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Social incubation - A need for social business development in Cyprus

Policy brief - 2021 -

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pentru Dezvoltare Managerială



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CONTENTS

EXECUTIVE STATEMENT/ SUMMARY	1
INTRODUCTION	1
THE PROBLEM	2
SOCIAL BUSINESS IS CYPRUS	3
TYPE OF SOCIAL BUSINESS/ LEGAL INCORPORATION	3
REGION	3
DEGREE OF URBANISATION	3
AVAILABLE FUNDS FOR SOCIAL BUSINESSES AT NATIONAL LEVEL	3
AVAILABLE PRIVATE FUNDS FOR SOCIAL BUSINESSES	3
SUPPORT PROGRAMMES FOR SOCIAL BUSINESSES	3
FISCAL ACTIVITIES	3
LEGAL FRAMEWORK	3
INCUBATION NEEDS FOR SOCIAL BUSINESSES	4
SOCIAL BUSINESS INCUBATORS/ HUBS AT NATIONAL LEVEL	4
SOCIAL BUSINESS INCUBATION METHODS	4
CHARACTERISATION THE ACTIVITY OF SOCIAL BUSINESS INCUBATORS/HUBS	4
INCUBATION NEEDS NOT COVERED BY EXISTING INCUBATORS/HUBS	4
CHALLENGES FOR SOCIAL BUSINESSES	4
RECOMMENDATIONS FOR THE DEVELOPMENT OF SOCIAL BUSINESSES	5
POLICY IMPLICATIONS AND KEY RECOMMENDATIONS	5
REFERENCES	6

EXECUTIVE STATEMENT/ SUMMARY

Social enterprises are developing and gaining importance in the EU. However, there is no unified framework for social enterprises and social businesses, and due to their diversity in terms of legal structures and frameworks, activities, financing etc., their advancement remains a challenge. In particular, in Cyprus, the general public lacks basic knowledge and understanding of what social enterprises are and what they do, while the lack of specific legislation and regulations create gaps in what entities are considered as social enterprises in Cyprus.

The main subject of this policy brief is to provide a framework for the legislation and policy landscape of social entrepreneurship in Cyprus, and to offer key policy recommendations that will enable the development of social businesses in the island. Although, at the time of writing this policy brief, the law on social enterprises was before the House of Representatives, the need for social enterprises and social businesses incubation is reflected in the input provided by social entrepreneurs and leaders, and social business incubators in Cyprus.

INTRODUCTION

Social entrepreneurship is a combination of entrepreneurial activity with social issues. Its main aim is to have a social impact, rather than profit. Unfortunately, social enterprises and social entrepreneurship is difficult to locate and identify in Cyprus, mainly due to the lack of a legal framework and of a uniform definition. Also, there are limited studies and data on the topic. Providing for solid policy recommendations based on studies and research is crucial for Cyprus, as the country is in a turning point when it comes to social entrepreneurship. As a draft bill on social enterprises is currently before the House of Representatives¹, it is important to focus on the incubation of social enterprises as being the next step to create a social business context in Cyprus.

The importance of using data is evident, in order to make policy recommendations based on informed analysis. These recommendations can improve the quality and effectiveness of the relevant policies and legislation that are underway.

¹ The law was passed in December 2020.

THE PROBLEM

In Cyprus, there is no specific legal form for a social enterprise. Within the current framework, social enterprises must adopt existing legal forms. Since social enterprises in Cyprus are not provided by legislation or regulations, the EU definition is currently implemented; and based on the EU definition, approximately 190 organizations that match the social enterprise context were located in Cyprus.

Given the lack of legislation and policy framework for social enterprises in Cyprus, there is no publicly funded support schemes specifically designed for social enterprises². However, there are some schemes and programmes, currently being implemented, that may benefit social enterprises, although currently, there are no social enterprises officially recognized as such, given the lack of a legislative framework. The Action Plan for the Development of the Social Enterprise Ecosystem (National Action Plan – NAP) provides for grants, loans, access to infrastructure and knowledge, and access to public procurement for expanding social enterprises in Cyprus. The budget is estimated at EUR 3.1 million, but it depends on the draft law.

Consequently, there is very limited data available for social enterprises in Cyprus, as the topic is primitive and under-developed; which is why the consortium partners have recognized the need for research in order to identify relevant data and map social enterprises in Cyprus. Therefore, with a study conducted in the framework of the SELC project, we managed to collect data and information on social enterprises, social entrepreneurship and social business incubation.

The study was based on qualitative research and in-depth interviews covering the Cypriot social enterprises' landscape. Our sample size was suitable and appropriate, providing us with unique findings that demonstrate the setting of the social entrepreneurship reality of Cyprus.

The interviews covered two contexts of social entrepreneurship:

1. Social entrepreneurs/ social business leaders;
2. Social business incubators/ hubs/ crowdfunding platforms.

The study, in combination with the in-depth interviews gave the following findings related to social businesses and social incubators.

² The House of Representatives passed the bill into law, in December 2020.

SOCIAL BUSINESS IS CYPRUS

TYPE OF SOCIAL BUSINESS/ LEGAL INCORPORATION

The most popular legal incorporation for social business is a private company/ LTD, followed by NGO /Not-for-profit organization.

REGION

Most social businesses are based in Nicosia, followed by Larnaca, Paphos, and Limassol. However, some social businesses implement activities throughout Cyprus.

DEGREE OF URBANISATION

Most social businesses identified are urban (11), while almost half (5) of them are rural. Only one (1) social business is mixed.

AVAILABLE FUNDS FOR SOCIAL BUSINESSES AT NATIONAL LEVEL

A large percentage of the respondents did not know any available funds for social businesses. Five (5) respondents said that there are no specific funds for social enterprises in Cyprus, but gave no further explanations.

AVAILABLE PRIVATE FUNDS FOR SOCIAL BUSINESSES

Most of the respondents did not know any private funds for social businesses. One (1) respondent said that there is the option of private funding from the banking sectors, and another four (4) said that no private funding exists specifically for social enterprises.

SUPPORT PROGRAMMES FOR SOCIAL BUSINESSES

Most of the respondents did not know any support programmes. Others responded that some private consulting firms and some organizations offer specific services, but that there are not any centralized actions. Also, there are some training programmes developed by the Chamber of Commerce.

FISCAL ACTIVITIES

Most of the respondents did not know any tax incentives offered. Some answered that this does not apply in Cyprus.

LEGAL FRAMEWORK

Almost all the respondents stated that the legal framework in Cyprus is non-existent.

INCUBATION NEEDS FOR SOCIAL BUSINESSES

Most popular answers were:

- Establishing legal framework;
- Offering financial support/ funding opportunities;
- Offering expertise for support;
- Training and mentorship .

SOCIAL BUSINESS INCUBATORS/ HUBS AT NATIONAL LEVEL

The research identified:

- HUB Nicosia;
- IDEA-Cy;
- Cyprus-Inno;
- Center for social innovation;
- Chrysalis leap.

SOCIAL BUSINESS INCUBATION METHODS

Most of respondents did not know any support methods for social businesses. Others said that some of the abovementioned social business incubators/ hubs provide for training and consulting.

CHARACTERISATION THE ACTIVITY OF SOCIAL BUSINESS INCUBATORS/HUBS

The activity of social business incubators/ hubs in Cyprus was characterized as limited.

INCUBATION NEEDS NOT COVERED BY EXISTING INCUBATORS/HUBS

Most popular answers:

- Not all regions of Cyprus are covered by the existing incubators/ hubs;
- Training;
- Consulting;
- Crowdfunding platforms.

CHALLENGES FOR SOCIAL BUSINESSES

Most popular answers:

- Non-existent legal framework;
- Funding support;
- Bureaucracy;
- Self-sustainability of social businesses;
- Risk of conflict between the business and social mission of the social businesses.

RECOMMENDATIONS FOR THE DEVELOPMENT OF SOCIAL BUSINESSES

The following recommendations were proposed by the respondents:

- Establish a regulatory and legislative framework;
- Offer financial and tax incentives for social businesses;
- Offer funding opportunities;
- Offer expertise, experience and training;
- Provide know-how and expertise to support social businesses, but also the development of new social businesses;
- Train interested parties;
- Connect social businesses with the Cypriot reality (such as waste management);
- Map social businesses' possibilities in specific sectors in Cyprus and allocate funds to them.

POLICY IMPLICATIONS AND KEY RECOMMENDATIONS

Throughout the study and in-depth interviews, SYNTHESIS Center for Research and Education has gathered significant input from social businesses, social entrepreneurs and leaders, and social business incubators. It is a common view that the priority in Cyprus should be to establish a legal framework for social enterprises, as currently draft bill is at stalemate³. It is evident that the social enterprise landscape in Cyprus needs to be built and grow on solid foundations, which will unlock the potential of social entrepreneurship and business incubation. This will encourage social businesses to be developed throughout Cyprus, both at urban and rural levels. Therefore, it is crucial that we make social business incubation a goal for Cyprus.

- Establish a regulatory and legislative framework as soon as possible

The draft bill is before the House of Representatives, but has not yet been approved. As a result, there is no legal framework for social enterprises in Cyprus at the moment, which makes it difficult to establish financial and tax incentives, and funding schemes at national level. Therefore, the most important element in this moment is to establish and pass the legislation, which will be the ground for social enterprises to thrive in Cyprus⁴. After the approval of the law, it is important to focus on the incubation needs of social enterprises, to allow for social business incubation to grow in Cyprus.

³ The Parliament passed the bill into law in December 2020.

⁴ The Parliament passed the bill into law in December 2020, but no significant changes regarding social enterprises have been made since.

- Provide for funding opportunities at national level with simplified procedures
Providing funding schemes for social enterprises is vital, as social enterprises in Cyprus need financing for setting up and starting their operations.
- Provide for financial and tax incentives for social businesses.
- Provide know-how, training, mentorship and expertise for social entrepreneurs and social businesses, which will also support the development of new social businesses.
- Provide for training of interested parties such as civil servants, financial institutions, implementing agencies.
- Provide for training and awareness campaigns within the banking industry to allow for the development and availability of banking products tailored to social enterprises.
- Connect social businesses with the Cypriot reality.
- Map social business possibilities in particular sectors in Cyprus and allocate funds to specific areas.
- Provide for transparency in monitoring social businesses with specific evaluation indicators.
- Involve the civil society in developing ideas for social businesses, especially for emergencies such as the COVID-19.

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SOCIAL
entrepreneurship
in local
communities