



# 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 Ústecký 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 25000m<sup>2</sup> regenerated BF.





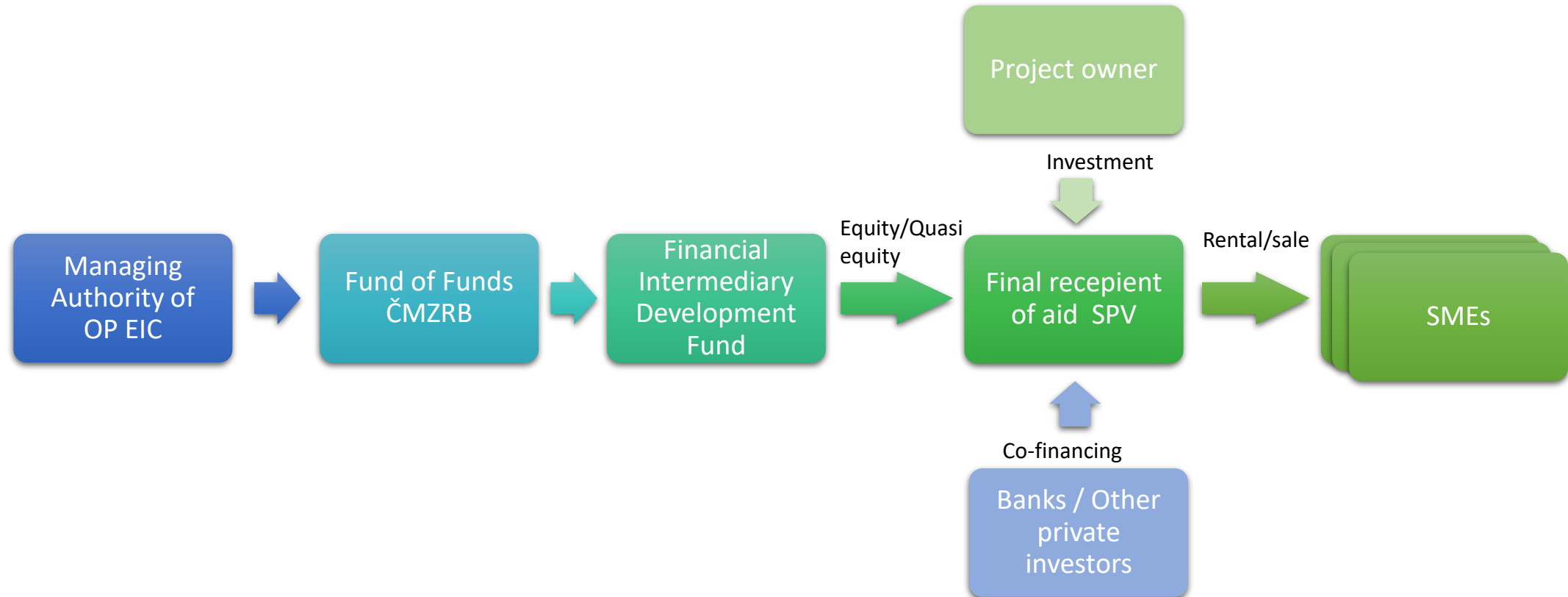
# Financing scheme



- 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 BF's 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 preferred buyer, sale to third parties is possible



# Implementation Scheme



#ficompass



