STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: CZ01-10-01
1.2 Title: Development of an Industrial zones strategy
1.3 Sector: Economic and Social Cohesion
1.4 Location: The Czech Republic - Ministry of Industry and Trade

2. Objectives

2.1 Overall Objectives:

- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union
- To approach ESC criteria in line with the national Pre-Accession plan.

2.2 Project purpose:

- To develop a strategy for the creation of industrial property in the Czech Republic after completing a regional assessment of the North Moravia area combining greenfield and brownfield developments.

2.3 Accession Partnership and NPAA priority

Accession Partnership: Medium-term priorities
Economic Criteria:
- To promote the competitiveness of the private sector, including SMEs.
Economic and social cohesion
- To help reduce the GDP per capita gap with EU member states.

NPAA: Medium-term priorities
Industry/Economic Policy:

The NPAA cites the need to complete key structural changes in industry stemming from the transformation process including the need to substantially increase work productivity in industry and the quality and efficiency of production in order to bring performance indicators closer to the EU average.

Clearly this goal would be effectively enhanced by increasing the ability of foreign manufacturing and service firms to set and expand in the Czech Republic and thus to link with Czech suppliers.

2.4 Contribution to National Development Plan (RDP)

The national priorities under the RDP specifically target the increase in industrial investment, particularly direct foreign investment & structural investment.
Listed in the sectoral and regional priorities of the RDP under Priority axis #1 (Support to develop an economic base and strengthen its competitiveness) are the goals of:

- Increasing competitiveness through the improving the quality of the business environment and stimulation of enterprises’ development.
- Creating favourable conditions for investment … and increasing efficiency.
- Development of commercial and industrial co-operation.

The Ministry of Industry and Trade lists among its priorities the need for industrial policy & attraction of foreign investment (in structurally affected regions). The Competitiveness SOP for PHARE 2000 cites improving the business environment and stimulating business development, all of which goals benefit from a wider and more effective property offer.

The industry SOP under PHARE 2001 has five priority areas. Priority #1 lists key measures to support for industrial restructuring, the re-skilling of the workforce & management, and improving company competitiveness. Priority #3 lists measures to support the absorption into the Czech economy of the benefits of foreign direct investment (FDI).

The Ostrava region priorities highlight improving “business environment and infrastructure … creating conditions for new investment … construction of economic parks and industrial zones” among its priorities.

3. Description

3.1 Background and justification:

That the Czech Republic has a very limited supply of sites and buildings is undermining the country’s competitive position, particularly vis-à-vis Poland and Hungary, to secure a significantly larger share of the annual foreign investment flow into Central and Eastern Europe which is currently around $20 billion. Moreover, the shortage of serviced sites and buildings also constrains indigenous companies in expansion mode.

Both in terms of the provision of sites and buildings, the Czech Republic is subject to a classic case of significant market failure. Sites that are drawn to the attention of CzechInvest tend to be poorly serviced, contaminated, in unattractive locations and rarely offer crystal clear unencumbered ownership title. Even where buildings exist capable of meeting the needs of modern production processes, the expectation of the owners, often banks courtesy of bankrupt clients, is frequently unrealistically high in terms of their reluctance to sell at anything below the inflated book value of the asset.

Where good sites have been identified, the development cycle still tends to lag some of the established and successful business parks in Central Europe (e.g. Gyor Business Park – Hungary) by five to ten years. The development of the attractive sites in the Czech Republic must be ‘fast-tracked’ the role of national Government and the other constituent players must be articulated, the market failure gap must be bridged and CzechInvest staff involved in the development process must have the competence and professionalism to play a leading role and deliver tangible results.
The industrial property market in the Czech Republic is embryonic. Essentially, the provision of manufacturing premises is deemed, even by the least risk adverse property developers, to be far too speculative. Even for retail and commercial schemes, where development yields tend to be 15 – 20% versus 7 – 9% in the west and where leases paid in Deutsche Marks or US dollars can hedge currency risk, there is very little development taking place outside capital cities or prominent regional hubs. There is currently very little or no private sector industrial property development activity and opportunities to stimulate significant private investment are likely to be mid to long-term.

With the exception of CzechInvest and a few astute regional and city authorities, most national and local government constituent groups have yet to understand the role of property in the transformation and economic development of a national or regional economy. Consequently, it is unusual to see the integration of the local ‘master plan’ into a regional or district economic development strategy.

The true value and full potential of state owned land is rarely exploited by public officials and thus the planning and development of strategic sites is often viewed only as a cost by national and local government as opposed to a catalyst bringing economic benefit to a community in the future. In addition to the cost factor, both politicians and senior municipality officials, somewhat understandably, seek short-term visible results (during their terms of office) and this, in part, explains that lack of serious commitment to the attraction of foreign direct investment and the development of strategic sites – both of which bringing benefits over the medium to longer term. Witness the investment in projects like libraries or leisure centres, on account of their high visibility, in areas of spiralling structural unemployment.

CzechInvest is a full service investment attraction agency with a strong development arm supporting product development. The wide range of free services CzechInvest provides includes:-

- Promoting the Czech Republic internationally as an investment location.
- Anticipating and responding to the needs of the foreign investor by demonstrating the ways in which needs can be satisfied and by quantifying the benefits vis-à-vis the competition.
- Identifying property options for investors from a database of over 150 greenfield and brownfield sites across the country.
- Playing a prominent role in terms of stimulating an increase in the supply of industrial property
- Fulfilling an advocacy role in terms of preparing incentive and FDI related economic guidelines for the Government.
- Handling applications for investment incentives.
- Helping foreign manufactures to source more product and services locally.

The seven year old agency has semi-autonomous status and is, essentially, the executive arm of the Ministry of Industry and Trade with full responsibility for attracting FDI. The stock of FDI, cumulated over the last ten years exceeds $22 billion and within the last seven years CzechInvest has made a significant contribution to this total by attracting around $3.2 billion and creating over 34,000 jobs.
3.2 **Linked activities:**

3.2.1 **Linked Projects:**

Several property initiatives for CzechInvest have been funded by PHARE in the past few years. Among the projects completed or nearly completed are:

- The *Preparation of a Development Study for the Development of Strategic Sites* that was completed in December 2000 under the Phare 1997 programme (CZ9705) is the most immediately relevant. A key finding was that the Czech government must leverage the large sums of state money it is ploughing into property development by attracting matching funds from the private sector. Public financing should only be used when there is a market failure and should be implemented through public/private partnerships to leverage public money and avoid distorting the market. It further recommended that the Czech government set up a unit with powers and funding to manage the country’s property portfolio.

- Under current consideration is a MEUR 0.6 Phare 2000 PPF scheme that will provide TA support to assist the Vitkovice Regeneration Programme in Ostrava. On output will be an outline structure for a Brownfield Regeneration Unit (BRU) under the aegis of CzechInvest. The BRU will be modelled on successful reclamation and development units in the UK, specifically Wales.

3.2.2 **Co-financing by the Czech state:**

CZK 600 million (approx. MEUR 17) is reserved within the Czech state budget to support CzechInvest to pay for activities eligible for co-financing in this programme, both Investment & Institution Building.

This would cover:

- All costs of surveying or preparing the land for inclusion in the regional land bank process.
- Other investment into infrastructure that may be required to secure the land.
- Sites identified under this programme would qualify for state & municipal joint funding under the above scheme.
- The core criteria for investment funding will be based on results of “BRS”.
- The Agency CzechInvest will pay for MS experts the provision of office space, the provision of equipment (including access to computer, telephone, fax….).

3.3 **Results:**

3.3.1 **A Regional Assessment Study to comprising:**

A survey of the sites & buildings currently available or under preparation in the North Moravia region (supply side intelligence)

- An evaluation of future demand for land and buildings within a two, five and ten-year time horizon (demand estimate)
- An assessment of the market failure that government intervention needs to address

The report will take into account the experiences learned from CzechInvest’s strategic site assembly activity in Klasterec and Brno, and from its proposed fully-state funded national Speculative Buildings Initiative due to commence in 2001. It
will also absorb the directions laid out in the ROP for the Ostrava region and the Industry SOP, plus market information provided by CzechInvest’s client base of existing FDI firms.

3.3.2 Strategy Report:
This report will outline the plan for the chosen target region and provided methodology for replicating the exercise across all Czech regions, including an assessment of how the scheme meets EU competition and state aid rules.

- Proposals for the optimal way to create public & private sector partnerships to fund the creation of the required land bank (with an initial target of 200 hectares), including the balance between greenfield and brownfield and a cost/benefit method to evaluate the potential of individual sites

- Proposals on how the region can sustain the funding of the land creation process

- Special details about the role of supplier parks in sectors where the region has a strategic advantage to offer incoming firms

- A marketing programme to promote the region’s sites

The report should contain a description and methodology as to how this regional programme in Ostrava could be expanded into a national system. The output should be presented to CzechInvest in the form of a manual and/or internet-enabled website/presentation/library.

3.3.3 Demonstration Project:
The Czech side will identify two sites from the shortlist created under 3.3.1 and proceed to plan their end use. The contractors will assist in this process, specifically in the generation of economic impact assessments and the optimal use of the site.

3.4 Activities:

3.4.1 Regional assessment study: for the North Moravia region covering the demand and supply side.

3.4.2 Industrial Zone Development Strategy for the North Moravia region. This will cover all key strategic aspects including an assessment of supply and demand, and identifying optimal financing options, linkages between the public & private sector in the development process, sustainability paths for a regional land bank assembly strategy, and options for supplier parks & ‘pre-build’ units to support the zone

3.4.3 Creating an Extension Path in a form of demonstration project for the Government to expand the regional strategy of Industrial Zone Development to national level by creating a methodology that can be followed by regional authorities working with national bodies & private sector. Principal output will be a manual to illustrate the methodology they have developed and tested in the selected region so it can be applied in other regions

The total MEUR 0.8 will be implemented through a tender covering 2 long-term TAs & one assistants (12 months each) together with 8 months of short-term expertise. All consultants will have experience of service sector development and strategy, preferably with practical experience from a Cohesion country and/or dealing with a
programme backed by a Cohesion fund, with practical specialisation in property development, site assembly and regeneration.

Short-term expertise will be required in a range of technical areas in order to introduce best practice to the Czech Republic including assistance with maximising the benefits of academic/corporate co-operation, international/Czech co-operation, and technical equipment issues.

4. Institutional Framework

The institutional framework described below includes all the relevant technical institutions that will be involved in the implementation of Phare 2001.

**CzechInvest**

The lead organisation for this programme is CzechInvest, the national foreign investment promotion agency. It will take overall responsibility for hosting the TAs and co-ordinating the national/regional aspects of the programme.

The TAs will act as advisors both to the Programme Head in CzechInvest.

A detailed analysis will need to be carried out by the TAs to identify institutional constraints that could affect the programme’s launch. Among the areas that will need to be agreed and monitored are:

- a mechanism (that functions) to make all appropriate local and national resources available to the programme team
- political agreement within the region to “buy in” to the programme and an indication that they wish to fund future activities relating to this initiative
- EU rules on the types of public/private sector collaboration that will be allowed under state aid rules.

**The principal local bodies** that will need to work with the project team are:

- The local RDA
- The City authorities including the Planning Office
- The Brownfield Regeneration Unit
- RPICs in the region
- Local Labour Offices

A Steering Committee comprising representatives from CzechInvest, the Ministry of Industry & Trade, the Ministry of Labour, Ministry of Regional Development, the Brownfield Development Unit in Ostrava, Ostrava City hall, the RRA (the North Moravian RDA) and other bodies will be formed in order to ensure that the local community ‘buys in’ to the activities under this project.
5. **Detailed Budget in (M€)**

<table>
<thead>
<tr>
<th>Project</th>
<th>INV</th>
<th>IB</th>
<th>Total Phare</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
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<tbody>
<tr>
<td>TA – Service Contract</td>
<td>0.8</td>
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<td>0.8</td>
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*Note: CZK 600 million (approx. MEUR 17) is reserved within the Czech state budget to support CzechInvest to pay for activities related to this project. This would cover:

All costs of surveying or preparing the land for inclusion in the regional land bank process.

Other investment into infrastructure that may be required to secure the land.

Sites identified under this programme would qualify for state & municipal joint funding under the above scheme.

The core criteria for investment funding will be based on results of “BRS”.

The Agency CzechInvest will pay for MS experts the provision of office space, the provision of equipment (including access to computer, telephone, fax…...).

6. **Implementation Arrangements**

6.1 **Implementing Agency**

The CFCU will be Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical aspects related to preparation, implementation and control will rest with the Ministry of Industry and Trade (working closely with CzechIndustry and CzechInvest).

6.2 **Co-ordination**

The 2 long-term TAs will be located in CzechInvest.

CzechIndustry (IA), as the overall co-ordinator of MIT-related issues, will be entrusted with the implementation of the covenant. The contact people will be:

- **Mr Jaroslav Konecný**, General Director of the European Integration Section, MIT, Na Františku 32, Prague 1, tel: 420 2 2485 4114; fax: 420 2 2485 2287;

- **Mr Martin Jahn**, CEO – CzechInvest, Štepánská 15, 120 00 Prague 2, tel.: +420-2-963 42 500; fax: +420-2-963 42 502; e-mail: jahn@czechinvest.org;

- **Mr Petr Bucina**, Director of Industrial Policy Department, MIT, Na Františku 32, 110 15 Prague 1, tel: 420 2 2485 3343; email: bucina@mpo.cz;
6.3 Non-standard Aspects

The "Practical Guide to Phare, Ispa & Sapard contract procedures" shall be followed.

6.4 Contract
(1) TA - Technical Assistance contract - 0,8 M €

7. Implementation Schedule

7.1 Start of tendering/call for proposals: 3Q/2001
7.2 Start of project activity: 1Q/2002
7.3 Delivery of services: 3Q/2003

8. Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. Environment

N/A

10. Rates of Return

N/A

11. Investment Criteria

N/A

12. Conditionality and Sequencing

N/A

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme, including disbursement period
**LOGFRAME PLANNING MATRIX FOR:**

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union</td>
<td>• Improvements in ESC indicators</td>
<td>• EC regular reports</td>
<td>• Continuation of the Commission’s <em>vade mecum</em> allowing public/private partnerships as a method to leverage the combined development benefits created using public sector seed/risk capital</td>
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<tr>
<td>• To approach ESC criteria in line with national pre-accession plan</td>
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<td>• National statistics</td>
<td>• Public/private partnerships and development plans are successfully set up in the Czech context as a pre-accession CE country</td>
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**Project purpose**

1. To develop a strategy for the creation of industrial property in the Czech Republic after completing a regional assessment process in the Ostrava region
2. Industrial Zone Strategy outlines plan for the North Moravia region and methodology for the expansion of the strategy across all Czech regions (1Q 2003)
3. Estimated new direct job creation c. 10,000 (4Q 2004)

**Results**

1. Regional Assessment Study quantifies likely demand in the region, estimates the cost of sites against likely benefits, and justifies conclusion & selection of individual sites (2Q 2002)
2. Strategy Report details method to develop a land bank, the methods of financing and marketing it; minimum 200 hectares of new land identified within strategy (1Q 2003)
3. Demonstration project proves sustainable path for

<table>
<thead>
<tr>
<th>Assumptions</th>
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<tbody>
<tr>
<td>• Financial support from the property development community in mixed private/public sector partnerships is forthcoming</td>
</tr>
<tr>
<td>• North Moravia regions has appropriate budget to spend as the public-sector development partner to develop zones, are willing to ‘invest’ in training for their staff to manage projects and plan according to a</td>
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*Date of drafting: 22.2.2001*
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>1. Regional Assessment Study for the North Moravia region covering the demand and supply side.</td>
<td>TA to be provided within one Service Contract (Restricted Tender after prequalification announced on Internet): 2 LT TAs with site assembly experience, preferably in a Western development agency, and one secretary/assistant, each for 12 months. The LT TAs will guide and define the project and its activities, ensuring that European best practice is understood and absorbed and that the start up of the programme is achieved on plan. 8 man-months of short-term foreign expertise. The ST TA assistance will provide the detailed specialist inputs that will be required to set up and co-ordinate local inputs and agencies in what is a complex exercise in networking and organisation. It is expected that some of the key local players may require ‘shadows’ that can assist them directly during crucial phases of the strategic assessment. Short-term local expertise will be funded from the Czech budget as will any technical costs related to site assessment or assembly. Local experts’ inputs will be particularly valuable in the beneficiary region to ensure effective liaison with all local bodies, particularly relating to master plans and planning development.</td>
<td>• Public officials within the selected target region provide full support in the assessment and planning process for the demonstration project  • The head of CzechInvest in Ostrava is supported by the City of Ostrava in terms of staff, offices and equipment.  • Financial support from the property development community in mixed private/public sector partnerships is forthcoming in this region  • CzechInvest’s funds for property development support are made available to the target region.  • Potential links with the Regional Regeneration Programme programme (CZ 2001 and the Vitkovice Regeneration programme (CZ 9916) are fully exploited</td>
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<tr>
<td>2. Strategy Report covering all key strategic aspects including identifying optimal financing options, linkages between the public &amp; private sector in the development process, sustainability paths for a regional land bank assembly strategy, and options for supplier parks &amp; ‘pre-build’ units to support each zone.</td>
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<tr>
<td>3. Demonstration Project in two locations covering economic impact, land use and marketing.</td>
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**Preconditions**

- CzechInvest maintains its role as the country’s key public sector experts in site assembly/development.
- A senior CzechInvest director is posted to Ostrava to run the programme directly from the region.
- The Ministry of Regional Development and CzechInvest have agreed a strategy to split responsibility for strategic site assembly so that major sites are handled by CzechInvest and smaller-scale sites are handled by the ministry, and the funding implications of this agreement have been addressed.
Detailed Implementation Chart for the Project: Development of an Industrial zones strategy

<table>
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<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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Annex 2
## Cumulative Contracting and Disbursement Schedule for the Project (M€)

### Annex 3

### Cumulative Quarterly Contracting Schedule (M€)

<table>
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<th>Project</th>
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<th>3Q/01</th>
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### Cumulative Quarterly Disbursement Schedule (M€)

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