



# AUTHORITY FOR COOPERATIVE SOCIETIES & SOCIAL ENTERPRISES

## SOCIAL ECONOMY IN CYPRUS THE LEGAL FRAMEWORK

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**Officer A'**

# THE COMMISSIONER OF THE AUTHORITY FOR COOPERATIVE SOCIETIES AND SOCIAL ENTERPRISES

The Commissioner of the Authority for Cooperative Societies and Social Enterprises is the governmental official responsible for:

- the Cooperative Societies,
- the Social Enterprises, and
- the Corporate Social Responsibility

# TWO OF THE SOCIAL ECONOMY PILLARS

- Cooperative societies
- Social enterprises

# FIRST PILLAR OF SOCIAL ECONOMY

## Cooperative Societies in Cyprus



# COOPERATIVE IDENTITY

- Cooperative Society Definition
- Cooperative Principles
- Cooperative Values

## DEFINITION OF COOPERATIVE SOCIETIES

«An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise”». (adopted in 1995 by the International Cooperative Alliance - ICA)

# COOPERATIVE PRINCIPLES

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Cooperation among cooperatives
- Concern for the communities

# COOPERATIVE VALUES

- Democracy
- Equality
- Justice
- Solidarity
- Self-help
- Self-responsibility



# ADVANTAGES OF COOPERATIVE SOCIETIES

- Equal voice of members (one member one vote, even though one member can hold up to 20% of the shares)
- Not for maximization of profits – satisfy members' needs/ accumulated reserves / dividends – rebates
- Special tax treatment
- Marketing of members' products and services
- Access to quality products and services at fair prices
- Enhance local economy through services and job creation

# SECTORS OF BUSINESS ACTIVITIES

The cooperative societies in Cyprus are active in the following business sectors:

- Consumption and Supplying
- Gathering and Marketing of Agricultural Products
- Processing /Manufacturing of agricultural and other products
- Services

# COOPERATIVE LEGISLATION

- The Cooperative Societies Law (revision of 1985 to 2018).
- The Cooperative Societies Rules (revision of 1987 to 2012).

# AREAS COVERED BY THE COOPERATIVE LEGISLATION

The cooperative legislation governs, inter alias, topics of **registration, governance, supervision, and dissolution**

# TYPES OF COOPERATIVE SOCIETIES

- **Primary Cooperative Societies:** the cooperative society of which all its members are physical persons.
- **Secondary Cooperative Societies:** the cooperative society of which at least one of its members is another cooperative society.

# REGISTRATION OF COOPERATIVE SOCIETIES

- A primary cooperative society has to be registered by at least twelve persons of eighteen years old and above (members), who are residents or own immovable property in the intended area of business operations.
- A secondary cooperative society can be registered, if at least one of its members is another cooperative society.

# GOVERNANCE OF COOPERATIVE SOCIETIES

- **General Assembly:** The supreme body of a cooperative society, where all members have the right to participate and vote on all issues (one member-one vote)
- **Committee:** Elected by the members for a term period of three years.
- **Supervisory Council** (where it is provided by the cooperative society's regulations): Elected by the members for a period of three years.
- **Secretary (Director):** Hired by the Committee and approved by the Commissioner.

# AUDIT OF COOPERATIVE SOCIETIES

The audit of the annual accounts of a registered cooperative society is mandatory and is conducted by a certified external auditor, who is appointed by the General Assembly of the members and approved by the Commissioner.



# TAXATION AND DISTRIBUTION OF PROFITS

- The profit generated from business transactions with members is **not** subject to corporate tax.
- **At least 50%** of the net profit of every registered cooperative society is carried forward to the non-distributable reserves.
- Every cooperative society, after a decision of the General Assembly of the members, can contribute a certain amount for charity or for public purpose, which will not exceed **7 ½%** of the total yearly profit of the cooperative.
- The remaining surplus (profit) is distributed to the members as dividends, according to the provisions of the regulations and after a decision of the General Assembly of the members.

# FORTHCOMING KEY AMENDMENTS TO THE COOPERATIVE LEGISLATION

- Ensure the existence of mutual benefit between the members and the cooperative societies (*mutual exchange benefit*).
- Reduce the minimum number of physical persons (members) required to register a cooperative society from **12 to 3**.
- Accept investors as members, provided that they will not hold in total more than **1/3** of the voting rights of the cooperative society.
- Ensure by the Authority of Cooperative Societies the preservation of the *cooperative identity* and the *sustainability* of cooperative societies.

# SECOND PILLAR OF SOCIAL ECONOMY

## Social Enterprises in Cyprus



# LEGISLATION FOR SOCIAL ENTERPRISES

- **Law** - It was published in the governmental Gazette on December 23, 2020
- **Regulations** – They are at front of the Parliament for review and approval.

# CATEGORIES OF SOCIAL ENTERPRISES (SE)

- **SE of General Purpose** - Social mission through the promotion of *social, cultural* and/or *environmental* activities for the interest of the society.
- **SE of Inclusion** - Social mission through a minimum **10%** employment of people with disabilities and a minimum of **30%** employment of vulnerable people.

# ELIGIBLE LEGAL ENTITIES TO REGISTER AS SOCIAL ENTERPRISES

- **Cooperative Society** registered in accordance to the provisions of the Cooperative Societies Law.
- **Private Limited Liability Company** with shares or with a guarantee, registered in accordance to the provisions of the Companies Law.
- **General or Limited Partnership** registered in accordance to the provisions of the Law of general and limited partnerships and trade names.

# BUSINESS ACTIVITY AND RE-INVESTMENT

- **At least 70%** of a registered social enterprise's revenue must be generated from business activities, providing goods and/or services, based on a business model.
- A registered social enterprise of the ***“general purpose”*** category must re-invest **at least 80%** of its profit after tax (carry forward to non-distributable reserves).
- A registered social enterprise of the ***“inclusion”*** category must re-invest **at least 40%** of its profit after tax (carry forward to non-distributable reserves).

# ADMINISTRATION OF SOCIAL ENTERPRISES

Every social enterprise shall be managed in a manner that is conducted in a business, accountable and transparent manner, in particular with the participation of its members, employees and/or customers, as appropriate, as well as other stakeholders affected by its business activities.



# EMPLOYEES' SALARY POLICY

Every social enterprise implements salary policies and practices so that the salary of each of its senior management employees, as well as the highest salary received by any other employee, does **not** exceed *four times* the salary received by an employee of the lowest pay scale.

# INCENTIVES - SUBSIDY SCHEME

**Subsidy Scheme** - After the approval of the Regulations by the House of Representatives, a subsidy scheme of €15.000, per registered social enterprise, with a total amount of €300.000 each year, for a period of three years, will be published in order to support registered social enterprises with their initial set-up costs.

## OTHER INCENTIVES

The Authority of Cooperative Societies in cooperation with other interested /involved governmental Authorities are in the process of examining other possible incentives for registered social enterprises.



# THANK YOU

