

Based on article 25 paragraph 4 of the Law on Innovation Activity (“Official Gazette of the Republic of Macedonia” no. 79/2013, 137/2013, 41/2014, 44/2015, 6/2016, 53/2016, 190/2016 and 64/2018), the Managing Board of the Fund for Innovations and Technology Development, on its session held on _____, has adopted the

RULEBOOK

for the Support Instrument - Co-financed Grants for the Establishment, Operations and Investments of Business and Technology Accelerators

Article 1

This Rulebook prescribes the basic characteristics of the support instrument - Co-financed Grants for the Establishment, Operations and Investments of Business and Technology Accelerators (hereinafter in the text: the “Instrument”), the co-financing application criteria and procedures for applying for the co-financing and the co-financing awarding criteria and procedures for awarding the co-financing.

I. BASIC CHARACTERISTICS

Article 2

The purpose of this instrument is to provide financial support for the establishment, operations and investments of business and technology accelerators in accordance with the provisions of the Law on Innovation Activity. The business and technology accelerators (hereinafter: “accelerators”), are expected to play the key role in the national innovation system by providing resources conducive to accelerated and sustainable growth and development of the newly established start-up companies.

The support, through this instrument, will be awarded for establishment (optional) and operation of an accelerator, the implementation of a pre-investment program and investments. The accelerators shall provide services for the newly established start-up companies which shall include: office space (optional) and administrative support, training, counseling and/or mentorship, access to business support resources, as well as financial investments. The newly established start-up companies that use the services of the accelerator shall acquire the status of business and technology accelerator beneficiaries (hereinafter: “accelerator beneficiaries”).

Article 3

Through this instrument, the Fund for Innovations and Technology Development (hereinafter: the “Fund”) shall provide financing of **up to 75% (seventy five percent)** of the total budget of the project, for a maximum amount of **500,000.00 (five hundred thousand) Euros for operational costs (phase 1- mostly, and some in phases 2 and 3) and actual investments (in phases 2 and 3) as discussed in article 12.**

The remaining amount of the total budget of the project should be provided by the applicant(s). The funds received from the Fund pursuant to any other grounds or any other form of state aid shall not be acceptable as co-financing of the Applicant.

Costs eligible for financing under this support instrument and the conditional ceilings applicable to the Fund’s co-financing, as well as breakdown of financing, are specified in Article 12 of this Rulebook.

Notwithstanding paragraph 1 of this article, the funds awarded through the instrument can be increased if the accelerator shows good results, i.e. a satisfactory realization of the activities envisioned by

the project proposal. The decision to increase the funds shall be made by the Committee for Approval of Investments (hereinafter: the “Committee”¹) upon an application filed by the accelerator, and with the prior consent of the Fund.

Article 4

The duration of the project for which finances have been awarded through this Instrument can be up to 36 (thirty-six) months, for establishment and operation cumulatively.

In the event of a newly established accelerator, the accelerator establishment period can be extended up to 6 (six) months. Shorter establishment periods are encouraged.

Based on justified circumstances, the Fund can approve an extension of the project implementation period of up to 12 (twelve) months.

The extension of the project implementation period for a period longer than the period stipulated in paragraph 3 of this article can be approved only by a decision taken by the Committee.

An additional extension of the project duration can also be approved in case of an increase of the funds awarded under this instrument.

II. SCOPE OF WORK OF THE ACCELERATOR

Article 5

The accelerator is expected to follow globally recognized good practices of acceleration and organize its activities in line with the following phases: Phase 1: Pre-Investment Program; Phase 2: Seed investments; Phase 3: Follow-up investments.

In Phase 1: Pre-Investment Program, the accelerator is expected to implement a program intended for start-up companies that could include any combination of the following:

- Identification and access of potential accelerator beneficiaries through promotion and networking;
- Creation and implementation of a program for training, counseling and mentoring for the accelerator beneficiaries;
- Establishment and providing access to support services for accelerator beneficiaries in areas such as: business planning, business development, market penetration and development, legal and financial issues, intellectual property protection, prototype development, pilot lines development, marketing and other types of support of innovative product, service and process development;
- Provision of office space and administrative support for the accelerator beneficiaries, as necessary;² and
- Implementation of networking and investor attracting events.

¹ The Committee is a group of international independent experts with deep understanding of innovation, acceleration, and venture capital. The committee Committee evaluates financing eligibility of all instruments of FITD Fund financed under the Skills Project, such as: co-financing grants for newly established companies: startups and spin offs, co- financed grants and conditional loans for commercialization of innovation, co-financed grants for technology extension. Their profiles can be seen at www.fitr.mk.

² It is stressed that the Fund envisages maximum effort by the accelerator to provide soft services and relatively less expenditure or support on physical infrastructure.

The accelerator shall be expected, within a period of 12 (twelve) months, to include in the Pre-Investment Program approximately 10 (ten) accelerator beneficiaries that fulfill the eligibility criteria stipulated in Article 10 of this Rulebook. Higher number of beneficiaries is encouraged and is in the incentive of the accelerator to generate a robust pipeline of start-ups. In the Pre-Investment Program, the accelerator is expected to propose a set of criteria for the selection of the accelerator beneficiaries.

In **Phase 2: Seed investments**, the accelerator is expected to provide office support (optional) and advisory support, as well as seed investments to selected accelerator beneficiaries that have successfully passed Phase 1. The Fund will co-finance the seed-investments in accordance with the provisions of article 12 of this Rulebook.

The accelerator beneficiaries must have a high growth potential and a high market potential, be significant for the industry and with positive performance outlook in order to be eligible for Phase 2.

The investments shall be made in such a way that the financed start-up company is able to secure continuous financing and to continue to grow when it achieved the stated objectives of the financing set by the accelerator.

In **Phase 3: Follow-up investments**, the accelerator can invest further in the accelerator beneficiaries supported in Phase 2. The Fund will co-finance the follow-up investments in accordance with article 12 of this Rulebook.

When applying, the accelerator is expected to propose a clear pre-investment program, investment strategy for the seed and follow-up investments with defined criteria and procedures for selection of the beneficiaries to be invested in, as well as the terms of investment and exit strategy.

The accelerator is expected, to support approximately 3 (three) companies with follow-up investments in accordance with the provisions stipulated in article 12 of this Rulebook.

The accelerator shall sign contract with each accelerator beneficiary, which will define the rights and obligations of both parties in each of the above mentioned phases.

The investment strategy of the accelerator, explained in the project proposal, should contain information for determining the percentage of ownership share in the accelerator's beneficiary that will be owned by the accelerator. The investment strategy should be explained for Phase 2: Seed investments and Phase 3: Follow-up investments.

The accelerator is expected to support the accelerator beneficiaries in access to finance, i.e. securing investments beyond the ones provided under this instrument. The Fund will not co-finance in this phase i.e. the Fund will co-finance only in Phase 2 and Phase 3.

Article 6

In case that the accelerator sells its equity share (or part thereof) in the accelerator's beneficiaries and that equity share (or part thereof) was acquired with co-financing from the Fund, the accelerator shall be obliged to split the proceeds from the sale of the equity share (or part thereof), in the proportion 50:50, between the Fund and the accelerator. The Fund shall receive proceeds from the sale of the equity share (or part thereof) as stipulated in paragraph 1 of this Article, in the maximum amount of the co-financed part by the Fund in that investment (only the co-financed part of the financing to the accelerator beneficiaries and not operational costs of the accelerator). All upside from proceeds from the investments in accelerator's beneficiaries that are co-financed by the Fund, will belong to the accelerator. In case of losses, the accelerator doesn't owe anything to the Fund.

The accelerator is required to inform the Fund in advance of every sale of the equity share (or part thereof) that was acquired with co-financing from the Fund. The Fund shall have the right to veto any selling that involves funding awarded by the Fund in case of fraudulent behavior, identified conflict of interest or other occurrence in conflict with the good technical, economic, financial, management, environmental and social practices and standards. The Fund shall ensure speedy approvals to facilitate deal making by the accelerator.

The accelerator's duty described in paragraph 1 and paragraph 3 of this Article will be in force until the exit of the accelerator from all seed investments and follow-up investments in accelerator's beneficiaries that are co-financed by the Fund.

Intellectual property rights and know-how

Article 7

The accelerator is expected to provide support to the accelerator beneficiaries regarding the protection of intellectual property rights.

The Fund shall not be held accountable for any disputes pertaining to the intellectual property rights between the accelerator, the accelerator beneficiaries, and any third parties.

III. ELIGIBILITY CRITERIA

Article 8

Entities eligible for financing under this instrument shall be legal entities that provide services for the newly established start-up companies such as: office space (optional) and administrative support, training, counseling and/or mentorship, access to business support resources, as well as financial investments (hereinafter: "acceleration services").

Such entity must meet the following eligibility criteria:

- To be a legal entity registered in the Central Registry of the Republic of Macedonia, in accordance with the Trade Company Law or the Law on Associations and Foundations
- To have a majority Macedonian ownership (50.1% or more)³ - for trade companies, or the majority of founders (50.1% or more) should be citizens of the Republic of Macedonia - for associations and foundations.
- To have ownership/foundation structure comprised of:
 - Natural person(s); and/or
 - Legal entity(ies) established as a company, an association or a foundation, registered in the Central Registry of the Republic of Macedonia, in accordance with the Law on Companies or the Law on Associations and Foundations; and/or
 - Unit(s) of the local self-government in the Republic of Macedonia (having up to 30% equity share in the accelerator); and/or
 - A higher education or a scientific and research institution(s) (having up to 30% equity share in the accelerator); and/or
 - The Republic of Macedonia (having up to 30% equity share in the accelerator).

³ At least 50.1% of the owners/founders should be citizens of the Republic of Macedonia.

In the event of a public-private partnership, the provisions of the Law on State Aid and the Law on Concessions and Public-Private Partnership shall apply.

The Agreement for Awarding Funds shall be signed between the Fund, on the one side, and the accelerator, on the other side. (Annex 1)

Article 9

The accelerator shall be managed by a team of at least two persons with the following qualifications:

a) The manager/director shall have:

- More than 5 (five) years of working experience in finances and investments on a managerial position.

b) At least one team member shall have:

- More than 5 (five) years of working experience in business development and enterprise support development, of which at least 3 (three) years on a managerial position.

The accelerator is expected to establish an Investment Committee comprising 3 (three) to 5 (five) members that will make the decisions to award the investments under Phase 2: Seed investments and Phase 3: Follow-up investments.

Each member of the Investment Committee shall have:

- More than 5 (five) years of working experience in management or investments in micro, small and medium enterprises.

Projects that have strategic partnerships with organizations/persons with international experience in establishment and management of business and technology accelerators shall have an advantage in the awarding of the financing. In case of strategic partnership the rights and obligations and the activities of each entity shall be specified in a cooperation agreement that should be presented to the Fund when applying for funds.

Article 10

The accelerator beneficiaries, supported through the funding awarded by the Fund shall fulfill the following eligibility criteria:

- to be a newly established micro, small or medium start-up company, registered in the Central Registry of the Republic of Macedonia in accordance with the provisions of the Law on Innovation Activity or the Law on Trade Companies.
- to be in ownership of a natural person/s and/or micro, small or medium sized enterprises (with a majority Macedonian ownership structure of 50,1% or more),
- to do business development based on innovations,⁴ with a significant growth potential, export oriented and with significant team capacity.
- not to be active in the following fields:

⁴ In accordance with the provisions of the Law on Innovation Activity, “innovation” shall mean an application of a new or a significantly improved product, technology, process or service, including technical characteristics, components and materials, built-in software, user orientation or other functional characteristics, or marketing methods or new organizational methods in operations, organization of work relations or relationships between a legal entity and environment.

1. Production, trade or other activities that are illegal according to the laws or regulations of the Republic of Macedonia;
2. Production of and trade with tobacco, distilled alcohol and other similar products;
3. Production of and trade with weapons and ammunition of any kind;
4. Casinos and other similar enterprises that organize games of chance and other games;
5. Research, development, and technical applications related to electronic data, software or solutions that:
 - (a) Are related to:
 - Supporting any of the activities under the scope of the fields stipulated under items 1, 2, 3, 4, 5, 6 of this paragraph; or
 - Pornography;
 - (b) Are intended for illegal provision of:
 - Access to electronic data and networks;
 - Downloading electronic data;
6. Natural sciences – research, development of technical applications related to human cloning for research or therapeutic purposes; or for genetically modified organisms (GMO).

Article 11

Activities that are acceptable for financing under this Instrument are:

- Accelerator management;
- Administrative and technical support of the work of the accelerator;
- Providing office and administrative support of the accelerator beneficiaries;
- Mentorship, training and counseling of the accelerator beneficiaries;
- Preparation and implementation of events (demo days, access to market, establishment of networks, access to finances etc.);
- Seed investments;
- Follow-up investments; and
- Other activities related to providing business support to the accelerator beneficiaries.

The list of the activities stipulated in paragraph 1 of this article is not exhaustive.

Article 12

Eligible costs for financing under this Instrument are:

- Phase 1 will cover operational costs such as: Costs for the establishment of the accelerator, management of the accelerator, administrative and technical support of the work of the accelerator, costs of the mentorship, training and counseling, costs of external collaborators

(mentors, trainers, counselors)^{5[1]6} and costs for materials for training, logistic and technical support i.e. non-investment costs (the total co-financing from the Fund for Phase 1 is up to 75% of the total costs in Phase 1, i.e. 75,000 Euros). Operational costs financed by the Fund shall be 20% of the total co-financing by the Fund in maximum amount of 500,000 Euros, and remaining amount of 400,000 Euros is for actual investments for phase 2 and phase 3 in accelerator beneficiary. The amounts on operational cost for all three phases are fungible, i.e. unused amounts may be interchangeably used in different phases as long as the total operational costs in all three phases do not exceed 100,000 Euros. Phase 1 ceiling for operational costs remains 75,000 Euros and Phases 2 or 3 cumulative ceiling is 25,000 Euros.

- Phase 2: Costs for seed investments (co-financing from the Fund up to 75% of the value of **each** investment, for a maximum amount of 25,000 (twenty five thousand) Euros per accelerator beneficiary);⁷ and
- Phase 3: Follow-up investments (co-financing from the Fund up to 75% of the value of **each** investment, for a maximum amount of 75,000 (seventy five thousand) Euros per accelerator beneficiary).⁸
- The amount of 400.000 Euros earmarked for investments in phase 2 and phase 3 is fungible, i.e. the accelerator is expected to create a good cohort ready for phase 3 and determine financing needs for phase 3 and make investments in phase 2 accordingly.

Furthermore the funds left over from operational costs can be used in phase 3.

Higher share of the project budget allocated to investment is strongly encouraged.

Ineligible costs for financing under this Instrument are:

- Costs for payment of interest or debt to a third party;
- Costs and commissions for past and potential future losses or debts;
- Coverage of losses due to currency exchange rates, fees and fines;
- Costs for purchasing of real estate and renovation;
- Cash payments from the designated account of the project;
- Costs for procurement of vehicles;
- Costs for procurement of second hand equipment;
- Costs for realization of activities previously financed from other sources;
- Costs for entertainment and hospitality;

It is expected that the hiring of external collaborators shall be done in accordance with the good industry practices in the industry, i.e. that most of the external collaborators will be hired on a pro-bono basis and only travel, and per diem costs shall be compensated.

⁶ It is expected that the hiring of external collaborators shall be done in accordance with the good industry practices, i.e. that most of the external collaborators will be hired on a pro-bono basis and only travel, and per diem costs shall be compensated.

⁷ Example 1: If beneficiary needs funding of 30,000 Euros, the Fund will finance 75% of 30,000 eurEuros = 22,500 eurEuros and the remaining 7,500 eurEuros will be financed by the accelerator.

Example 2: If beneficiary needs funding of 100,000 Euros, the Fund will finance maximum amount of 25,000 and the remaining 75,000 eurEuros will be financed by the accelerator.

⁸ Example 1: If the beneficiary needs funding of 50,000 Euros, the Fund will finance 75% of the 50,000 eurEuros = 37,500 eurEuros and the remaining 12,500 eurEuros will be financed by the accelerator,

Example 2: If the beneficiary needs funding of 300,000 Euros, the Fund will finance a maximum amount of 75,000 eurEuros, and the remaining 225,000 eurEuros will be financed by accelerator.

- Costs for recruiting staff (costs of publishing advertisement, commissions of employment agencies, costs related to selection of candidates etc.) and costs for displacement of employees
- Allowances on wages.

Only the costs arising during the course of the project that are in accordance with the approved budget of the project and the rules and procedures of the Fund shall be eligible for financing.

The list of costs stipulated in paragraph 1 and paragraph 3 of this article shall not be exhaustive.

IV. APPLICATION PROCESS

Article 13

The funding under this Instrument shall be awarded on a competitive basis, in accordance with a published public call.

The Public call shall be published in at least two public media and on the website of the Fund.

The deadline for submission of the project proposals shall be specified between 30 (thirty) and 90 (ninety) days from the day of publication of the public call.

The content of the public call shall be regulated with the Rulebook on the Management of the Instruments of the Fund (hereinafter: the “Management Rulebook”).

The forms for application on the public call for awarding of funds under this instrument are attached in Annex 2 – Project Application and Annex 3 – Project Budget of this Rulebook.

The other documents required during the application process are defined in the Management Rulebook and are specified in the public call.

Article 14

In the project proposal the applicant should propose and, if the project is approved for financing, the applicant is expected to establish an organizational structure through which relevant experts will be engaged in accordance with the needs of the accelerator beneficiaries.

The applicant should also propose and, if the project is approved for financing, the applicant is expected to establish procedures including, among others, provisions for: conflict of interests, confidentiality, fraud and corruption, good financial management, intellectual property rights protection, environmental protection, procurement procedures, accelerator beneficiaries selection⁹ and other procedures in accordance with the rules of the Fund and the World Bank, specified in this Rulebook and the Management Rulebook.

The accelerator shall ensure that the accelerator beneficiaries shall comply with the good commercial practices, as well as the environmental management rules, in accordance with the provisions specified in the Management Rulebook.

The manager/managers of the accelerator shall be expected to be dedicated to the activities of the accelerator and to act independently, but under the supervision and coordination by the Fund.

⁹ Including indicators for measuring the performance of its beneficiaries (for example: number of new beneficiaries, growth of sales, private investments, new jobs, penetration into new markets etc.)

V. EVALUATION PROCESS

Article 15

The evaluation of the submitted project proposals, as well as the decisions for awarding of funds under this Instrument shall be under the responsibility of the Committee.

The Committee shall evaluate all project proposals that have passed the administrative checks of application completeness and applicant eligibility.

The administrative check shall be performed in accordance with the form attached in Annex 4 – Administrative check document, of this Rulebook.

The rules and procedures for the administrative check and evaluation of the project proposals shall be regulated in more details in the Management Rulebook.

Article 16

The basic criteria for project evaluation and awarding of funds under this Instrument shall be:

- Profile of the management team and human resources;
- Quality of the project;
- Institutional capacity and sustainability;
- Financial parameters;
- Budget relevance.

The basic criteria and evaluation sub-criteria are stipulated in Annex 5 – Project Proposal Evaluation Table, of this Rulebook.

VI. PROJECT IMPLEMENTATION AND SUPERVISION

Article 17

The accelerator has an obligation to implement the project effectively and efficiently in accordance with the Agreement for Awarding of Funds and in accordance with the good technical, economic, financial, management, environmental and social practices, and standards.

Every deviation from the Project Application and the Project Budget (changes to the activity plan, changes to the dominant ownership/founding structure, changes to key people, changes of the results etc.) should be previously approved by the Fund.

The Fund aims at fostering innovation activities and risk taking. Because innovation projects usually develop differently from the initial expectations, the Fund shall have this factor in mind when making the decisions to approve changes to the project.

The Fund shall respond to the requests for changes as soon as possible.

The rules and procedures for implementation of the project shall be regulated in more details with the Management Rulebook.

Article 18

The Fund's co-financing for the first quarter for Phase 1 will be paid to the separate account as stipulated in the Management Rulebook, after the signing of the Agreement for Awarding Funds and after the accelerator submits to the Fund proof of made payment for its co-financing for the first quarter in the form of a bank statement.

The funds for each following quarter shall be paid in accordance with the conditions stipulated in the Management Rulebook and this Rulebook.

Following conditions for payment of the co-financing shall apply in the event of seed investments and follow-up investments in the accelerator beneficiaries, in which case the Fund shall pay the co-financing for each investment separately after the fulfillment of the following requirements:

- The accelerator shall file an application for co-financing of investments to the Fund. This application shall contain information about the potential investments and the terms for investing, including data about the amount of the investment and the percentage of ownership in the accelerator's beneficiary that will be owned by the accelerator.
- The application for investment co-financing is submitted by the accelerator and approved by the Fund
- The accelerator submits proof that it paid its part of the co-financing of at least 25% of the total investment into the account of the pertinent accelerator beneficiary.

Every seed investment and every follow-up investment has to be previously approved by the Fund. The Fund shall have the right to veto any investment that involves funding awarded by the Fund in case of fraudulent behavior, identified conflict of interest or other occurrence in conflict with the good technical, economic, financial, management, environmental and social practices and standards. The Fund will endeavor to not in any way impede or interfere with functioning of the accelerator

The Committee shall appraise the work of the accelerator every 12 (twelve) months starting from the beginning of the project. Future financing shall be contingent on a positive appraisal by the Committee.

Article 19

The Fund shall oversee the project by reviewing the reports submitted by the beneficiary, by conducting field visits and by evaluating the performance of the project.

Together with the reports submitted to the Fund, the accelerator shall also submit a report on the accelerator beneficiaries (including, but no limited to the description of the project, status of intellectual property rights, services obtained from the accelerator, their progress etc.) using forms provided by the Fund.

The supervision, monitoring and evaluation rules and procedures shall be regulated, in more detail, in the Management Rulebook.

VII. FINAL PROVISIONS

Article 20

Anything not regulated with this Rulebook shall be subject to the provisions of the Management Rulebook and the laws of the Republic of Macedonia.

Article 21

On the day when this Rulebook comes into force, the Rulebook on the Instrument for Support - Technical Assistance through Business-Technology Accelerator no.01-63/1 from 31.01.2015 adopted by the Fund's Management Board shall cease to apply.

Article 22

This Rulebook shall enter into force on the day of the publication on the notice board of the Fund, and shall be published after prior approval by the Government of the Republic of Macedonia.

No. _____

President of the Management Board

Skopje, _____