BLUEPRINT

What can be used as a valid solution from the experiences of the establishment and operation of the Fund for Innovation and Technological Development (FITD) in North Macedonia, which could eventually serve as a good experience for Kosovo?

Pristine, May 27, 2024

1. Introduction[1]

This blueprint has been prepared within the Business-Friendly Environment (BFE) regional project, which is implemented in the Western Balkans six (WB6). It follows analyses conducted by BFE regarding successful reforms in the Western Balkans that could serve as good examples for other countries in the region. Based on analyses conducted by the Riinvest Institute and consultations with stakeholders, it was recommended to consider experiences regarding R&I funding and support.

This text is prepared based on the Terms of Reference and the Scope of Work delivered by BFE/NALED for this purpose. It addresses key shortcomings of the R&I landscape regarding policy, institutional infrastructure, and arrangements to support R&I in Kosovo. Additionally, it presents advanced solutions in the region, particularly in North Macedonia, regarding the potential implementation of experiences in the neighbouring country related to improving access to funds for research & development and innovation. It is expected that these and other project results will contribute to the improvement of conditions for municipal development and local economic development in the six economies of the Western Balkans, in line with EU accession requirements.

This paper has been prepared through desk research of legal acts, bylaws, analyses, and reports that address the functionality of Kosovo's institutional framework and infrastructure. It also explores valuable solutions derived from the experiences in launching and operating the Fund for Innovation & Technology Development (FITD) in North Macedonia, which could potentially serve as a valuable experience in Kosovo.

For this purpose, the following aspects have been considered: legal provisions and legislation requiring accommodation, the need for implementing new institutional arrangements, including the relevant government bodies, necessary budgetary and other resources, as well as the essential elements for lobbying and advocating the proposed recommendations and solutions.

The consultant would like to express gratitude to BFE and its secretariat NALED, Riinvest Institute, and ZELS (acting as the technical secretariat in North Macedonia) for their cooperation and for providing the available materials prepared for the reform selection process.

[1] This blueprint has been prepared by Muhamet Mustafa, Senior Fellow at Riinvest Institute for Development Research

2. Background and the state of play of the R&I sector in Kosovo

The R&I ecosystem in Kosovo falls short of meeting the requirements not only for sustaining economic growth and fostering a prosperous society, but also in terms of utilizing available human and other resources. Responsible institutions and the research community must address these shortcomings earnestly, which include, but are not limited to, deficiencies in legislative, regulatory, and procedural frameworks, as well as the inadequate level of investment in R&I from public funds and other sources.

The institutional infrastructure for research and innovation in Kosovo is in its early stages of development, characterized by an ad-hoc approach to planning research facilities and a lack of systematic management of research policies. There is a notable absence of consideration for the overall infrastructure landscape of the economy and long-term planning.[2]

Higher education institutions play a crucial role in fostering sustainable development encompassing economic, social, and cultural aspects. However, a recent study conducted by the Riinvest Institute reveals discouraging findings regarding academic and research progress in Kosovo. There is a broad consensus that higher education institutions in Kosovo face significant challenges in conducting scientific research. These challenges are closely linked to limited financial support, human research capacities, research infrastructure, and the prevailing research culture within these institutions.[3] For the purpose of this study, 26 researchers and innovators from higher education institutions (HEIs) and research entities were interviewed. The vast majority of them believe that the situation of the R&I sector in Kosovo is characterized by significant lag, even compared to neighbouring countries in the region, and especially European Union (EU) countries. Respondents call for determined and long-term commitment from the Government and other responsible institutions, based on an informed and well-thought-out vision, to overcome this lag in the R&I sector in Kosovo. They demand increased financial support for this sector and improvement of appropriate legal and administrative infrastructure for implementation, making it supportive and stimulating for the development of the R&I sector, rather than discouraging or hindering, as it currently is in some instances. The vast majority of respondents (nearly three-quarters, respectively) assess the current situation of the R&I sector in Kosovo as unsatisfactory or highly unsatisfactory. Similarly, most respondents believe that the Government, other responsible institutions, as well as other actors and stakeholders in the R&I sector, have not yet adequately addressed the vital importance of this sector for the overall development of Kosovo.

Insufficient funding stands out as one of the primary reasons for the unsatisfactory situation in the R&I sector. Furthermore, the majority of respondents perceive that the legal and regulatory framework presents obstacles or limitations to the faster development of the R&I sector in Kosovo. Institutional structures or mechanisms, policies, and procedures for administering the National Science Program (NSP) are viewed as bottlenecks or obstacles to achieving more efficient implementation of defined research and development objectives through legal solutions and strategic documents.

Following the Law on Innovation and Entrepreneurship, as well as documents such as the National Strategy on Innovation and Entrepreneurship (2019-2023) and the Economic Reform Programme (2022-2024), the primary objective is to establish links between the research community and industry and to develop an integrated system to support innovation. However, there is no explicit reference to the EU Agenda for the Western Balkans, which the Government Programme targets to actively

[2] Regional Cooperation Council (2022). Research Infrastructure Roadmap for Kosovo.
[3] Riinvest Institute (2023). Research and innovations in Kosovo from the perspective of researchers.

participate in. The initiatives include support for business associations and other private sector and civil society actors (such as Technology Parks and the Innovation Centre of Kosovo), as well as support with fiscal instruments. Additionally, efforts are being made to advance the activity of the Advisory Council for Innovations and implement institutional supportive innovation schemes, especially in ICT, digitalization, food production, manufacturing, and tourism sectors.

However, the Government Economic Reform Programme 2022-2024 includes several supportive actions, such as a grant scheme for businesses and individuals for innovative projects, the drafting of the Law on the Innovation Fund (which is still pending), and the adoption of the new Law on Innovation and Entrepreneurship. The latter has been drafted and is expected to be approved by the government and sent for parliamentary procedure. This act is expected to lay the foundation for establishing an Innovation Fund.

Nevertheless, the aforementioned government programmes are only partially implemented. SMEs' investment in innovation and research is still at an embryonic stage, and governmental and donor support has not yet properly targeted the SME community in this area. The National Strategy on Innovation and Entrepreneurship and the Government Economic Reform Programme have identified supporting innovation and entrepreneurship among youth and women in business as key measures. The planned actions include advancing curricula related to digital, entrepreneurial, and other skills, as well as supporting creativity and critical thinking through advancing teaching methods.

Kosovo is not yet included in the Innovation Scoreboard, and there is no systematic data to properly evaluate the state of play and the ongoing progress.

2.1. Funding and investments in R&I

Investments in research and innovation from the government budget and other public funds remain low. There is a pressing need for a gradual and significant increase in financial support from Kosovo budget allocations for R&I compared to the existing legal obligation to achieve 0.7% of the total national budget. However, with the projections presented in the National Science Program (NSP) (table below), it is not expected that even this target will be met, highlighting the urgent need for change.

An institutional and societal consensus is necessary to overcome the current situation and ensure that R&I investments reach the regional average over a 3-5-year period. The general budgetary allocations for planned activities in the National Science Program 2023-2028 are estimated to be around 87 million euros, averaging about 14.5 million euros per year over these six years. However, this is inconsistent with the Medium-Term Expenditure Framework, which is not aligned with NSP orientations.

The general budgetary requirements for activities planned with NSP are very modest. In 2023, this share in the budget is 0.32%; in 2024, it is 0.49%; and in 2025, it is 0.56%. As a share of GDP, the budgetary requirements for activities planned with NSP in 2023 are 0.11%, increasing to 0.15% in 2024, and 0.16% in 2025. These figures are inadequate to support participation in the European Research Area (ERA) and to adequately address Kosovo's social and economic development needs.[4]

[4] Riinvest Institute (2023). Opinions and suggestions regarding the draft of the National Science Programme (NSP) 2023-2028.

Table 1. Budgetary requirements for NSP relative to the budget and GDP 2023

	2023	2024	2025
(A) Budgetary requests by year for NSP activities	10,272,500	15,326,750	17,918,925
(B) Planned Budget in Medium-Term Expenditure Framework	3,212,000,000*	3,113,000,000	3,203,000,000
(C) GDP	9,621,300,000	10,407,800,000	11,156,400,000
(A)/(B) Proportion relative to the budget	0.32%	0.49%	0.56%
(A)/(C) Proportion relative to GDP	0.11%	0.15%	0.16%

Source: Riinvest Institute (2023). Opinions and suggestions regarding the draft of the National Science Programme (NSP) 2023-2028.

The primary sources of international funds for research and higher education in Kosovo are two long-term bilateral projects with Austria (HERAS) and the USA (TTL), totalling approximately 11 million euros. While various international donors support higher education and research activities in Kosovo, most of these programs focus on enhancing institutional capacities and human resources development, with minimal emphasis on developing research infrastructures. Due to the lack of reliable statistics, determining the overall investment in research infrastructure is challenging, and there is no clear plan for significant investments in this area. Moreover, investments in research equipment by universities and research institutes are minimal, and the establishment of well-equipped research laboratories is sporadic.[5]

2.2. Policy and institutional setup

The R&I policy and institutional setup can be analysed through the lenses of macro, mezzo, and micro framework (Figure 1). This analysis is helpful for analysing policy ideas to programme implementation. It is also essential to analyse the interaction between different levels of governance and how the institutions/organisations or participants at each level framed have a crucial role in the design of policy and programme as well as in implementation.

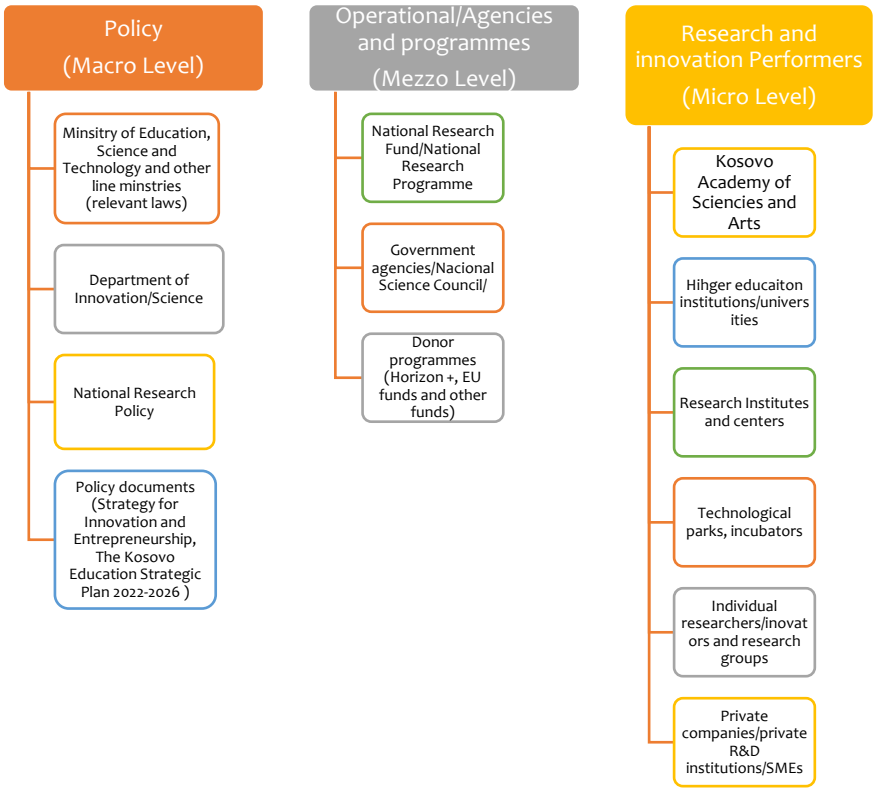
On the legal aspects, the Law on Scientific Research Activity outlines the government's responsibilities for research governance, policy development, and financing of research institutions in Kosovo. Parliament and relevant government ministries or departments determine the laws and policies at the macro level. In the case of the R&I policy frame in Kosovo, the MESTI and National Research Council (NRC) are considered key policy actors at the macro level. The Department of Science and Innovation is mandated to deal with designing the and proposing the legal frame and drafting key policy documents and also to create conditions and ensure their implementation. The institutional setup is still incomplete waiting for National Research Fund (NRF) to be established. Because of the lack of such nationally profiled research granting institutions, the funding of research projects is currently fragmented in various departments and agencies. At the programme level, there is a need for programs it was shaped through the funding and governance structures (at the mezzo level) and,

[5] MESTI: Law on Higher Education in Kosovo: https://masht.rks-gov.net/ligji-per-arsimin-e-larte-ne-republiken-e-kosoves-nr-04-l-037/.

finally, research performers or organisations and universities implementing research (at the micro level).[6]

The policy set-up for R&I lacks a coherent and integrated strategic approach for developing, prioritising, implementing, and promoting research activities. First, the National Research Fund is meant to create a link between policy design and implementation, but this institution is not still in place; without the NRF institution, it is difficult to implement any policy instruments to support research and innovation. For example, while the MESTI created administrative instructions aligned with relevant laws, their implementation is still pending. Although the legal framework envisions collaboration between academia and the private sector, in practice, the partnership between these sectors remains very limited, with mainly ad-hoc initiatives. The lack of policy instruments (e.g., innovation voucher schemes) is also attributed to the limited capacity of the Department of Innovation (only two staff) and the non-existence of NRF. There is a need to align all three levels of governance of R&I policy to effectively implement the ambitious targets of the national research Programme or any future increase in the budget allocation for R&I. Establishing the NRF is expected to have significant implications for developing and implementing various research grant schemes and financing research and innovation. Kosovo has established the National Research Council to enhance research capabilities and internationalisation and as well to propose policies for advancing R&I and National Research Programme (NRP).

Figure 1. The framework of policies for the R&I sector in Kosovo



[6] Dr. Besnik Krasniqi (2023). Advancing financing sources, policies and procedures for research and innovation in Kosovo (published by: Riinvest Institute, 2023).

The Law on Scientific Innovation and Transfer of Knowledge and Technology provide regulations for innovation governance in Kosovo, including establishing the Scientific Innovation Council (SIC) to support innovation activity. However, despite the law being endorsed four years ago, the SIC was not established, leading to a lack of a clear innovation policy framework and funding instruments. There is currently no innovation fund, and the administrative instruction for supporting voucher schemes is being revised launched (June-Sep 2023). The lack of a National Research Fund and missing research and innovation policy instruments such as Innovation Vouchers and research grant schemes resulted in no R&I projects being financially supported. by the government.

The Kosovo Education Strategic Plan 2022-2026[7] gives limited emphasis on research and innovation, despite its focus on higher education development. The reconvening of the NRC in 2022 led to the drafting of a new NRP for 2023-2028, with ambitious goals to support research activities, including developing a robust research system, training researchers, infrastructure development, internationalization, and interdisciplinary collaboration. The National Research Programme has envisaged priorities such as health, society, energy & environment, and agriculture, focusing on green-deal and digitalisation. However, within existing budget contains and still not completed institutional infrastructure with NRF and innovation found and SIC, will be difficult to implement without a well-established funding agency.

2.3. Research Infrastructure

The research infrastructure is a critical precondition for developing R&I activities. The Law on Scientific research activities defines research infrastructure as *"facilities, equipment, and services necessary for scientific research activities, such as laboratories, libraries, professional and scientific journals, archives, and all other sources with scientific content*".[8] The law aims to support scientific research activities that lead to socio-economic impact in Kosovo. The study on the Research Infrastructure roadmap for Kosovo15[9] outlines the necessity to establish a solid legal basis for its development and adoption. The Roadmap for Infrastructure urges the need that all scientific and technological development entities, including institutions, individuals, infrastructures, equipment, and facilities, should undergo information processing and retrieval procedures for designing the Research Infrastructure Roadmap, such as data collection, database creation, data security and exchange, analysis, and statistical processing. According to Article 17 of the Law, public-funded research entities must develop a research infrastructure development plan, which should be initiated by the MESTI in collaboration with universities and research institutions.

[7] Education Strategy 2022-2026. https://masht.rks-gov.net/en/education-strategy2022-2026/
[8] *The Law on Scientific Research Activities (Law No. 04/L-135)*
[9] Regional Cooperation Council (2022), Research Infrastructure Roadmap for Kosovo*, Sarajevo: RCC.

3. Experiences in the region: the case of North Macedonia - FITD and improving the access to funds for R&D and Innovation[10]

Businesses in North Macedonia experienced similar difficulties to those in Kosova regarding financing their innovative projects. One of the key activities to improve the access to finance for researchers and innovators was establishment of the Fund for Innovation and Technological Development (FITD) in 2013. It was established as a national public institution responsible for encouraging and supporting innovation activities in the Macedonian startup & SME sectors. As a such is supported by public funds and is considered as a focal institution in the national innovation ecosystem. Its main objectives are: 1) improved access to financial support for innovation and technological development; and 2) promoting and encouraging innovation activities in North Macedonia. Besides working directly with start-ups and companies with innovative potential, FITD also enabled three leading accelerators in the country to provide the necessary knowledge, support, and funding to companies through their programs.
Main vision of the Fund for Innovation and Technology Development is to encourage and support innovation activity in micro, small and medium-sized enterprises in order to ensure hastened technology development based on knowledge transfer, research and development of innovations which will contribute to the creating of new jobs and ensuring economic growth and development and at the same time improving the business environment for development of the competitive abilities of the companies Project funding programmes have two sources "Plan for Economic Growth" from the Government of Republic of North Macedonia and loan from the "World Bank". According to the programme, the highest percentage or 398 (59%) of 669 projects are within the "Plan for Economic Growth" with total value of EUR 55.80 million. The second programme is with loan from the "World Bank (WB SDIS)" through which 191 projects were co-funded with total value of EUR 12.99 million. The last is the combined programme created by the "World Bank" and the "Plan for Economic Growth" through which 80 projects were funded with total value of EUR19.68 million. As analysed hereinafter in the report, the funds from the "World Bank" are mainly used as financial support of Start-Up enterprises.[11]

Since its establishment, the FITD has co-financed 839 projects in a value of EUR 101 million. In addition, it has supported 106 school projects with involvement of 700 students and mentors. The following instruments were used for funding company project: 1) Start-Up/Spin-off with the average project value of EUR 36,000 of which EUR 28,000 are co-funded by FITD; 2) Improvement of Innovation with the average value per project of EUR 197,000; 3) Technology Development for Accelerated Economic Growth with the average project value of EUR 107,000; 4) Commercialization with an average project value of EUR 228,709; 5) Technology Development – COVID-19 with an average project value of EUR 29,000; 6) Technology Development with an average project value of EUR 171,000.

In relation to the SME Policy Index for the Western Balkans and Turkey, North Macedonia has made good progress in support of SMEs innovation since the last assessment, improving its score further from 3.35 in 2019 to 3.77 in 2022, which is above the WBT average (3.18). Progress has been made

[10] BFC: Sustainable business environment: regional 2023 report; Successfully implemented reforms in the WB6, Project: Establishing Business Friendly Environment Platform in WB6.
[11] Festim Halili , director of FITD Available from: https://www.researchgate.net/publication/375572520_FUNDING_OPPORTUNITIES_THROUGH_THE_FUND_FOR_INNOVATION_AND_TECHNOLOGICAL_DEVELOPMENT [accessed May 15 2024].

regarding strengthening the institutional support structure and providing financial support schemes at scale and sustainable levels.[12]

It is obvious that establishment and successful operations of FITD in North Macedonia has induced important changes and achievements in innovations ecosystem. These positive effects are summarized below based on BFC Project Reports: Successfully implemented reforms in the Western Balkans 6, Project: Establishing Business Friendly Environment Platform in WB6.

Before	**After establishing FITD**
Lack of financing instruments for support of innovation: the loans from the commercial banks were hardly accessibly and very expensive, business angel support was in its embryonic phase.	FITD co-financed in 839 innovative projects in a value of EUR 101 million.
Lack of institutional support: Not clear and overlapping responsibilities for innovation support amongst institutions. Both the Ministry of Education and Science and the Ministry of Economy have to support innovation projects	FITD has built reputation as the main institution for supporting the innovation ecosystem in North Macedonia.
Lack of awareness and innovation culture of SMEs	Increased awareness and better utilization of innovative capacities of SMEs
The innovation-related funds and instruments operated almost exclusively at the national level.	FITD contributes towards balanced regional development, through taking into consideration classification of level of development of the regions (less developed regions have priority in evaluating the projects)
No special measures for supporting female entrepreneurship	FITD encourages female entrepreneurship through ranking higher the companies with female managers and/or owners in the evaluation process.
North Macedonia has scored 3.35 in support of SMEs, SME Policy Index for the Western Balkans and Turkey in 2019	North Macedonia has made a progress in support of innovation, improving its score further from 3.35 in 2019 to 3.77 in 2022, which is above the WBT average (3.18). Progress has been made regarding strengthening the institutional support structure and providing financial support schemes at scale and sustainable levels.

[12] BFC: Sustainable business environment: regional 2023 report; Successfully implemented reforms in the WB6. Project: Establishing Business Friendly Environment Platform in WB6.

4. Rationale for using FITD case/ experience in Kosovo

The background information on the existing state of play regarding R&I infrastructure and obstacles for accessing finance for researchers and innovators in Kosovo is similar to those experienced in North Macedonia before the establishment of FITD. However, the positive effects resulting from the operations and activities of this institution in improving access to finance and the overall innovation ecosystem are noteworthy and should be considered as a positive experience.

The positive effects are quite impressive, especially in improving the innovation score, achieving a score of 3.77 compared to the regional average of 3.18 in the Western Balkans. Following this, it is recommended that relevant institutions in Kosovo, such as the Ministry of Education, Science, Technology, and Innovation (MESTI) and the Ministry of Industry, Trade, and Entrepreneurship (MINT), including its Agency KIESA (Kosovo for Investment and Entrepreneurship Support Agency), establish a joint task force to provide all necessary solutions to establish an Innovation Fund to support technological development in businesses and industries in Kosovo. The experience of FITD could be explored and leveraged in concrete conditions in Kosovo.

In this respect, MESTI's cooperation with MINT should explore the most viable, effective, and feasible solution regarding the completion of the activity for the pending establishment of the National Fund for R&I as an independent agency for the implementation of the National Research Programme (NRP). This agency would serve as an institution for the evaluation of projects and the monitoring of their implementation based on EU standards and practices, including the engagement of international experts in project evaluation, ensuring transparency, accountability, and the avoidance of conflicts of interest.

In this case, two possible solutions should be considered: integrating support for innovations within this fund or establishing two separate institutions: the National Research Fund (NRF) and the Innovation Fund. This issue has been discussed during the preparations of the Law on Innovations by the Ministry of Trade and Industry:

(1) The first option, where NRF includes innovations and is the National Fund for R&I, would entail a specific permanent program for supporting innovations at the business level, including startups, SMEs, innovation centres, and technological parks. The implementation of this program should be managed by Agency KIESA. The advantage of this solution is the potential for better linking research projects with scientific and other innovations, thereby improving the connection between research activities and the needs of the business sector. However, a disadvantage is that the focus may lean more towards traditional academic research at the expense of innovative business solutions.
(2) The second option, where there are two institutions, NRF linked to MESTI and Innovation Found linked to MITN, has the advantage that KIESA could potentially better serve the business community. However, a disadvantage could arise in the continuation of the poor link between research and the business sector. This option has been considered with the Draft Law on Innovation and Entrepreneurship.

However, regardless of which option prevails, there should be corrective mechanisms in coordination and management between both ministries and their agencies to exploit and integrate the advantages of both solutions and avoid their shortcomings. We recommend that the experiences of FITD in North Macedonia could be useful.

Especially true regarding institutional and organizational arrangements (see details in Annex 1). FITD is established by the government of Macedonia based on the Law on Innovation activity (2013). The government appoints a Managerial Board of 7 members and appoints the Director of the Fund based on the proposal of the board. An important separate body of the Fund is the Investment Approval Committee, consisting of 5 members appointed by the government, comprised of experts with at least ten years of international experience in the field of investment in innovation.

Basic policy and programmatic orientations of FITD include a series of important activities related to the "Corporate Innovation Programme" (2021), presented in detail in Annex 2. Aiming to promote innovation and competitiveness in all types of companies by encouraging cooperation, investment, and establishing partnerships between the corporate sector and start-ups, it targets both startups and the established corporate sector. There are several models of cooperation, such as business development support, building partnerships (joint product, investment in value chain of start-ups, resource sharing, corporate venturing, acquisitions, etc.). Special focus is on supporting innovations through business development by providing financial and technical support in the final stages of development of their innovative product/service, support in the placement of products/services, and the possibility of scaling product/service through certification, accreditation, and other processes that add value to the final solution. It also includes creating a brand identity and market approach, improving work processes, acquisition of certain skills, and indirect learning and transfer of know-how and knowledge through mentoring.

Businesses express their interest online for these possibilities, and then through further steps of cooperation with FITD, develop their projects according to their plans and needs for support.

5. DRAFT LAW OF INNOVATION AND ENTREPRENEURSHIP[13]

The Ministry of Industry, Entrepreneurship, and Trade (MINT) has drafted the Law on Innovation and Entrepreneurship with the aim of supporting, promoting, and encouraging innovative activities with an impact on entrepreneurship. This document has undergone a preliminary consultation process and is expected to be approved soon by the government and sent to parliamentary procedure for approval. The beneficiaries of public support under this law are entities and individuals engaged in innovative activities aimed at modernizing the economy and developing and implementing product, service, manufacturing, or process innovations. Activities to be supported by this law include research and development actions for technological activities; technology equipment and manufacturing preparation for innovative activities in entrepreneurship; analysis, testing according to relevant standards, certification, and patenting of innovative products; creation of new or improved products, services, and technologies in the initial period of the innovative project; transfer of knowledge about innovative products; development of infrastructure and mechanisms for innovation; protection, transfer, and acquisition of rights from innovations; and promotion of results from innovative activity and commercialization of innovative solutions.

This draft law stipulates the establishment of an Innovation Fund within the respective Ministry, namely MINT. It will be responsible for implementing the budget and other support of the Republic of Kosovo for boosting innovations. It will serve as a key mechanism for the implementation of forms of support, promotion, and stimulation of innovation for innovative enterprises and individuals. The Fund will use sources of support from the Kosovo Budget, international financial institutions and international programs for innovations, intermediate investors, and the private sector, including soft loans.

The Fund will support innovation projects through grant schemes and state loans. The manner of using the funding resources according to paragraph 3 of this Article shall be determined by special guidelines and programs. The organizational structure, tasks, responsibilities, and mode of operation of the Innovation Fund will be determined by a separate act. Grants from public sources will support the research and development of innovative ideas, products, and services; their promotion; support for institutions that contribute to innovative activities, products, and services; protection of patents and property rights; certifications; and similar endeavours. On the other hand, state loans will support the development of innovative products, services, or processes in the later stages of development, before entering the market, through piloting, demonstration, testing, and validation of the innovative product, service, or process, and commercialization of the final product, service, or process.

The draft law has defined priority sectors such as ICT, environmental protection and renewable energy, medicine and pharmacy, promotion and development of tourism, creative industry and culture, activities for the manufacturing and processing of products and services for all industries, and other areas aimed at applying innovations in entrepreneurship. These priorities appear to be flexible enough not to hinder other sectors.

[13] Ministry of Industry, Entrepreneurship and Trade (MINT), December 2023.

The National Innovation and Entrepreneurship Council (NIEC) as an advisory body will be proposed by the Minister, who will also serve as the Chair of this body and will be appointed by the Government. It will be composed of representatives from line ministries, business associations, innovation mediators, and academia (including public universities and private colleges). The Council shall consist of the chairman and members. NIEC will coordinate government policies and measures for increasing innovation and competitiveness, including activities for the distribution of funds in accordance with the government's priorities. It will review work reports on innovation funds or entrepreneurship grants for the responsible ministry, examine and provide opinions on the Fund's programs before submitting them to the government. It will provide recommendations and proposals to the government regarding the programs and projects of international organizations for the support and development of innovation support activities. Its special role is to ensure an integrated approach to drafting policies for the implementing bodies/agencies and provide relevant proposals to the Government for expanding the powers of the existing bodies/agencies or creating new ones in the field of innovation and entrepreneurship.

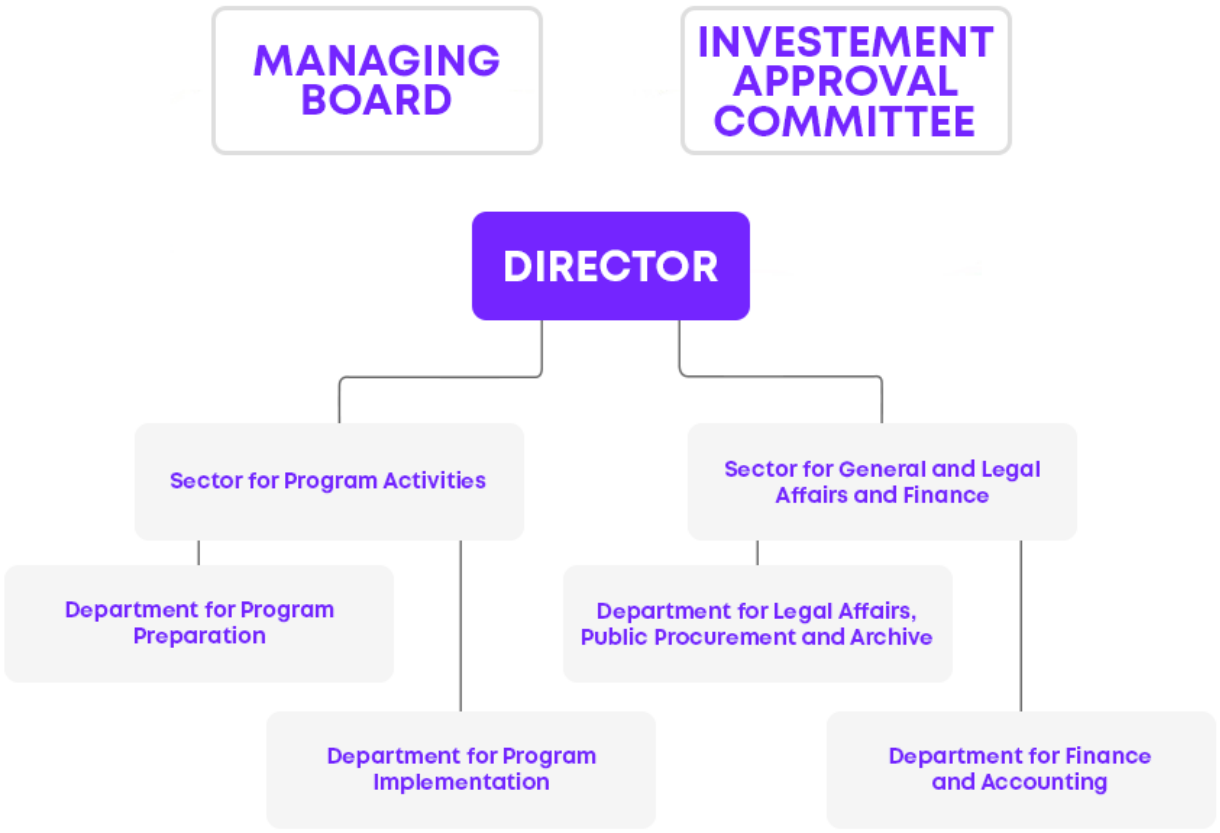
Looking closely at some of the functions and responsibilities delegated to NIEC, we consider the important role of this body in coordinating activities in the manner of a quadruple helix. Especially important will be the coordination and creation of synergy with MESTI, which is in charge of research and scientific innovations. Some functions seem inadequate for an advisory body, especially those related to the management and operations of the Innovation Fund.

The law fails to provide key guidance for the internal organization of the Innovation Fund. Regarding this issue, we recommend appointing a Board similar to the boards of other governmental agencies, composed of independent experts, to ensure overall policies and procedures, professionalism, and avoidance of conflicts of interest. Additionally, we consider it worthwhile, similar to FITD, to establish a committee composed of experts with adequate references, including international expertise, criteria, procedures, and standards for the evaluation and approval of applications and proposals for financial support. Also, following the good experiences of FITD, we recommend stimulating SMEs and other businesses' participation with their funds in a project to be considered for support by this fund. We also believe that this is a good way to improve businesses' contribution to the development of R&I.

6. Next Steps Towards Establishing Fund for Innovations

1. Drafting the Law on Innovation and Entrepreneurship is certainly an important step ahead for ensuring proper policies and programs conducive for building and supportive e innovations ecosystem. In general, this Low has provided good solutions and is important to be approved in due time by government and undergo in parliamentary procedure.
2. We recommend that during the parliamentary procedure, the committees in charge organize further public hearings with experts and business associations.
3. As discussed above, we recommend considering amending this draft with:
    a. Establishment by the government of a governing board of the Innovation Fund composed of 5-7 members, mainly independent experts.
    b. Establishing by the government a committee of independent experts with relevant and international expertise for the evaluation of proposals and applications to be supported by the fund.
    c. Ensure the participation of business organizations, excluding start-ups, in financing projects supported by the Innovation Fund.
4. Given the importance of expediting the commencement of operations for this Fund, we recommend that concurrently with the governmental and parliamentary procedures for the approval of the Law on Innovations and Entrepreneurship, MINT should initiate the development of regulations and accompanying bylaws for establishing the Innovation Fund, including:
    a. Concept
    b. Regulation of internal organization, organizational and managerial structures, and bodies
    c. Programmatic orientation of Innovation Fund
    d. Policies and procedures for funding and applications, including evaluation criteria and process.

Annex 1. FITD Organizational Structure[14]



The organisational structure of the Fund for Innovations and Technology Development includes the following organisational units:

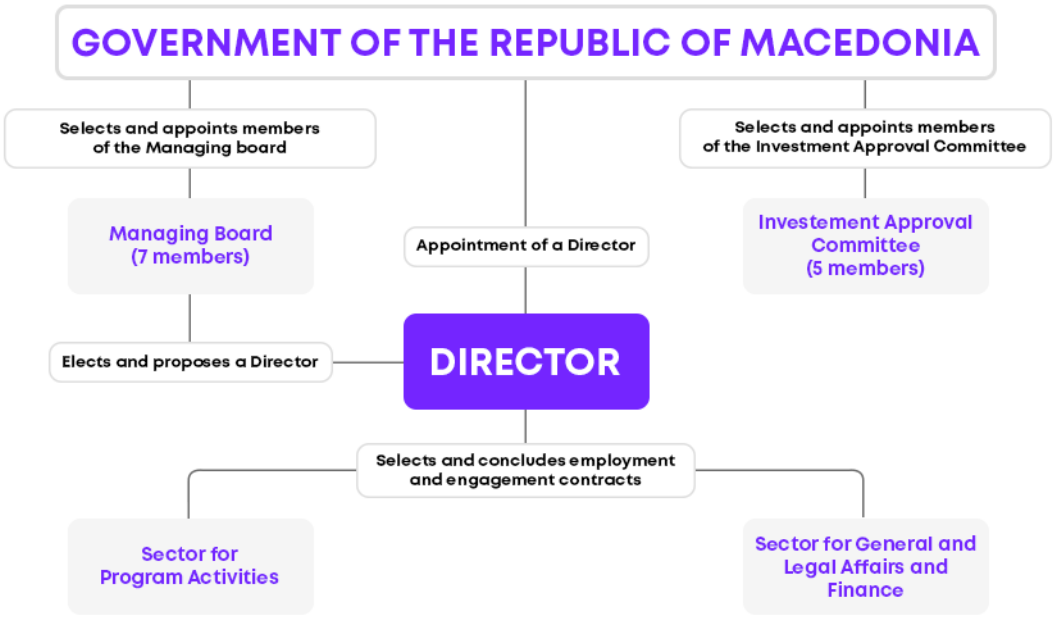
- Director
- Sector for Program Activities
    - Department for Program Preparation
    - Department for Program Implementation
- Sector for General and Legal Affairs and Finance
    - Department for Legal Affairs, Public Procurement and Archive
    - Department for Finance and Accounting

The governing bodies of the Fund are: Managing Board, Investment Approval Committee and Director. The Government of Republic of North Macedonia appoints the members of the administrative bodies and the director.

[14] https://fitr.mk/en/our-organization/

The Managing Board consists of:

- Miss Monika Jovanova-president of the Managing Board
- Miss Natasa Geshoska-member of the Managing Board
- Miss Fatlume Rexha Lusnjani-member of the Managing Board
- Mr.Sherefin Ibishi-member of the Managing Board
- Mr.Ljubomir Popovski-member of the Managing Board
- Mr.Ardian Fazlija-member of the Managing Board
- Mr.Dardan Selmani-member of the Managing Board



Investment Approval Committee

The Investment Approval Committee consists of 5 members, elected and appointed by the Government of Republic of North Macedonia. The Committee reviews and approves the submitted project proposals for all instruments for the Fund's support. The members of the Committee are selected from experts with at least ten years of international experience in the field of investment in innovation.

Annex 2. Relevant Laws

a) Draft Law and Innovations and Entrepreneurship (MINT Kosovo, December 2023)

b) Law No. 06/L-049 on Scientific Innovation and Transfer of Knowledge and Technology (2018).

c) Law No. 2004/49 on Patents, Law No. 02/L-100 on Amending and Supplementing the Patent Law No. 2004/49".

d) Law No. 04/L-135 on Scientific Research activities

f) Law No. 05/L-079 on Strategic Investments in the Republic Of Kosovo;

g) Law No. 04/L-159 on Economic Zones;

h) Law No. 05/L -029 on Corporate Income Tax;
i) Law NO. 04/L-220 On Foreign Investment;
j) Law No. 2004/19 on Academy of Science and Arts of Kosovo;
k) Law No. 2002/3 on Higher Education in Kosovo and
Law No. 2011/04-L-037 on Higher Education in Kosovo.

Annex 3: FITD Programme[15]

Based on Article 22 and Article 27 of the Law on Innovation Activity ("Official Gazette of the Republic of Macedonia" No. 79/13, 137/13, 41/14, 44/15, 6/16, 53/16, 190/16 and 64/18), the Managing Board of the Fund for Innovations and Technology Development, at the session held on 22.02.2021, adopted the following:

"CORPORATE INNOVATION PROGRAM"

This program shall determine the basic characteristics and purposes for allocating funds and technical support to newly established companies (start-ups) in order to improve the realization and placement of their products and services through their cooperation with companies that have a significant presence and influence in the market (corporate sector).

1. Purpose of the Corporate Innovation Program

The purpose of the program is to promote innovation and competitiveness in all types of companies by encouraging cooperation, investment and establishing partnerships between the corporate sector, on the one hand, and start-ups on the other.

2. Expected benefits of the program

2.1. Benefits for the start-ups

This program shall give start-ups access to:

- Financial and technical support in the final stages of development of their innovative product/service;
- Support in the placement of products/services and the possibility of scaling;
- Support in improving the quality of the product/service through certification, accreditation and other processes that add value to the final solution;
- Income growth and independence from external sources of capital;
- Support in creating a brand identity and market approach;
- Support for improving its work process;
- Support for the acquisition of certain skills;
- Indirect learning and transfer of know-how and knowledge through mentoring.

2.2. Benefits for the corporate sector

The program shall enable companies that have a significant presence and influence in the market to gain direct access to innovative solutions that shall contribute to improving their operations, better placement of products and services and conquering new markets. Thus, the corporate sector shall take a direct and active part in the development of the start-up ecosystem and the innovative

[15] https://fitr.mk/en/corporate-innovation/

economy as a whole. At the same time, companies in this sector shall be able to position themselves as socially responsible companies.

The benefits can be in several areas depending on the goals that companies in the corporate sector want to achieve through cooperation with start-ups, such as:

- **Introducing an entrepreneurial spirit in the corporate culture**

Working with start-ups allows you to create an entrepreneurial mind set among employees who become exposed to start-ups with a developed entrepreneurial culture, which in parallel focus on solution development, business model, and market approach (lean approach) and which offer a fresh way of thinking. In addition, start-ups help corporate sector companies raise awareness of future trends and the potential of new technologies.

- **Involvement of existing big brands**

Working with start-ups not only rejuvenates the thinking of corporate sector representatives from within, but it also further modifies the external perception of corporate brands among their customers, partners and future employees.

- **Solving business problems**

The development of new innovative solutions and products by start-ups is often much faster and less risky for the core business of companies than the corporate sector. Start-ups bring with them new technologies, business models and talents.

- **Expanding into future new markets**

Start-ups can be an important channel for expanding business operations into new markets. They also possess the necessary skills and flexibility to compete in emerging sectors and industries.

2.2. Impact on society

Cooperation between the corporate sector and start-ups is crucial to fostering a culture of innovation in the country. This cooperation is expected to contribute to:

- Building partnerships and transferring knowledge from the corporate sector to the start-ups and vice versa, by including innovations in the portfolio of products and services of companies in the corporate sector;
- Increased participation of the corporate sector in the development of the start-up ecosystem;
- Increasing the level of sustainability of start-up businesses in the market;
- Building an innovative economy, and
- Encouraging social responsibility.

Although the benefits are manifold for both parties involved, this type of cooperation carries with it a number of challenges and risks of potential failure. The success of the cooperation, and thus the

realization of the benefits, depends above all on how much each involved party is ready to learn what are the interests, as well as the expectations, motivation, culture and work ethic of the other party. The success of the cooperation is based on the fact that both parties identify the most appropriate models of cooperation that suit their situation, and thus clearly define their roles and responsibilities in the process.

3. Models of cooperation

Depending on the purposes, the cooperation between the companies from the corporate sector and the start-ups can be realized through different models, such as:

Models of cooperation				
Purposes	**Introducing an entrepreneurial spirit**	**Innovating big brands**	**Solving business problems**	**Expanding into future new markets**
One-time events (competitions and hackathons)				
Resource sharing (free tools, workspace)				
Business development support(incubators, accelerators)				
Building partnership (joint development, supply chains)				
Investments Corporate venturing				
Acquisitions (of the team or the entire start-up business)				

The cooperation framework indicates how successful the usual models of cooperation with start-ups are in achieving the key objectives of the companies from the corporate sector in terms of cooperation with start-ups. The level of dimming of the fields indicates the level of suitability of each model in meeting the key objectives.

3.1. One-time events

These types of events can be good starting points to foster internal changes in the culture of the corporate sector companies by exposing employees to the entrepreneurial mindset of start-ups, ensuring the introduction of new business trends and technologies, and improving perception of the corporate brand among users. This type of collaboration indirectly contributes to building long-term business relationships and also requires very careful consideration of the needs of the start-ups themselves in order to ensure their participation. Specific events may include, but are not limited to:

Organizing challenges competitions that focus on a specific issue and encourage innovators to find new solutions to the presented problem faced by the corporate sector. The topics of the challenge can be from any area, such as: digital marketing strategy, rebranding of existing product line, etc.

Organizing hackathons this type of event is a more focused form of competition and is quite popular. At these events, coders and creative minds (either as individuals or organized in teams) gather for a period of intense, focused development around a specific goal, such as solving a specific technical problem or developing a specific piece of code that will be part of a larger software solution.

3.2. Resource sharing

Sharing resources with start-ups can be an effective and economical way to build an innovative brand by corporate sector companies. However, it is important to note that this model of collaboration, especially the supply of free tools, indirectly contributes to building long-term business relationships with start-ups. Again, it is crucial to research and test why start-ups would use those free resources and to ensure that those resources meet the requirements of entrepreneurs. The types of resources that corporate sector companies can share include the following:

Free tools Many corporate sector companies offer 'soft' support to start-ups in the form of free or cheaper access to their services, tools and products – or to their organizational knowledge. Many of them choose to make their products available to start-ups through third parties, such as digital platforms or accelerator programs.

Co-working spaces – Physical workspaces are another common form of resource provision, but it should be borne in mind that they require a larger amount of funding. Start-ups can use free of charge, or sometimes rent, desks, meeting rooms, internet and so on. It is about offering a flexible business environment with rental conditions, adapted to very dynamic start-ups that are constantly growing.

3.3. Business development support

Corporate sector companies also work with various forms of business development support programs, especially incubators and accelerators, which help start-ups grow at an early stage and prepare them for investment, market entry, rapid growth and scaling. These programs can be powerful tools for fostering cultural change and internal learning in the organization by hiring staff as mentors or advisors.

Business development support programs should be developed in accordance with the needs of start-ups, while bearing in mind that the main focus is not directed only to the growth of companies in the corporate sector.

3.4. Building a partnership

Strategic business partnerships can take various forms and by their nature can range from short-term type with cooperation with the start-up for a specific engagement, to long-term type by

building long-term business cooperation with the start-up. From a start-up perspective, the following programs are particularly attractive:

Joint product development may involve joint research and development of products or services that solve a business problem of the company itself or their customers. These solutions are jointly identified, specified, developed and then piloted. The success of joint development usually depends on clear guidelines from the corporate sector, a pre-defined budget and a clear time frame within which it should be decided whether to terminate the partnership or continue the cooperation after the implementation of the pilot project.

Involvement of start-ups in the supply chain start-ups procurement can contribute to significant benefits for the corporate sector in the form of access to cutting-edge technologies and new business models. The inclusion of start-ups in the supply chain allows companies in the corporate sector to quickly find new approaches to specific business problems as well as seize new opportunities. It is important to note that such partnerships require a collaborative mindset and a comprehensive review of internal procurement processes by the corporate sector companies. From the start-ups, the validation of acquiring a large company as a customer can often be a turning point in the overall operation of the start-up, i.e. whether the start-up will grow rapidly and move into a scaling phase or remain in the early stages of development.

3.5. Investing

Direct investing in start-ups, also known as corporate venturing, can be a useful way to access new markets and opportunities for growth and development through financial support for interesting start-ups, by engaging less capital and much faster compared to implementing research and development using the internal resources of the corporate sector.

Corporate sector companies can invest in start-ups directly by setting up venture capital funds within their companies or indirectly by supporting and investing in existing venture capital funds with a similar investment strategy as theirs.

3.6. Acquisitions

If the company from the corporate sector decides to enter into direct investment in start-ups, a logical extension of activities in that area would include the acquisition of start-ups, which can be a quick way to acquire complementary technology or specific knowledge and skills to solve a certain business problem, as well as entering new markets. For a start-up that already has external investors, business angels or venture capital funds, selling the start-up to a corporate strategic partner is the main way for external investors to exit the start-up and get a return on their investment.

The company from the corporate sector may decide to acquire the start-up team and absorb it in its own corporate structure or to acquire the business completely with the intention of appropriating the technology and assets that the start-up has acquired so far.

4. Manners of implementing the program

The program shall be implemented on the basis of initiative and in partnership with companies from the corporate sector.

In order to achieve the partnership, it is necessary for the company to submit to the Fund a proposal-concept (form) for partnership or cooperation with the Fund, the purpose of which shall be to develop corporate innovation in accordance with the proposed models of cooperation .

- Financial and technical support for start-ups to improve the realization and placement of their products and services, and
- Opportunity for networking and establishing collaborations and partnerships

Financial support for start-ups includes:

- Financing activities related to product development and its placement on the market;
- Support in improving the quality of the product/service through certification, accreditation and other processes that add value to the final solution;
- Support in creating a brand identity and market approach;
- Market testing of the product and creation of pilot lines.

Technical assistance shall include consulting sessions and mentoring to acquire certain business skills and abilities, especially in the area of placing products and/or services on the market.

The Fund shall also provide an opportunity for networking and establishing cooperation between start-ups and representatives of the corporate sector through the organization of networking events.

5. Procedure for selection of companies from the corporate sector as partners of the Fund

The program on the basis of which the interested companies from the corporate sector will be able to submit a proposal-concept, shall be published on the website of the Fund for Innovation and Technology Development.

The Fund shall establish a Commission for review of the submitted proposal-concepts, which shall be composed of at least 3 (three) members.

The approval of the proposal-concepts shall be done according to the following criteria:

- Alignment of the proposal-concept with the purposes of the Corporate Innovation Program and the proposed models of cooperation;
- Quality of the proposed concept;
- Range of support offered for start-ups;
- Reference list of implemented projects intended for direct or indirect support of start-ups/start-up ecosystem and innovation development, and
- Annual income of the company.

Within the approval of project-concepts proposed by partners in the corporate sector, the Fund shall reserve the right to request further elaboration of the concept, to determine additional criteria, as well as to request submission of additional documentation by them.

Companies whose proposal-concepts have been approved shall conclude a corporate innovation agreement with the Fund.

The corporate innovation agreement shall be implemented in accordance with the rules and procedures set by the Fund.