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REGULATORY SCRUTINY BOARD OPINION

Impact assessment of the European Competitiveness Fund

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Brussels,
RSB

Opinion

Title: Impact assessment of the European Competitiveness Fund

(A) Policy context

The European Competitiveness Fund (ECF) is part of the post-2027 Multiannual Financial Framework (MFF) package and will bring together 14 individual funding instruments from the current MFF in one framework to operate as an investment capacity to support European competitiveness in critical technologies and strategic sectors and act as a leverage tool employing budgetary instruments to unlock private, institutional and national investments.

Under the Commission's Political Guidelines, the next MFF sets out to be more focused, simpler and more impactful. Better Regulation Tool #9 acknowledges that 'the special case of preparing a new multiannual financial framework is a unique process requiring a specific approach as regards scope and depth of analysis'. The architecture of the new MFF will be significantly different from the current structure. Given that at this stage the impact assessment lacks several key elements the Board has decided, exceptionally, to issue an Opinion without qualification.

(B) Key issues and recommendations

The Board notes the additional information provided and commitments to make changes to the report.

However, the report still contains significant shortcomings. The Board makes the following recommendations for the lead Service(s) to rectify:

This opinion concerns a draft impact assessment which may differ from the final version.

On scope: The report does not sufficiently elaborate the definition of competitiveness nor does it indicate how the ECF is to strengthen European competitiveness. The interplay between competitiveness and security is not sufficiently addressed.

The report should define European competitiveness upfront for the purpose of this impact assessment and explain better how the ECF is expected to contribute to fostering it. It should provide a clear intervention logic related to policy objectives and explain how public funding is expected to be transformed into increased competitiveness of the EU. Given that the hard security objective is driven by non-market based considerations, the report needs to explain how the ECF will reflect this in its architecture and implementing modalities.

The scope of the report primarily covers the financial architecture rather than the policy substance, i.e. such as the objectives intended to be achieved, as well as the types of activities that will receive funding. The report needs to demonstrate that the financial architecture is well suited to facilitate delivery on the policy objectives, since desired synergies and results are unlikely to materialise without the alignment between the policy objectives and financial architecture. Since the ECF is assumed to build on the current funding programmes having redundancies the report should analyse the baseline of the current funding landscape, notably if parts of current programmes should be discontinued or re-oriented.

The report should clarify how Horizon Europe - the largest of the current 14 funding programmes - is to be integrated into ECF and the effects of this on the assessment of effectiveness and efficiency.

On the problem definition and on the use of evaluations: The report does not consistently build on evidence from evaluations. It does not specify the market and regulatory failures and the societal problems, including their magnitude, which this intervention is intended to address.

When referring to evaluations the report should clearly state the relevant conclusions reached in those evaluations, and how strongly the conclusions are supported by a reliable evidence base, taking also into account opinions from the RSB.

The problem definition should distinguish more rigorously between problems and problem drivers, it should also be clear which identified problems constitute societal problems that justify a public intervention, and which problems are perceived shortcomings of already existing public interventions. Beyond noting the perceived lack of investments, the report should assess if this reflects the preferences of market actors, or if there are genuine underlying market failures - such as externalities, asymmetric information, or agency problems - that possibly explain suboptimal investments, (not to be confused with dependencies and critical raw materials etc). The report should assess the magnitude of such possible problems, and at what particular points of the investment journey they might justify a public intervention.

The report should similarly analyse possible regulatory failures, their magnitude and their impacts. Where relevant a comparative problem analysis of the main international competitors (USA and China) and top-performing economies should be carried out.

The report should further assess the deficiencies of current funding arrangements, e.g. in the rulebooks, eligibility criteria, etc. The report should provide an assessment of

effectiveness and efficiency of existing funding tools, including financial instruments, in the area of competitiveness. It should bring evidence for establishing causal links between identified problems and their drivers.

On the intervention logic and objectives: The proposed options do not address all identified problems. The proposed objectives are not S.M.A.R.T.

The report should clearly delineate which problems and problem drivers related to competitiveness will be addressed by the initiative and with what ambition. The intervention logic should cover all these problems and their drivers. The underlying theory of change and related evidence should be made more explicit. Following an analysis of current rules, the intervention logic should include an analysis of varying conditions, rules and decision criteria in order to address the “choke points” in the current system. The report should describe better how the objectives of ECF can be expressed in S.M.A.R.T. terms to facilitate monitoring and evaluation.

On options: The report does not adequately identify the full range of options.

Options beyond those on financial architecture should be included as tradeoffs between flexibility and predictability on the one hand, and complexity and simplicity of the funding landscape on the other hand, are not sufficient to identify options and assess their impacts. The report should assess the aspects which are central for reaching the general and specific objectives of the ECF and put forward a corresponding range of options. In defining the options the report should describe what kind of activities are to be funded and if different existing programmes are intended to be re-oriented or discontinued. In line with the enhanced intervention logic, also options on key aspects including leveraging of EU resources via financial instruments, governance and the main implementation modalities (rulebooks, eligibility criteria, etc.) should be developed.

On comparison of options and cost-benefit analysis: The report does not adequately assess the costs and benefits of the options.

The report should provide further explanation of and evidence for the estimates and assumptions at the basis of the costs and benefits, and their potential evolution, including as regards Member States participation. RHOMOLO or similar modelling should be used only in case the assumptions, in particular on investment multipliers and temporal profile of programme deployment (including frontloading), are based on strong evidence as the results are determined by these assumptions. If using RHOMOLO at all, the report should provide a range of different possible estimates, reflecting differing assumptions.

In terms of costs and benefits, for example, option C is claimed to “significantly reduce administrative costs” but the report fails to provide sufficient analysis of administrative costs and to indicate what the respective benefits to businesses and administrations are. The report should explain better how the three options differ and quantify critical elements of funding architecture to facilitate the comparison.

On governance: The report does not sufficiently describe the governance mechanisms.

The report should clarify the functioning of the proposed Competitiveness Coordination Tool, principles of its governance, including how funding and allocation decisions will be

taken and how the specificity of different policy actions will be addressed. It should identify principles for deciding on the list of strategic priorities for investment, and for identifying “policy windows”.

On unintended consequences: The report does not analyse the unintended consequences that can result from the intervention, in particular if they can be adverse and entail costs. The report needs to analyse if the public intervention can lead to allocative inefficiencies, crowding out of private and public finance, and assess if there is a risk that leveraged capital is reallocated to less productive uses, as a result of the intervention.

On coherence: The report does not sufficiently specify how the ECF links with other parts of the post-2027 MFF, like National envelopes, Single Market, External Action and provide cross-references. It should also analyse how ECF will relate to member state interventions in the field of competitiveness.

On future monitoring and evaluation: The report is not clear what monitoring and evaluation arrangements will be put in place to measure the achievement of the ECF objectives and how a Performance and Monitoring framework would be implemented in the case of ECF.

After defining the objectives in SM.A.R.T. terms the report should outline appropriate monitoring and evaluation arrangements which would allow to monitor the progress on achieving the objectives. The report should include a requirement for the data plan which would ensure that different types of data building on appropriate methods and modern tools for data collection, retrieval and analysis are available for the evaluation of effectiveness, efficiency and EU added value without increasing administrative burden.

The report should be clear how specific indicators relevant to the objectives of the instrument will be identified and used in the performance monitoring.

Some more technical comments have been sent directly to the lead Service(s).

(C) Conclusion

The lead Service(s) should revise the report in accordance with the Board’s recommendations before launching the interservice consultation.

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