Financing the European digital economy

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Disclaimer

This paper presents the Dutch efforts on the European digital economy after 2027. With this paper, the Netherlands explicitly does not want to anticipate the yet to be determined position of the Netherlands on the next Multiannual Financial Framework (MFF) from 2028. It says nothing about the continuation of specific funds or budgets in Europe or the Netherlands, nor about the governance surrounding the deployment of future funds in the Netherlands. The overarching MFF position is leading in the event of conflicting formulations.

The importance of digitalisation and digital key technologies

Digitalisation and digital technologies are of great strategic importance in order for the European economy to thrive, compete and increase its resilience. Digitalisation, new technologies and digital trade are major drivers of economic growth and play a key role in all sectors in terms of innovation, productivity and efficiency. Draghi's report also states that Europe's competitiveness and long-term earning capacity depend largely on digitalisation and the technologies that make it possible.

Europe is strategically relatively well positioned on several technologies such as semiconductor technologies, quantum and networking technologies. But for many digital technologies, Europe is becoming more and more dependent on other countries. For example, we see this in the areas of AI, cloud, cybersecurity and software used in offices, as shown in the analyses in the Dutch Digital Open Strategic Autonomy Agenda[1]. European companies currently lack the scale to make investments and compete with the United States and China. Because of this dependence, a developed digital economy has become an important geopolitical weapon for countries.

Major interventions are needed to stimulate and accelerate the digitalisation of the European economy. Europe must take advantage of opportunities in digitalisation and innovation to remain relevant. Key interventions should focus on strategically approaching, and prioritizing within, digitalisation and digital technologies. This will increase competitiveness and minimise risky strategic dependencies on other countries.

In addition, it is of importance to mobilise significant private investments. To support this, the MFF can have a lever function. This paper contains policy proposals for the needed boundary conditions and reforms to strengthen the European digital economy in the long term.

1. Pay attention to the boundary conditions for financing

- **Deepen the capital market union** so that SME's, start- and scale ups in the digital sector have better access to financing, especially to venture capital. [2]
- **Deepen the internal market** so that companies can benefit from economies of scale and network effects. This increases growth prospects and therefore encourages companies to scale up (faster) and continue to grow.
- **Stimulate private investments** to realize economy of scale.
- **Strengthen the public-private partnership**, both on the European level as well as via multilateral projects like Testing and Experimenting Facilities (TEF's).

[1] Agenda Digitale Open Strategische Autonomie | Rapport | Rijksoverheid.nl
[2] Deep and integrated capital markets for a resilient and competitive EU | Rapport | Rijksoverheid.nl

- **Improve the functioning of IPCEI, EDIC and EDIH.**[3] Strengthen (the cohesion in), and stimulate the use of, the ecosystem. Create more simple IPCEI-processes with shorter time schedules.
- **Strengthen the support for regulatory sandboxes and experimental spaces.**
- **Stimulate investments in digitalisation** from the European Investment Bank (EIB). Support blended finance constructions, such as investments in the digital infrastructure.

2. Make a European Digital Technology Strategy with a clear prioritisation

- A **European Digital Technology Strategy** would help the EU to improve its prioritisation and to connect policy goals to budget. A coherent framework to strengthen the European capacity to increase digital technology is now missing. Many initiatives under the EU Digital Compass exist, but these aim at many different topics without a clear prioritisation.
- To have impact, the EU needs to invest the limited resources at hand in **a limited set of digital technologies** that have the **greatest impact** on long-term earning power, the national security and other societal interests. Also, the EU should invest where it can make a meaningful difference in Europe's position compared to other countries. This also means not prioritising some technologies ('dare to limit').
- As far as the Netherlands is concerned, **semiconductors, quantum technology, network technology, cloud technology, AI and cybersecurity** should return in a European digital technology strategy. Investment in these technologies should strongly contribute to the development of ecosystems and sectors in the economy and the creation of economies of scale. In the future, digital technology strategy priorities should be anchored in the work programmes of research and innovation funds. Finally, the digital transition is only possible if investments are also made in digital skills.

3. Combine existing financial instruments

- Draghi signals that several instruments under the current MFF, such as the Digital Europe Programme (DEP) and Connecting Europe Facility (CEF) are now too complex and rigid for market players, member states and the Commission. Moreover, these programmes sometimes overlap, which can make it unclear to organisations which fund is suitable for a project.
- We support the proposal to **merge** these instruments, **unlock synergies** between them, **harmonise** conditions and **simplify** procedures. One condition is that projects are awarded on the basis of excellence and impact.

4. Offer more opportunities for public and private co-funding

- Europe does not currently achieve the scale of innovation needed to compete with other geopolitical superpowers. This is partly due to European market fragmentation, lagging investments, the absence of innovative tech ecosystems and a regulatory environment that does not sufficiently support innovation. In addition, financial instruments are also limited.
- We see, from our own experience with DEP, that with public and private co-funding, it is easier to organise funding on a large scale. For the Netherlands, it is important that there are sufficient opportunities to **encourage private capital** for strategic digital innovations. Therefore, rules for funding should align well with state aid rules insofar as national co-financing is desirable and allowed. It is therefore important that, based on a proper problem analysis, the Commission examines whether the current rules for national financial support are fit for purpose.
- For each call, work programmes should make it unmistakably clear to what extent **national co-financing** is allowed, taking into account state aid rules. Sharing successes can also help attract (private and risk) funding from, for instance, banks, InvestEU and/or EIB.

[3] These abbreviations stand for Important Projects of Common European Interest (IPCEIs), European Digital Infrastructure Consortium (EDIC) and European Digital Innovation Hubs (EDIH).

5. Ensure transparent, clear, on-time and predictable processes around the design and implementation of underlying work programmes

- Under the current DEP, the time for providing input on the new work programmes is short. Also, work programmes are adopted and published shortly before calls open. This complicates the prioritisation of topics for co-funding by Member States and hinders the involvement and encouragement of parties to participate in the programme. The Commission can improve this by **preparing work programmes in a timely manner, sharing them frequently** with Member States, **pre-publishing drafts and announcing criteria for participation** well in advance (at least three months) for the entire duration.
- Furthermore, Member States now have to wait until evaluations are completed to understand potential national co-financing needs. As a result, the processes around budget allocation for national co-funding start late, causing delays in the start of projects. Therefore, it is desirable for funding bodies to **receive information regarding the number and type of participants and budgets per topic** per Member State shortly after the closing date. This increases predictability and transparency around the needed co-financing.
- Even with a simplification and harmonisation of the next MFF, a strong (internationally operating) **National Contact Point network** is necessary from the start to inform and support all potential participants and enable successful matchmaking for consortia to be established.
- Finally, we stress the need for Europe's open strategic autonomy and the need for issuing security guarantees. Currently, for the different programmes under the current MFF, the rules and process have not been implemented consistently. The process around **security guarantees** should therefore be **uniform,** both administratively and legally, **clear and simple** for participating parties. We advise the Commission to carry out the initial analysis and initiation itself and to advise Member States, in order for all participating parties to be assessed in the same way and on the same terms.