Financial Instrument: Brownfield Fund-of-Funds

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Ex-ante Assessment 2019

• Ex-ante Assessment was done as a prerequisite of the FI under Operational Program for Enterprise and Innovation for Competitiveness.

• There is a proven lack of suitable business infrastructure for SMEs in the Czech Republic, in particular in some regions. There is also a number of brownfields that have a potential for regeneration.

• However such regeneration is financially very demanding with expected low return on investment, especially for large area BFs.

• Thus there is a clear evidence of market failure and sub-optimal investment situation in this sector.
Brownfields in the Czech Republic

• In the Czech Republic brownfields are located mainly in the traditional industrial regions such as Moravian-Silesian Region and Ustecký Region.

• The Ex-ante study identified for the purposes of transforming BFs into smart SME infrastructure BFs:
  • larger than 3 ha
  • located in industrial areas
  • relevant land planning category
  • no ecological damage

• There are about 50 localities of this type suited for FI utilisation in the Czech Republic.
Identification of Market Failures

• BFs are less expensive to buy than greenfields and they are seen to be an underutilized potential of towns and cities for further development.

• The development of BFs is however very costly compared to greenfields. Expected annual rate of return for these types of projects is 5-6%. Developers generally invest into projects with expected rate of return around 10% and more. Their interest in brownfields is therefore limited.

• There are already several subsidies programmes. We identified a market failure and a potential for FIs utilisation, as it is a future income generating activity.
Estimated absorption capacity

• We took into consideration only those BFs that have already valid/approved building permit and have already developed and approved land planning permission. BFs should be ready for regeneration and reconstruction/construction.

• Based on model cases it is estimated that a typical BF rehabilitation project has total costs 100 - 200 milion CZK.

• For this planning period it is proposed to allocate 500 milion CZK for pilot testing of FI
Proposed implementation model I.

• For BFs regeneration we propose financial instrument in the form of Fund of Funds managed by CMZRB that will provide equity/quasi-equity financing. The CMZRB shall select one or more Financial Intermediaries.

• A Financial intermediary shall be responsible for the following activities:
  • To select projects eligible for financing
  • To manage contractual conditions of the transaction
  • To make sure that all activities are in line with programme BROWNFIELDS rules and relevant legislation
  • To manage and monitor proper implementation of the financed project
Proposed implementation model II.

• Money from FI will flow into special purpose vehicles (SPVs) established for a single BF regeneration project

• An SPV shall be established by the local investor responsible for providing additional external financing: typically a loan from a third party investor/bank, and who shall plan and implement the project.

• Financial intermediary will provide equity for the SPV, while local investor transfers there ownership of the BF.
Eligible recipients and Test Region

• Final recipients are SMEs, who will benefit from higher availability of smart and innovative infrastructure. Pilot testing will take place in Moravia-Silesia region, ITI Ostrava, following Ostrava municipality request.

• The average rate of SME infrastructure occupancy in Moravia-Silesia region is over 98%.

• We expect to support 7 projects, in total cca 25000m² regenerated BF.
Financing scheme

• MIT transfers funds to the Fund of Funds (ČMZRB). Fund of Funds transfers funds further to Financial Intermediary.

• Final recipients need to obtain additional co-financing from third parties and use all this funding for the implementation of a concrete BFs regeneration project

• Profit sharing – in case a project generates profit, this profit is shared on pari-passu base. Asymmetric profit sharing is also possible.

• Exit from the investment: after a certain time when project is subject to ESIF rules (especially availability to SMEs), intermediary seeks to sell its SPV share.
  • Price based on Fair rate of return
  • Financial Intermediary must exit from SPV no later than 6 years after project completion
  • Local investor/project owner is the prefered buyer, sale to third parties is possible

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Implementation Scheme

Managing Authority of OP EIC

Fund of Funds ČMZRB

Financial Intermediary Development Fund

Final recipient of aid SPV

Project owner

Investment

Equity/Quasi equity

Co-financing

Banks / Other private investors

Rental/sale

SMEs

Investment

Co-financing

Banks / Other private investors

SMEs

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