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Design principles for a European Competitiveness Fund

Executive summary

The next Multi-annual Financial Framework (MFF) needs to be simpler, faster and more flexible to strengthen Europe's prosperity and security.

As the Draghi report highlights, every year the EU faces a €800 billion investment gap that must be urgently addressed to avoid falling further behind in the global innovation and competitiveness race.

Europe invests 24 times less than the US in disruptive innovation, captures just 5 per cent of global venture capital and allocates only 7 per cent of its budget to digital priorities – even though the digital transformation drives the greatest gains in growth and resilience.

DIGITALEUROPE recommends that a minimum 25 per cent of the EU budget is invested into the digital transformation.

DIGITALEUROPE calls for the next MFF and new European Competitiveness Fund to be structured according to six fundamental design principles:

- **Agility**: EU funding mechanisms must be flexible to allow European actors to quickly adapt and respond to new risks and seize emerging opportunities, ensuring that entrepreneurs and critical technologies receive the timely support they need to scale and succeed. Funding should be approved within three months from receiving the application.
- **Access for all**: EU funding offers must be simpler and more accessible to incentivise innovation and boost impact.
- **Focus on commercialisation of innovation**: EU funding must boost digital capabilities and resilience over the next 1-3 years. We need to move beyond measuring success through R&I; real impact lies in scaling innovation commercially and the growth of new businesses.
- **Strategic focus on boosting digital resilience**: Europe needs to invest in dual-use and critical technologies to boost long-term competitiveness and the resilience of critical infrastructure (e.g. energy, water, harbours, airports and hospitals). This would give a boost to Europe's tech companies in energy, drones, AI, 5G, and more, while also turning promises into action by implementing the NIS2 Directive and ensuring real protection for our citizens.

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- **Security before price**: Strategic pan-European public investment and procurement of large-scale infrastructure and technologies for the protection of critical infrastructure should prioritise European security, not only price. National procurement limited by national-sized budgets cannot deliver the scale that companies need to compete globally, nor can it ensure interoperability and resilience across the single market.

- **Catalyst for other funding**: EU programmes must incentivise, not try to replace, private investment. In a liberal democracy, prosperity and technological innovation are driven by the private sector. Yet, Europe has focused more on regulation than on enabling business success. It is time to actively support our digital frontrunners across the EU – in energy technology, connectivity, drones, AI, quantum, semiconductors, cybersecurity, and beyond.

We propose a 5-5-3 framework for EU funding – a streamlined, impact-driven approach to accelerate Europe's technological leadership:

- Five core programmes targeting Europe's critical innovation needs.

- Five clear and consistent eligibility criteria for funding focused on outcomes and alignment with EU strategic priorities.

- Three-month turnaround from application to funding award decision to ensure speed, availability and predictability to maximise the impact of EU public investments.

The next MFF must focus on creating demand for innovative solutions and mobilise private capital to fully unlock Europe's innovation potential. Innovation thrives where there is a market for new ideas. Strategic public procurement and investment – particularly at the EU level – will create commercial opportunities that allow Europeans to reap the benefits of their ideas.

At the same time, private capital remains essential to fill the €800-billion investment gap. Public funding must be designed to leverage, not replace, private investment. Only by crowding in private capital and coordinating with national funding offers can Europe achieve the scale and speed needed to stay globally competitive.

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Principle 1: Agility

The current structure of EU funding is too rigid to meet the needs of fast-moving innovation. New ideas and technological opportunities cannot afford to wait months or years for funding decisions – and neither can the new risks and threats that Europe faces. An average waiting time of 278 days until a grant agreement is signed is much too long. Innovators cannot wait a year or more for capital[1]. Even decisions under Horizon Europe take this long, showing that delays are systemic and not due to specific circumstances (e.g. state aid rules).

Fixed application deadlines, inflexible project timelines and narrow cost allocation categories limit researchers and companies' ability to respond to scientific breakthroughs and commercial opportunities. This lack of flexibility discourages innovation and is incompatible with industrial R&I and the development of cutting-edge technologies, where agility is crucial.

- **Redesign EU funding mechanisms to be more flexible**, e.g., by measuring outcomes and impact in a more dynamic way that is responsive to technological breakthroughs, commercial opportunities and geopolitical developments.
- **Accelerate funding decisions to a maximum of three months from receiving the application** to reduce waiting times and uncertainty for innovators.
- **Introduce open, rolling calls** without fixed application deadlines to ensure funding is available when ideas are developed.
- **Allow greater flexibility within projects to adjust goals** and milestones as new knowledge and opportunities emerge. Establish flexible cost allocation categories that enable research and innovation projects to reallocate funds across budget lines – such as personnel, equipment, or subcontracting – as project needs evolve. This flexibility is essential to ensure that funding structures respond to scientific developments and industrial shifts, rather than constrain them.

Case study: Align EU funding with the pace of real-world innovation

A unicorn startup developing drones for Ukraine applied for support from the European Defence Fund. The funding decision takes more than a year – these delays not only derail innovation but directly undermine European security.

Another company applied for Series A financing from the European Investment Fund. By the time a decision was made one year later, the company had already moved to Series B.[2]

Principle 2: Access for all

[1] European Commission: Directorate-General for Research and Innovation, Align, act, accelerate – Research, technology and innovation to boost European competitiveness, Publications Office of the European Union, 2024, p.87. Available at: https://data.europa.eu/doi/10.2777/9106236

[2] See upcoming *Report: EIB/DIGITALEUROPE CEO roundtable of 26 March 2025*.

Scaling innovative solutions through EU funding remains a challenge because of excessive complexity and fragmentation of existing EU funding instruments. With over 50 overlapping programmes, more than 30 technical assistance tools and heavy administrative burdens on applicants – such as different compliance criteria across programmes and restrictions on standard accounting practices – start-ups and scale-ups often face insurmountable obstacles.

In addition, European public and private funding remain more risk-averse and difficult to navigate across Member State borders, especially for smaller actors. Bureaucracy and compliance reporting continue to be major hurdles before and during projects.

- **Create a one-stop shop for EU funding and advisory services** to offer equal access to EU funding opportunities for all and particularly innovative start-ups and scale-ups.
- **Offer proactive support to successful projects to identify follow-up funding** to increase their technology readiness level. Automatically consider successful projects for follow-up funding if they align with EU strategic priorities.
- **Streamline administrative procedures,** e.g. by aligning compliance requirements with standard business practices – reflecting how companies and many research institutions naturally operate. Do not add more bureaucratic layers that slow down innovation cycles.

Case study: Visibility gap in the EIC – A missed opportunity for investors

The European Innovation Council (EIC) aims to support the commercialisation of high-risk, high-impact technologies in the EU, but it lacks a well-managed search engine or interactive database allowing potential investors or buyers to find supported projects and beneficiaries. This means that even other EU funding streams like the European Investment Fund lack visibility of which companies have been supported by the EIC.[3] These limits opportunities for collaboration and follow-on funding. Increased visibility would enhance coordination across EU instruments and make it significantly easier for EIC-backed projects to attract investors and continue their scale-up journey.

Principle 3: Commercialisation of innovation

Europe continues to lead in innovation but struggles to convert breakthroughs into commercial success. As the Draghi report notes, only one-third of EU-patented inventions make it to market. Europe pays for the ideas whilst others reap the benefits.

New deep tech businesses are increasingly created and scaled outside Europe, which highlights the limits of an innovation model that is too slow, academia-driven and disconnected from commercial applications. Without bold reforms to accelerate commercial deployment, Europe risks falling behind in the global tech race and missing opportunities to restore productivity, economic resilience and technological leadership.

Even if projects pursue commercialisation, investments in Europe are currently heavily skewed towards more mature technologies. Whilst the high-tech industry accounts for 85 per cent of private R&D expenditure in the US (especially software and computer services, pharmaceuticals and biotechnology),

[3] Ibid.

in the EU around 50 per cent of private R&D expenditure remains driven by the mid-tech industry (such as the automotive sector).

- **Boost support for commercial deployment to ensure EU funding covers the full innovation cycle** – from early research to market-ready technologies. The most critical gap arises at Technology Readiness Levels (TRLs) 5 and 6, where companies scaling up innovative solutions face limited funding and high risk. Targeted investment at this stage is essential to de-risk innovation, crowd in private capital and secure Europe's leadership in the global tech race.

- **Expand funding instruments that allow partnerships with high-potential companies** (equity investments) and pool public and private resources to co-invest in the scale-up phase, ensuring financial returns benefit the EU.

- **Expand funding support for smaller EU scale-ups**, which remain underserved by European private investors. (Whilst 21 per cent of US scale-ups that receive venture capital have fewer than 350 employees, this is only the case for 8 per cent of EU scale-ups.)

Case study: DeepSeek – Europe innovates, others benefit.

In 2024, a breakthrough AI training method was developed by German startup Aleph Alpha in collaboration with ETH Zurich and supported by Schwarz Group. Despite its potential, the innovation remained within academic circles. Months later, Meta adopted the research and Chinese company DeepSeek commercialised the technology globally. This illustrates Europe's structural weakness: groundbreaking research often fails to reach market maturity at home, allowing others to capitalise on EU-funded innovation.

Best practice: The Nordic 'lead company' model

Finland's 'lead company' model is a proven solution to accelerate innovation by combining public and private funding. This innovation model empowers lead companies to define R&D priorities, fast-tracks project selection and ensures strong private investment by requiring companies to fund at least two-thirds of the project. Its flexible structure allows ecosystems to evolve over time, includes clear impact KPIs and provides a testbed for start-ups and scale-ups. Already delivering strong results – 24 ecosystems projects 350 SMEs, mid-caps and large companies since 2022 – the model could inspire EU projects to boost returns on R&I and enhance Europe's tech competitiveness.

Principle 4: Strategic focus on boosting digital resilience

EU funding leans heavily toward low-risk and incremental innovation, missing opportunities to support bold, disruptive technologies with transformative potential. Even EU instruments aimed at supporting innovative start-ups, like the EIC Accelerator, tend to focus on projects at higher technological readiness levels, which makes it harder to fund early, high-risk ideas with breakthrough potential. This contrasts with models like the US Defence Advanced Research Agency, which actively supports early-stage

innovation. As a result, Europe struggles to lead in fast-moving fields like AI and quantum – undermining both its current competitiveness and long-term technological leadership.

In addition, EU investments rarely reach the critical mass needed to support large-scale industrial projects. A clear example is the EU's industrial policy on batteries. Despite batteries being a cornerstone technology for the green transition, the European Court of Auditors recently found that public funding in this area is 'insufficiently coordinated' and 'location-dependent,' resulting in outcomes that fall short of EU strategic ambitions.[4]

Demand-side tools like strategic procurement remain underused, making it harder for innovative companies to scale up in Europe. Joint procurement at the EU level or at least across more Member States is needed especially for critical technologies and dual-use technologies to create the necessary market scale and customer base for companies, which would also help them attract more private financing to scale up.

- **Encourage more risk-taking and experimentation with funding solutions focused on emerging and disruptive technologies**, including at low technological readiness levels.
- **Prioritise mission-oriented investments** focusing on areas with high growth potential and strategic relevance for Europe's security and competitiveness (e.g. AI, clean tech, quantum, advanced connectivity and dual-use technologies). Allocate funding based on strategic objectives underpinned by data driven insights without pre-selecting technologies and solutions.
- **Make better use of Return on Investment (ROI) criteria to guide funding in strategic sectors** – such as advanced connectivity, clean tech, additive manufacturing and dual-use technologies. Investments should be designed to deliver measurable economic, strategic and societal returns and crowd in private investment, using blended finance and co-investment models. Clear ROI metrics – such as scale-up success rates and industrial adoption potential – should guide both project selection and performance evaluation.
- **Provide dedicated support for joint procurement initiatives for critical technologies.** Support large-scale infrastructure investment across Member States, modelled on IPCEIs, to drive industrial deployment of innovative technologies and boost demand from innovative scale-ups. Better coordination via EU level investments and joint procurement would also encourage interoperability across national solutions.[5]
- **Dedicate more funding to close strategic skills gaps** holding back European competitiveness, especially on advanced digital skills.

Case study: Northvolt – A missed opportunity to anchor critical tech in Europe

Northvolt, a flagship EU-backed company developing next-generation battery materials, raised over €13 billion to scale up sustainable battery production in Europe. However, despite its strategic importance,

[4] European Court of Auditors special report 15/2023 EUR-Lex – 52023SA0015(01) – EN – EUR-Lex https://www.eca.europa.eu/en/publications/sr-2023-15

[5] As highlighted in the Draghi report, closing critical investment gaps – such as the €173 billion shortfall in digital connectivity – is key to reducing Europe's competitiveness divide and securing long-term resilience.

Northvolt faced major operational challenges, including production delays and quality issues that led to the loss of critical contracts. In late 2024, the company filed for bankruptcy.

This case underscores a systemic issue: whilst early-stage funding exists in Europe, there is a lack of strategic, operational and risk-mitigation support for scaling high-potential technologies. Northvolt's collapse highlights how Europe risks losing industrial leadership when deep tech ventures are seen as 'too risky' or are left to navigate scaling-up hurdles without sufficient backing. More targeted and flexible funding mechanisms, combined with strong demand-side instruments, could have anchored the project in Europe and accelerated its deployment – bolstering the EU's industrial base and creating stronger pull factors for innovators.

Principle 5: Security before price

Despite mounting geopolitical tensions and rising threats to critical infrastructure, European security remains underfunded and insufficiently coordinated at the EU level. Current investment patterns fail to reflect the urgency of strengthening European security. EU-wide strategic procurement and funding mechanisms lag behind, leaving Europe vulnerable to technological dependencies and systemic risks. Given the hybrid nature of modern threats, prioritising digital-first defence capabilities – such as cybersecurity, AI-enabled intelligence, surveillance and reconnaissance, secure connectivity and encrypted communications – is essential for ensuring operational superiority and resilience.

Europe's fragmented approach on defence investment, oriented by price and not security considerations, undermines the EU's ability to develop cutting-edge, dual-use technologies and support its own scale-ups. Without a decisive shift toward collective investment and coordinated action at the European level, the ambition of a secure and sovereign Europe will remain out of reach. A unified European approach under the Competitiveness Fund would also reinforce progress toward a Single European Defence Market – ensuring strategic technologies benefit from scale and speed in deployment.

- **Adopt a 'security before price' principle in procurement and EU funding programmes**, especially for large-scale digital and physical infrastructure projects. This principle should guide strategic public investment in cybersecurity, secure connectivity and defence-relevant and dual-use technologies.
- **Launch coordinated EU-level joint procurement programmes for critical digital and cyber technologies** to create demand at scale, build a pipeline of European lead companies and support interoperability and resilience across Member States. Use EU funding instruments and EIB guarantees to de-risk investments in dual-use technologies.
- **Revise Article 12 of the European Defence Fund to earmark at least 25 per cent of the total budget be allocated to dual-use projects** – covering AI, cybersecurity, connectivity, advanced technologies, energy, quantum and autonomous systems.
- **Align the European Armament Technological Roadmap with the Competitiveness Fund** to support the industrial deployment of dual-use technologies such as AI, quantum, cybersecurity and autonomous systems. Co-design procurement priorities and better reflect operational needs and industrial potential across defence and dual-use markets via the new Strategic Dialogue with Industry announced in the EU White Paper.

- **Create a dedicated EU Defence Innovation Window within the Competitiveness Fund to fund the development, scaling and deployment of dual-use and digital defence technologies** – such as AI, cybersecurity, secure communications, connectivity and quantum. This Window should support projects across the full innovation cycle.
- **Introduce EU-wide tax incentives for investments that contribute to energy security and resilience, cyber defence and digital sovereignty.**
- **Encourage investments that also address the defence digital skills gap**, enabling long-term capability development.

Case study: EIB lifts requirement for dual-use and defence, what now?

The European Investment Bank (EIB) has significantly shifted its approach to defence financing, beginning with the adoption of a Security and Defence Industry Action Plan in April 2024 that broadens eligibility for dual-use and defence technologies. By March 2025, the EIB expanded its scope to include dedicated military infrastructure, equipment and support for critical raw materials, backed by a €15.6 billion financing package including €1 billion for SMEs in European security and defence supply chains. DIGITALEUROPE strongly supports this evolution and calls for fast distribution of funds to scale up Europe's security and defence innovation ecosystem.

Principle 6: Catalyst for other funding

The lack of harmonisation between national and EU funding creates inefficiencies, complexity and missed opportunities to pursue Europe's strategic interests. Because EU programmes do not have the financial heft to substitute for national funding or private capital, they need to facilitate investments by incentivising Member States and private actors. Yet, national and EU schemes often operate in silos – leaving companies and investors struggling to understand different eligibility requirements and opportunities to combine funding.

Even across EU programmes, lack of coordination and exclusivity rules like those in IPCEIs can prevent stakeholders from accessing multiple funding streams. This is compounded by a general lack of transparency in funding availability, processes and decision-making. This issue is even more pressing in Member States with weaker venture capital ecosystems, where public funding is often the primary source of innovation finance. Delays and fragmentation can severely hinder the survival and growth of innovative companies, widening the EU's internal investment gap.

- **Harmonise funding requirements, improve transparency and create a clear menu of options to pool different funding instruments across the EU and national levels.** As an initial step, this could be achieved by creating dedicated funding schemes for scale-up technology companies that align requirements and application processes across the EU and national levels.
- **Explore opportunities to align funding options with like-minded partners** like Norway, Switzerland and the United Kingdom to create critical mass for strategic investments in Europe.
- **Build a European 'one-stop-shop' for accessing blended finance,** which could connect high-potential projects looking for additional funding and private investors across Member States. This

would need to go beyond current initiatives like the InvestEU Portal, which has so far not fulfilled its supposed matchmaking function. It would require active management to link projects with prospective investors. This support structure could maximise the impact of public funds in crowding in private investment.

- **Better align public funding with private investment to de-risk strategic projects and attract venture capital** – particularly in underfunded areas like AI, where European start-ups receive only 6 per cent of global private investment. Public support should be used to create a more attractive, competitive environment for private investors, through blended finance, guarantees and targeted co-investment models.

- **Establish an Executive Investment Council** of industry representatives to advise the EIB Group and the Commission on market trends, financing gaps and investment priorities. This would help align EU funding with industry needs and accelerate deployment of strategic technologies.

- **Coordinate tax incentives to close the R&I expenditure gap.** According to Eurostat, only six Member States had R&I expenditure of 3 per cent of GDP or more as of 2023 (Austria, Belgium, Denmark, Finland, Germany and Sweden). By comparison, the US, Japan and South Korea invest more than 3 per cent of their GDP in R&I. Coordinated tax incentives for R&I expenses would allow Europe to close this gap and encourage more R&I collaboration across the Single Market.

- **Progress the Savings and Investment Union.** Integrated capital markets are necessary to amplify the effects of public investments and allow Europe to close the investment gap on critical technologies. We need urgent progress on the Savings and Investments Union to mobilise private capital to finance innovation, including by enhancing retail investors' participation in capital markets, incentivising equity trading and unlocking bank financing through securitisation.

Case study: Lack of compatibility – EIB loans and Important Projects for Common European Interest (IPCEIs)

Although IPCEI funding and EIB loans are theoretically compatible, practical barriers persist. IPCEIs require a negative business case to justify state aid, whilst EIB loans require a positive business case to qualify for financing. This mismatch creates a deadlock that prevents projects from accessing both types of funding. To unlock more capital for innovation, approval of an IPCEI should automatically trigger loan eligibility from the EIB – avoiding duplicative evaluations and accelerating deployment of strategic projects.

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About DIGITALEUROPE

DIGITALEUROPE is the leading trade association representing digitally transforming industries in Europe. We stand for a regulatory environment that enables European businesses and citizens to prosper from digital technologies. We wish Europe to grow, attract and sustain the world's best digital talents and technology companies. Together with our members, we shape the industry policy positions on all relevant legislative matters and contribute to the development and implementation of relevant EU policies. Our membership represents over 45,000 businesses who operate and invest in Europe. It includes corporations which are global leaders in their field of activity, as well as national trade associations from across Europe.

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