European Parliament

European competitiveness fund

CONTEXT

The European competitiveness fund (ECF), proposed by the European Commission under the EU's 2028–2034 multiannual financial framework (MFF), builds on the Letta and Draghi reports and subsequent 2025 competitiveness compass roadmap to boost EU competitiveness. The ECF aims to support sectors critical to EU competitiveness, simplify procedures and coordinate funding. The proposal groups 14 existing funds, totalling €400 billion or 22 % of the future MFF.

The ECF would enhance the competitiveness of strategic sectors and technologies, ensuring 'a seamless investment journey from research to start-up, scale up, deployment and global manufacturing'. It would also mobilise the EU financial toolbox (including loans, grants, equity, quasi-equity, blending, procurement and guarantees) and provide advisory support to firms.

LEGISLATIVE PROPOSAL

2025/0555(COD) – Proposal for a Regulation of the European Parliament and the Council on establishing the European Competitiveness Fund ('ECF'), including the specific programme for defence research and innovation activities, repealing Regulations (EU) 2021/522, (EU) 2021/694, (EU) 2021/697, (EU) 2021/783, repealing provisions of Regulations (EU) 2021/696, (EU) 2023/588, and amending Regulation (EU) [EDIP] – COM(2025)555, 16 July 2025.

NEXT STEPS IN THE EUROPEAN PARLIAMENT

For the latest developments in this legislative procedure, see the Legislative Train Schedule:

2025/0555(COD)

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Issue

The 2024 Letta and Draghi reports highlighted the need to further integrate the EU single market and close the gap for lagging EU innovation and competitiveness. The Draghi report specified requirements for EU governance and financial instruments (see Box 1). In her political guidelines of July 2024 for 2024–2029, European Commission President Ursula von der Leyen took Draghi's recommendations on board and announced that a new European competitiveness fund (ECF) proposal would be part of the next 2028–2034 multiannual financial framework (MFF). The fund's aim would be to provide significant financing for strategic technologies and support important projects of common European interest (IPCEI). This intention was confirmed in the Commission's communication on a competitiveness compass (January 2025).

Box 1 – Draghi report recommendations to mobilise private and public money

In his report, Mario Draghi makes specific and extensive recommendations to 'mobilise private and public money at scale' (Part A, Chapter 5). The EU budget needs to become more targeted and better leveraged to attract private investment. Financial resources should be refocused on jointly agreed strategic projects and objectives 'where the EU brings the most added value'. In terms of governance, Draghi proposes setting up a 'competitiveness coordination framework' to sustain the EU-level competitiveness priorities set out by the European Council.

These coordination mechanisms should be matched by budgetary resources, and EU resources should focus on funding public goods that are critical to the EU's strategic priorities and would otherwise be undersupplied by Member States or the private sector. The report also recommends defining a 'competitiveness pillar' under the MFF to direct EU funding towards priority projects identified under the competitiveness coordination framework.

Draghi insists that the budget structure be streamlined to provide scale and significant support to strategic projects and simplify access to beneficiaries. In particular, the report recommends simplifying the structure of some funding programmes by pooling them. Dedicated funding programmes should address the investment gap for scaling up technology companies and production capacities. The EU budget needs to be bigger and more flexible to support private investment through different types of financial instruments, especially the InvestEU programme. The latter should further focus on financing risk and fast-growing innovation companies ('scale-ups').

In July 2025, the European Commission proposed a regulation establishing the ECF as part of the MFF package for the 2028–2034 period. The proposal defines the objectives, governance, structure, funding sources and financial instruments ('toolbox') to mobilise private and public investment aligned with the EU's priorities.

Main points of the proposal

The ECF is designed to be a major financial and coordination instrument to strengthen EU competitiveness, with an emphasis on strategic sectors and technologies. The ECF would support projects directly participating in an IPCEI and fund project advisory support.

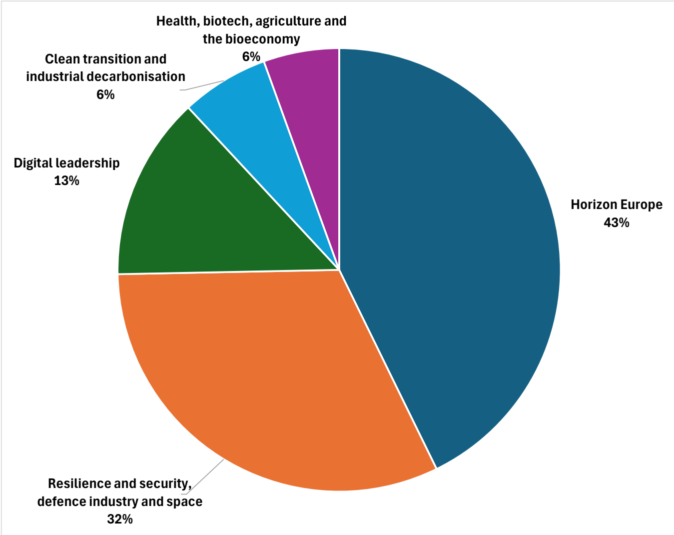
The ECF would bring together 14 EU programmes under the current MFF into a single fund, namely Horizon Europe (which would remain a stand-alone programme connected to the ECF), the Innovation Fund, the Digital Europe Programme, the Connecting Europe Facility – CEF Digital, the European Defence Fund, 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, the Single Market Programme (SME strand), and the LIFE Programme (for environment and climate action).

Excluding the Innovation Fund (€35.5 billion, 2025 prices), the indicative MFF amount allocated to the ECF would be €362.2 billion in 2025 prices (€409.3 billion in current prices), including €154.9 billion for Horizon Europe (€175 billion in current prices).

The ECF would work with Horizon Europe to provide support to innovation from early research to development. Excluding Horizon Europe, the ECF would be structured in four policy windows that reflect the EU's strategic priorities for increasing competitiveness and resilience (all values in 2025 prices): 1) clean transition and industrial decarbonisation, €23.2 billion (in addition to this amount, the Innovation Fund would contribute €35.47 billion); 2) resilience and security, defence industry and space, €115.7 billion; 3) digital leadership, €48.5 billion; 4) health, biotech, agriculture and bioeconomy, €20 billion.[1]

Figure 1 – ECF distribution of MFF funding



Source of data: European Commission.

The ECF would be implemented through work programmes and provided with approximately €10 billion for advisory services and support to small and medium-sized enterprises (SMEs), centralised access to advisory and business acceleration services (project advisory), cross-cutting activities focused on strengthening the competitiveness of SMEs (SME collaboration), skills development, and access to funding.

Framework for parliamentary scrutiny

Under the current MFF, moving funds between different policy areas (such as research, space, the single market, strategic investment and defence) requires budgetary authority decision-making. This proposal, on the other hand, provides for budget lines covering a wide range of actions which would thus belong to one unique programme. The Commission could therefore transfer funds between priorities during the year. In the same vein, the financial instruments used for each priority would not need to be declared up front, since they are consistent with all priorities. This feature is accompanied by fund governance that could put the institutional balance at risk.

Parliament's position

In its 7 May 2025 resolution on a revamped long-term budget for the Union in a changing world, Parliament supports the priorities of boosting competitiveness, decarbonising the economy and enhancing innovation capacity, which should be 'central priorities' for the next MFF. The next MFF must be designed to mobilise private investment effectively, enabling start-ups and SMEs to access funds more readily. Therefore, programmes such as InvestEU ought to be significantly reinforced in the next MFF. Parliament believes that financial instruments and budgetary guarantees are an effective use of resources to achieve critical EU policy goals and calls for them to be further simplified.

Funding for research and innovation, including support for basic research, should also be significantly increased, focusing on the EU's strategic priorities, and based on merit and the principle of excellence. However, Parliament considers that a competitiveness fund that functions as an umbrella of existing programmes merged into one, as envisaged by the Commission, is not fit for purpose. The fund should instead form a new instrument with a toolbox of funding based on lessons learned from InvestEU and the Innovation Fund. Finally, the competitiveness instrument must be transparent, complementary to national investment, avoid duplicating programmes and remain subject to robust parliamentary oversight.

The European Parliament adopted a resolution on competition policy in May 2025 that supports the Commission's commitment to investing in sustainable competitiveness. Parliament welcomes the Draghi report's emphasis on innovation, investments, market integration, decarbonisation and resilience, and the Letta report's focus on integration, autonomy and solidarity and policies that promote innovation, competitiveness and sustainable and inclusive growth. Parliament underlines the need for 'coordinated, targeted and truly European industrial policy' to boost competitiveness and the importance of IPCEIs for financing projects within the EU with a cross-border dimension.

In a resolution of September 2025 on facilitating the financing of investments and reforms to boost European competitiveness and creating a Capital Markets Union (Draghi Report), Parliament welcomed the objective of restoring EU competitiveness and productivity, stating that this could be achieved mainly through investments in innovative activities. In this regard, public investment plays a crucial role in complementing private investment, and financial instruments and budgetary guarantees represent an effective instrument to advance key EU policy objectives. Well-designed budgetary guarantees and financial instruments, when based on market needs, are a highly efficient use of limited EU budgetary resources to de-risk investment and crowd in private capital. Parliament calls on the Commission to propose a competitiveness coordination tool that identifies EU industrial needs, shortages and market opportunities, and asks it to produce recommendations for the forthcoming competitiveness fund to ensure effective solutions to the industrial challenges. In addition, the competitiveness fund should specifically promote venture capital.

Positions of other EU institutions and bodies

Council

As early as May 2024, in its conclusions on the future of the single market, the Council called for the improvement and integration of the single market through the annual policy cycle, and invited the Commission to draw up an improved annual single market and competitiveness report which reflects the practices and challenges of businesses and citizens.

At its meeting on 29 September 2025, the Competitiveness Council welcomed the ECF as a key instrument that may help to close the current investment gap, provide financial support to companies, leverage private capital and mitigate investment risks. Most delegations called for rapid implementation of the ECF and insisted that Member States be fully involved in its decision-making and governance. Most delegations also urged business and investors' needs to be taken into account. This means ensuring simplified, transparent and efficient procedures that keep the administrative burden to a minimum. Many called for particular focus to be paid to SMEs and the highest standards, as well as to measures that ensure geographical balance.

European Court of Auditors

The European Court of Auditors (ECA) published a review[2] of the MFF in June 2025, where it sees an opportunity to define and systematically factor in the EU's added value to financing decisions and become more results-driven. The ECA reiterates its support for consolidating the EU's financial landscape and simplifying rules on expenditure, which could lead to more efficient spending, reduce the risk of irregularities and alleviate the administrative burden. However, simplification should not result in less accountability. Policymakers must carefully consider the broader implications of streamlining the rules, particularly where this could lead to ambiguity or reduce oversight.

A future EU budget that can deliver on EU policy priorities needs closer links between EU funds that support reforms to deal with recurring structural challenges in the Member States. Auditors highlight several lessons from the COVID-19 recovery funds. One such lesson is the need for a clear link between funding and results if a particular system is to be used. Other lessons include the need for full traceability of funding, and clear supervision and oversight responsibilities to ensure proper accountability and transparency.

In 2023, the ECA also published a special report on the structure of the EU's financial landscape which highlights a 'patchwork' of funds requiring further simplification and accountability. The ECA thus recommends that any new Commission proposal for an instrument be accompanied by an assessment of the design and options chosen. The Commission should also compile and publish information on the EU's overall financial landscape and integrate the Modernisation Fund into the EU budget. Finally, the ECA recommends that the Commission propose the integration and consolidation of existing financial assistance instruments.[3] In addition, in the conclusions of the special report on EU artificial intelligence ambition (August 2024), the ECA observes that there is a 'high level of fragmentation of AI funding and management', as funds are managed at the level of the Commission's Directorates-General and executive agencies, and allocated to 'numerous projects with no common framework for monitoring or evaluating project performance'. Therefore, it is difficult to evaluate how effectively funding is being used.[4]

European Economic and Social Committee

The European Economic and Social Committee (EESC) is expected to adopt an opinion in December 2025. It already adopted an opinion on the MFF in April 2025, recommending a fundamental 'reconceptualisation' of the EU budget as an investment vehicle that delivers on EU priorities and public goods; it called for a significant increase of the MFF to fit the EU's ambitions. The EESC also suggests simplifying the current rules and streamlining the coexistence of too many programmes with overlapping objectives, which, according to the EESC, cause 'significant bureaucracy for public administrations, civil society and companies'. It also suggests shifting towards a spending model based on programmes' expected performance and impact. It calls for the Innovation Fund to be financed with more resources, and co-financing elements to be introduced in the next MFF for IPCEIs to boost industrial development across all Member States. It also supports the continuation of joint EU debt issuance that was pioneered successfully as an innovative instrument during the pandemic and could be repeated to promote sustainable competitiveness and resilience.

Committee of the Regions

In an opinion adopted in January 2025 on the future of the single market and the EU's competitiveness, the Committee of the Regions (CoR) declared that a well-designed policy instrument for competitiveness should benefit all EU regions to uphold the EU's principle of equality. It urged sound financing for innovation investments based on efficient governance that involves local and regional authorities in the design and implementation of the proposed plans. The CoR also acknowledges that the EU needs to push private and public funding towards innovative companies and is penalised by the dispersal of available funding across different sources. In line with the Draghi report, the CoR agrees that the work of the EU should be more focused and prioritise policies and actions with the most EU added value, resulting in greater autonomy for Member States, regions and cities. Finally, the CoR argues that Member States and regions can take a leading role in research, innovation and roll-out by fostering AI adoption at local level. The CoR is preparing its opinion on the MFF post-2027 package.

Preparation of the proposal

The European Commission conducted a public consultation on EU funding for competitiveness, which ended in May 2025. The consultation received 2 034 valid feedback responses, nearly half from citizens (26 %) and academic/research institutions (22 %). The summary provided by the impact assessment (page 7, stakeholder consultations) shows that respondents identify underinvestment in research and innovation, fragmented capital markets and insufficient private investment as major barriers to EU competitiveness. They call for stronger EU-level coordination, greater funding for strategic priorities and smoother transitions from research to manufacturing to reduce dependencies in key sectors. Complex, lengthy and non-transparent funding procedures are also highlighted as issues.

In its impact assessment,[5] the Commission identified eight problem drivers:

1. EU programmes are **fragmented** through the investment journey and **disconnected** from other sources of domestic and private funding. They focus on specific stages of project development without being sufficiently joined up.
2. EU funds are insufficiently associated with **private investment**, and the under-development of venture capitalism in the EU is considered a major factor behind this.
3. **Complexity** for potential beneficiaries to access and implement EU funding. This creates non-trivial obstacles to applying for funding, especially for smaller firms.
4. **Overlaps** created by the inefficient structure and coordination mechanisms of EU funding programmes. The current structure may even reduce their compatibility.
5. **Inflexibility** of funding programmes, some of which operate at specific time intervals only (annual or semi-annual) or follow overly stringent rules.
6. Significant **capacity gaps**, e.g. labour, skillsets and technology infrastructure.
7. Difficulty **translating research** output into industrial and commercial production.
8. Current **low and fragmented investment** in strategic technologies and sectors.

In addition to the baseline scenario, the European Commission evaluated three options based on the problem drivers:

- Option 1: 'Business-as-usual-plus' – This option maintains separate rules for each programme but promotes greater consistency across funds.
- Option 2: 'Enhanced coordination and a common rulebook' – This option harmonises rules and objectives among programmes while keeping them separate.
- Option 3: 'Consolidation of programmes in a new European Competitiveness Fund' – This option merges related EU programmes into a single fund with a unified strategic direction.

Option 3 is the preferred, proposed option. According to the Commission, it addresses the identified problem drivers best, because it implements a single rulebook to simplify access, reduce administrative costs and create a more efficient and business-friendly funding environment, essential for young and/or small companies. The Commission argues that option 3 could strengthen links between research and production, attract more private capital and increase budgetary flexibility. Some initial adjustment costs associated with the new framework's implementation are expected, but these would pay off in terms of EU competitiveness and strategic autonomy.

In November 2025, EPRS published an initial analysis of the strengths and weaknesses of the impact assessment.

Points of view

Industry associations generally welcome the establishment of the ECF, with some nuances. BusinessEurope calls for more clarity around the ECF, such as its governance and the ringfenced budget for collaborative research. SMEunited stresses that funds for SMEs ought to be ringfenced and that SMEs would require tailored financial instruments, but welcomes the provision of business advice to SMEs and access to infrastructure and facilities. European Factories of the Future Research Association (EFFRA), a not-for-profit association for the development of new and innovative production technologies, approves of the strategic alignment of the ECF and Horizon Europe, which would create a seamless flow from research to roll-out.

IDDRI, a Paris-based think tank dedicated to sustainable development, argues that the ECF does not add any significant funding for the clean transition and industrial decarbonisation. In addition, integrating environmental programmes into a fund designed for competitiveness may lessen financial support for climate and environmental actions. Strong eligibility criteria should therefore be guaranteed or funds allocated specifically to environmental objectives. However, IDDRI welcomes the competitiveness coordination tool as key for EU industrial policy and strategies, as well as the European preference principle (favouring EU-based manufacturing and engineering).

The European Policy Centre (EPC) considers the ECF to be the most important and revolutionary element of the MFF proposal, marking a shift towards large-scale strategic investment in the triple transition (clean, digital and security). The EPC stresses that the ECF would target areas which would most benefit from the economies of scale and spill-over effects of EU funding, and where the funding gap compared with the US and China is the greatest. Combining 14 programmes would address many structural shortcomings in the previous MFF, as it would allow for a single rulebook, focused investment areas and open implementation architecture. This would streamline EU spending and make it more targeted and effective. Nevertheless, the think tank suggests the creation of a complementary off-budget vehicle to address the shortage of strategic equity investment, which cannot be easily generated through the ECF. Finally, the ECF is seen as the 'EU's green gamble', as the LIFE programme would become part of the ECF.[6]

In terms of governance, the Swedish Institute for European Policy Studies (SIEPS) stresses that the ECF represents a fundamental break with the EU's typical investment governance. SIEPS welcomes the fact that the ECF would be more flexible than current programmes, and that strategic decisions would be more political and dynamic. The ECF would also substantially expand the Commission's executive discretion over implementation, enhancing the EU's ability to act as an industrial player.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

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Pari, M., EU budget 2028-2034: Overview of the Commission's proposal, EPRS, European Parliament, July 2025.

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OTHER SOURCES

Draghi, M., The future of European competitiveness: A competitiveness strategy for Europe (Part A), report for the European Commission, September 2024.

Draghi, M., The future of European competitiveness: In-depth analysis and recommendations (Part B), report for the European Commission, September 2024.

ENDNOTES

1. Figures obtained in the annex of the communication on the 2028-2034 MFF, page 31; commitments in 2025 prices.
2. See also summary in the ECA news.
3. In its reply to the ECA's report, the European Commission disagrees with the ECA's qualification of 'patchwork' although it acknowledges the 'diversity of components of the EU financial landscape'. The Commission argues that the instruments were adopted pursuant to the relevant legal bases and policy objectives, and simplification and streamlining have been implemented wherever identified.
4. Special report items 81 to 84.
5. For further details, see the EPRS briefing on impact assessment evaluation.
6. This opinion was reiterated in a blog in October 2025.

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