



Serbia Ventures – Program manual

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DEFINITIONS

Awardee	An eligible Applicant that has received a notice from the Innovation Fund that it has been awarded financing and subsequently signed the Financing Agreement with the Innovation Fund
Applicant	A company in private ownership established in Serbia and duly incorporated in the SBRA, applying for the Program
Application	The package of all necessary documents and data submitted by the Applicant.
Financing Agreement	A document signed by the Awardee and the Innovation Fund which indicates the Innovation Fund's willingness to finance the Awardee's venture capital funds as soon as it finalizes the close and fulfills other necessary preconditions in line with the Program and Limited Partner Agreement
IF	Innovation Fund of the Republic of Serbia
Program	Serbia Ventures program
VC	Venture capital
GP	General partner in the VC fund's structure – the company managing the VC fund
LP	Limited partner in the VC fund's structure – non-managing investor in the VC fund
LPA	Limited partnership agreement – a legal document signed by the VC fund's limited partner which governs the terms of the LP's participation in the fund

Executive summary

This program is designed to support the ongoing effort of the Republic of Serbia to transform into a knowledge-based economy with strong focus on innovation and high growth enterprises.

The Innovation Fund (hereinafter: IF) has served as one of the leading factors in this transformation over the past decade, effectively contributing to reducing the financing gap which startups typically face during the development lifecycle of new products, services and technologies. However, the complexity and delicacy of every startup ecosystem mandates support throughout different stages of a startup's growth, and this is especially relevant for the so-called "valley of death" – the phase where a startup has commenced operations, but still hasn't begun making revenue to keep it afloat.

To help overcome this obstacle, the Republic of Serbia has empowered the IF to design and launch this program whose goal is to support the creation of private VC funds incorporated in Serbia. These VC funds will serve as a long-term mechanism which will enable startups to mobilize enough private investment to achieve rapid growth and advance towards international expansion. The support given by the VC funds is also expected to bring non-financial value in the form of mentorship, networking or liaising through the infrastructure of the VC funds and their founders and managers to strengthen the startups' chances of success.

Within this public call, the Innovation Fund will gather Applications from existing fund management companies and teams whose ambition is to establish and operate a VC fund in Serbia. After an independent and merit-based evaluation of all eligible Applications, the IF will invest into the best proposals (i.e., into the most promising VC funds incorporated in Serbia) in the role of a limited partner.

1. Program objectives

The long-term strategic goal of this program is to increase the amount and type of private financing available to startups in Serbia in seed to series A growth stages. This will, in turn, give these startups a better chance to bridge the “valley of death” and achieve rapid expansion during the key phases of growth within a typical startup’s lifecycle.

The primary operational objective is to motivate qualified high net worth individuals and institutions with the capacity to engage in VC financing to structure their operations into conventional VC funds established in Serbia and begin investing more aggressively into high-risk/high-reward startup equity and equity-like instruments, as opposed to focusing on traditional opportunities such as government or corporate bonds and conventional savings. For this reason, this Program welcomes both first-time fund managers and industry veterans to apply.

As the Program serves primarily to develop the VC industry in Serbia, those VC funds which the IF invests in will need to deploy a minimum percentage of their investment in Serbia – this investment must be proportional to **150% of IF’s contribution** to the VC fund (i.e., at least 150% of the amount which the IF invests into the VC fund must be allocated for initial and follow-on investments in seed and series A startups in Serbia¹, and these investments in different phases would be eligible for full funding support from the Innovation Fund’s capital stake in the VC fund).

2. Amount and duration of financing

The financing will be used to support the most promising VC funds. The final number of Awardees will be dependent solely on the quality of the received Applications.

The IF can invest **up to 5M EUR** into each individual VC fund, provided the mandatory precondition that the selected VC fund has already raised or has generated commitments from its LPs/investors to raise at least the same amount of capital within 12 months of achieving a first close i.e., the IF’s investment mustn’t exceed 50% of the size of the VC fund’s final close amount.

Due to lengthy investment cycles that are characteristic of the VC industry, the IF considers this a long-term strategic investment. Hence, VC funds applying for this program should plan a general fund life of 10 years with 5-year investment periods and 5-year of divestment periods, with a maximum of 2 possible extensions of 1 year each based on LPA consent.

The financing which the IF provides under this Program is classified as horizontal state aid for financing high-risk investments (defined in the Republic of Serbia State Aid rulebook under sections 19-29).

¹ This includes investing into entities which the recipient of the investment (the Serbian startup) has incorporated in other geographies for practical fundraising reasons (e.g., a company founded in Delaware, USA, whose ultimate owners are the same owners as those of the Serbian startup entity whose value proposition the venture fund plans to invest in). The rationale is that the funds may be deployed by the VC fund to the startup’s US entity to stimulate further fundraising, while the US entity will transfer the funds to Serbia to fuel the startup’s operations.

3. Eligibility of Applicants

In order to be considered eligible for participating in this program, the Applicant must:

- Be incorporated in the SBRA as a legal entity (either as an LLC or a joint stock company),
- Be majority privately owned,
- Ensure that the fund manager's contribution represents **at least 1% of total capital raised**,
- Submit the contents of the Application as stipulated in section "Application contents and submission instructions" of this manual.

At the time of applying for the Program, the Applicant is not required to be licensed by the Republic of Serbia Securities Commission.

In order for the Applicant to be able to ultimately receive the funds from the IF within this program, the Applicant needs to be fully registered and licensed by the Republic of Serbia Securities Commission and SBRA as a **legal entity registered specifically for managing alternative investment funds (alternative investment fund managing company)**, and **needs to register a VC fund (alternative investment fund)** in Serbia and receive the appropriate license in line with the requirements outlined by the Republic of Serbia Securities Commission and other applicable legislative requirements.

4. How to apply

In order for any Application to be evaluated, it needs to be submitted as a complete, structured documentation package within the given submission deadline electronically through the IF portal. Only Applications submitted using the IF online Application portal will be considered for financing.

The documents needed for applying are listed in the section "Application contents and submission instructions".

The application process consists of the registration procedure, filling out the necessary Application documents and ultimately submitting the documents via the portal within the given submission deadline.

5. Registration procedure

In order to apply for this Program, the Applicants first need to register an account on the IF's portal, accessed via the IF website. The registration request is approved by the Innovation Fund staff after preliminary assessment of the information provided in the account registration request (corporate and tax ID, basic company information and contact person details).

Processing the Applicant's registration request may take up to three (3) business days. Applicants are advised to submit their registration requests in a timely manner and upload necessary Application documents to avoid being locked out of the deadline for calls for proposals.

Upon approval of the account registration request by the IF staff, the Applicant will receive a confirmation e-mail with the necessary login credentials. The account then becomes active and is used to submit the necessary Application documents in electronic form. The e-mail address of the contact person given in the Applicant registration form needs to be a valid e-mail address as it will be used for future communication with the Applicant.

6. Application contents and submission instructions

Each Application must be duly submitted via the portal within the given deadline for this call for proposals and it must consist of the following documents:

- Applicant statement (signed electronically directly on the portal)
- The business plan, provided in free format in the English language, which **should be ideally up to 25 pages A4** and needs to cover:
 - The VC fund's management team (including profiles, experiences, shareholders, legal/governance structure);
 - Track record of the management team (if any, or a justification of the team's soft or hard skills and resources which would ensure successful implementation of the proposed VC fund);
 - Market overview and mapping of high potential sectors and/or illustrative deals;
 - Capital allocation strategy (including the fund's size, relevant investment and divestment time frames, target market segmentation, target sectors, deal flow forecast and demonstration of the ability to scout for and source high quality deals, etc.);
 - Key terms and conditions (including management fee, carried interest, hurdle rate, target IRR, incentives, winding-up, etc.).

By submitting an Application, the Applicant agrees to accept all relevant terms required by the IF in order for the Application to be considered and evaluated. Therefore, the Applicant agrees to accept the terms for the following:

- Program Manual;
- Applicant Statement;
- IF's Prevention of Conflict-of-Interest Policy.

7. Evaluation of the Applications

The IF will utilize a professional merit-based evaluation process to select the most promising VC funds in which to invest as a limited partner.

The evaluation procedure will include two steps:

- Administrative and eligibility check of all submitted Applications;
- Investment decision made by the IF's 3-person Investment Committee after evaluating all eligible Applications and conducting interviews.

Applications will be evaluated based on the following criteria and point structure (with 100 points being the maximum score):

#	CRITERION	QUESTIONS	DESIRED CHARACTERISTICS	MAXIMUM POINTS
1.	Management Team / General Partner	<p><u>For experienced applicants:</u></p> <ul style="list-style-type: none"> ▪ What are the core areas of expertise covered by the GP in terms of team member education backgrounds and work experience? ▪ What is the team's collective investment track record as evidenced by personal and / or institutional portfolio performance? Please provide industry standard metrics that illustrate portfolio performance – e.g., IRR (gross and net), MOIC, TVPI, DPI (where applicable). ▪ Are team members well-represented / networked in the VC or private equity asset classes within the target geography or region? ▪ What is the strength and quality of references that the GP can provide to proxy their market reputations and access to larger networks? <p><u>For first-time fund managers:</u></p> <ul style="list-style-type: none"> ▪ What are the core areas of expertise covered by the GP in terms of team member education backgrounds and work experience? ▪ What is the strength and quality of references that the GP can provide to proxy their market reputations and access to larger networks? ▪ Have team members been present in any VC-related transactions on either the buyer or seller side? ▪ Do the team members have a successful track record in building and/or exiting tech companies and startups? ▪ Do team members have significant international exposure to contacts in the VC industry? 	<p><u>For experienced applicants:</u></p> <ul style="list-style-type: none"> ▪ Evidence of prior experience in investing <i>and</i> operating roles, preferably in other PE/VC contexts or business operations and strategy. ▪ Expertise and experience with equity and equity-like instruments and relevant structures for seed-to-Series A+ rounds. ▪ Demonstrable portfolio mark-ups and / or returns through net-gross gap optimization – i.e., evidence of strong returns after accounting for fees and expenses. ▪ Established reputations in the venture ecosystem as successful mentors, advisors, operators, or angel investors; ▪ Verifiable and strong relationships with regional or global fund managers. <p><u>For first-time fund managers:</u></p> <ul style="list-style-type: none"> ▪ Established reputations in the venture ecosystem as successful mentors, advisors, operators, or angel investors; ▪ Verifiable and strong relationships with regional or global fund managers. ▪ Experience in either the buyer or seller role in the tech startup industry ▪ Track record in founding and growing tech startups 	30

2.	Market Segmentation and Pipeline Analysis	<ul style="list-style-type: none"> ▪ Does the GP have access to sectoral and functional expertise (e.g., an independent IC member, a pool of Operating Partners / Advisors or mentors to the fund) and if so, how relevant is the expertise to the Serbian ecosystem? ▪ If a generalist investor, what thematic areas does the GP exhibit experience in and how relevant is this to the target market? ▪ What stage of the funding continuum is the GP targeting? What is their experience in deploying capital into this (early) stage and returning capital to their investor-base? ▪ Is the GP able to provide illustrative examples of pipeline (target) deals and make introductions to assess the strength of these relationships? <ul style="list-style-type: none"> • Is the GP able to provide illustrative examples of companies that have exited their portfolio? 	<ul style="list-style-type: none"> ▪ Proficiency in sectors / themes where the Serbian ecosystem excels is desirable; knowledge of sectors / themes with known but untapped potential is highly desirable. ▪ Ability to clearly articulate gaps in the Serbian ecosystem – across funding, networking, specialized knowledge – and approach to addressing these gaps is desirable. ▪ Ability to facilitate introductions to a minimum of 3-4 target portfolio companies with strong teams, vision, preferably post-MVP products (or services), and clear sightline to break-even operations. 	15
3.	Investment Thesis / Capital Allocation Strategy	<ul style="list-style-type: none"> ▪ What is the GP's core investment thesis and capital allocation strategy by sector, theme, and year during the investment period? Does their proposed approach ring true with known or anticipated Serbian ecosystem dynamics? ▪ What average size tickets does the fund manager intend to deploy and how much capital do they intend to preserve for follow-on rounds? Are these aligned with current need and future growth potential? ▪ Can the GP provide tangible examples of how they intend to create value for their portfolio companies? Does the proposed approach to value creation align with the team's composition and background? ▪ Is the fund manager able to clearly articulate their approach to 	<ul style="list-style-type: none"> ▪ Clear articulation of how capital will be deployed, when, where and why – as a proxy for depth of market knowledge and experience in venture investing. ▪ Knowledge of fund dynamics and double-down strategies to optimize performance over the life of the fund. ▪ Proven capacity to select the right teams / founders, accurately assess growth and operational needs, and ability to add value in these segments to help grow the underlying portfolio. ▪ Evidence of focus on achieving alpha as measured against broad market indices and in line with or exceeding venture asset class returns across similar markets / 	25

		<p>harnessing the portfolio, the expected <i>net</i> return to investors, and associated time horizon?</p> <ul style="list-style-type: none"> ▪ Does the portfolio simulation align with proposed fund economics? Is convergence between TVPI and DPI visible in the outer years? 	<p>geographies and ecosystems.</p> <ul style="list-style-type: none"> ▪ Clear articulation of contingencies in the desired portfolio divestment approach – triggers on partial vs. full exits, follow-ons, and write-downs. 	
4.	Fund Composition and Limited Partner Base	<ul style="list-style-type: none"> ▪ Is the anchor LP a reputable partner – whether an institution, family office, foundation, or HNWI? ▪ What is the threshold for a seat on the LPAC? ▪ What is the fund manager’s path to a first and final close? ▪ Is there any expectation from the GP to conduct a dry close and if so, under what conditions? 	<ul style="list-style-type: none"> ▪ Strength and reputation of the anchor LP in particular, but also other LPs should not result in red flags and should provide comfort to IF. ▪ Runway to at least 85% of the final close target should be visible to properly calibrate IF’s capital commitment. 	20
5.	Proposed Terms and Fund Economics	<ul style="list-style-type: none"> ▪ Is the GP proposing an atypical structure or any off-market terms that warrant explanation? ▪ Will the Serbia domicile be a standalone, master-feeder or parallel fund? Carried interest and fee dynamics should be carefully evaluated to ensure alignment. ▪ Does the fee structure align with the team composition and proposed operating budget – i.e., will sustainability become an issue in the outer years? 	<ul style="list-style-type: none"> ▪ Presence of off-market terms without compelling reasons should be discouraged; suggested reliance on additional sources of income to operate the fund should be discouraged. ▪ Transparent structures with easy-to-follow funding mechanisms are desirable – especially in the case of first-time managers. 	10

The Investment Committee will use the questions in the table above as a guiding mechanism while assessing and scoring the Applications.

8. Eligibility check

After the submission deadline ends, the IF staff will conduct a desk review of the eligibility and completeness of all submitted Applications. Please observe that only fully completed, appropriately signed, and electronically submitted Applications will be considered for evaluation. During this stage, the IF will provide every Applicant whose Application was initially determined to be administratively deficient with a 72-hour window to rectify the identified deficiencies. Ineligible Applicants and Applicants whose Applications did not pass the administrative aspect of the check will be notified of their ineligibility by email, after the IF completes the administrative and eligibility check of all submitted Applications.

9. Evaluation and Final decision

All Applicants whose Applications have passed the eligibility check will be thoroughly examined and scored by the Investment Committee, and will then be interviewed either in person or via videoconference. The Investment Committee will interview each Applicant up to 3 times in sessions lasting up to 4 hours each.

After these interviews, the Investment Committee will score all Applications again and create a final ranked list. Based on the amount of financing asked by the Applicants and the available budget for this public call, the Investment Committee will then recommend the most promising Applications for financing. Upon confirmation of this selection by the IF's board of directors, the IF will notify the Applicants whose Applications were selected for financing and offer them to sign the Financing Agreement.

This phase lasts approximately 30 days (time frame is adjustable based on the number of Applications).

10. Contracting

The fundamental prerequisite for any Applicant to sign the Financing Agreement with the IF is that the Applicant first becomes duly incorporated as an alternative investment fund management company licensed by the Republic of Serbia Securities Commission, and then incorporates a licensed alternative investment fund in Serbia in line with the requirements outlined by the Republic of Serbia Securities Commission and other applicable legislative requirements.

Additionally, the Applicant needs to be registered in the SBRA as a licensed tenderer.

Once these prerequisites are met, the Applicant will be able to sign the Financing Agreement with the IF and receive the funds based on disbursement dynamics which will be stipulated in the Financing Agreement and the Limited partner agreement. Until these agreements are signed, the IF will hold no legal obligation towards the Applicant.

If the IF's share of capital in the Awardee's fund is equal to or exceeds 25%, the IF reserves the right to request a board seat within the Awardee's fund's structure.

11. Implementation and disbursement of funds

Once the Financing Agreement has been signed, the IF becomes a limited partner in the Awardee's VC fund and becomes contractually obligated to disburse funds in line with the Awardee's investment dynamics and capital calls.

For this purpose, the IF will disburse its pro-rata share of each executed investment which the Awardee makes (e.g., if the IF's share in the Awardee's fund is 25% and the Awardee makes a 400.000 EUR investment into a Serbian startup, the IF will disburse 100.000 EUR to the Awardee as soon as the Awardee submits proof of the investment).

Additionally, at the beginning of each calendar year, the IF will disburse its pro-rata share in the management fee cost structure based on the Awardee's annual forecast for that respective year of its operations.

12. Reporting obligations

The Awardee is expected to report to and brief the IF in line with good international stakeholder practices once every 3 months in regular intervals in written format (and in person/via teleconference when possible), and also on an individual basis which is triggered by the Awardee making a positive investment decision (whenever such a decision is made).

In cases where the IF also holds a board seat in the Awardee's VC fund, the IF reserves the right to initiate ad-hoc board meetings where this is deemed necessary.

In line with best practices, the Awardee is required to submit to each limited partner the VC fund's audited annual financial reports, produced by a licensed audit company from the "Big 4" list.

13. Visibility requirements

The Awardees will be formally obligated to publicly acknowledge the contribution and support of the Innovation Fund and the Republic of Serbia to their VC fund and will behave in the implied covenant of good faith and fair dealing with respect to the investment received from this program.

14. Termination of financing

If the Awardee engages in criminal, fraudulent or otherwise unethical and compromising behavior and/or actions, the IF reserves the right to terminate the Financing Agreement. Furthermore, if a breach of legality is suspected on behalf of the Awardee, the IF reserves the right to initiate a legal process against the Awardee and sue for indemnification.

The IF will notify the Awardee in writing about any potential breaches and will issue a corrective action plan which the Awardee should follow to rectify the given deficiencies within the timeframe stipulated by the IF. If this method of resolution fails, the IF reserves the right to terminate the Financing Agreement.

15. Applicant Grievance Mechanism

Applicants may file a fact-based objection to the outcome of any of the phases of the selection process (citing evident omissions or mistakes made during the process), or for any other legally sound or process-related reason, by submitting a letter of objection to the IF by email to serbiaventures@inovacionifond.rs. The letter must be written in English with a recommended limit of 500 words. The IF will provide an official response to the formal letter of objection no later than 8 calendar days from receiving the objection.

16. Conflicts of interest prevention

All procedures for approval for funding will be done with utmost diligence and any conflicts of interest declared. Any IF staff or program Investment Committee member involved in the above procedures will be required to declare any personal or organizational relationship or interest in any enterprises or individual Applicants, and/or disclose those interests in which they have a particular stake.

Additionally, Applicants are to take all necessary precautions to avoid real or perceived conflicts of interests and shall inform the IF without delay of any situation constituting or likely to lead to any such conflict.

Conflict of interest is present in, but not limited to, situations where the impartial and objective exercise of the functions of any Applicant, Investment Committee member, or IF staff or consultants in relation to the execution of this project is compromised because said Applicant, Investment Committee member or IF staff member is in a position to derive personal benefits from actions or decisions made in their official capacity due to personal or professional relationships.

17. Fraud and corruption prevention

Furthermore, the Applicant agrees to undertake all necessary actions in order to prevent possible Fraud and Corruption activities during the implementation of the project. In pursuance of this policy, the practices constituting Fraud and Corruption are defined as follows:

- (i) “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence the actions of another party;
- (ii) “fraudulent practice” is an act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation;
- (iii) “collusive practices” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- (iv) “coercive practices” is impairing or harming, or threatening to impair or harm, directly or indirectly, persons or their property to influence their participation in a procurement process, or affect the execution of a contract;
- (v) “obstructive practice” is:
 - (a) deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede an investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
 - (b) acts intended to materially impede the exercise of inspection and audit rights.

Before applying for the Innovation Fund’s programs, the Applicant is advised to carefully read all relevant documents and contact the IF staff if any questions arise.