs will only be effective in aligning Member States' and regional investment and reform priorities with EU and ECF industrial policy objectives if funding is tied to a robust, results-oriented conditionality framework. However, the proposed system of milestones and targets would amount to an even weaker performance and monitoring framework[16] than under the RRF, which has failed to deliver sufficient EU added value across many projects.[17]

Recommendations:

The Commission should treat standardising procedures and IT systems across the MFF in a Single Gateway as a key priority and provide a clear timeline for adoption.

To avoid overlaps and inefficiencies between the ECF and Horizon, there should be more specific rules for the two instruments, in particular with respect to the EIC Accelerator and the ECF's Scale-up facility. These should be linked by a clearly defined fast-track mechanism guaranteeing a seamless investment trajectory for innovative scaleups, to effectively address Europe's scaleup gap.

Building on Horizon Europe's existing quality screening, scale-ups and collaborative research projects could be granted streamlined and accelerated access to ECF financing, using simplified application procedures and the reuse of technical and due-diligence assessments already carried out under Horizon Europe. This would shorten time-to-finance, reduce administrative burdens, and strengthen the EU innovation pipeline.

To ensure complementarity, the Commission should provide a clearer definition of focus areas and responsibilities of the ECF compared to the Innovation Fund and CEF. For example, the Innovation Fund should continue to focus on alleviating technological risk, while the ECF decarbonisation and cleantech window should predominantly be deployed on technologies dealing with commercial risks.

A stricter conditionality system should be introduced for the NRPPs to better ensure industrial policy coherence across EU, national and regional levels. This could be done by setting up a framework of more clearly quantifiable targets and milestones that member states need to reach for money to be disbursed.

[15] European Court of Auditors (2026), *Concerning the proposal for a regulation of the European Parliament and of the Council establishing Horizon Europe, the Framework Programme for Research and Innovation, for the period 2028–2034*, Opinion 02/2026, Publications Office of the European Union.
[16] European Commission (2025), *Proposal for a Regulation of the European Parliament and of the Council establishing the European Social Fund as part of the National and Regional Partnership Plan*, COM(2025)558 final, 16 July 2025.
[17] European Court of Auditors (2025), *Support from the Recovery and Resilience Facility for the digital transition in EU member states – A missed opportunity for strategic focus in addressing digital needs*, *Special report 13/2025,* Publications Office of the European Union.

Consistency, flexibility and accountability: governance without clear guardrails

The Commission proposes a new steering mechanism to identify key priorities to be financed by the Union, including through the ECF. While high-level political priority-setting is essential for effective industrial policy, the proposed mechanism remains overly vague and unnecessarily complex. According to the Commission[18], it would culminate in a "steering report" drawing on a wide range of existing reports[19], as well as on a new report from the proposed Competitiveness Coordination Tool (CCT), for which no clear blueprint currently exists. This steering report is meant to inform the annual budgetary procedure, which the Commission argues would allow the two arms of the budgetary authority to discuss and decide on the proposed priorities.

However, the annual budgetary procedure is designed as a quantitative exercise not a qualitative prioritisation process for industrial policy, and the Commission has so far not proposed to change this. While the existing procedure would allow the adjustment of resource allocation to the four ECF windows in agreement with the budgetary authority, it would leave the allocation within the extremely widely defined windows and the definition of more concrete priorities largely to the Commission. It could define those in yearly work programmes together with a new, Commission-appointed stakeholder board largely detached from the priorities defined in the steering mechanism.

This would run counter the goal of a coherent and accountable process of setting priorities for industrial policy and open the door to untransparent and inconsistent resource allocation. Even more so, since no framework has been put in place to prioritise among policy areas (see section on resources and focus, p.3).

The Commission's proposal to reduce the power of member states through comitology over the details of work programme design is generally a good idea in line with a more directional industrial policy based on promoting excellence rather than geographical spread. But member states should have a real impact on setting high-level priorities, which the current proposal does not permit. Moreover, while a high level of executive independence at the implementation stage can lead to more directional industrial policy, excluding independent experts from their role in project selection risks losing an important independent technocratic reality check at this stage.

Overall, while the previous budget lacked sufficient flexibility to respond to unforeseen events, the current proposal risks going too far in the opposite direction, with excessive flexibility coming at the expense of policy continuity—an essential condition for industrial policy to influence private investment decisions. This concern is compounded by the absence of clearly defined conditions and criteria governing the Commission's use of flexibility, which undermines predictability and transparency. For example, the ECF proposal allows the Commission to allocate funds to certain strategic projects—such as EU tech frontrunners and Single Market value chains—without issuing a call for proposals. While this may enable swift action, the lack of a clear assessment of the risks or market failures such flexibility is intended to address raises the risk of opaque and inefficient resource allocation.

[18] European Commission, *A dynamic EU Budget for the priorities of the future: The Multiannual Financial Framework 2028–2034*, COM(2025) 570 final/2.
[19] Including from the European Semester, the State of the Energy Union, the National Energy and Climate Plans, the Environmental Implementation review, and the Single Market and Competitiveness Report.

Recommendations:

A coherent and effective mechanism for setting key macroeconomic priorities informing the industrial policy of the ECF and the Union as a whole should be established. Instead of relying on a multitude of different reports and processes, or setting up a CTT as another bureaucratic body, the Commission should consider a simpler mechanism (which could be named CCT or Competitiveness Coordination Mechanism) based on the already existing European Semester. It already oversees the National Recovery and Resilience Plans (NRRPs), coordinates Energy and Climate Plans and manages frameworks that support EU objectives at the national level. This mechanism could then produce a comprehensive report with macroeconomic priorities including headline spending goals for different sectors. The European Parliament and the Council would discuss and vote on it annually like they already do on the European Semester. After agreeing on a text, the Commission could use this report as the basis for its annual budget proposal and inform the negotiations with the two arms of the budgetary authority. This could ensure that the yearly budget reflects industrial policy priorities agreed by Parliament and Council, which would provide political guidance for the Commission designing the ECF work programmes. The Commission should be held accountable to follow these priorities, for example through the discharge procedure.

On the implementation state, the external experts should continue to have a say in project selection. Moreover, the Commission should put in place clear, publicly available performance indicators to increase transparency and improve ex-post accountability.

Minimum safeguards should be introduced, such as a clearly defined emergency common interest or industrial deployment needs, for the Commission to support projects without issuing a call of proposals. Moreover, the Commission should have to deliver an analysis of the needs and risks of such interventions to increase transparency.

Conclusion

The proposed ECF represents an important step towards a more strategic and investment-driven EU industrial policy. Its scale, standardisation of financial tools and administrative processes, and ambition to reduce fragmentation mark clear progress compared to the current framework. At the same time, the ECF as currently designed risks falling short of its objectives. Insufficient prioritisation, limited leverage ambition, unclear coordination mechanisms, and weak governance guardrails could dilute its impact and undermine effective market signalling.

With the legislative process now well underway, the European Parliament and the Council have a crucial responsibility—and opportunity—to strengthen the ECF. Targeted adjustments to the proposal are needed to sharpen its strategic focus, reinforce leverage, improve coordination across programmes and governance levels, and ensure a transparent and accountable governance framework with a meaningful role for the co-legislators and budgetary authority.

Briefing by Sylvie Matelly

Economist and Director of the Institute Jacques Delors

Towards a Coherent EU Defence Investment Framework

From incentive to investment in collective security

KEY FINDINGS

- **Europe has entered a structural defence investment cycle** with the return of high-intensity warfare, Russia's long-term threat, and growing uncertainty over US security guarantees.
- **National budget increases alone risk reinforcing industrial fragmentation,** amplifying duplication, and increasing external dependencies, ultimately reducing the effectiveness of public investment.
- **The EU budget's added value lies in leverage and structuring effects.** Its strategic impact depends on its ability to steer national spending towards cooperation, joint procurement and common priorities.
- **EU defence instruments have delivered results, but gaps remain.** The European Defence Fund (EDF) has successfully stimulated co-operative Research & Development (R&D), while the Act in Support of Ammunition Production (ASAP) and the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) demonstrated the relevance of EU action in scaling up production and joint procurement. However, persistent weaknesses remain in bridging R&D to deployment and in ensuring long-term industrial preparedness.
- **The European Competitiveness Fund (ECF) marks a potential shift in ambition.** By consolidating defence, security and space under a single multiannual framework, the ECF could move EU defence funding beyond pure incentives towards a more integrated investment logic — provided there is sufficient scale, clarity of priorities and effective governance.

Several core recommendations emerge from this analysis:

- Establish a European strategic framework for defence investment, without rigid pre-allocation. While full flexibility is necessary to adapt to evolving threats, the absence of any common EU framework would undermine coherence and democratic legitimacy. The next Multiannual Financial Framework (MFF) — and the ECF in particular — should therefore be guided by a limited number of clearly articulated European defence priority domains, politically endorsed by the European Parliament and the Council to reconcile strategic guidance with operational agility, while preserving Member States' prerogatives over defence planning.

- Concentrate EU funding on high—value-added capability areas and projects with clear European added value. EU support should focus on the most critical and widely recognised capability shortfalls. To maximise European added value, eligible projects should meet some criteria, such as demonstrating that they exceed the financial or industrial capacity of any single Member State; are multinational by design or rely on disruptive or dual-use technologies critical to Europe's long-term technological edge.

- Shift the centre of gravity from R&D towards industrial scale-up and demand aggregation. The main bottleneck facing European defence today is the ability to rapidly scale up industrial production. EU instruments should therefore prioritise financing industrial expansion, modernisation and resilience, while ensuring long-term visibility of demand through joint procurement and pooled orders.

- Address fiscal asymmetries through complementary common financing instruments. Given divergent fiscal space among Member States, relying exclusively on national borrowing risks marginalising highly indebted countries and reinforcing fragmentation. A European defence loan instrument, tightly linked to joint procurement and common priorities, should therefore be considered as a complement to support through the EU budget. Limited common borrowing could enhance participation, efficiency and solidarity, delivering greater security per euro spent.

Introduction

The negotiation of the 2028–2034 Multiannual Financial Framework (MFF) takes place within a radically changing security paradigm for Europe. The return of high-intensity warfare to the continent, triggered by Russia's aggression against Ukraine, has effectively ended the era of the "peace dividend". At the same time, US pressure on Europeans to assume greater responsibility for financing their own defence effort has never been stronger. Over the past two years, this pressure has coincided with a growing risk that the US could stop supporting Ukraine. Regardless of the outcome of the conflict or of ongoing and future negotiations, Europeans will need to ensure that their armed forces are capable both of contributing to Ukraine's long-term security and of deterring any renewed or broader Russian ambitions on European territory. This awakening of the urgency for Europe is not entirely new. The Versailles Summit — and in particular the Versailles Declaration adopted only a month after the outbreak of war in Ukraine in 2022 — provides a striking example. Since then, European members have maintained continuous commitment and support — both towards Ukraine and towards the effort needed to strengthen European defence. European institutions have multiplied initiatives to accompany this necessary ramp-up, through mechanisms such as the Act in Support of Ammunition Production (ASAP), European Defence Industry Reinforcement through common Procurement Act (EDIRPA), European Defence Industry Programme (EDIP) or Security Action for Europe (SAFE), which have introduced new instruments such as joint acquisition mechanisms or loans to Member States. The recent White Paper on defence enshrines the urgency by setting very short deadlines for action (2030). It is in this context that the next MFF must be placed, calling for a significant reassessment of the Union's defence policy instruments and the financial resources dedicated to them.

Against this backdrop, the European Commission's proposal to include a EUR 131 billion envelope for defence, security and space within a new European Competitiveness Fund (ECF) represents a historic turning point. This financial framework will also be supporting capability catch-up and the consolidation of an autonomous European defence capacity. Although this envelope covers three related areas, this note focuses specifically on the strategic and industrial challenges of the defence pillar, with the aim to provide a structured analysis and targeted recommendations. Understanding the full scope of this reinvestment requires analysing the underlying factors that have led to this change of scale.

Structural drivers of increased common investments in defence

Understanding the underlying drivers that justify a scale-up of the European defence budget is an essential strategic prerequisite. Far from being a simple cyclical reaction to recent events, the Commission's proposal is rooted in a series of deep and long-term shifts - both internal and external - which make this collective reinvestment not only necessary, but urgent. This section analyses the key factors that call for ambitious European action.

The weight of historical under-investment

Following the end of the Cold War, European countries reaped a major 'peace dividend', which resulted in chronic under-investment in their defence capabilities. The annexation of Crimea in 2014 marked a first wake-up call, leading North Atlantic Treaty Organisation (NATO) members to commit to increasing their spending to 2% of Gross Domestic Product (GDP) within 10 years. This effort has been slow and uneven. The European Commission and the High Representative of the Union for Foreign Affairs and Security Policy (HR/VP) have estimated that if this commitment had been met since 2014, an additional EUR 1 100 billion would have been allocated to European defence. It is this colossal deficit that must now be bridged.

The imperative of strategic autonomy

Two major geopolitical catalysts have accelerated Europe's awareness. First, Russia's aggression against Ukraine brutally exposed critical capability shortfalls within European armed forces. Second, the rupture in the US strategic posture – illustrated by the Trump–Putin rapprochement, the risk of US disengagement from NATO, the suspension of support to Ukraine, and latterly explicit threats against Greenland – has compelled the Union to take on primary responsibility for its own security. As the Polish Prime Minister pointed out after the London summit in March 2025, Europeans must now rely on themselves: "The paradox is that 500 million Europeans are asking 300 million Americans to defend them against 140 million Russians. We must rely on ourselves, fully aware of our potential and with confidence that we are a global power."

These shifts, combined with two technological revolutions (digital and the energy transition), are forcing Europeans to conduct a new Revolution in Military Affairs (RMA). Europe must move urgently from small expeditionary forces with limited stockpiles to trained armies capable of defending European territory, with industrial stockpiles sufficient to sustain a high-intensity conflict. Such a transformation requires a substantial increase in defence investment. Budget increases are already underway at national level — as reflected in the commitments made by European states at the June 2025 NATO summit to devote 3.5% of GDP to defence expenditure and 1.5% to infrastructure investment.

While a common threat logically supports a joint procurement rationale — with collective investment offering greater economies of scale, interoperability and stronger bargaining power — political preferences in practice have so far favoured national approaches. As recent experience indicates, member states often tolerate expensive fragmentation rather than embrace deeper European-level cooperation, as evidenced by the reluctance to establish a true defence single market and the mixed outcomes of initiatives such as SAFE, where only around two-thirds of planned financing is tied to genuinely joint purchases.

It is precisely in response to this inescapable reality that the EU budget must play a catalytic role: by acting as a 'matchmaker', creating tangible financial incentives for cooperation and joint procurement, and by progressively Europeanising the defence industrial base. Through targeted budgetary instruments, the EU can help secure and streamline defence supply chains in the name of strategic autonomy, while simultaneously delivering industrial scale effects for firms, efficiency gains for public budgets, and ultimately stronger and more credible security outcomes for Europe as a whole.

The challenge of fragmentation

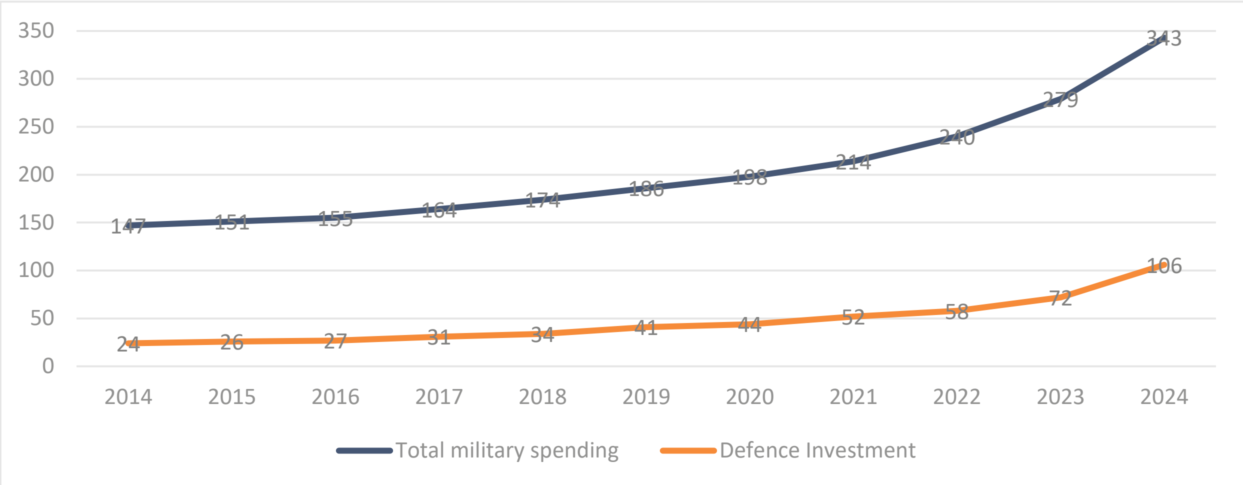
Fragmentation of the European defence market is a major, costly and dangerous handicap. Demand remains fragmented through national procurement policies, which in turn perpetuate the fragmentation of the European Defence Technological and Industrial Base (EDTIB). This two-level fragmentation results in widespread duplication of equipment. Combined with decades of under-investment, it prevents economies of scale which could be achieved through pooled production. Compared with the US Defence Industrial Bases and increasingly with emerging ones in South Korea, Turkey, Iran, China or Russia, the lack of integration in Europe's defence industry undermines its competitiveness. This is a serious and growing strategic vulnerability.

In a joint communication published in March 2024, the European Commission and the HR/VP made the same assessment. They explain that "even the Member States with the largest defence budgets are increasingly faced with difficulties in investing at the required levels on an individual basis, exposing the EU to growing capability and industrial shortfalls and increasing strategic dependencies". This first-ever European Defence Industrial Strategy (EDIS) proposes a toolbox designed to better coordinate and strengthen cooperation between European manufacturers. It proposes measures to support the collective demand of Member States, ensure the readiness of the industry in the event of crisis or conflict, guarantee the availability of equipment and the security of supplies, develop financial resources to support the industry and promote a more reactive industrial culture.

The risk of "renationalisation" of spending

There is a paradox inherent in the necessary and significant increase in national defence budgets. If this effort remains uncoordinated at European level, it risks reinforcing fragmentation, amplifying duplication and increasing external dependencies, thereby undermining the overall effectiveness of public investment. In such a context, poorly aligned national and EU-level spending could even prove counter-productive, by resulting in double funding without delivering additional capability. Cooperation is therefore not only desirable but essential to ensure complementarity between national and European instruments, so that each additional euro – whether spent nationally or through the EU budget – contributes to a coherent, efficient and genuinely European defence effort.

EU Members States' Total Military Spending and Defence Investment (in billion EUR - 2014/2024)[20]



Source: European Defence agency - https://www.eda.europa.eu/publications-and-data/defence-data#

Even though, regardless of the final amount allocated to defence in the next MFF, this envelope will not represent a substantial addition to national defence budgets — which operate at a completely different scale (see chart) — EU funding can nonetheless play a decisive role. It will be essential to create the right incentives for Member States to invest more effectively and jointly. Faced with these challenges, the EU budget has a central role to play. It must support the catching-up of industrial capabilities, promote strategic autonomy and counter the temptation to renationalise, where Member States, having new financial margins at their disposal, would be tempted to favour purely national industrial returns to the detriment of European coherence. Common funding is therefore the main tool for structuring a collective and ambitious response.

[20] **Military spending** refers to total defence expenditure, including personnel costs, operations and maintenance, pensions, and day-to-day running costs of the armed forces. **Defence investment** is a subset of military spending and refers specifically to expenditure on equipment procurement, research and development, infrastructure, and capability development with long-term strategic value.

Ambitions and challenges of common funding: spending "more, better and together"

The guiding principle underpinning European defence funding is now clearly established and shared: it is about helping Member States to "spend more, better and together"[21]. The objective is not to create a European army or an integrated defence structure – at least in the short or medium term - but to use the EU budget as a leverage instrument to make national investments more effective, coherent and synergistic. In the current financial framework, EU defence spending remains far below the scale of national defence budgets and therefore cannot, in practice, replace them. EU funds should primarily serve to pool, coordinate and steer rapidly increasing national efforts. However, as the scale of EU-level funding increases — as illustrated by the Commission's proposal to mobilise up to EUR 131 billion — EU spending could progressively move beyond a purely incentive-based role and begin to substitute for part of national investment. Such a shift would not reduce overall effort, but rather enhance efficiency, by allowing common resources to address shared capability gaps more effectively than fragmented national spending.

European instruments can and must act as incentives to achieve common strategic objectives, such as by dedicating 20% of military spending to investment and progressively sourcing a greater share of defence equipment from European companies, notably through cooperative European programmes. EU funding should be directed towards collaborative initiatives – industrial cooperation, joint Research & Development (R&D) and jointly agreed actions such as joint procurement – thereby reducing the fragmentation of demand and of the European market for defence equipment. This will have positive effects on costs, interoperability and industry consolidation.

Programmes financed or co-financed through the common budget impose rules for cooperation between Member States and require companies to form partnerships. They therefore constitute powerful levers to encourage cooperation and cost-sharing. This section examines the strategic objectives and the added European value that may emerge from pooling financial resources:

- **Reducing fragmentation**: Common funding, through its cooperation conditions, encourages joint procurement. This makes it possible to consolidate demand, achieve significant economies of scale, and guarantee the interoperability of equipment between European armies, thereby reducing the duplication and additional costs inherent in a purely national approach.
- **Strengthening the competitiveness of the European Defence Technological and Industrial Base** (EDTIB): Targeted investments support the reindustrialisation of the continent, innovation in cutting-edge technologies (including dual-use), and the ramping up of production. The EU budget acts as an "industrial multiplier", creating value, skilled jobs and strengthening the Union's technological sovereignty.
- **Filling critical capability gaps**: The EU budget makes it possible to replenish stocks depleted by support for Ukraine and, above all, to finance the development of strategic capabilities (such as space constellations or complex air defence systems) the costs of which exceed the means of a single Member State, thereby strengthening collective security.

[21] European Defence Industrial Strategy (EDIS) - https://defence-industry-space.ec.europa.eu/edis-joint-communication_en

- **Directing national spending**: By requiring cooperation and co-financing, EU instruments act as a powerful lever to encourage Member States to allocate their growing national budgets to collaborative projects. In this way, they help to align national priorities with common strategic objectives, reinforcing the overall coherence of the European defence effort.

The MFF remains the only instrument capable of providing long-term visibility over a seven-year horizon, which is essential for defence investment cycles that are structurally incompatible with annual budgetary decisions. In this context, the proposed European Competitiveness Fund (ECF) is intended to provide a more integrated and predictable framework for supporting strategic industrial and technological investments, including in defence. By embedding defence-related priorities within a multiannual competitiveness instrument, the ECF could in principle enable strategic planning, long-term contracting and de-risking of industrial investments. However, the extent to which it can effectively fulfil this role will depend directly on the scale, structure and governance of the resources allocated. It is therefore crucial to assess the Commission's proposal for defence and the ECF considering the lessons learned from the current MFF— notably regarding fragmentation, insufficient critical mass and limited predictability for industry.

Towards a coherent EU defence investment framework.

The proposed EUR 131 billion envelope for defence, security and space under the 2028-2034 MFF, channelled notably through the ECF, represents a major change compared to the MFF 2021-2027 framework. While substantial, this amount must be put into perspective against Member States' national defence spending, which reached EUR 343 billion in 2024 (EDA data). The real impact of the EU budget therefore lies less in its absolute volume than in its leverage and structuring effect. Under the current MFF, EU defence funding has primarily operated through incentive-based instruments, with an average ratio of EUR 1 of EU funding mobilising around EUR 4 of national funding for collaborative projects. The Commission's ECF proposal builds on this logic but also signals an ambition to move beyond purely incentive-based mechanisms towards a more integrated European defence investment framework.

Experience from the 2021-2027 MFF provides important lessons that are only partially reflected in the current proposal.

- First, the European Defence Fund (EDF) has demonstrated its effectiveness in stimulating cooperation in defence R&D, by imposing strict eligibility conditions requiring multinational industrial consortia (at least three companies from three different countries). It has contributed to decompartmentalising the European defence industrial base. However, the persistent weakness lies 'downstream': insufficient financial bridges exist to transform R&D outputs into industrial programmes and deployable military capabilities. While the ECF could, in principle, help address this gap, clearer articulation with procurement-oriented instruments remains necessary.

- Second, emergency instruments established in response to the Ukrainian crisis, such as the Act in Support of Ammunition Production (ASAP) or the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), have proven the relevance of EU-level action to support the ramp-up of industrial production —particularly for ammunition— and to encourage joint procurement. Their inclusion and consolidation within the European Defence Industry Programme (EDIP), proposed in March 2024, and signed into law on 16 December 2025, reflects a lesson learned by the Commission. However, the challenge now is to move from crisis-driven tools to permanent mechanisms that ensure long-term industrial preparedness across a broader range of critical capabilities.

- Third, the ECF introduces new concepts intended to strengthen the European defence ecosystem, including dedicated financing instruments, such as the proposed FAST fund (Fund to Accelerate the Transformation of Defence Supply Chains) to facilitate access to finance for SMEs, which are essential but structurally vulnerable links in defence value chains. In addition, the introduction of European Defence Projects of Common Interest (EDPCI) could provide a framework for structuring large-scale, strategic capability programmes at EU level. The effectiveness of EDPCI will depend on their ability to mobilise sufficient funding, align national demand, and serve as genuine vehicles for joint procurement rather than coordination forums alone.

In this respect, the possibility to associate Ukraine more systematically with EDPCI and joint procurement schemes—already envisaged in EDIP and SAFE—represents both a strategic opportunity and a test case. Integrating Ukraine could strengthen European industrial scale, enhance interoperability, and anchor long-term security cooperation, provided that governance and financing arrangements are clearly defined.

Finally, stronger synergies between defence and space spending are essential. Industrial ecosystems, technologies and strategic objectives largely overlap. The Commission's proposal to place defence and space under a common budget heading within the ECF goes in the right direction, but its success will depend on avoiding internal competition for resources and ensuring genuine cross-fertilisation between programmes.

Overall, while the Commission's proposal under the ECF reflects a clear effort to internalise lessons from the current MFF, important gaps remain. The performance of both existing and newly proposed instruments will ultimately depend on their capacity to concentrate resources on shared strategic priorities, ensure continuity along the full capability development cycle, and move decisively from fragmentation towards a coherent European defence investment framework.

Recommendations: Investment Priorities and Governance Options

A clear consensus is emerging among Member States on the most critical capability shortfalls that require urgent attention. These gaps have been starkly exposed by Ukraine's operational needs, and initially concern short-term priorities. This logic underpins EU-funded initiatives such as EDIP and SAFE, which aim to rapidly scale up production capacity and promote joint procurement.

Looking ahead to the capabilities that the 2028–2034 MFF should finance for European defence, it is essential that priorities be defined collectively, but also transparently and politically, at European level. Existing joint capability planning processes - notably those led by the European Defence Agency (Capability Development Plan and Coordinated Annual Review on Defence), or through existing mechanisms where Member States jointly select work priorities.

While it would be neither realistic nor desirable to define an overly narrow list of eligible capabilities ex ante — which would constrain Member States' freedom to determine their defence priorities — the absence of any common strategic framework at EU level would be equally problematic. Recent experience has shown that appeals to 'national sovereignty' often mask persistent fragmentation, even as Europe faces a clearly identified strategic environment in which Russia openly treats the EU as an adversary and the reliability of the transatlantic partner can no longer be taken for granted.

Against this strategic background, the next MFF — and the ECF in particular —should be guided by a limited number of clearly articulated European defence priority domains, en dorsed politically by the European Parliament and the Council, while retaining sufficient flexibility for adaptation over time. Such an approach would reconcile strategic guidance with operational agility and provide democratic legitimacy to EU-level defence investment. It could for example focus on high-value capability areas, which represent the most critical shortfalls: Ammunition and artillery, Air and missile defence, Unmanned aerial vehicles and anti-drone systems, Cyber defence and electronic warfare, Space capabilities (observation, secure communication), and Military mobility.

To ensure maximum European added value, projects eligible for EU funding should meet at least one of the following criteria:

1. Capabilities whose development and production costs exceed the financial or industrial capacity of any single Member State, such as space constellations or future combat systems.

2. Capabilities that are multinational by design, including secure connectivity, command-and-control (C2) or military mobility infrastructure.

3. Capabilities based on disruptive or dual-use technologies — such as artificial intelligence, quantum technologies, cloud computing or autonomous systems— that can decisively enhance existing platforms and ensure Europe's future technological superiority.

In parallel, support to the EDTIB should be explicitly oriented towards overcoming the most pressing bottleneck facing European defence today:

- Supporting the ramp-up of production capacity

The central risk for European defence no longer lies primarily in insufficient R&D funding, but in the ability to rapidly scale up industrial production. While continued support for collaborative R&D – including through an extended European Defence Fund – remains necessary, the EU budget must also deploy dedicated instruments to finance the industrial expansion, modernisation and adaptation to the strategic environment. This effort would simultaneously reinforce Europe's defence readiness, support reindustrialisation, and stimulate innovation, including in dual-use sectors or energy transition.

- Ensuring visibility and pooling of demand

Defence companies will not commit to major investments in European production capacity without long-term visibility on demand. Beyond eligibility conditions and "European preference" criteria, the EU budget must therefore play a stronger role in structuring and aggregating demand through joint procurement. By providing predictable demand signals, EU-level action can crowd in private investments, reduce costs for public budgets, and strengthen the resilience of the European defence industrial base.

- Aligning Defence Ambitions with Fiscal Realities

One avenue that deserves deeper consideration concerns the articulation between national defence spending commitments within NATO and EU-level instruments. A first step would be to recognise EU defence expenditure as part of the collective budgetary effort that Member States have committed to raise to 3.5% of GDP within NATO by 2030. Such recognition would strengthen incentives for joint investment and better reflect the collective nature of European security.

However, this approach also highlights a structural asymmetry between Member States. While all are expected to increase defence spending significantly, their fiscal space varies widely. In this context, the objective is not simply to replicate existing instruments such as SAFE, but to address a core coordination failure: without a common financing mechanism, highly indebted Member States risk being marginalised from collective capability development, reinforcing fragmentation rather than reducing it.

SAFE represents an important first step by providing preferential borrowing conditions at EU level, but it remains based on national borrowing. If fiscal constraints are taken seriously — even when defence spending is partially exempted from fiscal rules — increasing national debt, albeit at better rates, does not fully resolve the problem. It merely redistributes borrowing costs, without creating a genuinely collective investment capacity.

This is why a European defence loan instrument should be framed not as an alternative to EU budgetary action, but as a complement to it. Such an instrument could allow part of the defence effort to be mutualised at European level, reducing the pressure on national balance sheets, ensuring the participation of all Member States in joint programmes, and improving overall efficiency through scale effects and coordinated procurement.

In this perspective, the question is not whether the EU budget can be increased indefinitely — it cannot — but whether limited common borrowing, tightly linked to clearly identified European priorities and joint procurement, can deliver greater security per euro spent than a purely national, debt-driven approach.

Conclusion

The 2028-2034 MFF offers a historic opportunity to provide the EU with a genuine defence industrial and technological base - an essential condition for achieving strategic autonomy and ensuring the security of Europe and its citizens. The Commission's ambitious proposal provides a solid foundation for turning this vision into reality. However, the challenge is not merely financial: it is above all Europe’s ability to demonstrate strategic coherence and political will, in order to overcome national logics and investing collectively together in an intelligent way.

The EU now has an unprecedented alignment between strategic needs, industrial maturity and political will. Seizing this window of opportunity requires ambitious collective choices and the determination to build, at last, a credible European defence framework.

PRESENTATIONS

Presentation by Daniel Gros

Director of the Institute for European Policymaking at Bocconi University

EU COMPETITIVENESS AND THE MFF

Key findings and policy lessons

Daniel Gros/Director, Institute for European Policymaking, Bocconi University

European Parliament

CONTEXT and SCOPE

2

EU growth has been disappointing. The Draghi report on competitiveness argues for bold action.

Competitiveness is a core priority of the EU's next Multiannual Financial Framework (MFF).

The Commission identifies innovation, decarbonisation, and reduced dependencies as key elements of competitiveness.

This briefing focuses how EU budgetary instruments have been instrumental in driving innovation-driven growth.

INCUMBENT BIAS

3

- The EU competitiveness gap mainly reflects weak performance in disruptive technologies (ICT, AI).
- Europe remains strong in 'middle technologies' (automotive, machinery).
- A large part of the budget for competitiveness involves industry in the formulation of work programs (Pillar II of HE) or financing (Jus), IPCEIs and Chips Act. This creates a risk of a bias towards incumbents and incremental innovation.

LEVERAGING PRIVATE INVESTMENT

4

- High leverage instruments create the illusion of impact with limited EU budget resources.
- Small (relative) EU contributions reduce influence on project selection and additionality.
- InvestEU and EFSI claims of hundreds of billions mobilised should be treated cautiously.

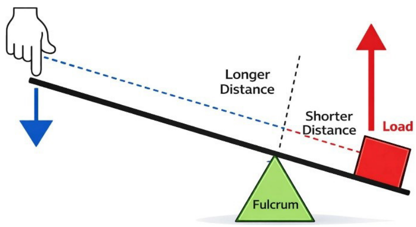
LEVERAGE IN PHYSICS APPLIED TO ECONOMICS

5

Physics standard: A small force, the finger at the long end of the lever, can lift a heavy force (red block at the short end). Corollary: even a strong force a the short end can only exercise a weak force at the long end.

Analogy: small budget guarantee can move large amounts, but only with little force (influence).

Figure 1



InvestEU – SMALL BUDGET BIG IMPACT? MAIN CONCERNS

6

- Very high multipliers (claimed 14 times) imply low implicit subsidies (around 6–7%).
- Stagnant EIB and EIF balance sheets not compatible with claims of massive mobilisation (hundreds of billions, also for EFSI).
- Market failures claimed but not documented or defined in impact assessment.

HORIZON EUROPE, BIGGEST BUDGET ITEM– MIXED PERFORMANCE

7

- Pillar I (Excellent Science) performs well. But only indirect impact on competitiveness.
- Pillar II large collaborative projects show weak long-term impact on firms, especially for collaborative projects. Large beneficiaries obtain hundreds of projects and significant share of overall budget. JUs have built-in conflicts of interest.
- Pillar III (EIC) more promising but governance needs strengthening.

CHIPS ACT and IPCEIs: not budgetary instrument, more competition policy

8

- Only national money, formally within EU framework.
- Chips Act: Primarily benefits national champions for mature-node semiconductor production used in automotive. No cross-border element.
- IPCEIs some cross-border element, but project selection dominated by incumbents (also no EU money).
- Both: industry capture and misalignment with disruptive innovation goals.

STEP and THE LIMITS OF REPACKAGING

9

- STEP mainly aligns existing programmes rather than adding new resources.
- Sovereignty Seal can redirect ERDF funding towards advanced technologies.
- Impact depends on effective reprogramming by Member States and regions.

KEY POLICY LESSONS for the NEXT MFF

10

- High leverage does not guarantee high impact; quality matters more than volume.
- Reduce reliance on incumbent-driven instruments.
- Strengthen support for disruptive innovation and single-recipient schemes.

11

THANK YOU!

Presentation by Judith Arnal

Senior Fellow at the Elcano Royal Institute

FINANCING COMPETITIVENESS IN THEEU

One year after the Draghi Report

Judith Arnal - Senior Research Fellow at Elcano Royal Institute and CEPS

European Parliament

OVERVIEW OF PUBLIC AND PRIVATE FINANCING CONSTRAINTS

2

Public financing constraints	Private investment bottlenecks
EU budget structurally small (≈1% of EU GDP) and insufficiently aligned with strategic priorities.	**High household savings not channelled into productive investment**, leading to slower wealth accumulation.
Spending still concentrated in cohesion and agriculture, limiting resources for innovation and competitiveness.	**Fragmented capital markets**: no single supervisor, no unified rulebook, divergent post-trade systems.
Fragmentation across 50 spending programmes undermines scale and impact.	**Divergent insolvency and tax regimes** hindering cross-border capital flows.
Administrative complexity and slow access to EU funds delaying implementation.	**Excessive reliance on bank-based financing** ill-suited for innovative, high-growth firms.
Low risk appetite of the EU budget and implementing partners, limiting crowding-in of private investment.	**Underdeveloped second and third-pillar pension systems** reducing the supply of long-term patient capital.
NGEU repayment cliff from 2028 reducing effective EU spending capacity without new own resources.	**Structural impediments preventing the expansion of equity and venture capital** markets across the EU.

MAIN FINANCING RECOMMENDATIONS IN THE DRAGHI REPORT

3

Public-side reforms	Private-side reforms
Establish a Competitiveness Pillar in the next MFF to concentrate resources on strategic projects.	**Transform ESMA into a genuine single supervisor** with full regulatory and supervisory powers.
Simplify and consolidate EU funding programmes, supported by a single interface for project promoters.	**Move towards centralised market infrastructures**, including a single Central Counterparty (CCP) and a consolidated Central Securities Depository (CSD).
Increase EU risk-taking capacity through a **larger InvestEU guarantee.**	**Expand and standardise second-pillar pension schemes** to channel long-term savings into capital markets.
Extend the EIB's mandate to allow direct equity investment and higher risk-taking in strategic technologies.	**Revive the securitisation market** through targeted prudential and transparency adjustments.
Develop new forms of common funding for European public goods, support regular issuance of common safe assets and strengthen fiscal rules	**Complete the Banking Union** with a country-blind jurisdiction for cross-border banks.

ALIGNMENT OF COMMISSION PROPOSALS WITH DRAGHI'S RECOMMENDATIONS (PUBLIC-SIDE REFORMS)

4

Category	What the Commission proposes	Alignment with Draghi	Assessment
Competitiveness Pillar (ECF)	Creation of a ECF consolidating 14 programmes under a single framework with four thematic windows and a joint rulebook with Horizon.	**Largely aligned:** Draghi called for a consolidated Competitiveness Pillar and for reducing fragmentation across programmes.	Positive structural step, but risks of new internal silos and coordination failures. Impact depends on governance.
Simplification and single interface	Reduction from 52 to 16 programmes; Single Rulebook; single digital entry point; creation of NRPPs consolidating 21 programmes across cohesion, PAC, fisheries, migration and social policy.	**Partially aligned:** Draghi emphasised simplification and a single interface, but not the degree of renationalisation implicit in the NRPPs.	Directionally positive, but governance concerns persist. Performance-based logic risks repeating RRF shortcomings; regional authorities risk marginalisation; potential dilution of cohesion policy.
Increasing EU risk-taking capacity (InvestEU guarantee)	Single EU budgetary guarantee for internal policies; flexible guarantee envelope (EUR 17–70bn); unified toolkit for grants, equity, loans, guarantees and procurement; integrated technical rules.	**Conditionally aligned:** Draghi called for greater EU risk-taking capacity, but the constraint lies in implementation and risk appetite rather than in budgetary availability.	Architecture is sound, but effectiveness depends on whether implementing partners overcome risk aversion and deploy guarantees in higher-risk sectors.
EIB mandate and higher risk-taking	Removal of the 250% gearing ratio; expansion of financing ceilings; strategic prioritisation of high-tech sectors; unified ECF rulebook for EIB Group instruments.	**Partially aligned:** Draghi recommended revisiting the EIB's mandate and increasing its risk-taking capacity. The statutory step helps but remains limited by Treaty constraints.	Meaningful operational improvement but still bound by Article 309 TFEU. Alignment will depend on strategic guidance.
Size of the MFF and fiscal framework	Nominal 40% increase to EUR 2 trillion; but real size broadly unchanged once NGEU interest excluded; no new common borrowing; new own resources, but some could put competitiveness at risk.	**Not aligned:** Draghi called for a significant expansion of EU-level fiscal capacity and for stronger, predictable fiscal rules. Neither materialises in the proposal.	Ambition is overstated. The EU budget remains structurally small; no NGEU-style financing; fiscal rules weakened through defence escape clauses.

ALIGNMENT OF COMMISSION PROPOSALS WITH DRAGHI'S RECOMMENDATIONS (PRIVATE-SIDE REFORMS)

5

Category	What the Commission proposes	Alignment with Draghi	Assessment
ESMA as a single supervisor	Expands ESMA's direct supervision; stronger coordination of large asset managers; governance reform (Executive Board, funding model); enhanced convergence/enforcement toolkit.	**Partially aligned**, but reforms remain limited to selected segments and rely heavily on national authorities.	Meaningful structural step, but far from the SEC-style centralisation envisaged by Draghi; effectiveness depends on implementation and national cooperation.
Centralised market infrastructures	Removes duplicative requirements; harmonises rules for trading venues, CSDs and asset managers; new pan-European market operator licence; improved passporting; T2S settlement requirement; strengthened open access and direct broker access.	**Partially aligned**: improves interoperability and reduces fragmentation, but does not pursue the deeper consolidation of infrastructures advocated by Draghi.	Advances integration and efficiency but remains constrained by a decentralised architecture.
Second-pillar pension schemes	Auto-enrolment recommendation; expansion of pension tracking systems and dashboards; revision of IORP II to support consolidation and diversified portfolios; reforms to PEPP to increase accessibility and scale; clarification of prudent person principle.	**Broadly aligned**: supports Draghi's objective of expanding long-term savings, but pensions remain a Member State prerogative.	Positive directionally, but impact depends on national uptake; cannot deliver the systemic expansion Draghi envisaged.
Reviving securitisation	Targeted amendments to simplify the 2019 framework, remove undue barriers and reduce complexity; aim to increase issuance and investment, free bank balance sheets and boost lending to households and firms.	**Largely aligned**, though ultimate scale depends on market behaviour and supervisory attitudes.	Pragmatic and timely, but impact contingent on investor appetite and bank willingness to use the tool.
Completing the Banking Union	No new proposals; EDIS remains blocked; ESM Treaty (common backstop to SRF) not fully ratified.	**Not aligned**: Draghi's call for a country-blind jurisdiction and full Banking Union remains unmet.	Banking Union is effectively stalled, leaving a major structural gap in the EU financial architecture.

OTHER ASPECTS TO CONSIDER BEYOND DRAGHI'S REPORT

6

- **The report does not address the potential role of differentiated integration or enhanced cooperation mechanisms** as tools for advancing capital markets integration or fiscal capacity among willing Member States, an approach that could unlock progress where unanimity proves elusive.
- **The report pays relatively limited attention to the role of genuinely integrated corporate tax bases and "good" own resources** –such as a BEFIT-type common base or well-designed green levies.
- **The report touches only briefly on the political economy of implementation** –in particular the tension between a more centralised industrial policy narrative and the need to preserve competition, state-aid discipline and trust in EU-level institutions– which will be critical for sustaining any expanded financing architecture over time.

THANK YOU!

Presentation by Johannes Jarlebring

Senior Researcher in Political Science

GOVERNING FLEXIBILITY

An assessment of the European Competitiveness Fund (ECF)

Johannes Jarlebring, Swedish Institute for European Policy Studies (SIEPS)

European Parliament

KEY MESSAGES

2

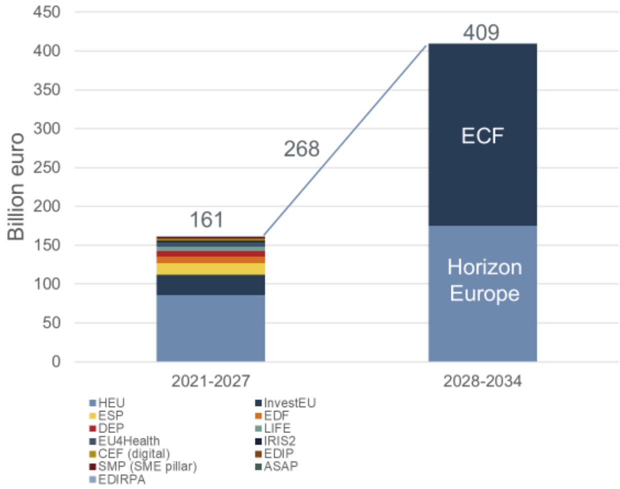
- ECF would make the EU a **stronger** industrial policy player, but it raises difficult governance issues.
- Aspects to **preserve**
  - Consolidation of EU funding landscape
  - Allocation of funding through broad policy windows
- Aspects to **develop**
  - Tools, criteria and selection processes
  - Accountability of ECF spending
  - Relationship between ECF and Horizon Europe (HEU)
- Open **question**
  - Process for prioritisation of spending

PRESERVE CONSOLIDATION OF FUNDING LANDSCAPE

3

- Existing funds are too small and diverse
- Partially overlapping

- A larger fund structure can:
    - enhance **flexibility and coordination**
    - allow for an effective **horizontal toolbox** (eg InvestEU, partnerships, competitiveness seal)



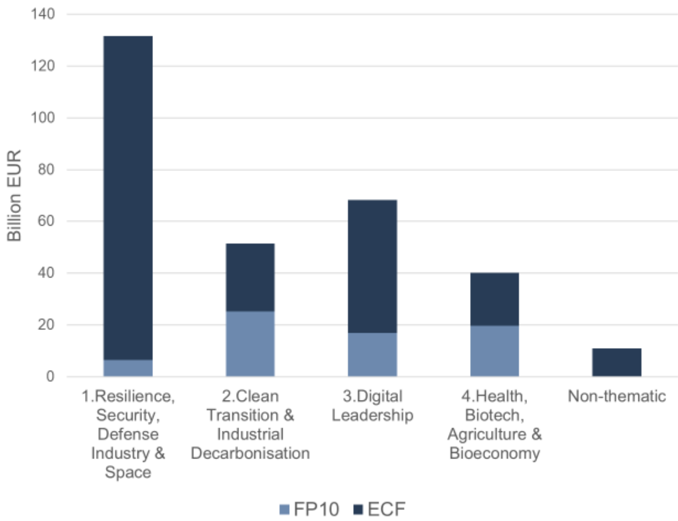
PRESERVE ALLOCATION THROUGH POLICY WINDOWS

4

- Policy windows broadly reflect the priorities of the Draghi report

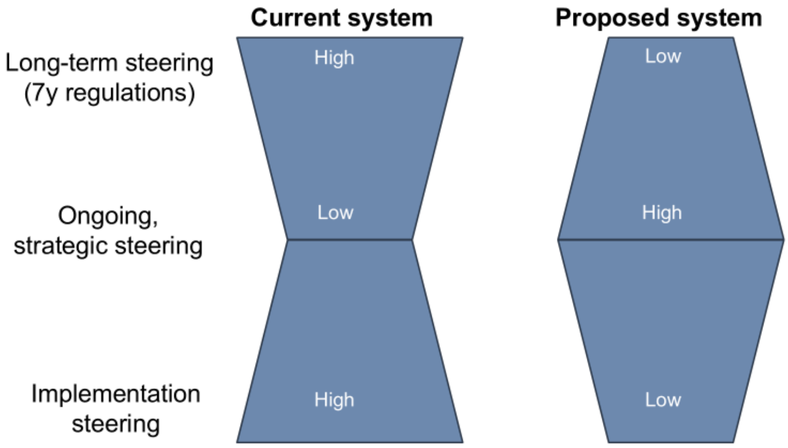
- Main increase of funding in resilience, security, defense industry and space

- No obvious cuts of existing fund



A CHALLENGING SHIFT TOWARDS ONGOING, STRATEGIC STEERING

5



SPECIFY TOOLS, CRITERIA AND SELECTION PROCESSES

6

What is needed

- More clearly specified **tools** (eg ”EU tech frontrunners”, ”Single Market value chains builder”, ”European preference”)
- Clearer **criteria** for selection processes
- Greater reliance on **experts** to apply selection criteria

Challenges

- Disagreement on underlying **aims** (productivity vs autonomy)
- Differences between **needs in different areas** (eg defence, health, environment)

ENHANCED ACCOUNTABILITY OF SPENDING: 3 OPTIONS

7

Ex ante

1. Re-introduce more **earmarking** in regulation (eg new policy windows, min/max spending targets regarding aims or recipients, such as SME:s)
   - **Pro**: Enhanced predictability and control
   - **Con**: May be stiftling. Difficult to agree on re-allocation when needed

Duri-ng

2. Introduce process for legislator to give **impulse** to ongoing strategic planning (eg. a political steering process with guiding targets)
   - **Pro**: Direct involvement of elected officials
   - **Con**: Reduced predictability. Most investments in competitiveness need to be long-term to have effect

Ex post

3. Enhance transparency of **implementation and outcomes**. Regular reports from the Commission (eg allocation to SME:s).
   - **Pro**: Precondition for effective accountability
   - **Con**: Bureaucracy. Risk aversion

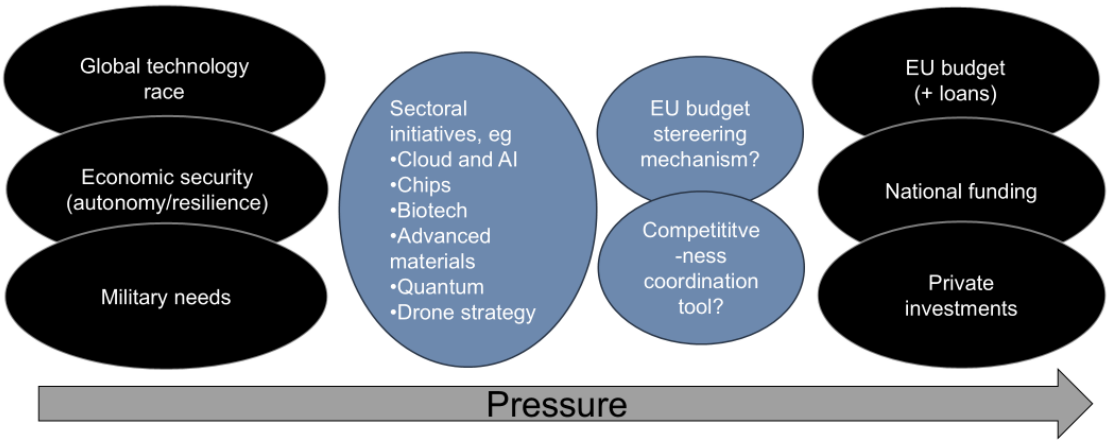
CLARIFY COMPLEMENTARITY WITH HORIZON EUROPE

8

Risks with current proposal	Potential solutions = more autonomous HEU
• ECF's coordination of collaborative R&I risks shifting investements too much towards immediate needs of mature industries	• Separate work programmes for ECF and HEU • Clarification that HEU's excellence criteria applies to all investments in Research and Innovation
• ECF's rules on "European preference" may be applied in a way that reduces long-term R&I capacity	• Specific rules for HEU

HOW TO ENHANCE ONGOING PRIORITIZATION OF INDUSTRIAL POLICY SPENDING?

9



10

THANK YOU!

Presentation by Philipp Lausberg

Senior Policy Analyst at the European Policy Centre (EPC)

CAN THE EUROPEAN COMPETITIVENESS FUND DELIVER?

Strengths, shortcomings and recommendations for an effective EU industrial policy

Dr. Philipp Lausberg, Senior Policy Analyst, European Policy Centre

European Parliament

ASSESSMENT CRITERIA FOR AN EFFECTIVE EUROPEAN COMPETITIVENESS FUND (ECF)

2

- **Sufficient resources** to provide adequate risk-bearing capacity for a range of prioritised sectors.
- **Clear strategic focus and prioritisation**, concentrating EU spending where it can have the highest impact.
- **Strong leverage** to mobilise additional public and private capital and expertise.
- **Coherence and simplicity of design**, reducing fragmentation and administrative burdens for authorities and beneficiaries.
- **Effective coordination** across different funding programmes, policies and governance levels to maximise synergies and economies of scale
- **Consistency and directionality** in investment decisions providing long-term predictability and credible investment signals
- **Flexibility and responsiveness**, enabling rapid reallocation of resources in response to shocks and technological change.
- **Transparency and accountability** ensuring efficient use of public funds and evidence-based decision-making

1. RESOURCES AND FOCUS: SUBSTANTIAL VOLUME BUT INSUFFICIENT PRIORITISATION

3

Strengths – Scale with real potential

- **Significant volume**: EUR 409 bn (ECF + Horizon) represents a major rebalancing of the EU budget towards competitiveness (~30% of MFF).
- **Broad European public goods focus**: focus on scaling, manufacturing and deployment of strategic technologies and reduction of dependencies in areas with scale economies and cross-border spillovers (cleantech, digital, defence)
- **Boost to innovation**: Doubling of R&I funding and tripling of the EIC Fund address long-standing EU weaknesses (commercialisation, scaleup gap).

Weaknesses – Too broad to be truly strategic

- **Insufficient prioritisation** within overly broad policy windows risks spreading resources too thin.
- **Lack of a clear definition of EU added value**, increasing the risk of funding quasi-national projects.
- **Unclear notion of "strategic dependencies"**, opening the door to misguided and inefficient support.

RECOMMENDATIONS I:

4

Introduce a prioritisation framework based on six criteria:

1. **EU added value**, specifying where EU-level intervention delivers greater impact than national action;
2. **Potential to develop an international competitive edge**;
3. **Indispensability for the EU's sovereignty and economic security**;
4. **Network effects** that simultaneously advance multiple strategic objectives, such as productivity, resilience, and decarbonisation;
5. **Appropriateness of policy instruments**, assessing whether a given industry would be more effectively supported through alternative tools, such as trade or competition policy;
6. **Appropriate governance level**, evaluating whether intervention is best undertaken at EU, national, regional, or local level, in line with the principle of subsidiarity.

2. LEVERAGE: CAPABLE INSTRUMENTS BUT WEAK AMBITION

5

Strengths – Right tools, proven models	Weaknesses – Low ambition
• **Banking on InvestEU**: Strong leverage (~5.6x) and effective crowding-in of capital. • **Open architecture strengthened**: Greater role for implementing partners with deep balance sheets and local expertise. • **Higher provisioning rate** improves risk-bearing capacity (40% to 50% or more). • **Horizontal use of InvestEU** across the MFF enhances market-making effects. • **Scale-Up Europe Fund/ECF Scale-Up Facility announced**, addressing the EU's equity gap.	• **Minimum InvestEU guarantee lower** compared to the current programme. • **Maximum guarantee still capped**, limiting leverage potential. • **Blending not systematically incentivised** across the MFF. • **Private bank participation uncertain** due to risk aversion and administrative burdens.

RECOMMENDATIONS II

6

- Raise the **minimum InvestEU guarantee** to at least EUR 29.1 bn and increase or remove the cap.
- Introduce **risk-taking incentives** for implementing partners (e.g. milestone-based fee premia).
- Make **blending a selection criterion** for EU grants across programmes.
- Ensure substantial volume for the **ECF scale-up facility**

3. COHERENCE, SIMPLICITY & COORDINATION: PROGRESS BUT LACK OF CLARITY

7

Strengths – A real step forward

- **12 instruments bundled under one rulebook**, reducing fragmentation.
- **Standardised financial toolbox** and unified advisory services via a **Competitiveness Hub**.
- **Single portal and Single Gateway** promise faster access and lower administrative costs.
- **ECF top-ups for IPCEIs** strengthen EU-level steer.
- **Competitiveness Seal** could ease funding combination and attract private investors.
- **Closer alignment with Horizon** could improve the innovation-to-deployment pipeline.

Weaknesses – Clarity still missing

- **Risk of overlaps** between ECF and Horizon due to broad common rulebook.
- **Unclear division of labour** with Innovation Fund and CEF.
- **Weak conditionality of NRPPs**, risking low EU added value.
- **Coordination promises not backed by operational detail**, timelines or safeguards.

RECOMMENDATIONS III

8

- Prioritise **standardised procedures and IT systems** under a Single Gateway with clear rollout timeline
- Define a **fast-track mechanism** linking Horizon (incl. EIC Accelerator) to ECF scale-up financing
- **Reuse Horizon assessments** to shorten time-to-finance
- **Clarify roles**, with Innovation Fund focusing on technological risk and ECF on commercial risk
- Strengthen **results-based conditionality** for NRPP funding

3. COHERENCE, SIMPLICITY & COORDINATION: PROGRESS BUT LACK OF CLARITY

9

Pros – Directional ambition	Cons – Not directional enough
• Recognition that **political priority-setting is essential** for industrial policy. • Reduced veto-power of member states in comitology supports focus on **directionality and excellence in work programmes**. • Greater flexibility to respond to **emergencies and technological change**.	• **Steering mechanism overly complex and vague**. • Annual budget process ill-suited for **qualitative industrial prioritisation**. • **Commission discretion remains too wide**, with weak links to political guidance. • **No clear guardrails** for exceptional funding without calls (e.g. EU tech frontrunners and Single Market value chains calls). • Risk of **policy volatility**, undermining private investment confidence. • **Reduced role for independent experts** in project selection removes important check

RECOMMENDATIONS IV:

10

- Establish a **single, coherent political priority-setting mechanism**, building on the European Semester.
- Use it to define **headline spending priorities**, endorsed annually by Parliament and Council.
- Hold the Commission accountable via **discharge and stronger performance reporting**.
- Maintain **independent expert involvement** in project selection.
- Define **minimum safeguards and transparency requirements** for funding without calls

CONCLUSION

11

- The ECF marks a **significant leap forward**, notably through its larger scale, reduced fragmentation, and the standardisation of financial tools and administrative processes.
- However, without sharper prioritisation, stronger leverage, and clearer governance guardrails, its **impact risks falling short of its potential**.
- The European Parliament and the Council now have a **decisive opportunity to strengthen the ECF** and turn it into a genuinely strategic EU industrial policy instrument.

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THANK YOU!

Presentation by Sylvie Matelly

Economist and Director of the Institute Jacques Delors

TOWARD A COHERENT EU DEFENCE INVESMENT FRAMEWORK

From incentive to Investment in collective security

Sylvie MATELLY, Economist & Director, Jacques Delors Institute

European Parliament

TOWARD A COHERENT EU DEFENCE INVESTMENT FRAMEWORK: FROM INCENTIVES TO INVESTMENT IN COLLECTIVE SECURITY

2

A key message

The challenge of the next MFF is not only to **spend more**, but to **spend better and together** on European defence.

4 key points:

- Why a new step is needed?
- The European Paradox/risk: More money, less efficiency.
- What the EU budget can deliver for defence and security in Europe?
- The next MFF as a turning point for defence

WHY A NEW STEP IS NEEDED?

3

- Recent changes in the geopolitical framework + a need for a structural defence investment cycle

  ⇒ The next MFF = decisive in carrying this transition and shaping Europe's defence effort

- **3 structural drivers**

  - Return of high-intensity warfare with the war in Ukraine and a lasting Russian threat
  - Growing uncertainty over the US security guarantee from Ukraine in the short term to NATO in the long term

  ⇒ The imperative of strategic autonomy

  - Decades of under-investments in Europe (≈ EUR 1100bn since 2014 / 2%GDP)

  ⇒ A colossal deficit that must now be bridged

THE EUROPEAN PARADOX/RISK: MORE MONEY, LESS EFFICIENCY

4

- **A central risk in the next few years**

Significant increases in national defence budgets since 2022 BUT may prove insufficiently effective — or even counterproductive.

- **Current weaknesses**:

  - Fragmentation – demand and procurement / supply and industrial bases
  - Duplication of equipements
  - Limited production capacity/agility and continued reliance on external suppliers
  - Limited economies of scale and competitiveness

⇒ **Without EU-level structuring, more spending may lead to less security**

WHAT THE EU BUDGET CAN DELIVER FOR DEFENCE & SECURITY IN EUROPE? 5

LESSONS FROM THE CURRENT MFF

- **What works?**
  - European Defence Fund (EDF) – cooperative Research & Development (R&D), industrial integration
  - ASAP/EDIRPA: industrial ramp-up, joint procurement
- **What remains weak?**
  - Transition from R&D to production and deployment
  - Long-term industrial preparedness
  - Demand visibility for industry

WHAT THE EU BUDGET CAN DELIVER FOR DEFENCE & SECURITY IN EUROPE? 6

AMBITIONS AND CHALLENGES OF COMMON FUNDING

- **Ambitions**
  - The EU budget is not intended to replace national defence spending
  - BUT has been designed to leverage and coordinate national spending
  - CAN move from pure incentives toward more structured and efficient collective investment
- **Challenges**
  - Reducing fragmentation
  - Strengthening the competitiveness of the European Defence Technological and Industrial Base (EDTIB)
  - Filling critical capability gaps
  - Directing national spending

THE NEXT MFF AS A TURNING POINT FOR DEFENCE
TOWARD A COHERENT EU DEFENCE INVESTMENT FRAMEWORK

7

- **The Commission's proposal ⇒ A real change**
  - EUR 131 bn for defence, security and space
  - A European Competitveness Fund
- **Impact will depend on**
  - Concentration of ressources
  - Clear priorities (domains and objectives)
  - Effective governance
  - The next MFF as a turning point for defence

THE NEXT MFF AS A TURNING POINT FOR DEFENCE
RECOMMENDATIONS

8

- **Potential priority domains – see the White paper**
- **Criteria justifying common spending**
  - Costs beyond any single Member State's capacity
  - Multinational by design
  - Disruptive or dual-use technologies
- **Core primary objectives**
  - Supporting common industrial ramp-up and modernisation
  - Securing defence supply chains
  - Supporting SMEs (FAST fund)
  - Aggregating demand through joint procurement

CONCLUSION – A STRATEGIC WINDOW OF OPPORTUNITY

9

- **The 2028-2034 MFF can lay the foundation for***

  - A credible defence for Europe and Europeans
  - A strong and integrated defence industrial bases
  - And genuine collective security
  - Reinforcing strategic autonomy while boosting European competitiveness

10

THANK YOU!