Prioritising competitiveness and security in EU's next multiannual financial framework (2028-2034)

In its consideration of the European Commission's communication on "The Road to the next Multiannual Financial Framework (MFF), Swedish Enterprise calls for a clear focus on competitiveness. At a very fundamental level, enhancing competitiveness and securing growth is necessary if we are to successfully address the great challenges of our time – geopolitical, security-related, climate-related, and demographic (including migration and skilled labour). To increase growth in the EU, structural reforms are essential. We, therefore, welcome the performance-based approach that the Commission has indicated for the MFF. If designed correctly it may help drive necessary national reforms that progress competitiveness across the EU.

The focus on competitiveness can be achieved if the budget puts emphasis on three key aspects: prioritisation, efficiency and evaluation. The EU-budget should prioritise programmes and funds that enhance EU's competitiveness. In addition, funds must be used efficiently, and their employment must be assessed before and after programmes start and end. In this way the budget can reach further and add more value, without increasing in size.

We welcome an EU-budget supporting a business-friendly environment to increase EU's competitiveness

Swedish Enterprise welcomes public spending focused on public goods and services that support a business-friendly environment while avoiding market distortions. While much of such spending is channelled via national budgets, the EU can make strong contributions to Europe's economic performance when programmes and reforms focus on areas of strong EU competence and where there is a significant cross-border challenge to address. This holds true also for the consideration of the next MFF. Taking this as a starting point, Swedish Enterprise advocates for an EU budget which focuses on truly collective interests. Taking account of changing dynamics on the global stage, some tough choices regarding priorities among those collective interests also need to be made. Swedish Enterprise believes that upholding security and boosting competitiveness should be prioritised when considering the composition of the next MFF. We therefore recognise the provision of support to Ukraine, both during the conflict and in post-war recovery, to be of paramount importance.

Competitiveness is largely driven by enabling regulatory frameworks and efficient public administration. From the business perspective the main reason for innovative firms to scale-up outside of the EU, is the regulatory burden, difficult and long approval processes, in combination with lack of skilled labour, competitive energy prices and access to capital.

When it comes to funding, we believe that EU public funding can best support productivity and innovation by focusing resources on research, development and innovation that is technology and sector neutral. Looking at the framework programmes for research, development and innovation we welcome the ambitions and can see benefits stemming from this programme. Focusing on research and development across Member States and organisations (universities, smaller and larger companies) has been a fruitful ambition that supports innovation.

The set goal to reach net-zero emissions by 2050 in combination with the Emission Trading System have already incentivised Swedish companies to invest, innovate and implement clean(er) technology. The high level of private investment in research in Sweden is partly driven by tax-deductions on companies' investments in research and development and a strong national research and innovation system, that allows industry to collaborate pre-competitive and across sectors, hence attracting a large amount of private research and development capital. To form an industrial research and development agenda that better attracts private investments must be in focus going forward at the EU level.

Alternative budgetary structures may also warrant exploration to improve efficiency and effectiveness. We would welcome technology neutral principal-based, proportionate and evidence-based regulation that leads to a business- and innovation-friendly climate that can unlock entrepreneurs' and firms' potential in the green and digital transition instead of a larger EU-budget that support firms with public money. We support the principle of risk-sharing in the context of credit guarantees but do not endorse it when public funds are used as venture capital.

How EU's competitiveness can be supported by the EU-budget

Focusing on EU's competitiveness is very welcome. And as a business federation we recognise the urgency to accelerate EU's innovation capacity and increase productivity. However, this will not be achieved by going further down the road of interventionalist industrial policy and spending more public money that favours certain forms of production. On the contrary, it will be achieved by letting entrepreneurs and companies innovate and grow in open and competitive markets supported by better regulation, a reliable and affordable supply of energy and an efficient public administration. We want entrepreneurs to start and grow companies from innovative business ideas and research without unnecessary public intervention. Firms should focus on developing excellent products and services rather than applying for public funding – as a principle. Policy and the EU-budget should support firms with high levels of safety, a well-educated and skilled workforce, mobility of products, labour and capital, well-functioning infrastructure and promote research and development amongst EU-level projects.

Public intervention in markets is not a panacea that automatically increases innovation and/or productivity. The IMF has shown that increasing welfare by using public funding is a delicate task and particularly difficult for small economies. They find that there is a risk that industrial policy leads to negative welfare effects as it may distort the functioning of the market by tilting the level playing field. Nonetheless, public funding to support research and innovation has proven to increase productivity and can help the green transition according to the OECD. Public funding for basic research creates a foundation for research that can lead to revolutionary innovations such as the discovery of antibiotics, plastic and polymers, laser technology to mention a few. As the results are not clearly defined nor visible in the short-run, basic research is often not conducted by commercial actors and should therefore be financed by the public sector. The climate challenge is an area where time is of the essence and where a market failure has been identified; hence, in this area public interventions are probably needed. Furthermore, public funds or guarantees can stimulate private investments by setting up collaborative research and innovation arenas, where industry, academia and the public can collaborate to solve common challenges. It is key to attract more private capital to Europe, but developments need to be market-driven, based on needs identified by businesses.

In today's EU-budget there is a complex system of expenditure areas, political programmes, facilities and funds that are intertwined with each other. This leads to a risk of losing a good overview of what the EU-budget aims to achieve. It also makes evaluation of funds' value-added difficult. The European Commission's annual reports on the management and performance of the EU-budget shows how much has been approved and spent on different programmes according to its policy objectives but does not assess its economic benefits and efficiency. The European Court of Auditors reviews the revenues and expenditures of the budget but does not evaluate what economic benefits come from the budget's expenditures. Nor does it look at effectiveness or opportunity costs.

A further consideration are the administrative costs for the Commission and national governments and other agency bodies range from 7-12 per cent (Germany's Federal Ministry of Labour and Social Affairs and Sweden's Government inquiry).

Many of EU's economic problems can and should be solved at Member State-level. Using the EU budget as a "lender of last resort" when Member States themselves have high levels of debt will push the financial burden on to future generations in the whole EU. Furthermore, high levels of debt risk creating financial instability should markets become stressed.

Combining conditionality of EU-funds with the recommendations stemming from the country specific recommendations for the EU-Commission could push for needed structural reforms and economic progress which increases resilience. The reforms should be based on the country specific recommendations in the European semester. And the recommendations should focus more on reforms that improve the business climate in individual Member States.

Principles of how to use the EU-budget more efficiently to increase competitiveness

With this said we call for a more transparent and comprehensive overview of all funds and programs to meet the objectives stated above. It is essential to enable effective evaluation. Better evaluation that not only shows how the money is spent but how much value-added the EU-funds achieve is also welcome.

- **A better overview** of all programmes and funds. There must be an overview that shows exactly where funds are going, to which countries, and to which types of organisations, to better identify funding needs and assess the added value of funding and support.
- **Exit strategy.** Programmes and funds should be terminated when they have played out their role or relevance and evolving into new priorities.
- **Systemic review processes** to enhance the efficiency and impact of MFF should be implemented. It would evaluate the uptake, effectiveness, and impact of existing programmes. Programmes that do not meet predefined uptake thresholds or fail to demonstrate sufficient effectiveness should be considered for reallocation of funds to areas with higher potential for maximum effect.
- It should be clear what different funds and programmes are supposed to achieve in economic terms *ex ante* and they should be evaluated *ex post*. To make the best use of the budget, it is key to know what the economic benefits are. Otherwise, we risk wasting taxpayers' money.
- **The Court of Auditors' remit** should be increased to include evaluation of effectiveness and economic value added. It is of the utmost importance to ensure that the EU budget is spent efficiently before we consider an extension.
- **Alternative costs** should also be considered when deciding where funds should be used. Expenditures enabling a business-friendly climate should have priority over grants given to companies or specific industry projects.
- Let **empirical evidence** show how EU-funds can be best be spent. For example, the European Commission's (2024) evaluation of the Horizon 2020 programme concludes that the programme supported the implementation of other EU policies and played a

crucial role in achieving and maintaining the European Research Area. At the same time, not all targets were achieved, partly due to the long-time horizon for R&I investments to yield results and given certain shortcomings that should be addressed by future enhancements (e.g., broader participation, further simplification, better synergies with other initiatives). Against this background, we consider it essential that more such evaluations are conducted to ensure that empirical evidence informs the optimal allocation of EU funds.

- Public support may be needed to help us through the **green transition**. However, this spending must include all sectors and be tech neutral. Support should also be handed out cautiously to avoid “green bubbles”.

• **Individual Member States must take greater responsibility of their public finances**. The EU-budget should not be used as a “lender of last resort” when Member States themselves are hindered by high debt-levels to stimulate their economies in crisis or severe economic downturns. The EU budget should be used for truly collective interests. The EU-budget is only as strong as individual Member States’ public finances are.