

16 December 2016

## Resolution of the Bundesrat

### **Communication from the Commission to the European Parliament and the Council: Mid-term review/revision of the multiannual financial framework 2014-2020 – An EU budget focused on results COM(2016) 603 final**

At its 950th session on 16 December 2016, the Bundesrat adopted the following position pursuant to Sections 3 and 5 of the Act on Cooperation between the Federation and the Länder in European Union Affairs (EUZBLG):

#### Strategic alignment

1. The Bundesrat stresses the importance of an efficient budget oriented towards results and European added value. This being the case, it calls for orientation of the multi-annual financial framework (MFF) towards long-term policy strategies and the associated setting of European objectives to continue even after 2020. In this respect, sufficient space should be allowed for regional strategies too, for instance within the scope of the European Structural and Investment Funds (ESIF), and for appropriate funds to be earmarked for this purpose.

Member States and Member State bodies must also be allowed sufficient room for discretion in this respect, so that they can select the most effective way for them to make a contribution to European added value in the sense of common European values and objectives.

2. In this connection, cohesion policy is particularly important as the EU's main investment policy. Consistent simplification is necessary in order to make it still more effective. The Bundesrat is also concerned to see the Commission tending to prioritise centrally administered instruments over those with jointly managed funding.

3. At the same time, the increasing challenges faced in securing the viability, dynamism and capacity to integrate of rural areas and safe and sustainable supplies of nutritious food and raw materials, maintaining our natural resources and combating climate change mean that due account must be taken of the need to protect wildlife and the environment and maintain the diversity of our natural and man-made landscapes throughout Europe.

#### Budget ceiling

4. Against the background of the Commission's proposals, in its Communication on the mid-term review of the MFF, for greater flexibility, and in view of the uncertain consequences of the announced exit of the UK from the EU, the Bundesrat does not consider that it is appropriate at present to discuss raising the ceiling on expenditure. It does not see any fiscal leeway for an increase in budget ceilings in the context of the review of the MFF.
5. Strict budget discipline should be maintained in future, too. Additional expenditure should be funded primarily through the redeployment of funds.

#### Reform of own resources

6. The Bundesrat supports the call for a reform of EU own resources.  
It supports the call to cease treating VAT as a basis for calculating own resources, particularly since it does not satisfactorily reflect the economic circumstances in Member States and is complicated and administratively burdensome to calculate.
7. Gross national income (GNI) provides a reliable picture of the economic capacity of Member States: it is simple and fair, it can be flexibly adjusted to the financial needs of the EU and can be determined without a great deal of administrative input. It thus guarantees stable financing of the EU budget.
8. Furthermore, in the light of the forthcoming disappearance of the UK rebate, the Bundesrat advocates considering the abolition of all existing Member-State-specific rebates. In their place, it calls for a general correction mechanism that would benefit all Member States bearing a particularly heavy burden through their net contributions and would make special arrangements

for individual Member States redundant.

#### Duration of the MFF for EU funding programmes

9. The Bundesrat would emphasise the need for maximum planning certainty and therefore recommends that the seven-year term be maintained, even after 2020. In any event, the compatibility of the MFF with the terms of the EU funding programmes should be maintained to ensure that programmes continue to be funded.

At the same time, it would point out that the mid-term review of the MFF has created an opportunity for adjustments, where required, to economic and political developments within the time framework and to longer-term decisions concerning the next funding period.

#### Flexibility

10. The Bundesrat regards the existing margins for flexibility in the ongoing MFF as useful in principle. Where required, it must be possible to provide access to EU budget funds at short notice under the MFF to deal with new political challenges. It therefore advocates permitting maximum use of the global ceilings within the future MFF framework.
11. In particular, sufficient financial margins should be allowed to tackle exceptional crisis situations.
12. Furthermore, the Bundesrat would stress that multiannual EU funding programmes above all need planning security and reliability in order to achieve their goals. Greater flexibility in the MFF therefore must not lead to funds being redeployed or new political initiatives being financed at the expense of programmes that have already been approved.

#### Financial instruments

13. The Bundesrat takes the view that financial instruments are useful and can complement or offer an alternative to grants. However, this does not apply equally to all areas of policy and regions. In addition, the effectiveness of financial instruments depends fundamentally on the macro-economic framework conditions which, in the European regions, currently vary widely.

14. The use of financial instruments should not automatically be given preference; they should be used only where this is considered worthwhile or necessary at local level.

The Commission, in its preparations for the 2014-2020 funding period, made the rules for the use of financial instruments much tougher. By consistently simplifying them, their effectiveness and attractiveness could be enhanced.

The Bundesrat would reject any obligation to further increase the use of financial instruments in the next funding period. For the ESI Funds, the establishment of a minimum amount for financial instruments is rejected.

Linking the EU budget with economic policy coordination in the context of the European Semester

15. The Bundesrat acknowledges that, under certain conditions and taking strict account of the powers of the Member States, it may be appropriate to support necessary structural reforms by more closely linking the European Semester with the ESIF.

However, it would point out that the country-specific recommendations addressed annually to the Member States are difficult to reconcile, in terms of their content and procedures, with the medium- and long-term programme planning approach for the ESIF.

Furthermore, it notes that implementation of the country-specific recommendations can be supported by the ESIF only if there is a direct link with the content of the ESIF programmes. Moreover, it tends to be regions (in Germany, the Länder) that are responsible for using the ESIF, while the country-specific recommendations are addressed to the Member States.

The Bundesrat therefore continues to reject macro-economic conditions as prerequisites for funding (cf. BR Document 399/11 (Resolution) and BR Document 629/11 (Resolution)).

Common Agricultural Policy post-2020

16. The Bundesrat would insist on the Common Agricultural Policy (CAP) also remaining an integral component of the European project after 2020 if it is to meet new challenges such as food security, climate change, protection of animals, the environment and resources, biodiversity, vitality in rural areas, demographic change, and guaranteeing long-term prospects in life for young people and families in the countryside. As an essential pillar for stability and solidarity the CAP contributes significantly to employment and growth within the framework of the EU 2020 strategy, while at the same time facing new and complex societal challenges.
17. A strong and well-resourced CAP must allow competitive and sustainable agricultural holdings to remain the backbone of rural areas throughout Europe.

At the same time, a CAP burdened by less red tape must be capable of responding to global, European and national challenges, thereby actively preserving its public acceptance. The CAP must enable farms to meet society's rising demands for sustainability, animal welfare, quality production, environmental protection and innovation even more effectively.

18. The Bundesrat would point out that the latest greening reform is in the early stages of implementation and that there should be no discussion of new fundamental reforms pending the findings of the evaluation. Action should be structured more effectively by placing the emphasis on consistent simplification.

#### Protecting the environment, nature and the climate

19. The Bundesrat welcomes the fact that the EU is meeting its international climate-change and biodiversity commitments and wants to playing a leading role.

#### Supporting research, development and innovation and the Connecting Europe Facility (CEF)

20. The Bundesrat endorses the Commission's positive evaluation of the Horizon 2020 programme and the Connecting Europe Facility (CEF).
21. European funding in the area of research, development and innovation (RDI) makes a significant contribution to ensuring sustainable growth and jobs. The Bundesrat would therefore highlight the need to also offer adequate financial support to tomorrow's competitive RDI framework programmes, continue to award funding in accordance with the criteria of excellence, impact as well as the quality and efficiency of implementation, devise simple funding rules, fast decision-making processes and transparent reporting requirements, and better protect RDI funding from financial interventions in favour of other expenditure items.
22. This also applies to the CEF, which is a proven programme for targeted investments in major infrastructures that contributes successfully to plugging

gaps in the EU's transport and energy infrastructures and, with high European added value, to territorial cohesion.

Role of cohesion policy

23. The Bundesrat is a strong advocate of cohesion policy continuing to play a priority role in the MFF post-2020. Cohesion policy is essential to reduce development gaps between European regions and shore up economic, social and territorial cohesion.

24. The ESIF are essential for supporting innovation, the economy, employment, urban development, environmental and climate protection and rural development.

They make an important contribution to strengthening the Single Market and support a policy of smart, inclusive and sustainable growth geared to long-term strategic goals. They are thus not only a concrete example of European solidarity but also the expression of a pan-European approach to harmonious development which leaves no region behind.

25. Against this background, the Bundesrat considers that the importance of cohesion policy lies in the fact that it combines strategic guidelines to manage urgent challenges at European and global level with long-term development strategies at regional level. Implementing these policies locally can make them even more effective. The greater proximity to citizens can help them to identify more with European policies and projects. This is the European added value of this policy, which is often underestimated.

26. In the future, too, sustainable urban development should be supported by strategies with integrated measures to tackle the specific challenges facing urban areas. This should build on the results of the partnerships established off the back of the EU Urban Agenda.

27. In this context, the Bundesrat would reiterate that cohesion policy in Germany over the past 25 years has made an important contribution to positive economic and social development throughout the country.

Appropriate funding for all regions

28. The Bundesrat calls for a cohesion policy for all regions post-2020 which is strategy-based, coherent, nuanced and based on economic capacity. Regional GDP, measured in purchasing power parities compared with the EU average, has proved its value as an indicator for territorial differentiation and should be retained. The condition for a credible, EU-wide implementation of this policy is the allocation of appropriate funding in the future MFF.

The Bundesrat confirms, in line with Article 174 TFEU, that support for the least developed regions should continue to be the focus of cohesion policy, so as to remove structural handicaps in the medium and long term. The structural funds are the right tool to do this and support the often necessary structural reforms at local level.

29. However, regions in transition and more developed regions are also facing significant structural challenges (for example as a result of migration, demographic change, digitalisation, climate change or decarbonisation). At the same time, existing economic and social problems in these regions still require attention and funding. These regions also need to be strengthened in their role as engines of innovation and regional development. Development already achieved in regions in transition must be consolidated and further promoted so that – like more developed regions – they can act as catalysts to encourage less developed regions within the EU and, in a global context, to continue to develop dynamically (strengthening strengths).

For this reason, the Bundesrat takes the view that the funds allocated to regions in transition and more developed regions in the cohesion policy funding are insufficient. Post-2020, this funding should be increased.

30. The Bundesrat takes the view that cohesion policy is still needed in all regions in order to consolidate economic, social and territorial cohesion and develop the contribution to smart, inclusive and sustainable growth; the allocation of funding to the individual regions must take into account their respective economic and employment situations in future too.
31. The statistical impact of the UK leaving the EU should not lead to the affected



regions being placed at a disadvantage, without an appropriate transitional period compared to if the United Kingdom were to remain in the EU as the socio-economic situation of these regions will remain unaffected.

#### Planning certainty

32. The Bundesrat emphasises the importance of planning certainty, particularly in the area of cohesion policy, and requests that this be protected even in the event of the EU budget being made more flexible in the future. The aim of cohesion policy is to structurally strengthen all the regions and to encourage dynamic, sustainable development processes in the EU, and it is dependent on reliably funded medium- and long-term programmes and measures to do this.

#### Relationship between the European Structural and Investment Funds (ESIF) and the European Fund for Strategic Investments (EFSI)

33. The goals of the EFSI and of the ESIF are fundamentally different. While the EFSI is concerned solely with promoting investments, the ESIF are long-term, strategic regional development processes which support structural reforms by means of corresponding, targeted local investments. This means that the EFSI is not regionally based and is not geared to any particular policy aims. It therefore does not constitute an alternative to cohesion policy. It remains to be seen whether the Commission's proposals provide better complementarity between the ESIF and the EFSI. The Bundesrat insists that the EFSI and the ESIF should not be made to compete against each other.
34. The Bundesrat would point out that it is far from certain that the EFSI will actually achieve its goals. The additionality of the projects promoted under the EFSI does not appear to be ensured. The general absence of programme-based steering is also demonstrated by a geographical and sectoral imbalance in the projects supported by the EFSI. For example, there are Member States which still have no EFSI-supported projects. Member States still suffering from the aftermath of the financial crisis have so far hardly benefited from the EFSI, whilst there is little demand for it in Germany because of low interest rates.
35. The Bundesrat therefore rejects any proposals that the EFSI be immediately

stepped up and extended.

Collaborative planning and focus on results

36. The Bundesrat is in favour of EU cohesion policy continuing to be based on a strategic, results-focused approach. Cohesion policy can succeed only if local actors are granted the trust and flexibility they need to pursue goals in the common interest. The autonomy of smaller units should be respected, in line with the principle of subsidiarity, and incentives should be used to encourage and strengthen initiative, creativity and orientation towards the common goal.
  
37. By contrast, the current volume of steering instruments, the regulatory difficulties this leads to and the lack of legal and planning certainty during the current funding period have led to an over-complex situation which is scarcely compatible with the principles of subsidiarity and partnership and has a counter-productive impact on achieving the goals of cohesion policy. In particular, it holds back the innovative potential of the structural funds. Focusing on specific issues and their restrictive implementation in the context of negotiations on the programmes and partnership agreements should not be permitted to restrict the flexibility of coherent programmes put forward by the regions.

The Bundesrat therefore proposes that the planning for the new funding period be designed as a clearly and cogently structured, streamlined, collaborative process between the Commission, the Member States and the regions. In the context of Europe's strategic objectives, the autonomy of the Member States and regions should be encouraged, in line with the subsidiarity principle. The outcome of the negotiation process should be programmes that can be described as concise strategic steering documents.

The Bundesrat is in favour of the Commission supporting the implementation of these programmes in the future by means of a purely strategic/collaborative dialogue with the region. This dialogue should also help to simplify project implementation and reporting. The effectiveness of the programmes should be assessed primarily on the basis of the results achieved.

### Strengthening European territorial cooperation

38. In the light of the complex relations with their European partner and neighbouring regions, the Bundesrat is in favour of continuing and reinforcing the efficient and targeted support for cross-border, transnational and interregional cooperation in the context of European Territorial Cooperation (ETC/Interreg).

It takes the view that the European added value is particularly visible in this category of funding, resulting from the direct realisation of integration policy goals and the promotion of good neighbourly relations [between regions].

The collaboration between project partners from different European countries, the potential Europe-wide exchange of knowledge, and the potential to jointly develop new solutions to optimise public and private administrative and development performance, are all important ways of increasing European integration and strengthening territorial cohesion. This means that the European border regions, and their collaboration in larger areas with similar strengths and challenges, for example in the transnational programme regions, and their synergies with macro-regional strategies in the context of the real-life experience of Europe of the Regions should continue to be strengthened by these programmes.

The Bundesrat is also in favour of future rules to implement ETC paying even more consistent attention to the specific administrative and legal challenges associated with the implementation and steering of bi-national and multinational funding programmes.

The complexity of the programming means that exemptions from paying subsidies and the devising of indicators to match the needs and challenges of the ETC would be positive steps forward.

Small projects and people-to-people projects, which should continue to be supported in the future, make a real contribution to ordinary people's perceptions of the European ideal and its impact on them.

### Over-regulation and the administrative and monitoring burden

39. The Bundesrat would point out as a matter of urgency that the ESIF is now seriously over-regulated and a line has been crossed when it comes to an

acceptable administrative and monitoring burden for the implementation of the programmes by project promoters and the authorities involved. We must avoid a situation where useful, positive projects are abandoned because of the associated accounting and monitoring burden. The proliferation of additional tasks for the authorities involved with the implementation generates expensive and time-consuming additional burdens which also have an indirect impact on beneficiaries.

The increasing complexity of implementing the programmes makes errors more likely.

40. The system of downstream legislation and guidelines, which were adopted very late in the day, has led to massive delays in the operative programme launches and has made demands on the administration systems which make lawful implementation almost unaffordable. Consequently, the delays have mounted up from one funding period to the next. Not only does this threaten the cohesion policy itself, but it also has a negative impact on the perception and credibility of the EU because of the high degree of visibility at local level.

41. The Bundesrat therefore takes the view that it is time for a comprehensive overhaul of the system and a loosening of the requirements at EU level on the programming and on the administration and monitoring systems of the ESIF, including the ETC programmes.

In particular, greater legal certainty, legal clarity and continuity are also needed here. It is therefore important for the next legal framework and all the documents, in the appropriate language, to be available well before the start of the funding period, and for there to be no retroactive application and interpretation of standards. The legal framework needs to be significantly streamlined and firmly established, in terms of the administration and monitoring systems, for a period longer than the individual funding periods. This also applies to the eCohesion mechanisms, which were very costly to develop.

42. Against this backdrop, the Bundesrat considers the Commission initiative to simplify ESIF funding and the convening of a High Level Group of Independent Experts on Simplification to be positive signs that the scale of the problem has been realised.

Attempts at simplification must not be allowed to lead de facto to greater difficulties for the authorities and beneficiaries, as has happened in the past. Often, requests from the Member States for greater legal certainty have led to further implementation rules, provisions and guidelines being issued by the Commission, thereby ultimately making the system even more complex and prone to error. For this reason, clearly set-out rules and simpler administrative and monitoring procedures in particular should be a fundamental goal in the next MFF period.

#### Implementation in accordance with national law and a consistent single audit approach

43. The Bundesrat is calling for a reorientation of the programme planning and implementation which takes account of the subsidiarity principle and is more results-focused. The implementation of the programmes – with the exception of ETC – should in all events follow national law.

In addition, the Bundesrat wishes to see a consistent single-audit approach in future, in order to avoid overlapping monitoring and contradictory valuations by different monitoring authorities and to reduce monitoring costs. The checks carried out by the European institutions should be limited to tackling fraud and corruption.

#### State aid

44. The Bundesrat would again stress the importance of further simplifying the State aid rules for the use of the ESIF. The differing approaches to directly managed EU funds, such as the EFSI and Horizon 2020, and the ESIF in the area of State aid law increases the administrative burden and prevents the synergies between the Funds which the Commission is itself seeking to encourage.

Proportionality

45. Overall, the Bundesrat would like to see greater proportionality in the implementation and monitoring of the ESIF. In particular, it considers the programme volume, its error-prone nature, the quality of the administrative procedures and the amount of individual contributions to be core criteria which must be taken into account when the structure of the administration and control systems post-2020 is considered.

Direct transmission to the Commission

46. The Bundesrat is sending this position directly to the Commission.