

URBAN AGENDA FOR THE EU

PARTNERSHIP FOR URBAN MOBILITY

# SETTING UP A EUROPEAN FRAMEWORK FOR FOSTERING URBAN MOBILITY INNOVATIONS

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# 1 Foreword

The aim of this action was to set out key problems faced by urban authorities in fostering innovative urban mobility solutions and to identify possible solutions which should be supported at an EU level from the EU Budget 2021-2027.

The following report is the result of workshops with the PUM-partners, input from the public consultation and interviews with experts from DG Regio, DG Move, Eurocities, POLIS, Torres Vedras, Bielefeld, Nijmegen and the New Mobility Services Initiative within the EIP SCC.

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## 2 The Partnership for Urban Mobility

More and more people are living and working in cities. With the current European trend towards urbanisation, the importance of cities and urban areas is set to continue to grow. At the same time, cities are facing even greater social challenges in respect of the environment, transport and social cohesion.

For this purpose the Urban Agenda for the EU was officially established by the Pact of Amsterdam, agreed by the EU Ministers responsible for urban matters in May 2016.

The Urban Agenda aims to address those challenges. Cities are the place where European sectoral legislation comes together (in sometimes conflicting ways) and is being implemented. To fully exploit the potential of urban areas the urban dimension should be stronger embedded within EU policies. This explicitly does not mean new or more competences for the EU, but a better working method, focused on cooperation between the EU, member states and cities.

Furthermore, the Urban Agenda promotes cooperation between Member States, cities, the European Commission, European organisations and other stakeholders in order to achieve a sustainable, socially inclusive, innovative and economically powerful Europe. The Urban Agenda sets out a new way of working together to stimulate growth, liveability and innovation in the cities, gain maximum benefits from their growth potential and successfully tackle current and future challenges.

This new approach includes the creation of a range of European partnerships aimed at:

- promoting the involvement of cities in EU policy making, and the development, implementation and evaluation of more 'urban friendly' European legislation (**'Better Regulation'**);
- ensuring better access to and use of European funds (**'Better Funding'**);
- improving the European urban knowledge base and stimulating the sharing of best practice and cooperation between cities (**'Better Knowledge Exchange'**)

The partnerships focus on 14 agreed priority themes of the Urban Agenda for the EU. One of these is the Partnership for Urban Mobility.



# 3 Introduction

Cities have a central role in delivering on key challenges for Europe's society and economy: jobs, growth and investment, innovation, energy- efficiency, low-carbon development and CO2 reduction. The vast majority of the EU population lives in urban areas, they account for some 80 % of energy use and generate up to 85 % of Europe's GDP. At the same time, urban areas are also places where many of our societal and environmental problems are most apparent.

For urban transport and mobility, a key challenge is to enhance mobility for all while at the same time reducing congestion, accidents and pollution in an era of continuous urban growth.

Successfully tackling the problems arising from current urban mobility and transport patterns cannot be achieved with a business-as-usual approach. New solutions are required in order to transform urban mobility systems in a way that makes them more attractive to the users and more sustainable. Innovative solutions need to be developed, tested and then successfully deployed on the ground. This includes new technologies, as well as new service concepts and business models. Innovation is also needed in urban mobility governance and planning including the functional urban area.

Disruptive technologies and digitisation offer innovative new ways of meeting those challenges. New transport solutions and mobility services are emerging throughout the EU. Linking and upgrading infrastructures, technologies and services in transport and mobility and other urban sectors in a smart way can improve quality of life, competitiveness and sustainability of our cities. Urban authorities, knowing more about their circumstances, are in the best position to take advantage of the opportunities offered by these innovations.

However, urban authorities also face a number of clear challenges in delivering these innovative solutions. The investments required are beyond the limits of the public budget, especially that of urban authorities. In addition, capacity and knowledge need to be further developed to drive change and create the right enabling conditions to improve outcomes.

Urban authorities have the first responsibility to develop their capacity and facilitate, promote and implement innovative mobility solutions that contribute to local, national and EU policy objectives. There is a clear role for the EC in facilitating and supporting urban authorities in their efforts to achieve these objectives.

This paper sets out key problems faced by urban authorities in fostering innovative urban mobility solutions and identifies possible solutions which should be supported at an EU level from the EU Budget 2021-2027.



# 4 Key problems and possible solutions

## Need to increase and diversify financial resources

Development and implementation of urban mobility solutions have largely been funded from the public budget. The scale of investments required to develop and deliver innovative urban mobility solutions requires strong involvement of public and private capital. There is a need to increase and diversify public resources to fund urban mobility solutions. While innovative solutions hold potential to increase the efficiency of the transport system, these do not make the need for investments in transport infrastructure obsolete. The need for long-term capital to support capital intensive infrastructure investments and/or projects that generate limited income streams remains high. In addition, development of innovative solutions and, in particular, mainstreaming the scale-up of smart city technologies in European municipalities requires a comprehensive programme of long-term investment.

In order to increase resources from the public budget, there is a need to look beyond traditional transport sector budgets.

Moreover, the public budget alone is not sufficient enough to develop innovative mobility solutions and deliver the transition from small-scale pilots to mainstream application. Massive investments are required to further develop for example solutions for mainstreaming clean / alternative fuels; autonomous and connected vehicles and Mobility as a Service (MaaS). It requires investments among others in fuel infrastructure; digital connectivity; data collection, processing and provision; interoperability between platforms and ecosystems supporting MaaS (i.e. that allow integration of planning, ticketing, pricing, marketing and incentives); development and testing of new business models, etc.

Therefore, additional financing sources, including private capital are required. However, urban authorities have not yet been able to attract (private) capital that is required to foster innovation and accelerate scale-up the most promising solutions. Particularly promotion and use of blending using the European Structural and Investment Funds (ESIF), mostly the European Regional Development Fund (ERDF) has been suggested as a promising option to act as leverage and attract private sector financing.

Furthermore, there is a need to improve access to the European financing and financial instruments that are available. However, knowledge and capacity of urban authorities to tap into these sources is in most cases too limited and there is a clear need to build capacity in this area. In addition, sector-specific orientation of funds and instruments makes it more difficult to access support for the integrated projects targeted by the



cities, or even conceals these financing sources from the sight of authorities. Urban authorities are often not in a position to compete with strong sector-based project consortia, which lobby effectively at the level of EU institutions. Effort should be made to improve information of financing opportunities for integrated projects at an early stage and break away from sector-specific orientation of funds and their eligibility criteria.

## Build capacity to develop projects suitable for private financing

In order to attract private financing for projects the bankability of projects should be ensured. Across the EU there is still a need to improve that capacity of urban authorities to enhance the quality of investments (e.g. building up positive components) or their bankability (e.g. strengthening credit quality). There is a need for technical assistance to define mature projects pipelines that are based on an integrated urban development strategy and preferably accompanied by at least indicative budget commitments. Technical assistance should support the urban authorities in gaining a better understanding of business models and investor requirements; existence of market failure, suboptimal investment situations and identification of the scope of investment needs. Such assistance is required in order to understand which projects are suitable to attract private financing (and which are not). For many urban authorities continued assistance is also required to help fill specific “gaps” in project/investment programme preparation to bring a project/investment programme to a bankable stage, for example in areas such as financial and economic analysis, demand analysis etc. Furthermore, support is required in the prioritisation of projects as well as for the alignment of the sustainable urban mobility strategy with that of other sector strategies – including for emerging sectors, such as digitalisation – and their budgets.

## Project size matters

A bottleneck that has been highlighted by both urban authorities and private investors relates to the size of projects. Financing is primarily available for larger projects, worth multiple millions of euros. Many EU and EIB funding programmes and initiatives have minimum thresholds related to project size and their financial contributions. Also, private investors stress that they prefer larger projects and that most pilot projects are too small to be attractive investments.

Facilities or mechanisms to provide (EU) financing support to small pilot projects should be further developed and promoted in order to prevent delay or even overall implementation of such projects. Many innovative (pilot) projects cannot be implemented without external financing, grant financing in particular. The development of various small pilot projects is currently being hampered because they cannot be fully financed by the public budget, but are not eligible for EU financing as the requested amount of support is below the thresholds applied by EU programmes. Therefore, the Urban Agenda Partnership Urban Mobility, and especially its urban



authorities, highlight the need to open EU funding programmes for smaller innovative mobility projects. This could already be achieved by lowering thresholds applied in existing programmes specifically for measures with a pilot status.

In addition, there is a need to better aggregate demand, package investments, and set-up joint procurement in order to create projects or programmes of sufficient scale to be an attractive investment. All towns and cities no matter the size should be taken into consideration. Projects should be planned upon a comprehensive approach following the idea of functional areas. Regional centres can not sufficiently resolve common transport problems without towns and cities in their functional area. The Urban Agenda Partnership Urban Mobility stresses the importance of measures to promote collaborative or joint procurements – including cross-border - which, through bulk purchasing, can provide the necessary demand to launch new solutions. In this respect, it also supports the recommend actions by the Urban Agenda Innovative and Responsible Public Procurement Partnership.

## Pilot projects: upscaling and dissemination

Small (pilot) projects can provide a lot of useful information and insights, regardless as to whether the pilot was successful or not. A successful pilot does not mean that an innovation has been fully developed or that it is ready for an instant uptake. Replicating the implementation of innovative solutions in other cities with other characteristics to see if the innovation also works there, is important for improving and optimizing the innovation. Such replication does not mean that the innovative character of the project has been lost. EU funding that specifically targets innovation (e.g. UIA) should remain available to support upscaling or replication of pilots, since the initial pilots often need to be replicated a number of times before larger scale implementation (mainstreaming) can start.

In order to secure sufficient funds for this staged development, it should be possible to provide conditional (grant) financing for these projects. Based on the results of the initial pilot, the initial upscaling could be financed without having to apply for funds from another call, programme, etc. This would reduce the burden for urban authorities to go through a second selection procedure, with a risk of being unsuccessful. It could also prevent authorities looking to obtain funding for continuation and upscaling of a successful pilot, having to wait for a relevant call to open. As not all funding programmes and initiatives are open all the time, this sometimes also delays implementation of innovative projects.

There is a risk that a public funded project ends with a start-up that is monopolizing on data in order to maximise their own business model. To ensure that the funded innovation has added value for the total mobility system, and does not only benefit the start-up, it could be wise to include requirements like data-sharing, sharing documentation and the use of clear standards towards interfacing of innovations in the grant schemes.

There is also a need to take better advantage of the lessons learned from pilot projects. In particular pilots that were not successful can provide highly valuable lessons. Although it is difficult to admit failures, documenting the knowledge obtained from unsuccessful pilots alongside successful pilots, in an accessible location with a suitable search-engine, could assist other cities to identify which measures are most promising for their specific conditions.

## Flexibility

EU / public financing, in particular and grant programmes are often inflexible vis-à-vis the needs of innovative projects and mobility services. There is a need to better tailor financing towards the characteristics and dynamics related to these innovative mobility solutions. Innovative urban mobility projects and services are faced with a combination of uncertainty about their adoption and poor economics in the early years of operation is holding back investment in this area. In addition, grant financing has not traditionally focussed development of services. Many grant schemes lack flexibility to respond to the ambitious growth and regularly changing business models of mobility service companies. Focusing on desired outcomes and leaving more leeway to define the steps needed to achieve those would allow for new developments in this field to be accommodated.

Outside the EU, contingent convertible grant schemes have been applied that enable the grant provider to participate in the upside in the event of success (the grant would be converted into common equity if an agreed milestone were successfully achieved). The use of convertible financing could be further explored to provide for more flexible financing for innovative mobility solutions. (Soft) debt could also be structured as a convertible instrument in combination with grant financing where debt is triggered when a certain milestone is achieved.

## Complexity of EC financing and resource-intensive funding applications

Tapping financial sources for the renewal of the urban mobility system requires institutional capacities, skills and expertise which urban authorities often lack. A wide range of public funding mechanisms exist at the EU level. However, many urban authorities find the current set of EC funding programmes, initiatives and financial instruments too opaque and complex. Many do not focus exclusively on urban mobility and each has its own objectives, eligibility criteria, lexicon, which are at times perceived as vague. The post-2020 framework programme should clearly reflect urban mobility challenges.

Many urban authorities consider the preparation of applications for EU grant financing a resource-intensive process, which places a considerable (administrative) burden on the authorities. There is usually only limited budget foreseen for tasks that go beyond the statutory duties of local governments, but which are needed for the preparation



and management of complex, innovative projects. For example, many funding programmes require participations of several international partners in a consortium, which can be difficult and time-demanding to arrange. At the same time, the purpose of international partnership requirements is recognised; it facilitates exchange of information and dissemination of results across the EU. To facilitate efficient development of international EC should continue to support networking and matchmaking opportunities.

In addition, it is suggested to adjust eligibility criteria of funding programmes and initiatives related to the composition of these partnerships. For many urban mobility projects it is important that these can address daily urban systems and are developed within the scope of these systems. Such systems do not always align with the administrative boundaries and criteria applied by EU funding programmes. For example, a cooperation of several urban and one rural (Eurostat classification) municipalities covering a daily urban system would not be eligible for UIA that exclusively targets urban areas. Also, municipalities that are co-operating on a voluntary basis, for example in poly-centric regions, but that do not have a formal status as regional authority, have highlighted difficulties to comply with eligibility criteria based on their status and administrative documents that were required.

Even when EU grant co-financing is available, urban authorities sometimes struggle to obtain sufficient funds from the public budget to cover their share of the co-financing. With limited public budget available, alternative financing arrangements are required to finance innovative projects. However, many authorities have only limited knowledge of financial instruments and the products that these instruments can provide, and most lack internal capacity to develop and implement innovative financing schemes, which are also perceived as cumbersome and risky. As a result, urban authorities may overlook or not consider potentially suitable financing solutions. Of those that are considering the use of innovative financing methods, most lack the knowledge and capacity to select and apply the most appropriate solution.

Given the above-mentioned bottlenecks and constraints, there is a need for:

- Continued action and increased awareness raising of existing instruments, programmes, services. This could include more targeted and detailed guidance and support assisting urban authorities in finding the appropriate EU programme/advisory service to prepare, develop and implement their projects;
- Promote clearer definitions and unambiguous description of objectives and requirements in funding programmes and initiatives in an accessible language (i.e. avoiding complex EU terminology);
- Continued advice and technical assistance on the application (and combined use) of different financing opportunities, financial structuring support;
- Enhance cross-sectoral coordination of advisory services and the principle of the one-stop-shop;
- Documentation of good practice examples and facilitation of peer-to-peer learning on financing where authorities exchange experiences and learn from one another;

- Development and/or scale-up of financial instruments, i.e. by scaling-up funds exploited so far, accessing new sources of financing, including EFSI loans or private financing;
- National advisory hubs on financing?

## Usual suspects and the risk of losing out

Competition for financing of urban mobility projects can be fierce, especially where authorities face competition from the entire EU, instead of only from their own region or Member State. While this can have a positive effect on the excellence of projects and could be seen as an element of EU added value, it also holds the risk that urban authorities with limited capacity to apply for these funds, consistently lose out to more advanced authorities. This applies to applications for grants and other forms of financial support alike.

Of course, it is natural that some cities benefit more than others. However, there is a relatively small group of urban authorities that is perceived to be more visible and successful in applying for EU support of innovative projects, notably when evidence of prior experience with EU funding is required. This could potentially become a self-fulfilling prophecy, especially when other authorities stop applying for financing, scared off by complex procedures or demoralised by several failed applications.

The latter can particularly occur when reasons for refusal of the application are not well-explained or understood. Lack of clarity about the objectives and lexicon applied to describe these objectives and eligibility criteria contribute to this misunderstanding. There is a need for clearer definitions and unambiguous description of objectives and application of terms like innovative, low carbon, clean energy, energy efficient, green, sustainable, etc.

In order to create an enlarged investment market for innovative mobility solutions there is a need to ensure that no specific urban areas are left behind. In this respect, opportunities should be explored to prevent the “waste” of good ideas and of interest and commitment of urban authorities that were not awarded grants or other support due to strong competition. The Commission’s proposal to introduce “seals of excellence”, which could be allocated to “excellent” Horizon Europe applicants who failed to receive funding due to strong competition, is welcomed. In using their seal, they would be allowed to seek funding for their project from the structural funds. The advantage of such an approach could be that it creates more flexibility and permeability between budget lines and could also help to steer regional funds towards innovation. It could be investigated if a similar principle might also be applied to other EU funding schemes.

Other options to extend involvement of eligible urban authorities which applied in calls but that were not selected could also be further explored (e.g. participation under different financing conditions; role as additional pilot site, observer, etc.)

## Need for new cooperation and governance models

Urban authorities often rely on a governance and partnerships approach that is at times at odds with the dynamics and demands of emerging mobility solutions. Private sector investors and/or mobility service providers should be involved (more) early on in the development of new mobility solutions. Support is needed to prepare and enable local authorities to work with private sector parties and deploy innovation. Capacity needs to be built in cities and regions as well as within the industry, on how to optimise cooperation between the public and private sector. This implies better understanding and accommodating the changes in the role of cities and regions in providing transport services, systems and infrastructure, and properly framing the expanding role of the private sector and other parties.

Procurement is a specific area where there is a need for a new paradigm of interaction among public and private players that contributes to fully exploit the innovation capability of the market. Through their procurement demands, urban authorities can support innovation. Both through the specifications of demand, for example purchasing zero-emission mobility services, and by aggregating demand, which could provide the required scale the launch or further mainstream innovate solutions. On the other hand, public procurement procedures have also been criticised by the private sector for hampering innovation, for example for being too rigid or not being considerate enough for issues as intellectual property and the competitive or commercial interests.

Much innovation can come from market potential, and bringing this market potential closer to the purchasers is important, e.g. by pre-procurement engagement of market parties. In order to find suppliers that are able to successfully meet the demands of public authorities for project, technology or service development, it is essential to develop these requirements in collaboration with relevant market actors. Cities should apply ambitious criteria and discuss the feasibility of these requirements in meetings with potential suppliers.

EU Directives on procurement already provide room for pre-commercial procurement and experimentation of newly conceived public partnerships with the private or social sector and local communities especially at the urban level (e.g. innovation partnerships, public-social partnerships, public-private-community partnerships, public-community partnerships, public-private-people partnerships, etc.), as well as collaborative dialogue procedures to enable the co-design of such social and digital innovation partnerships and innovative procurement solutions.

To fully exploit the potential of public procurement the Urban Agenda Partnership Urban Mobility calls for further support for building capacity and knowledge sharing on innovative procurement and procurement of innovation. In this respect it also refers to recommended actions by the Urban Agenda Innovative and Responsible Public Procurement Partnership.

Another area where a need for new cooperation and governance models has been identified, relates to Mobility as a Service (MaaS). While MaaS is frequently mentioned in relation to the transport sector, it should, in fact, be thought of as an ecosystem of several actors, public and private, from both within and outside of the transport sector. In order to unlock investments into innovative mobility solutions, new capabilities for urban authorities are needed. In some cities, the competition among various stakeholders makes them unwilling to share information, expose their business models and thus collaborate with their competitors in the same MaaS scheme. There is a need to learn and exchange experiences on how to coordinate the MaaS development and support and incentivise mobility providers, public and private, to cooperate and share data in a MaaS ecosystem. Without such knowledge the potential benefits of MaaS innovations cannot be unlocked.

Finally, capacity needs to be developed related to the governance of financial instruments. A number of authorities have created public financial instruments to help finance sustainable urban mobility. In many cases the fund management has been outsourced to external Fund Managers, who have a specialised knowledge in this field. This requires public authorities to build capacity to manage the relationship with the Fund Manager during the operation.

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