Catalysing private finance for the transition through the next EU MFF 2028–2034

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Table of contents

Executive Summary

The European Union faces an annual transition investment gap of €750–800 billion. Against this backdrop, the next Multiannual Financial Framework (MFF) 2028–2034 cannot be assessed solely by the volume of public expenditure it provides, but by its ability to mobilise private capital at scale in support of Europe's competitiveness, resilience and sustainable transition. The proposed MFF rightly places greater emphasis on investment and competitiveness. However, public resources alone will remain insufficient to meet Europe's financing needs. The effectiveness of the next MFF will therefore depend on two factors: **whether spending is directed towards activities that genuinely advance the transition, and whether the EU budget is designed to crowd in private investment efficiently.**

This paper sets out Eurosif's overarching position on the next MFF, reflecting the perspective of investors committed to financing Europe's sustainable transition. Its recommendations focus on two mutually reinforcing priorities: establishing a robust performance framework that directs EU spending towards credible climate and environmental outcomes and designing the European Competitiveness Fund (ECF) as a genuine catalyst for private and institutional investment.

1) A stronger Performance Regulation for more effective spending

The "Budget expenditure tracking and performance framework" (Performance Regulation) will set the framework governing how EU budget spending is tracked, assessed and evaluated across all programmes. From an investor perspective, its importance goes beyond reporting: it helps determine whether public money is channelled towards activities that strengthen Europe's long-term competitiveness, resilience and security, while providing clear and credible signals to private capital.

In this context, the climate and environmental spending target and the Do No Significant Harm (DNSH) principle should be seen as complementary pillars of effective public spending. Together, they help **ensure that EU resources are directed towards activities that support the transition while avoiding investments that create long-term environmental, economic and financial risks.** For public and private investors, they provide protection against transition-related challenges such as stranded assets. At a time when Europe faces a significant transition investment gap and increasing climate and nature-related risks, maintaining strong safeguards is not only an environmental imperative but also a competitiveness and investment necessity.

Eurosif's key recommendations on the Performance Regulation	
The climate and environmental mainstreaming target of 35%	1.1 Increase the climate and environmental target overall to reflect its broader scope
	1.2 Ensure that different environmental aspects receive sufficient funding
	1.3 No hidden reductions: apply the climate and environmental target across the entire budget
	1.4 No greenwashing: use scientific and outcome-based criteria to ensure environmental spending goes where it matters
Do No Significant Harm (DNSH)	1.5 Maintain the DNSH principle
	1.6 No spending against EU climate and environmental objectives, setting ambitious yet practical criteria
	1.7 Limit exemptions to the application of the DNSH principle to ensure its credibility and effectiveness
	1.8 Develop ambitious and functional DNSH criteria for general-purpose financial instruments
	1.9 Ensure consistency between the MFF DNSH guidance and the EU Taxonomy while preventing regulatory loopholes

2) Elevating the ECF's efficiency for EU competitive transition: design for private capital mobilisation.

The European Competitiveness Fund (ECF) Regulation is the cornerstone of the MFF's investment strategy and the clearest expression of the Commission's objective to place investment and competitiveness at the heart of the future EU budget.

The ECF should be designed as a genuine investment catalyst rather than a traditional grant-distribution mechanism. This requires a clear focus on additionality, efficient use of public resources and the mobilisation of capital towards projects and sectors that would otherwise struggle to attract sufficient financing. The future ECF InvestEU Instrument is particularly important in this regard. Its strong track record demonstrates the potential of EU guarantees to crowd in private capital at scale: maintaining and strengthening this mobilisation function should therefore remain a central objective throughout the legislative negotiations, from the design of financial instruments and guarantee structures to the selection of implementing partners and the overall governance framework.

Eurosif key recommendations on the ECF Regulation	
European Competitiveness Fund	2.1 Adopt a definition of competitiveness that integrates sustainability as a structural dimension
	2.2 Reintegrate detailed ex-ante additionality criteria into the ECF InvestEU Instrument
	2.3 Establish binding instrument conditionality in the ECF Regulation, tied to investment stage, market failure, and transition relevance
InvestEU	2.4 Increase the ECF InvestEU guarantee envelope and design its terms to maximise private capital mobilisation
	2.5 Calibrate the ECF InvestEU guarantee terms for effectiveness
	2.6 Guarantee operational continuity in the transition between the current and the next InvestEU programme
	2.7 Align implementing partner selection criteria and performance metrics with private capital mobilisation objectives
ECF Governance and implementing partners	2.8 Establish clear coordination mechanisms between the ECF and complementary EU instruments to provide consistent signals to private investors
	2.9 Ground ECF work programmes in transparent, evidence-based assessments of investment gaps and strategic priorities
	2.10 Establish clear selection criteria and conflict-of-interest rules for the Stakeholder Group

Introduction

The transition investment gap and the role of the EU budget

Europe faces a structural investment shortfall of significant scale. The 2024 Draghi Report[1] on the Future of European Competitiveness estimated that the EU requires an additional €750–800 billion in investment per year – equivalent to 4.4–4.7% of EU GDP – to close its innovation gap, decarbonise its industrial base, and reduce strategic dependencies.

Meanwhile, clean technology, affordable energy, and industrial decarbonisation are increasingly framed not as standalone environmental objectives but as core drivers of European competitiveness and strategic autonomy. The EU's Clean Industrial Deal[2] and Affordable Energy Action Plan[3], adopted in February 2025, explicitly link decarbonisation with competitiveness and energy security as mutually reinforcing goals. This framing has direct implications for capital allocation: transition investment increasingly overlaps with mainstream infrastructure and industrial investment, broadening its relevance to a wide range of institutional investors.

In this complex context, the next Multiannual Financial Framework (MFF) for 2028–2034 will be one of the EU's most significant budgetary instruments. On 16 July 2025, the European Commission presented its proposal for an MFF[4] amounting to almost €2 trillion (in current prices), or 1.26% of the EU's gross national income on average. This headline figure includes the repayment of debt created by **Next Generation EU (NGEU)** grants, meaning the budget available for EU programmes and policies over the period is correspondingly smaller than the topline number suggests.

The budget is structured around four headings:

- **Heading 1** covers economic, social and territorial cohesion, agriculture, and rural and maritime prosperity and security, implemented through the **National and Regional Partnership Plans (NRPPs)** and accounting for over €1 trillion;
- **Heading 2** covers competitiveness, prosperity and security and, with a proposed €589.6 billion, it includes the **European Competitiveness Fund (ECF) and Horizon Europe -** the instruments most directly relevant to private investment mobilisation and the focus of this paper;
- **Heading 3** is **Global Europe**, for external action (€215 billion)
- and **Heading 4** covers administration costs.

Alongside this budgetary architecture, the Commission has also proposed a revised Performance Regulation, governing how spending across all MFF programmes is measured, reported, and evaluated. On climate, the Commission proposes a horizontal minimum spending target of at least 35% for climate and environmental objectives (cf. Section 1) which does not represent a significant increase compared to the current MFF's 30% target.

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[1] European Parliament, *Report on the future of European competitiveness and the Draghi report*, 2025
[2] European Commission, *Clean Industrial Deal: A plan for EU competitiveness and decarbonisation*, 2025
[3] European Commission, *Affordable Energy Action Plan / New action plan to save €260 billion annually on energy by 2040*, 2025
[4] European Commission, *Proposal for a Council Regulation laying down the multiannual financial framework for the years 2028 to 2034*, COM(2025) 571 final, 2025

It is now evident that the Commission's 35% target for climate and environmental objectives, translating into roughly €100 billion per year, cannot close the investment gap alone. The central question for the 2028–2034 MFF is therefore not only how much public money is allocated to transition objectives, but how effectively that money is designed to mobilise private capital alongside it.

This is the lens through which Eurosif approaches the MFF debate, and the focus of the recommendations that follow.

This policy brief is structured around two main areas where the design of the MFF will determine its **capacity to crowd in private capital at scale for a sustainable transition**. **Section 1** examines what a stronger Performance Regulation would require to ensure that public money – across all programmes, not only the ECF – is spent effectively towards the sustainable transition. **Section 2** turns to the European Competitiveness Fund specifically: how its definition of competitiveness, its instrument mix, the InvestEU architecture, its implementing partners, its coordination with other EU instruments, and its governance structure must be designed if the fund is to function as a genuine investment catalyst rather than a grant-distribution mechanism. In the following sections, each area of analysis is paired with concrete, actionable recommendations for the legislative negotiations ahead.

1) A stronger Performance Regulation for more effective spending

In the "Budget expenditure tracking and performance framework" (Performance Regulation)[5], the European Commission proposed a set of rules that apply across the EU budget. It replaces several programme-level rules with the goal of streamlining the implementation of the EU budget.

As the Performance Regulation sets the overall framework for the budget, it includes several provisions that are important for leveraging private investment for decarbonisation and the just transition, notably the crosscutting climate and environment spending target and the "Do No Significant Harm" principle.

An effective Performance Regulation can send clear signals that help investors allocate financing where it is needed to fill the investment gap. At the same time, it prevents investing into projects that contradict EU objectives, important both for an effective use of public funds and for investors' risk management, ensuring that investments pay off in the long term.

The climate and environmental mainstreaming target of 35%

According to the European Commission proposal, 35% of the entire EU budget, publicly communicated[6] as 700 billion EUR, would be used for climate and environmental activities. Annex III of the Performance Regulation breaks down the overall 35% into specific targets for

[5] European Commission, *Proposal for a* of the European Parliament and of the Council*establishing a budget expenditure tracking and performance framework and other horizontal rules for the Union programmes and activities,* 2025

[6] European Commission, *Supporting climate action through the EU budget*, 2025

some of the programmes, requiring for example that the European Competitiveness allocates at least 43% of its envelope for these priorities.

Climate and environmental spending is one of the most important investments in Europe's long-term resilience, competitiveness and security. As climate risks intensify and already generate economic losses of [€40–50 billion annually][7], investing today helps avoid significantly higher costs in the future. For example, evidence shows that climate adaptation can deliver substantial returns of up to 5–10 times the initial investment[8][9]. 72% of EU businesses and [75% of corporate financing depend on nature][10], which means preserving it also protects our economy.

At the same time, the green transition strengthens Europe's strategic position. As highlighted in the [Draghi report][11], dependence on imported fossil fuels remains a major vulnerability and a drag on industrial competitiveness. Accelerating decarbonisation reduces exposure to volatile energy prices and improves energy security.

Unlike the previous MFF, that had separate climate and biodiversity spending targets, the 2028–2034 MFF uses only a single environmental target which also includes further aspects such as circular economy and pollution.

The spending that is counted for this environmental target is determined by coefficients called "Rio markers", set in an Annex I of the Regulation. Rio markers are traditionally used by the OECD to track spending towards the goals of the 1992 Rio Conventions. It is important to note that this classifies activities based on their goal, not the actual outcome. In the EU Commission's proposal, spending that matches a list of broad intervention fields, such as "air pollution prevention in industries" or "maritime ports", is counted as contributing to the target by 40% or 100%. Compared to the EU Taxonomy for example, where activities do not only have to be part of a list ("Taxonomy eligibility"), but also fulfil detailed criteria ("Taxonomy alignment"), this system is less precise and scientific. This means that there is a heightened risk of misclassification and greenwashing, which has to be addressed.

Recommendation 1.1

Increase the climate and environmental target overall to reflect its broader scope.

Compared with the previous budget, the proposed 35% target for climate and the environment represents a reduction. While the headline number of €700 bn looks higher, when considering inflation and the end of the COVID recovery packages, there would be 6–12% less funding available, according to calculations by CAN Europe[12] and WWF[13].

This sends a concerning signal in light of the EU's annual investment gap of €750–800 billion. While the broader target scope is welcome and better captures interconnected sustainability

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[7] European Environment Agency, *Investing in climate adaptation strengthens European competitiveness*, 2026
[8] World Economic Forum and Boston Consulting Group, *The Cost of Inaction: A CEO Guide to Navigating Climate Risk*, 2024
[9]World Resources Institute, *Adaptation Finance and Investment*.
[10] European Environment Agency, Europe's Environment 2025, European Environment Agency, 2025
[11] Mario Draghi, *The Future of European Competitiveness: A Competitiveness Strategy for Europe*, 2024
[12] CAN Europe, *EU's next long-term budget: Commission's proposal leaves gaps in climate and nature*, 2025
[13] WWF, *Briefing paper on the Performance Regulation*, 2025

challenges, spending levels should increase accordingly to ensure EU funding credibly supports the 2030 climate target.

We note that this approach is also shared by the AGRI committee in the European Parliament that suggested 50% in its draft opinion.

However, we are very concerned about suggestions from the European Parliament's ITRE Committee to delete the climate and environmental target in its draft opinion. The competitiveness of Europe's economy in the coming years will depend on the integrity of its natural resources, independence from energy imports, and its ability to decarbonise quickly.

Recommendation 1.2

Ensure that different environmental aspects receive sufficient funding.

A joint environmental target does not ensure that all environmental objectives receive adequate funding. There is a risk that priorities will compete, leaving some areas underfunded, particularly less established sectors where public finance is most needed to catalyse investment. For example, according to the European Commission[14], in the current Recovery and Resilience Facility, 72% of the green contribution went to energy and mobility, while only 4% were allocated to circular economy and 2% to biodiversity. Separate EU tracking or earmarks (as long as no double-counting takes place) could provide appropriate safeguards, while allowing Member States enough flexibility to adjust spending to their needs.

Recommendation 1.3

No hidden reductions: apply the climate and environmental target across the entire budget.

In the Commission proposal, the 35% target is calculated excluding defence activities.

Regardless of whether defence can be considered sustainable, this effectively lowers the target, as all defence spending – likely a significant part of the ECF and NRPPs – is removed from the calculation's denominator. The promised 700 EUR billion would not be reached, indirectly reducing funding to one of the EU's most important strategic priorities.

Recommendation 1.4

No greenwashing: use scientific and outcome-based criteria to ensure environmental spending goes where it matters.

A weakness of the Rio marker system is that it is based on the intent of an activity and the financial input, and not the actual outcomes. The current list of coefficients risks, as several civil society organisations[15], the think tank E3G[16], as well as the German Environment Agency[17]

[14] European Commission, *2025 Environmental Implementation Review: Environmental implementation for prosperity and security*, 2025

[15] Transport & Environment, WWF European Policy Office, CEE Bankwatch Network, ClientEarth, CAN Europe, HEAL and European Environmental Bureau, *Performance Regulation: Fixing the details, 2026*

[16] E3G, 5 climate insights from the EU's new budget proposal, 2025

[17] Klaus Sauerborn, *Klima- und Umweltausrichtung des neuen EU-Haushalts 2028–2034 überschätzt*, Umweltbundesamt, 2026

have analysed, counting activities that are not, or not necessarily, aligned with environmental goals. This would channel public finance, and private finance leveraged through it, away from the intended positive real-world outcomes.

We recommend using criteria that are as scientific as possible and narrowing down the intervention fields to close loopholes. The Rio coefficients should be assigned based on reliable impact assessments. It is also important to consider long-term implications such as fossil-fuel lock in, which are not only environmental but also financial risks, both on a societal level and for individual investors.

The "Do No Significant Harm" Principle

One of the foundations set out in Article 5 of the Performance Regulation is the "Do No Significant Harm" principle, which is also required under Article 33 (2) (d) of the Financial Regulation[18].

At its core, it holds that an activity, even if it contributes to an environmental objective, can only be considered sustainable if it does not negatively impact other environmental objectives at the same time. In the past, different DNSH screenings took place at programme level of the MFF, while the new Performance Regulation introduces a harmonised horizontal application. The proposal allows exemptions for defence activities, and the Council proposes to additionally exempt migration and border management.

This centralised DNSH aims to replace a range of programme-level rules, e.g. in the Recovery and Resilience Facility (RRF) and the Social Climate Fund (SCF). It is important – as has been highlighted by experts from think tanks[19], civil society[20], and financial actors[21] – that it ensures sufficient stringency. Going below the ambition of the current rules would mean weakening the important safeguards.

In parallel to the negotiations on the Performance Regulation, **the European Commission has also developed a concept paper**[22] setting out an approach for the future guidance, including the exclusions on which the DNSH principle will be based as well as proportionality measures. The design of this guidance is therefore critical: it will determine which activities are subject to DNSH safeguards in practice and whether the new harmonised framework preserves, strengthens or weakens the protections currently applied across individual EU programmes.

Channelling public and private financing effectively also means determining where it should not go. **A clear, unified DNSH principle can make the EU budget more focused, preventing spending that goes against the EU's priorities of resilience and competitiveness through industrial decarbonisation.** For example, subsidising inaction in fossil industries prolongs dependencies on energy imports and makes it harder for sustainable business models to compete. From an investor perspective, the DNSH principle creates predictability and protection against investments that are likely to become stranded

[18] European Commission, *Regulation (EU, Euratom) 2024/2509 of the European Parliament and of the Council of 23 September 2024 on the financial rules applicable to the general budget of the Union,* 2024
[19] Climate Strategy, *Key recommendations for the ECF InvestEU Instrument*, 2026
[20] WWF European Policy Office, *WWF Briefing paper on the Performance Regulation*, 2025
[21] Sustainable Banking Coalition, *Reforming the 2028–2034 MFF: A Call from Europe's Future-Fit Banks,* 2025
[22] European Commission, *Commission concept paper on the 'Do No Significant Harm' (DNSH) guidance for the Multiannual Financial Framework 2028-2034*, 2026

assets[23] in the future as the European transition towards decarbonisation and sustainability advances. It is also an opportunity to leverage on other parts of the sustainable finance framework, creating a unified system that strengthens the individual parts.

Recommendation 1.5

Maintain the DNSH principle.

Following the EC proposal, some policymakers, such as the ITRE Committee in the European Parliament, called for the removal of the DNSH principle.

We strongly call for the maintenance of the DNSH principle, which serves as a valuable and essential safeguard against spending that undermines the EU's objectives and priorities, including industrial decarbonisation and broader climate and environmental goals. It is already familiar to both real-economy companies and financial institutions. Maintaining it would send a clear signal that crowds in private investment and protects investors and businesses against stranded assets, while ensuring regulatory stability.

Moreover, a crosscutting DNSH principle has the potential to make accessing public funds easier and clearer for beneficiaries compared to the range of different approaches currently used, for example in the Cohesion Funds, SCF, and the InvestEU Regulation Annex V(B)[24].

Recommendation 1.6

1.6 No spending against EU climate and environmental objectives, setting ambitious yet practical criteria.

The DNSH principle has the potential to give clear signals to investors on which activities will receive public support. In this light, it is important that the future guidance is sufficiently ambitious and clear. This means excluding activities not aligned with EU climate and environmental objectives, for example projects that could lead to carbon lock-in or face early obsolescence and write-downs, hurting both public money and private co-investors. Misallocating public funding in this way would also distort market incentives, making it more difficult for genuinely sustainable projects to compete.

For DNSH to provide investors with a credible signal about the activities receiving EU support, it must ensure a level of protection that goes beyond mere compliance with existing legislation. DNSH should not mandate, however, reassessing requirements that are already legally prohibited or controlled. Existing laws should be a prerequisite, while DNSH should remain an additional safeguard for the sound use of EU public funds.

The approach currently proposed relies on a single exclusion list, which risks leaving significant loopholes. For example, digital infrastructure, including datacentres, is currently not listed.

The list should serve as the primary eligibility check. Activities outside it should undergo proportionate screening for material climate or environmental impacts, with further proofing and mitigation required only where such impacts are identified. For financial instruments and budgetary guarantees, this second step could build on the established InvestEU approach

[23] Ariel Brunner, Chiara Martinelli, Ester Asin, Patrick ten Brink and William Todts, *Europe's sovereignty budget*, Transport & Environment, 2026

[24] European Commission, *Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017*, 2021

under Articles 8(5) and 8(6) of Regulation (EU) 2021/523[25] and Commission Notice 2021/C 280/01[26].

Recommendation 1.7

Limit exemptions to the application of the DNSH principle to ensure its credibility and effectiveness.

Both the European Commission's Performance Regulation proposal and its concept paper introduce a range of exemptions to the application of the DNSH principle. These include defence and security activities, measures justified by overriding public interest, crisis situations or cases where the principle is “not feasible or appropriate”. While some flexibility may be justified, there is a risk that broad exemptions are overused and undermine the credibility of the DNSH principle.

Too many exemptions can also make interoperability between the MFF and other potentially relevant parts of the EU sustainable finance regulatory framework challenging. For example, they are likely to provide hindrance to an investor trying to determine if a DNSH-compliant blended finance project could qualify for the “sustainable” category under the Sustainable Finance Disclosure Regulation (SFDR).

Moreover, the concept paper applies the proportionality principle by allowing DNSH requirements to be differentiated according to the size of an activity and the territorial context in which it takes place, including in third countries. While intended to avoid disproportionate requirements, this creates an additional layer of exceptions, which risks allowing activities with material environmental impacts to escape adequate scrutiny.

Any exemptions to DNSH should remain narrowly defined, transparently justified and applied only on a case-by-case basis, not as a blanket approach to entire sectors. Where the application of DNSH is considered not feasible or appropriate, beneficiaries should be required to provide evidence-based justification and implement safeguards to minimise negative impact. Member State decisions should be subject to Commission scrutiny to ensure consistent application across the EU.

Recommendation 1.8

Develop ambitious and practical DNSH criteria for general-purpose financial instruments.

Many financial instruments, budgetary guarantees or equity-type products provide general-purpose financing rather than financing a single identifiable project or activity. These cases need tailored, but equally strong, criteria.

The Commission’s guidance should address the risk that EU public support could indirectly strengthen companies with significant harmful activities, for example where a company

[25] European Commission, *Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017*, 2021
[26] European Commission, *Technical guidance on sustainability proofing for the InvestEU Fund (2021/C 280/01)*, 2021

receives general-purpose support because it has a renewable investment line while continuing to rely on high-impact activities.

Therefore, we call for the introduction of the entity-level criteria which should include a cap on the share of revenues derived from activities excluded under the MFF DNSH list. For pre-revenue companies, where a revenue-based test cannot be applied, the assessment should instead consider forward-looking evidence, including business plans, R&D pipelines, planned activities and capital expenditure.

Moreover, criteria should require a credible and time-bound transition plan which would provide an additional safeguard. The transition plan requirement would build on the provisions under the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standard (ESRS) as well as on the existing InvestEU treatment of direct equity investments in companies covered by the EU ETS. As indicated in the Commission's "Recommendations on facilitating finance for the transition to a sustainable economy"[27], transition plans should include science-based and time-bound targets, clearly identified decarbonisation levers, capital allocation and investment plans, appropriate governance arrangements, and implementation monitoring. The plans should also be consistent with capital expenditure, prevent the expansion of harmful activities and include consequences where commitments are not delivered.

Recommendation 1.9

Ensure consistency between the MFF DNSH guidance and the EU Taxonomy while preventing regulatory loopholes.

Overall, we support the European Commission's approach that an activity that fulfils the DNSH criteria and the criteria for "substantial contribution" under the EU Taxonomy should automatically qualify for the MFF DNSH. Where Taxonomy criteria exist and are suitable for the type of activity financed, they should be one possible evidence route to demonstrate DNSH compliance under the MFF. This would reduce duplication for companies and investors already applying the Taxonomy and strengthen coherence between EU public spending and the sustainable finance framework.

However, as the DNSH methodology of the Taxonomy differs significantly from the one proposed for the MFF guidance, it will be important to ensure that there are no inconsistencies that could become loopholes. Automatic recognition of Taxonomy-aligned activities should only be possible where the underlying environmental safeguards are equivalent to those required under the MFF DNSH framework. Otherwise, activities that would not meet the environmental safeguards envisaged under the MFF DNSH guidance, including certain activities considered Taxonomy-aligned under specific conditions, such as gas-related activities, could benefit from a more favourable treatment and undermine the overall coherence of the framework.

[27] European Commission, *Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy,* 2023

2) Elevating the ECF's efficiency for EU competitive transition: design for private capital mobilisation

The Commission's proposal explicitly positions the 2028–2034 MFF as an investment budget, and the European Competitiveness Fund Regulation[28] (the second heading of the MFF structure) is its clearest expression of this ambition.

The ECF is therefore the instrument most directly relevant to institutional investors. With a proposed envelope of €234.3 billion (current prices), the ECF is structured around two general objectives: establishing "an investment capacity to support European competitiveness in strategic technologies and sectors", and leveraging EU budget tools "to unlock private, institutional and national investment."

This design is not built from scratch. It explicitly carries forward the operating model of InvestEU, the EU's current flagship guarantee instrument, which the ECF Regulation absorbs into a dedicated ECF InvestEU Instrument. The rationale for this continuity lies in InvestEU's track record: each €1 of EU guarantee under InvestEU has supported €15.20 in total investment, with around 70% coming from private sources – a leverage ratio that demonstrates the potential of guarantee-based instruments to crowd in institutional capital at scale. The Commission's intention to replicate and expand this logic across the ECF is clearly stated: the shift from grant-distribution to leverage-and-de-risk is the fund's declared design principle.

Yet there is a gap between framing and structural design. The EU Commission proposal for the ECF Regulation references competitiveness dozens of times without clearly defining the term[29]. The fund's stated general objective is to enhance European competitiveness, particularly in strategic sectors and technologies, but no definition specifies what European competitiveness means, nor does any operative provision establish a binding link between fund investments and the EU's climate neutrality objectives. In fact, the connection to the Clean Industrial Deal and the Competitiveness Compass appears in the preamble, not in the operative articles.

This is also evident from the fund's resources allocation: the ECF Regulation allocates its envelope across four policy windows:

- €26 billion for Clean Transition and Industrial Decarbonisation
- €20 billion for Health, Biotech, Agriculture and Bioeconomy
- €51 billion for Digital Leadership
- €125 billion for Resilience, Security, Defence Industry and Space.

The Clean Transition window therefore accounts for roughly 11% of the ECF's total envelope. Set against the scale of the investment gap this paper opened with (€750–800 billion per year across the EU economy), even a fully leveraged €26 billion clean transition window, multiplied many times over through guarantees, remains modest relative to need. Maximising leverage, and ensuring that resources beyond the Clean Transition window also serve transition-relevant investments, is crucial.

[28] European Commission, *Proposal for a Regulation of the European Parliament and of the Council on establishing the European Competitiveness Fund*, COM(2025) 555 final/2, European Commission, 2025
[29] Anna Kolesnichenko, *Unpacking competitiveness*, Foundation for European Progressive Studies, 2025

Recommendation 2.1

Adopt a definition of competitiveness that integrates sustainability as a structural dimension.

The ECF, and the MFF as a whole, should formally define competitiveness as the capacity to attract and retain investment for modernisation and innovation that enhances European added value and quality employment, while ensuring resilience to geopolitical, security, climate and natural risks, and achieving inclusive wellbeing within environmental sustainability.

In practical terms, this means two things for the MFF: the ECF's eligibility criteria and work programme priorities should be anchored to this integrated definition, and investments that lock in carbon or create stranded-asset risk should be ineligible regardless of which policy window they fall under.

Getting the instrument mix right: from grants to guarantees

Given the scale of the investment gap outlined above, the central issue is not only how much public funding the EU allocates, but **how efficiently each public euro is used to mobilise additional investment.** This logic is particularly important for the ECF: if the fund is to operate as the MFF's main investment catalyst, its instrument mix must ensure that public money de-risks projects and attracts private capital, rather than defaulting to grants where financial instruments could deliver greater mobilisation.

The ECF financial instrument mix is composed of two layers: **the "ECF Toolbox", covering grants, procurement and coordination instruments and the "ECF InvestEU Instrument", using financial tools including loans, equity and guarantees** expected to mobilise significant private and public investment aligned with Union priorities. The full range of instruments is available across all the ECF policy windows which is by design intended to provide flexibility.

However, **the choice of instrument is left to work programmes** – the annual or multiannual implementation documents that set operational rules for deploying MFF resources – **and implementing partners**, such as the EIB Group and national promotional banks, with no binding hierarchy in the regulation itself between grants and financial instruments, or conditionality linked to market readiness. Without a clear framework governing when each tool applies, the risk is that the "investment capacity" framing describes an aspiration rather than a structure.

This is not a technical detail. The instrument mix determines what the MFF actually does: grants transfer public money, while guarantees and blended instruments leverage it. The absence of instrument conditionality means that in practice, work programmes may default to grants – which are simpler to administer and easier to deploy – even in cases where guarantees or blended instruments would generate significantly higher private capital mobilisation.

In the ECF regulation, the **additionality** – the principle that EU funds should finance only what the private sector would not fund on its own – is mentioned but the proposal does not propose a methodology for assessing ex ante and ex post whether investments mobilised under the instrument have been truly additional. The European Court of Auditors' Opinion[30] on the ECF proposal flags this directly: the proposal "provides no details of the level of [private and national] funding that will be raised in this way, or how", meaning that the fund's core claim of private capital mobilisation is an intention without a measurement or verification mechanism.

For private investors structuring co-investment strategies alongside ECF-supported projects, this uncertainty translates directly into transaction costs and risk. Without knowing which instrument will be used, under what conditions, and what additionality standards apply, private investors cannot reliably anticipate the risk-return profile of ECF-adjacent investments, plan complementary product structures, or build pipeline with confidence.

Recommendation 2.2

Reintegrate detailed ex-ante additionality criteria into the ECF InvestEU Instrument

The co-legislators should ensure that the ECF Regulation reintroduces, for the InvestEU Instrument, additionality[31] and market-failure ex-ante assessment provisions with the same level of specificity of the current InvestEU Regulation[32]. These provisions matter because they are detailed: they define how implementing partners must demonstrate that EU support addresses a market failure or sub-optimal investment situation, ensuring that public guarantees increase impact on the ground and mobilise private investment where it is genuinely needed.

Recommendation 2.3

Establish binding instrument conditionality in the ECF Regulation, tied to investment stage, market failure, and transition relevance.

The ECF Regulation should establish in its operative articles a high-level but clear hierarchy governing when each instrument type applies. The principle should be **efficient**[33] **use of scarce public resources**: the least concessional instrument sufficient to address the identified market failure should be used, so that grants are not spent where a loan or guarantee would achieve the same outcome.

Following this approach, **grants** should be reserved for pre-revenue, first-of-a-kind, or public-good investments as well as for early-stage project development activities, including feasibility studies, technical assistance and other preparatory support required to make projects investment-ready, where no commercial return is foreseeable. **Guarantees and loans** should be the default for projects that are bankable but face financing terms that preclude private investment at adequate scale. **Equity and quasi-equity** should be directed at innovative scale-ups for which debt is structurally inappropriate, and can be also used for large transition-relevant companies that may also require equity injections to unlock further financing and support the major capital expenditure the transition demands.

[30] European Court of Auditors, *Opinion 01/2026 concerning the proposal for a Regulation establishing the European Competitiveness Fund*, European Court of Auditors, 2026
[31] Climate Strategy, *Key recommendations for the ECF InvestEU Instrument*, 2026
[32] European Commission, *Annex 5 to the Proposal for a regulation of the European Parliament and of the Council establishing the InvestEU Programme*, 2020
[33] Climate Strategy & Transport and Environment, *Derisking finance for competitive sustainability: Proposals to make ECF's InvestEU instrument lift European Cleantech*, 2026

For this latter category, eligibility should not rest on sector or size alone: large beneficiaries should be required to demonstrate a **credible decarbonisation trajectory**, for instance through transition plans disclosed in line with the European Sustainability Reporting Standards (ESRS) with transparent, quantitative metrics that allow progress to be monitored over time, so that public support is channelled towards companies genuinely advancing the transition, rather than incumbents seeking to maintain the status quo.

Concessionality should be minimised and time-limited in all cases, calibrated to the specific market failure being addressed. This hierarchy should not be delegated to annual work programmes; it requires a regulatory foundation that can serve as a predictable signal to private co-investors and that can be subject to independent audit.

The InvestEU instrument: the primary gateway for private capital

Within the ECF's financial architecture, the ECF InvestEU Instrument occupies a structurally distinct role. While the grants toolbox transfers public money to final recipients, the InvestEU Instrument operates through a fundamentally different mechanism: an EU budgetary **guarantee that promises to absorb losses on investments up to a defined ceiling, improving the risk-return profile of projects to the point where private and institutional co-investors can participate.** It is, in effect, the ECF's primary lever for unlocking capital that would otherwise remain on the sidelines.

This central role is reflected in the Commission proposal itself, which introduces an exclusivity clause requiring **EU budgetary guarantees and financial instruments to be deployed through the ECF InvestEU Instrument**. Together with the proposal's emphasis on the use of financial instruments, this positions InvestEU as the Union's primary vehicle for mobilising private capital in support of strategic investments.

The track record of this model under the current MFF has already been mentioned: as of June 2024, InvestEU was estimated to have mobilised €280 billion in investments, of which €201 billion (70%) stemmed from the private sector. The fact that the current InvestEU cycle has reportedly been oversubscribed by a factor of three further confirms strong market demand for this type of EU risk-sharing instrument. These figures establish a clear proof of concept: a well-designed guarantee instrument, deployed through capable implementing partners, can multiply its nominal value many times over in total investment, with the majority flowing from private sources.

The Commission's ECF proposal carries this model forward: the ECF regulation creates an EU budget guarantee of up to €70 billion, provisioned at 50%. The provisioning rate – the share of the guarantee that must be held in reserve against potential losses – has been raised from 40% under the current InvestEU, reflecting a more conservative approach to risk exposure. This has important implications: at 50% provisioning, a €70 billion guarantee requires €35 billion in reserve, limiting the total capital that can be backed relative to a lower provisioning rate. While prudent risk management is appropriate, the balance between capital efficiency and leverage potential merits examination in the legislative negotiations.

The ITRE Committee's draft report[34], published in April 2026, proposes raising the guarantee ceiling substantially (to €120 billion) and introduces dedicated InvestEU earmarks per policy

[34] European Parliament, Committee on Industry, Research and Energy, *Draft report on the European Competitiveness Fund*, 2026

window rather than the Commission's indicative and flexible envelopes. From the perspective of private capital mobilisation[35], it is important that this increase in the guarantee envelope is accompanied by a clear articulation of the expected leverage ratio and private co-investment targets, and that the terms of risk-sharing are calibrated to attract co-investors rather than simply expanding the volume of publicly backed lending.

A second concern, equally significant for private investors, is the risk of discontinuity in the transition from the current InvestEU programme to the new ECF InvestEU Instrument. The interim evaluation of InvestEU Programme[36], published in October 2024, highlighted the need to ensure continuity in the financial products offered to the market and to avoid a "stop-and-go" situation, as this would create not only disruption but lasting damage to the market ecosystem that has been built. In the past years, InvestEU implementing partners (EIB Group, National Promotional Banks, and other financial institutions) have developed transaction pipelines, risk-assessment methodologies, financial product structures, and market relationships that cannot be rebuilt quickly if the transition is mismanaged. For private investors that have built co-investment strategies around InvestEU pipelines, a gap between programming periods risks disrupting deal flow, delays capital deployment, and erodes confidence in the predictability of the EU investment ecosystem.

Recommendation 2.4

Increase the ECF InvestEU guarantee envelope and design its terms to maximise private capital mobilisation.

Given InvestEU's demonstrated leverage ratio of over 15:1, the proposal from the Parliament to increase the guarantee ceiling is therefore a welcome direction. Any increase should, however, be accompanied by careful calibration of the provisioning rate and fee structure: guarantee fees set too high reduce the instrument's attractiveness to implementing partners and final recipients; set too low, they may not adequately price the risk absorbed by the public budget.

Equally important, any expansion of the guarantee envelope should preserve additionality by targeting projects that face genuine market failures[37] or suboptimal investment situations. If the level of public risk-sharing becomes overly generous, support may flow to projects that would have secured financing anyway, reducing the catalytic effect of the instrument and creating distortions vis-à-vis commercial providers of capital.

While the InvestEU framework already requires implementing partners to report leverage and multiplier effects achieved, the Commission should publish, at the outset of the programming period, the methodology and assumptions underpinning the expected leverage ratio, private capital mobilisation targets, provisioning rate and fee structure associated with

[35] Pietro Cesaro and Jurei Yada, *Making Every Public Euro Count: How to leverage private transition investment through the EU's Multiannual Financial Framework*, E3G, 2025
[36] European Commission, *Interim evaluation of the InvestEU Programme*, 2024
[37] The current InvestEU framework defines and operationalises market failures, suboptimal investment situations and additionality through Regulation (EU) 2021/523 and the InvestEU Investment Guidelines established by Commission Delegated Regulation (EU) 2021/1078. Market failures include situations where public-good characteristics, externalities, information asymmetries or perceived risks prevent investments from obtaining adequate market financing. Additionality requires EU-supported operations not to replace financing that public or private sources would otherwise have provided.

the ECF InvestEU guarantee, so that the scale of ambition can be assessed and tracked against an actual benchmark, not only reported after the fact.

Recommendation 2.5

Calibrate the ECF InvestEU guarantee terms for effectiveness

The size of the overall budget guarantee matters, but so do its terms. The Commission proposes a 50% provisioning rate for the ECF InvestEU Instrument, compared to the 40% established under the current InvestEU Regulation[38] – a more conservative approach that mechanically reduces the effective guarantee capacity for a given budget envelope. The Commission should be required to provide an explicit justification of the provisioning rate in its assessment, so that the trade-off between risk caution and guarantee capacity can be evaluated.

Similarly, the terms of the guarantee – including the fees charged for access to EU risk coverage, which vary by implementing partner, by product type, and by the risk profile of the underlying portfolio – directly shape the instrument's attractiveness. Fees that are set too high can reduce deployment by increasing the cost of guarantee-backed financing, while fees that are set too low may underprice the risk absorbed by the EU budget, which means the Commission should be required to document how the proposed fee structure has been calibrated to support private capital mobilisation.

Recommendation 2.6

Guarantee operational continuity in the transition between the current and the next InvestEU program.

The co-legislators should ensure that the MFF framework includes explicit transitional provisions preventing any gap in operational continuity between the current InvestEU programme and the ECF InvestEU Instrument. Concretely, this means allowing implementing partners to build on existing operational frameworks and agreements rather than requiring full re-selection or re-assessment process where their track record has been satisfactory. Equally important, projects already identified, assessed, or in advanced stages of the approval process under InvestEU should not be required to restart that process under new ECF criteria simply because of the change in legal framework.

Selecting and incentivising the right implementing partners

Under the ECF InvestEU Instrument, the EU guarantee is deployed not directly by the Commission, but through a network of implementing partners – financial institutions that assume the risk of individual transactions, backed by the EU guarantee, and are responsible for structuring and deploying financing to final beneficiaries. These include the EIB Group, National Promotional Banks, and Multilateral Development Banks. Under the current

[38] European Parliament and Council of the European Union, *Regulation (EU) 2021/523 establishing the InvestEU Programme*, Official Journal of the European Union, 2021

InvestEU programme, the EIB Group covers 75% of the EU guarantee[39], with national promotional banks and other financial institutions accounting for the remaining 25%.

The quality of implementing partners is therefore a first-order determinant of how much private capital the ECF actually mobilises. The ECF Regulation's proposed approach to implementing partner selection centres on institutional eligibility – pillar assessment, audit and reporting compliance, financial capacity – rather than on demonstrated capacity to crowd in private capital. The European Court of Auditors, in its Opinion 01/2026[40] on the ECF proposal, stressed the need to comply with overall criteria of excellence and impact in selecting entrusted entities.

Recommendation 2.7

Align implementing partner selection criteria and performance metrics with private capital mobilisation objectives.

More implementing partners can mean broader geographic reach and greater competition, but only if selection criteria are designed to identify institutions with demonstrated capacity to mobilise private capital, not merely to manage public funds. The ECF Regulation should establish that private capital mobilisation track record is an explicit and weighted criterion in the implementing partner selection process, alongside the existing financial and operational eligibility requirements. Assessment should not focus solely on aggregate leverage and mobilisation volumes, but also on the ability of implementing partners to originate and finance projects facing significant technology, deployment or scale-up risks. Performance metrics should therefore reward not only the quantity of capital mobilised, but also support for first-of-a-kind, innovative and transition-relevant projects that would otherwise struggle to secure financing and reach commercial-scale deployment.

Coordinating the ECF with other EU investment instruments

The ECF does not operate in isolation. Several other EU instruments pursue overlapping transition investment objectives, creating both complementarity and coordination challenges. Within the MFF, the most relevant are the Structural and Cohesion Funds and the National Recovery and Resilience Plans (NRRPs), which have investment and reform commitments that run through 2026 and shape the pipeline of transition projects in many Member States.

Beyond the coordination of eligibility criteria, the NRRPs also connect to the ECF through a more direct channel: the Member State compartment[41] within the ECF InvestEU Instrument allows national authorities to channel portions of their NRRP allocations into the EU budget guarantee, rather than deploying them as direct grants, thereby accessing higher leverage and lower funding costs. This could be particularly relevant given the delays in absorbing these funds[42] during the current MFF cycle.

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[39] European Commission, *InvestEU implementing partners*

[40] European Court of Auditors, *Opinion 01/2026 concerning the proposal for a regulation of the European Parliament and of the Council on establishing the European Competitiveness Fund*, 2026

[41] European Commission, *The Member State compartment*, InvestEU

[42] European Court of Auditors, *Special report 13/2024: Absorption of funds from the Recovery and Resilience Facility*, 2024

Outside the MFF, the Innovation Fund (financed by ETS revenues) and the Modernisation Fund are directly relevant to clean technology and industrial decarbonisation, with eligibility criteria that overlap significantly with the ECF's Clean Transition window. Each of these instruments has its own eligibility rules, governance structure, and implementing arrangements.

Moreover, the EU Commission recently announced the Industrial Decarbonisation Bank (IDB), that aims at €100 billion in funding, drawing on the Innovation Fund, additional ETS revenues, and a revision of InvestEU, and, according to the ECF Regulation, will be placed within the governance of the future Competitiveness Fund. Its structural position is therefore unusual: ECF governance, but funding sources that are largely external to the MFF.

Recommendation 2.8

Establish clear coordination mechanisms between the ECF and complementary EU instruments to provide consistent signals to private investors.

The ECF Regulation should establish explicit coordination mechanisms with the other EU instruments relevant to transition investment to ensure non-overlapping eligibility criteria, consistent conditionality, and coherent signals to private investors. In practice, this means that work programmes under the ECF Clean Transition window should be designed with explicit reference to what the Innovation Fund, the IDB, Horizon Europe and cohesion instruments are already covering, avoiding duplication and closing gaps rather than replicating existing support. The ECF should, therefore, complement the technology and early-commercialisation support provided by these instruments by facilitating access to stage-appropriate financing for deployment and growth, helping to reduce funding gaps and crowd in private and institutional capital as projects mature.

For the NRRP, where Member State investment pipelines are already advanced, the ECF should be designed to complement and scale projects that have already attracted national and private co-financing, rather than compete with or duplicate them. The Commission could publish, at the outset of each programming cycle, a consolidated mapping of how EU transition instruments interact so that private investors can navigate the landscape and structure complementary strategies without bearing the transaction costs of a fragmented and opaque system.

In parallel, the Commission and Member States should actively promote greater use of the Member State compartment within the ECF InvestEU Instrument, to leverage more private capital.

ECF Governance: from strategic priorities to investment decisions

The success of the ECF depends not only on its size and instrument mix, but on the governance architecture that translates strategic priorities into investment decisions. The Commission's proposal establishes a **Strategic Stakeholders Board** together with an **Investment Committee and an Advisory Board** specific to the ECF InvestEU Instrument, composed of one representative of each implementing partner and one representative of each Member State, chaired by the European Commission, with a mandate to advise on the design of financial products and on strategic and operational direction.

The [European Court of Auditors](#)[43] called on the Commission to clarify the roles and responsibilities of the various advisory bodies envisaged and to determine how they interact, in order to avoid unnecessary governance complexity and improve accountability.

The Parliament (in the ITRE Committees's draft report[44]) responds to this by suggesting to replace the Commission's single Strategic Stakeholders Board with two distinct bodies. The first, an **Economic and Technological Advisory Council**, is designed for independence, selected for economic and technology expertise and acting independently from the Commission. Its mandate covers market failures, investment gaps, and strategic portfolio identification (excluding security and defence) and it must publish an annual report. The second body, a **Stakeholder Group**, has a narrower, operational role, with membership explicitly including financial institutions, investors alongside industry, SMEs, and other market actors, selected for expertise, balance, and transparency.

However, the Stakeholder Group's advice on call design is explicitly non-binding, and its membership criteria are not yet accompanied by concrete selection procedures or conflict-of-interest rules comparable to those the Commission must establish for the Investment Committee and the InvestEU Advisory Board. Without such procedures, the inclusion of financial institutions and investors in principle does not guarantee balanced or genuinely independent representation in practice.

Recommendation 2.9

Ground ECF work programmes in transparent, evidence-based assessments of investment gaps and strategic priorities.

Annual and multiannual ECF work programmes should be based on a published, evidence-based assessment of strategic importance, competitiveness needs, and investment gaps across value chains and policy windows. ITRE makes two specific proposals that should be preserved in the final text: firstly, the independence of the Economic and Technological Advisory Council from the Commission, and secondly, a requirement for the Commission to take the body's annual report into account. To strengthen its practical impact, the Commission should be required to publish, alongside each work programme, an explicit account of how its allocation choices relate to the Advisory Council's most recent recommendations, including where and why it departs from them.

Recommendation 2.10

Establish clear selection criteria and conflict-of-interest rules for the Stakeholder Group.

The Stakeholder Group's explicit inclusion of financial institutions and investors alongside industry, SMEs, and other market actors is a welcome and necessary recognition that private capital providers hold direct, practical knowledge of what makes a project bankable and where genuine market failures occur. For this provision to be effective, the regulation should specify concrete selection procedures (comparable to those required for the Investment Committee

[43] European Court of Auditors, *Opinion 01/2026 concerning the proposal for a Regulation establishing the European Competitiveness Fund*, 2026

[44] European Parliament, Committee on Industry, Research and Energy, *Draft report on the European Competitiveness Fund*, 2026

and the InvestEU Advisory Board) including transparent nomination processes, sectoral and geographic balance requirements, and binding conflict-of-interest rules. The Commission should also clarify how the Stakeholder Group's sub-configurations by policy window will operate in practice, to ensure that financial market participants with transition-finance expertise are systematically consulted on the Clean Transition window specifically.

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