

STARTUP

Country Guide 2024

THE REPUBLIC OF CYPRUS

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CHAPTER 1 Exploring the startup sphere

I. The Cypriot entrepreneurial ecosystem

Cyprus has emerged as a thriving hub for innovation and entrepreneurship, showcasing promising ventures spanning various sectors, including education, health, FinTech, and many others. The entrepreneurial ecosystem in Cyprus has evolved thanks to a robust foundation led by various stakeholders who promote collaboration and facilitate a culture of innovation.

Cyprus' ease of doing business is strengthened by its strategic location, its alignment with the EU regulatory environment, and by its pro-business tax and legal systems. The government maintains a commitment to prioritizing the digital transformation of the economy, positioning the country as an appealing destination for entrepreneurs and investors, particularly as remote and hybrid work cultures have gained prominence.



1. Startup definition

Overall, a startup is an innovative venture with the potential for high growth, driven by technology and characterized by having a functional prototype and a scalable, repeatable business model. Startups are founded to explore creative ideas, often centered around technology, and to capitalize on emerging market opportunities.

The European Startup Monitor defines a startup as a business entity that is less than ten (10) years old, known for its (highly) innovative technologies and/or business models, and has the objective of achieving substantial employee and/or sales growth.

Definitions of startups and entrepreneurial entities can vary between countries and organizations. Cyprus generally followed the European Union's approach to startups, but specific definitions could be found in various government programs and initiatives. The government's definitions were often used for eligibility in grants, incentives, and support programs.

The government of Cyprus has introduced the "innovative SMEs" certificate to Small and Medium Enterprises (SMEs) that can demonstrate their innovative nature. Startups can apply to obtain the certificate to benefit from tax incentives, grants, access to research and development funds, and other forms of assistance to avail the incentives.

Further elaboration and references to key initiatives, such as the eligibility of startups to those incentives, will be presented in the 'Government Incentives' section below.

2. Promising sectors in Cyprus

In 2023, Cyprus has shown significant advancements across multiple sectors, notably gaming, renewable energy, and real estate. The gaming industry is experiencing rapid growth, supported by government initiatives and international collaborations. The renewable energy sector is steadily increasing its output, driven by strategic policies and investments aimed at reducing reliance on fossil fuels. Meanwhile, the real estate market continues to thrive, incorporating tech-enabled solutions and benefiting from robust economic contributions.

Energy

Cyprus, endowed with a Mediterranean climate and abundant renewable resources, is concentrating its efforts on the renewable energy sector with the objective of augmenting its solar and wind energy capacities. As an established global financial center, the country is now channeling efforts to advance the renewable energy sector, an initiative boosted by supportive government policies and investment plans. Cyprus has been consistently advancing its renewable energy output, currently deriving around 11% of its electricity from renewable sources. With an annual increment of 1% since 2014, the country is progressively working towards diminishing its reliance on fossil fuels. Aiding this transition, the government has laid out ambitious goals to utilize the natural landscape more effectively, attracting foreign investments that align with this vision.

The nation has not only fostered a vibrant startup ecosystem but also provided a Fast Track Business Activation Mechanism, making it a leading startup hotspot in Europe. This environment enables easy startup initiation and access to essential growth support on an international scale. As Cyprus continues to invest in technology and research to thrive its renewable energy industry, the government's Draft Integrated National Energy and Climate Plan (DINECP), submitted to the European Commission, has gained positive feedback for its multiple initiatives.

This plan and Cyprus's proactive approach position it as a potential leader in renewable energy among other EU nations, presenting entrepreneurs with opportunities to contribute to the industry's expansion, particularly in energy storage solutions.

हेर्डू Real Estate

In 2023, the Cyprus real estate sector exhibited impressive resilience and growth, with a notable performance in property transfers reaching EUR 1.9 Billion and sales documents totaling EUR 4.2 Billion, underscoring its substantial contribution to the Cypriot economy. Despite facing challenges that could affect both local and foreign demand, the market has shown sustained development. This growth in the real estate market has coincided with a surge in tech-enabled solutions like serviced apartments offering flexible online booking, which reflects a shift towards innovative and customercentric approaches. The Real Estate Agents Registration Council has acknowledged this robust market trend and its positive economic implications.

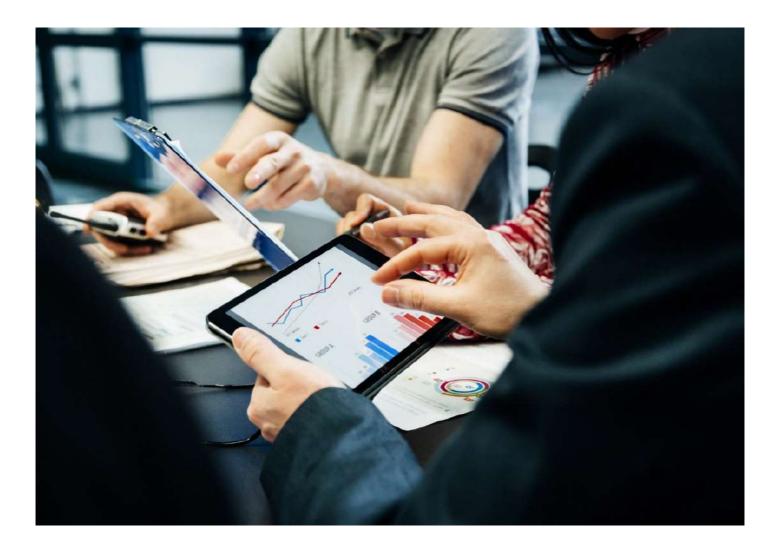
Cyprus' leading tech association, Techlsland, has established a new PropTech Working Group, assembling nine (9) professionals tasked with enhancing property technology within the island. Their objective is to drive digital transformation, making real estate processes more efficient and sustainable through collaborative efforts that highlight the need for advancement and strategic roadmaps. Furthermore, this working group prioritizes educational initiatives, orchestrating events aimed at raising the level of proficiency within the industry. Given the energetic undertakings and a strategic orientation towards innovation, Cyprus's real estate sector stands on the cusp of ongoing and metamorphosis, reaping expansion the advantages of customized policies and the cultivation of technologically adept real estate solutions.

Gaming

Cyprus is positioning itself as a significant force in the gaming sector, especially for startups and development studios. The sector is anticipated to generate revenue of USD 9.23 Million in 2023, with forecasts suggesting the market volume will reach USD 13.19 Million by 2027. This represents an annual growth rate of 9.35%, highlighting the industry's swift expansion. Government initiatives, including grants and tax incentives, have been pivotal in nurturing local game development studios, which focus on creating content for both domestic and global audiences. The emergence of e-sports has significantly influenced this trend, with the Cyprus E-Sports Organization (CESO) at the forefront of efforts to establish Cyprus as a central location for e-sports events.

Local government has been consistent in providing support in the establishment of clear regulatory frameworks since 2015, to enhance the business climate for gaming companies. International collaborations have furthered Cyprus's reputation in the gaming world, and have consequently allowed for technological exchanges and market expansion. Notably, the LVLUP Accelerator, supported by Google for Startups, NVO Lab, and GameDev Cyprus (GDCy), are set to promote new gaming studios and attract more companies to the country, offering access to a network of international experts and investment guidance.

Gem Capital, one of the top gaming Venture Capital investors, plans to invest EUR 45 Million in Eastern European studios over the next two (2) years. This demonstrates confidence in the gaming sector's potential and Cyprus's strategic aim to become a recognized hub for gaming talents. Gem Capital's overall portfolio, with a valuation exceeding EUR 90 Million and investment in seven (7) of Cyprus' top ten (10) gaming startups, underscores the nation's substantial progress in securing a portion of the international gaming market. This demonstrates the country's dedicated efforts towards fostering the growth of the gaming sector.



3. Cyprus startup scene

To provide a comprehensive insight into the startup scene of Cyprus, the data below is built upon a synthesis of data sourced from reputable platforms. It provides an approximate count of the Startup Support Organizations (SSOs), i.e., incubators, accelerators, and coworking spaces, currently in operation.

Cyprus top startup industry sectors by funding¹:

- Gaming
- Energy
- Real Estate

Cyprus top startup industry sectors by number of startups²:

- FinTech
- Gaming
- Marketing

Startup ecosystem in numbers

- Funds raised by startups until 2024: EUR 23.2 Million
- Number of operating startups³: 866
- Number of Incubators and accelerators: 8
- Number of Coworking spaces: 10

Entrepreneurship and innovation in Cyprus: Indexes and Rankings (2023)

Index	Ranking	Index	Ranking
Business environment ⁴	75	Innovation linkages ⁴	32
Economic freedom⁵	18	Knowledge workers ⁴	31
Entrepreneurship policies and culture ⁴	58	Mobile app creation ⁴	1
Financing of startups and scaleups ⁴	62	Operational stability for businesses ⁴	36
Global innovation ⁴	28	Regulatory environment ⁴	27
Global knowledge ⁶	29	State of cluster development ⁴	51
ICT access ⁴	6		

CHAPTER 2

Beginning your entrepreneurial journey

I. Guiding steps to launch a startup in Cyprus

1. Country specific legal structures

In Cyprus, entrepreneurs can choose among five (5) distinct types of legal structures, each tailored to suit their company's specific activities. Each business type possesses unique attributes designed to accommodate distinct economic objectives. Below, are the legal structures particularly suitable for entrepreneurs to contemplate when establishing their companies, listed from single-owner setups to entities suitable for numerous shareholders:

- A sole proprietorship.
- A limited liability company by guarantee without share capital.
- A limited liability company by guarantee with share capital.
- A private limited liability company by shares.
- A variable capital investment company.
- A public limited liability company by shares.

The most common legal structure chosen by registered Cypriot startups is the Private Limited Company by shares. This preference arises from the inherent advantage that this structure offers, limiting the liability of owners and shareholders to their proportionate share of invested capital, thereby safeguarding their personal assets. A Private Limited Company by shares possesses share capital, and the responsibility of its members is restricted, as outlined in its memorandum of association, to any outstanding amounts for the shares they own. A private limited liability company by shares is required to have a minimum of one (1) shareholder and no more than fifty (50).

However, Cypriot entrepreneurs embark on their startup ventures through other less common structures, namely pre-startups, often known as university spinoffs, and foreign branches. According to the European Commission, a university spinoff is a type of company that is formed to commercialize technology or knowledge developed within a university. Cypriot universities, such as the University of Cyprus and the Cyprus University of Technology, have been actively involved in fostering spin-offs. These universities have established technology transfer offices and business incubators to support the creation and growth of spin-off companies.



2. Legal steps

The Government of Cyprus extends institutional support and resources for the simplified legal establishment of your startup, as elaborated in the legal steps below. The Companies section within the Department Registrar of Companies and Intellectual Property (DRCIP) is the pivotal institution overseeing company name reservation and the overall incorporation of your startup.

The Cyprus Department of Taxation and the Department of Social Insurance provides guidance throughout the process of securing a tax identification number and enrolling in the social insurance scheme.

Additionally, the Deputy Ministry of Research, Innovation and Digital Policy is responsible for evaluating and administering certificates of innovative SMEs, which confer various incentives to eligible Small and Medium Enterprises (SMEs).

On average, it takes eight (8) working days to have a company registered in Cyprus. However, the precise sequencing may be influenced by the business' characteristics and the legal framework. Below is an overview of the fundamental legal steps typically required by both locals and foreigners wishing to start a business in Cyprus.



Step 1: Verify the startup activity

For regulated activities, the entrepreneur must request permission, consent, or pre-approval from the relevant authority to be authorized to operate within the national territory. These activities and related sectors are found in this <u>list of regulated activities in Cyprus</u>. No such verification is required for unregulated activities.

Step 2: Register on the governmental portal

To facilitate the submission of applications for name approval, company registration, and the issuance of certified copies, among other processes, access to the e-filing system is a prerequisite. To gain this access, individuals and businesses must register on the government gateway portal at <u>gov.cy</u>.

It's worth noting that filing documents for a registered company via the <u>e-filing system</u> necessitates the acquisition of the business entity's authorization code.

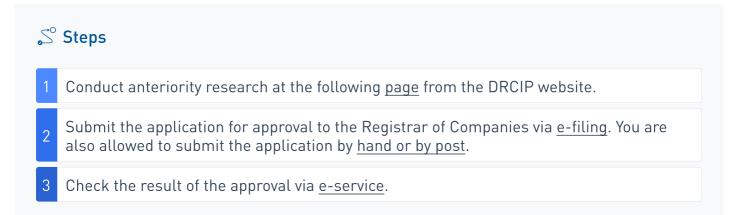
*"*S° Steps

Fill in and submit the <u>application to register your business entity</u> via email to <u>efilingcodes@drcor.meci.gov.cy</u>, to receive your authorization code.

Register by creating an account in the <u>e-filing</u> system (for further details, you can follow this registration process).

Step 3: Obtain approval for a company name

Before proceeding with the incorporation of your company, you must first decide upon the proposed name for your company, which will have to be available and approved by the Department Registrar of Companies and Intellectual Property (DRCIP). The proposed name is approved if it is not very similar to the name of an already existing business entity and is neither <u>misleading or undesirable</u>.



🖹 Documents

- A form for name approval or name change.
- A permission, consent, or preapproval by the relevant governmental authority, if required.

S Cost

- One name proposition: 10 EUR.
- Accelerated approval process per name: 20 EUR.

Requirements

The application for the company's incorporation must be submitted within six (6) months, while the approved proposed name is reserved.

Step 4: Draft the memorandum of association

In this step, the entrepreneur chooses a company structure to establish a new legal entity. The memorandum of association can be drafted by the entrepreneur or with the assistance of a professional, such as a chartered accountant or a corporate lawyer.

The company's memorandum of association contains at least the following:

- Its name.
- Its objectives.
- A statement that shows the liability of its members is limited.
- The amount of share capital (provided that a company has a share capital) with which the company intends to register and its division in shares.
- The persons who set up the company, their signature and, given that a company has a share capital, the number of shares they receive stated opposite their names. The memorandum of association is also signed by a witness who confirms the signature of the persons who set up the company and by the lawyer who prepared the memorandum of association.

Step 5: Apply to incorporate your company and obtain the registration certificates

Once your company name is approved, follow the steps below to finalize your company registration. Upon confirmation from the registrar of companies that all legal requirements for the company registration have been met, the registrar will publish the company's registration in the Official Gazette and issue the certificate of incorporation. Entrepreneurs can request other <u>certified copies and certificates of companies</u> through the e-filing system using the following <u>process</u>.

*"*S[°] Steps

Submit your request online through the Registrar of Companies' <u>e-filing</u> system.

Requirements

- ⁻ You can also choose to submit the necessary documents by <u>hand or by post</u>.
- ⁻ Documents must be translated through a certified translation provider.
- ⁻ <u>Form HE5</u> is only applicable for a public limited liability company by shares.

Documents

- A statutory declaration (form HE1) signed and sworn by the entrusted lawyer before the court.
- A notification of the company's registered office address (form HE2).
- A notification regarding the information of the company's first directors and secretary (form HE3).
- ⁻ The memorandum of association written in Greek.
- ⁻ A name approval consent.
- ⁻ The solemn declaration of the witness of signatures.
- A permission, consent, or pre-approval by the relevant governmental authority or appropriate body, if necessary.

S Cost

- Companies with a share capital: 165 EUR.
- Companies without a share capital: 235 EUR.
- ⁻ Accelerated company registration process: 100 EUR.

Step 6: Obtain a certificate of a public company's commencement of business (applies to public limited liability companies)

A public limited liability company will not be allowed to start business operations or obtain loans unless it issues the certificate of commencement of business from the Registrar of Companies. The required documents are submitted by hand or post.

Documents

- ⁻ A form <u>HE9</u>.
- ⁻ A proof of payment.
- An invitation to subscribe if any issued by the company.
- A form <u>HE8</u> if the company hasn't issued an invitation to subscribe.

S Cost

- ⁻ 2,020 EUR.
- ⁻ Additional fees to accelerate the process: 20 EUR.

• Step 7: Obtain the tax identification number

The tax registration for your startup should be carried out at the premises of the Cyprus Department of Taxation within sixty (60) days of the start of operations. The Department of Taxation will issue a Tax Identification Number (TIN) at the end of the process.

*"*S[°] Steps

- Book an appointment at the nearest Department of Taxation Office.
- 2 Fill in and submit the <u>form T.D 2001</u> to request a tax identifier number.

Documents

- ⁻ A copy of business name registration certificate.
- ⁻ A copy of the certificate of incorporation.
- ⁻ A copy of the certificate of registered office.
- ⁻ A copy of the certificate of directors and secretary.
- ⁻ A copy of the certificate of shareholders, where applicable.

O Duration

Up to three (3) working days.

Step 8: Register for Value Added Tax (VAT)

You must register for VAT if the taxable transactions value of your goods and services carried out over the twelve (12) preceding months – or which will be carried out within the next (30) days – exceeds or will exceed EUR 15,600.

S[°] Steps

Book an appointment at the nearest Department of Taxation Office.

2 Fill in and submit the form T.D. 1101

Documents

- ⁻ A copy of an identity document.
- ⁻ A copy of business name registration certificate.
- ⁻ A copy of the certificate of incorporation.
- ⁻ A copy of the certificate of registered office.
- A copy of the certificate of directors and secretary.
- ⁻ A copy of the certificate of shareholders, where applicable.
- ⁻ A proof document, i.e., a contract or an invoice, showing the entity's taxable activities in Cyprus.

O Duration

Up to twelve (12) days.

Step 9: Register for the social security service of Cyprus

Contribution to Cyprus' social insurance scheme is mandatory for all employers. The scheme encompasses all individuals engaged in for-profit activities within Cyprus. Visit the Department of Social Insurance website for more information.

*"*S[°] Steps

Submit the employer registration application form at the Department of Social Insurance.

Documents

An Employer registration application form.

Step 10: Request the certificate of innovative SMEs (optional)

Upon registering your company, consider applying for the certificate of the <u>Innovative SMEs</u> if your company meets the qualifying conditions mentioned in the following paragraph. As mentioned, this certificate is issued by the Deputy Ministry of Research, Innovation and Digital Policy. This would entitle individuals investing in your company qualified as Innovative SME to enjoy a tax deduction up to 50% of their taxable income.

SMEs, including startups, qualify as 'innovative SMEs' if:

- Their operations are carried out in the Republic of Cyprus, and;

- They have business plans for their risk finance investment, and they fulfill at least one of the following conditions:

- They do not operate in any other market.
- They have not been operating in any market for more than seven (7) years following their first commercial sale (this restriction does not, under certain conditions, apply for followon investments).
- They require an initial risk finance investment which, based on a business plan prepared with the prospect of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding five (5) years.

The Deputy Ministry of Research, Innovation, and Digital Policy assesses innovative SMEs based on three predefined categories (A, B, and C). To determine your eligibility for each category, please refer to the Innovative SMEs <u>guide</u>.

*"*S[°] Steps

Submit the application form along with your category relevant documents to the following email <u>innovative.companies@dmrid.gov.cy</u>.

0r

- 1 Visit the <u>Ignite platform</u>.
- 2 Initiate the process by submitting the company name, email, and contact person.

3 Select the category of your startup from the categories mentioned above A, B or C).

4 Submit the required documents.

Requirements

Innovative SMEs should not be listed on the Cyprus or any other stock exchange.

Documents

Category A

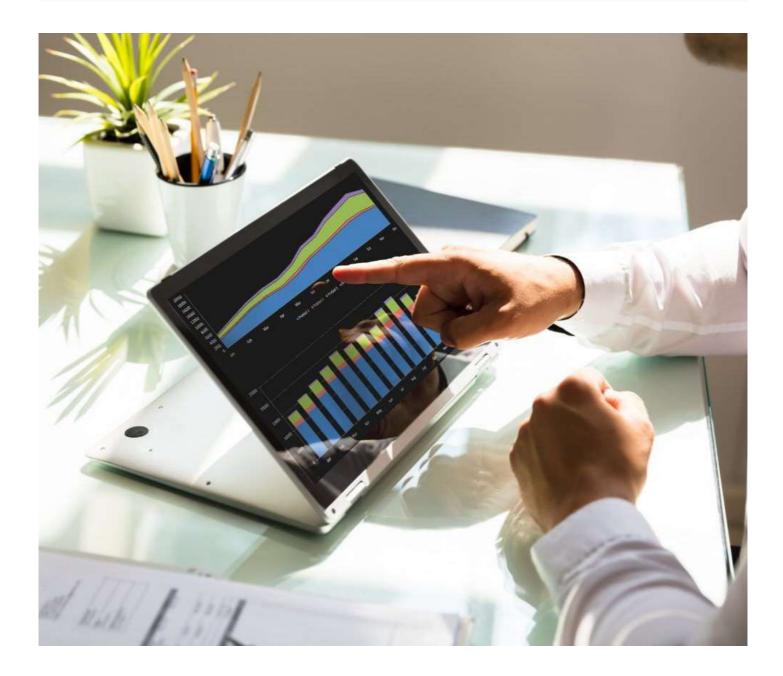
- An Application form.
- A Certificate <u>form</u> external auditors.

Category B

- An Application form.
- A Business plan (here are <u>guidelines</u> and <u>criteria</u> for business plans).

Category C

- A Proof of secured EIC funding; or
- A Proof of EIC SEAL of excellence; or
- A Proof of secured RIF innovation program funding; or
- ⁻ A Proof of secured startup visa.



II. Other country specific considerations

1. Considerations for foreign investors

A foreign investor willing to establish a business in Cyprus can gain significant advantages, including access to to diverse markets. Cyprus has double taxation arrangements with around seventy (70) countries, offering numerous tax benefits to both startups and their investors, whether foreign or local. Residents of Cyprus who are subject to taxes in those countries are exempted from double taxation.

The Government of Cyprus has introduced a new "Strategy for Attracting Businesses for Activities or/and Expansion of their Activities in Cyprus" to attract foreign enterprises and skilled professionals to the nation. This strategy predominantly targets high-technology, shipping, pharmaceutical, innovation, and R&D companies, including startups. It encompasses a range of incentives related to residency, taxation, and employment, all facilitated by a quick and streamlined process.

<u>Invest Cyprus</u> is the agency entrusted with delivering rapid and efficient services to foreign enterprises seeking to establish a presence in Cyprus or expand their business operations.

The Cypriot Government has fully liberalized direct investment by foreign nationals in every business sector. Therefore, 100% foreign ownership is permitted, unless the company operates in banking, financial services, and media. However, these restrictions do not apply to EU nationals. 100% foreign-owned and Cyprus-based companies require at least one (1) shareholder, one (1) director of any nationality who can either be an individual or a corporate entity, and one (1) secretary.

Another important aspect for foreign entrepreneurs establishing their business in Cyprus is the official language used in all official documents within the country, which is Greek. Consequently, documentation for company registration is issued in the Greek language.

After the enactment of the Registration and Regulation of Sworn Translator Services Law 45 (I)/2019, foreign entrepreneurs or investors seeking to translate official documents must liaise directly with certified translators registered with the <u>Register of Sworn Translators</u> under the Council of Sworn Translators.

2. Tax regime

Brief overview of Cyprus' tax regime

Cyprus egulatory framework fully complies with EU and OECD requirements. It provides a tax environment adapted to the needs of both local and international businesses. This regime has consistently attracted organizations worldwide to Cyprus, thanks to its numerous advantages, deductions, and exemptions, making it a very competitive tax system.

All companies registered in Cyprus are liable for taxes on their income earned both within Cyprus and internationally. Nonresident companies are taxed on income generated through business activities conducted via a Permanent Establishment (PE) in Cyprus and certain other income originating from Cyprus sources.

Capital Gains

The capital gains tax rate is fixed at 20%, applicable to gains from the disposal of immovable property located in Cyprus and certain shares related to such property.

Dividends

Profit distributions to investors who are not tax residents of Cyprus or to tax resident companies within Cyprus are not subject to withholding tax. A 17% withholding tax applies to profit distributions paid to individuals who are tax residents and domiciled in Cyprus. Additionally, a special contribution to the Defense Fund (SDC) is withheld from certain dividend, interest, and rental incomes, with exemptions for non-tax residents and companies based in jurisdictions on the EU list starting from December 31st, 2022.

Corporate Income Tax (CIT)

The standard Corporate Income Tax (CIT) rate in Cyprus stands at 12.5%.

Since January 1, 2019, Controlled Foreign Company (CFC) regulations entered into force. This means that undistributed profits of CFCs controlled directly or indirectly by a Cyprus tax-resident company may be subject to taxation in Cyprus, with some exceptions.

E-commerce VAT package

The EU's new e-commerce VAT package introduces several key changes: the former EUR 35,000 distance sales threshold is abolished, replaced by a new EUwide EUR 10,000 threshold for B2C transactions including electronic supply services and distance sales. The import exemption of EUR 22 is eliminated, and the MOSS scheme is expanded into the OSS (One Stop Shop) for VAT filing across B2C goods and services. Additionally, the Import One Stop Shop (IOSS) scheme is introduced for the import of small value goods valued at EUR 150 or less, exempt from excise duties.

Value-Added tax (VAT)

The standard VAT rate is 19%, its registration is required for businesses with a turnover of more than EUR 15,600 during the twelve (12) previous months or an expected turnover of more than EUR 15,600 within the next thirty (30) days.

3. Tax compliance requirements

The tax year in Cyprus is the same as the calendar year10. General tax filing requirements include submitting a return to the authority, detailing taxable income and due tax, even when claiming exemptions.

Income tax return

Business entities must compile audited accounts adhering to generally accepted auditing standards. Tax returns are then filed using these accounts, following a calendar-year schedule. Companies are mandated to register online and electronically submit their annual tax returns with Cyprus <u>Tax</u> <u>Department portal</u>.

The deadline for submission for a particular year is March 31st of the subsequent second year. Income tax is payable by August 31st following the end of the relevant tax year. An estimate of tax due is made by 31st July during the tax year and provisional tax is payable in two (2) equal installments by July 31st and December 31st. The two (2) provisional payments can be made by August 31st and January 31st.

In addition, a flat of 5% penalty is imposed on the tax due in the event of a failure to pay the tax by the due date. An additional penalty of 5% is imposed if the outstanding tax is not paid within two (2) months after the due date.

VAT Tax Returns

are submitted on a quarterly basis by the tenth day of the second month following the end of the VAT quarter. Any VAT due must be paid by the same date as VAT return submission. Payment of the VAT due can be made at the still of any commercial bank in Cyprus, by wire transfer or through designated internet banking services of selected major banks in Cyprus. As for electronic filing, it is mandatory in Cyprus for all taxable persons. The submission of VAT returns and VIES forms is only possible through the "Tax For All" system. A one-off penalty of EUR 100 per late submitted VAT return applies. Late payment of an outstanding VAT amount results in the imposition of a penalty of 10% of the outstanding amount.

Social security contributions

can be made in the form of cash or by issuing bank cheques payable to the Director of Social Insurance Services. For payment, the company owner or an authorized representative of the employer has the option to personally visit any Social Insurance District Office or pay via the social insurance <u>online</u> services. Contributions are done monthly. The contribution rates are fixed as follows:

- Social Insurance Fund: it is fixed at 8.8% for both employers and employees.
- Redundancy fund: it is fixed at 1.2% for employers.
- Training and Development Fund: it is fixed at 0.5% for employers.
- Social Cohesion Fund: it is fixed at 2% for employers.

4. Financial reporting and auditing regulations

In accordance with the Companies Law in Cyprus (Cap.113), a company is obliged to prepare Financial Statements in accordance with the International Financial Reporting Standards (IFRS). Those Statements must be audited by an independent registered auditor in Cyprus in accordance with International Standards of Auditing (ISA's).

The use of a certified Cypriot public accountant is necessary if the company is a Public Limited Company by shares; or does not meet the criteria for a small business (Small-sized companies are companies that do not exceed two (2) of the following three (3) criteria at the closing date of their balance sheet: a) A total balance sheet of EUR 4 Million, b) A net turnover of EUR 8 Million, c) An average number of employees: fifty (50).

5. Free zones

Free zones in Cyprus are designed to facilitate external trade by offering incentives for the gathering and distribution of goods without import duties and taxes. Entrepreneurs and startups can benefit from these zones by taking advantage of simplified customs procedures, no time limits for goods storage, and the ability to handle non-Community goods.

As of May 1, 2016, Cyprus abolished its Free Zones in compliance with the Union Customs Code (Regulation (EU) no. 952/2013). However, startups and entrepreneurs can still benefit from specific Industrial Estates managed by the Ministry of Energy, Commerce, and Industry, which offer opportunities to lease industrial plots for business activities. Additionally, two special custom procedures, Customs Warehousing and Inward Processing, provide significant advantages. These procedures allow for the storage and processing of non-nion goods without immediate duties and taxes, provided that the goods are re-exported or processed under authorized conditions. These benefits make Cyprus an attractive location for businesses seeking to minimize costs and streamline their operations within the EU. For more information, contact the relevant authorities through the provided websites and contact details.



CHAPTER 3 Navigating startup regulations and incentives



I. Government incentives

1. Tax incentives

The Cypriot tax, legal and regulatory system provides an excellent framework for businesses of all sizes with several tax benefits to startups as well as their foreign or local investors in Cypriot startups. The following are some main tax concessions for startups:

- Cypriot technology companies, including startups, that produce intellectual property are entitled to an 80% tax exemption, thus reducing the corporate tax rate to an effective rate of 2.5%.
- Cyprus tax resident companies, including startups, are entitled to claim a Notional Interest Deduction (NID) as a tax-deductible expense, upon the introduction of new equity, with the ceiling of up to 80% of the taxable profits generated from this new equity.
- An increased additional deduction of 20% is applicable to the costs accrued for research and development along with deductibility of 100% expenses, with certain conditions considered.
- Cypriot tax resident companies, including startups, are entitled to carry forward tax losses incurred during a given tax year over the subsequent five (5) tax years, and offset them against the correspondent taxable profits, thus allowing the company to enjoy reduced effective tax rates in the future. This is particularly important for startups since they commonly incur losses in their early stages of operations.
- Small and medium enterprises (SMEs) investing in audiovisual infrastructure and technological equipment related to the audiovisual industry can deduct the investment value from their taxable income in the year it was made, subject to certain criteria and conditions.
 - Maximum tax deduction: 20% for small enterprises, 10% for medium enterprises.
 - Unutilized deductions due to the percentage limitation can be carried forward and claimed within the next five years, subject to the same percentage limitation.
 - The investment in technological equipment must remain in Cyprus for at least five years
- Capital gains from disposals of shares in tax-resident Cypriot startups are exempt from corporate income tax as per the Cypriot domestic tax law.
- A qualifying investor engaging in a risk-financed investment within an SME having an "innovative SME" certificate is eligible to deduct the associated investment expenses from their taxable income. The tax deduction is limited to 50% of the investor's taxable income in the year in which the investment is made, as calculated before allowing for this deduction but after allowing deductions for life insurance premiums and contributions to provident and other approved funds. The total deductible amount may not exceed EUR 150,000 per year. The remaining investment cost not claimed as tax deductible may be carried forward and deducted from the taxable income of the subsequent five (5) years, subject to the caps mentioned.
- As of 26 July 2022, legal persons providing risk finance investments in innovative SMEs (as defined in the IT Law), either directly or indirectly, via multilateral trading facilities or investment funds, subject to certain conditions and limitations, will be granted a deduction for amounts invested each year in approved innovative SMEs.
- In cases where an investment in an innovative SME is made by a legal person that is an independent investor, to the extent the investment is financed from own funds, the deduction is limited to 30% of the amount invested. The deduction is currently available until up to 31 December 2026.
- Investors earning dividends from a Cypriot tax-resident company, including a startup, are exempt from taxation as per the Cypriot domestic tax law, subject to certain exceptions.

2. Non-tax financial incentives

This section explores the diverse range of non-tax incentives in Cyprus, starting from providing of funds supporting entrepreneurship to programs promoting innovation and investment, all contributing to the nation's economic vitality and global competitiveness:

Research and Innovation Foundation (RIF)

The Research and Innovation Foundation (RIF) operates through co-funding from both the Cypriot Government and the European Union's structural funds. RIF serves as the primary national authority dedicated to the facilitation and advancement of research, technological development, and innovation in Cyprus. It provides an extensive array of services and programs, contingent upon eligibility and stringent qualitative criteria. Among the financing mechanisms made available for startups, RIF may cover a significant portion, up to 85%, of the initial capital investment for research and development.

BRIDGE2HORIZON

BRIDGE2HORIZON plays a role in bridging the local research and innovation ecosystem with the European framework program "Horizon Europe". Its primary objective is to confront the issues of limited participation and vulnerabilities among Cypriot actors by bolstering their capacities. Furthermore, the program seeks to amplify the number of projects carried out by Cypriot institutions and enhance the overall quality of proposals submitted to 'Horizon Europe'. Notably, the total fund allocated for BRIDGE2HORIZON amounts to EUR 6 Million, with an upper cap of EUR 150,000 designated for each project beneficiary.

The Cyprus Business Angels Network (CYBAN)

The CYBAN stands as the premier angel investment network in the country, dedicated to pairing Cyprus' most innovative and rapidly expanding companies with savvy equity funders. As the sole Angel Investment Network on the island, CYBAN occupies a unique niche, creating synergies between promising startups and its roster of seasoned, impactful angel investors.

The Cyprus Entrepreneurship Fund (CYPEF)

CYPEF, established by the Republic of Cyprus, is a dedicated fund aimed at fostering and fortifying entrepreneurship within the nation. Its core mission is to facilitate improved access to financing for small and medium-sized enterprises, including startups. The financial resources allocated to CYPEF are sourced from the European Investment Bank (EIB). CYPEF extends its support to enterprises and selfemployed entrepreneurs registered in Cyprus in the form of reduced rates and reduced collateral requirements etc. and operating across a wide spectrum of economic sectors under the social insurance scheme.

THALIA 2021-2027

THALIA is a multi-annual, multi-fund development Program. It aims to create a robust and competitive economy through smart, digital, and green investments. With a total budget of the EUR 1.81 Billion, THALIA supports projects in a variety of areas, including green transition, digital transition, and social cohesion.

Cyprus Seeds

Cyprus Seeds is a Non-Governmental Organization dedicated to facilitating the commercialization of scientific research projects from all universities and research institutions in Cyprus. These projects must have a solid foundation in intellectual property and show promise for international market success. Through a meticulously structured 18-month preaccelerator program, Cyprus Seeds offers both financial support and expert mentorship to assist in the transition of innovative research from academic settings into commercially viable products or services.

The Cyprus Equity Fund (CEF)

inaugurated in May 2022, serves as a crucial financial pillar for innovative small and medium-sized enterprises (SMEs) throughout Cyprus. With a commitment to bridging the equity financing shortfall, the CEF is equipped with a budget of EUR 30 Million, sourced from the Cyprus Recovery.

II. Labor and immigration regulations and facilitations

1. Startup visa

The startup visa allows skilled entrepreneurs from non-European Union (EU) and non-European Economic Area (EEA) countries to enter, reside, and work in Cyprus. This facilitates the establishment and operation of startups exhibiting significant growth potential.

According to the authority in charge, the Deputy Ministry of Research, Innovation & Digital Policy, an innovative startup is defined as a venture that develops new innovations, creating a sustainable competitive advantage in the future. The benefits of this visa for an individual or a team can be found in the following <u>link</u>. The startup visa offers two (2) different schemes:

Team startup visa scheme

Designed for a team of up to 5 individuals, coming from non-EU countries. The team should consist solely of the founders of an innovative startup or at least of one founder and other senior executives. Additionally, more than 50% of the company's shares should be owned by one or more member(s) of the team of applicants.

Individual startup visa scheme

Designed for non-EU and non-EEA country nationals who will act as the sole founder of an innovative startup.

_S[°] Steps

- 1 Submit the relevant documents detailed in the section below via email to the following address startupvisa@dmrid.gov.cy.
- 2 In the case of a positive evaluation, the applicant will receive a notification of initial approval that grants the right for economic activity in Cyprus for two years.
- Submit an entry visa application to the <u>Consular Authorities of the Republic</u> or to the Department of Civil Registry and Migration, within six (6) months of receiving initial approval.
- 4 Apply for a residence permit at the <u>Civil Registry and Migration Department's</u> <u>headquarters in Nicosia</u>. To learn more about appointments, please follow this <u>link</u>.

Requirements

⁻ The candidate must be at least eighteen (18) years old.

- ⁻ The candidate must confirm the availability of the capital of EUR 20,000 or EUR 10,000 if the founders are less than two (2).
- ⁻ The candidate must be proficient in Greek or English.
- ⁻ The candidate must have completed a diploma of higher education.
- In case the startup already exists, the applicant must submit an audit report.
- ⁻ To apply for a temporary residence and employment permit, foreign nationals must provide their biometric data (photo and fingerprints) and signature, along with the payment receipt and a valid travel document.
- The biometric data can be provided simultaneously with the application, at the <u>District Immigration</u> <u>Unit of the Cyprus Police</u> of the district of residence of the applicant.
- Collecting biometric data is also necessary for the renewal of a temporary residence and employment permit.

Documents

- ⁻ A business plan (forms and templates are found in the following <u>link</u>).
- ⁻ An <u>Application form</u> for Startup visa.
- ⁻ A curriculum vitae.
- ⁻ A copy of a valid passport.
- ⁻ <u>Supporting documents</u> for the residence permit as mentioned in the link.
- All supporting documents submitted in the context of applications must be <u>officially translated and</u> <u>duly certified</u>.

S Cost

- Entry permit and a residence permit, valid for up to three (3) years: 70 EUR.
- Registration in the aliens' register (applies in first registration): 70 EUR.
- ⁻ Renewal of a residence permit, valid for up to three (3) years: 80 EUR.



III. Data protection

Data protection in Cyprus is regulated by the General Data Protection Regulation (GDPR), a European Union (EU) regulation that applies to all EU Member States, including Cyprus. Cyprus has incorporated the GDPR into its national law, and the <u>Office of the Commissioner for Personal Data Protection in Cyprus</u> oversees the implementation and enforcement of data protection regulations.

The Commissioner fulfills the responsibilities and powers assigned to them under the provisions of the Law 125(I) of 2018 Providing For The Protection of Natural Persons with regard to the Processing of Personal Data and for the Free Movement of Such Data and it has adopted certain guidelines.

Those guidelines encompass a variety of topics, including and not limited to:

- <u>Codes of conduct</u> and <u>certification</u> <u>mechanisms</u> (Both are only available in Greek).
- Data Protection Impact Assessments.
- Data Protection Officers.
- <u>Data transfers</u> (only available in Greek).
- Directions to banking institutions about retention periods for personal data (only available in Greek).
- <u>Guide to records of processing</u> <u>activities</u> and <u>Guide to complete the record of</u> processing activities.
- Personal data breach notifications.
- <u>Security of processing</u> and the <u>guidelines on</u> <u>the security of processing</u> (only available in Greek).
- <u>Video-surveillance</u> (only available in Greek).

To ensure that the company protects customers' data and avoids costly fines for non-compliance, founders must meet all the requirements on the <u>GDPR compliance checklist</u>.



IV. Intellectual property

Intellectual property rights in Cyprus are protected by national, European legislation, as well as international agreements. Under these agreements, you can claim ownership over the creation of an invention, a design, a distinctive mark, or an artistic work etc. The protection of these creations gives you an exclusive or unique right of exploitation. It gives you the right to take judicial and other measures for their protection in case of unlawful unauthorized copying and use by third parties.

There are four (4) types of intellectual property rights: patents, trademarks, industrial designs, and copyrights. In the section below, we will cover the steps you need to know, to receive protection under three (3) types based on their relevance to startups. The application process takes place at the <u>Intellectual Property</u> <u>Section</u> of the Department of Registrar Companies and Intellectual Property.

1. Patents

A patent is a legal document that grants the holder exclusive rights to an invention for a defined period of time. It is a key element of intellectual property (IP) protection. In Cyprus, an initial patent application has a two-year validity period that can be renewed yearly. This renewal can extend the patent's protection for up to twenty (20) years from the application or grant date. Patents are granted by the Department of Registrar Companies and Intellectual Property, and they serve several purposes in protecting intellectual property.

S[°] Steps

2

Check the eligibility of your invention for patent protection based on the requirements below.

Check the eligibility of your invention for patent protection based on the requirements below.

Use the links below to conduct a comprehensive search and ensure that your invention is unique:

- Espacenet of the European Patent Organisation (EPO)
- Patent scope of the World Intellectual Property Organisation (WIPO)
- Official Journal of EPO
- Official Gazette of the Republic of Cyprus
- Paper Patents Register at the premises of the Intellectual Property Section

Submit the application for a national patent by <u>hand or by post</u> to the Department of the Registrar of Companies and Intellectual Property.

Requirements

⁻ The application must provide a clear and complete description of the invention.

⁻ The invention must adhere to ethical and moral standards and must not violate public order.

- Certified translation should be in English, German, or French, either by an affidavit or by a <u>sworn</u> translator of the Republic of Cyprus.
- ⁻ The invention must be new and not part of the public domain.
- ⁻ The invention should involve an inventive step that is not obvious to someone skilled in the field
- ⁻ The invention should have a practical use in an industry

For further details on the process, please refer to the main criteria of review.

Documents

- ⁻ The patent application form <u>Form Π .9</u>.
- ⁻ The description of the invention.
- ⁻ The claims defining the scope of the patent.
- ⁻ The summary.
- ⁻ The relevant drawings.
- ⁻ The form for authorizing an agent form π .8.

🕓 Cost

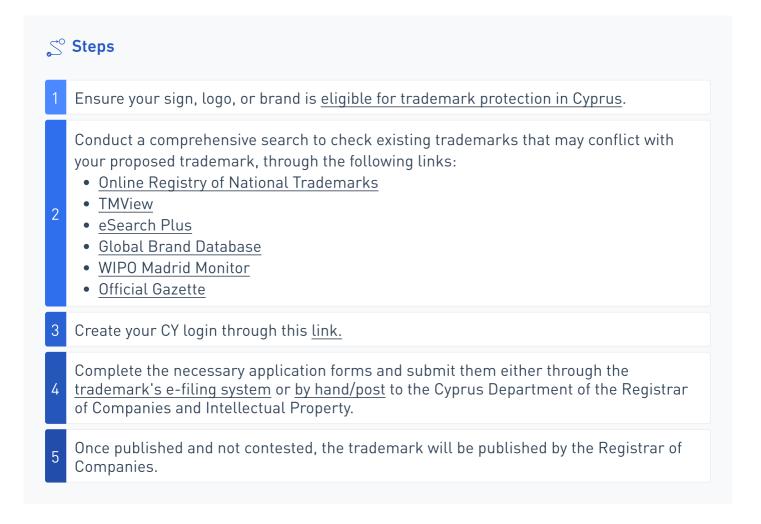
- Physical search fees: 5 EUR.
- Submission fees: 100 EUR.



2. Trademarks

A trademark is a symbol, word, or phrase legally registered or established by use as representing a company or product. It distinguishes goods or services of one entity from those of others and provides exclusive usage rights to the owner. Each company should consider registering its trademark. In Cyprus, trademark registration lasts ten (10) years and is renewable indefinitely. Please note that, before submitting the application, you may apply for an intellectual property preliminary opinion. Opinion is requested through the trademark's e-filing system or by hand / post.

Visit this <u>link</u> to understand the types of trademarks and watch this <u>video</u> to learn how to protect your trademark.



Documents

- ⁻ A form E. Σ . 01 for preliminary opinion.
- ⁻ A completed trademark application form $E_{.\Sigma} 02$
- ⁻ A representation of the mark, for non-word trademarks.
- If claiming priority, provide:
- A statement with date and country of the earlier filing.
- A certified copy of the earlier filing or certificate of filing from the relevant authority.
- A certified translation of priority documents into Greek if they're not already in Greek.

S Cost

- ⁻ First trademark application by hand/post: 141 EUR.
- ⁻ First trademark electronic application: 129 EUR.
- Additional trademark application beyond the first (online): 102 EUR.
- ⁻ Additional trademark application beyond the first application: 94 EUR.
- ⁻ First class preliminary opinion: 99 EUR.

3. Industrial designs

An industrial design is the unique aesthetic features (the shape of an article, or two-dimensional features, such as patterns, lines, or color.) of a product that can be registered to grant the creator exclusive rights to its commercial use, preventing unauthorized replication or imitation. If your startup is involved in the design of products, you can protect the appearance design of these products by registering the correspondent industrial designs. The first registration is valid for the first five (5) years and can be extended up to twenty-five (25) years from the initial filing date by renewing it every five (5) years. Watch this <u>video</u> for more details on the protection process.

S[°] Steps

2

Ensure that your industrial design is eligible for protection in Cyprus based on the requirements below.

Search to check for similar or conflicting registered designs, through the following link:

- Design View of the European Union Intellectual Property Office (EUIPO)
- eSearch plus of the European Union Intellectual Property Office (EUIPO)
- World Intellectual Property Organisation (WIPO)
- Official Gazette of the Republic of Cyprus
- 3 Prepare your design or model.

4 Complete the required application forms listed below and submit them to the Department of the Registrar of Companies and Intellectual Property by <u>hand or by post</u>.

Requirements

The stylization of your design or model must have the following specifications:

- ⁻ Be submitted on a white background (photographic representations).
- ⁻ Be suitable for reproduction.
- ⁻ Determine the image (e.g., "front view of image").

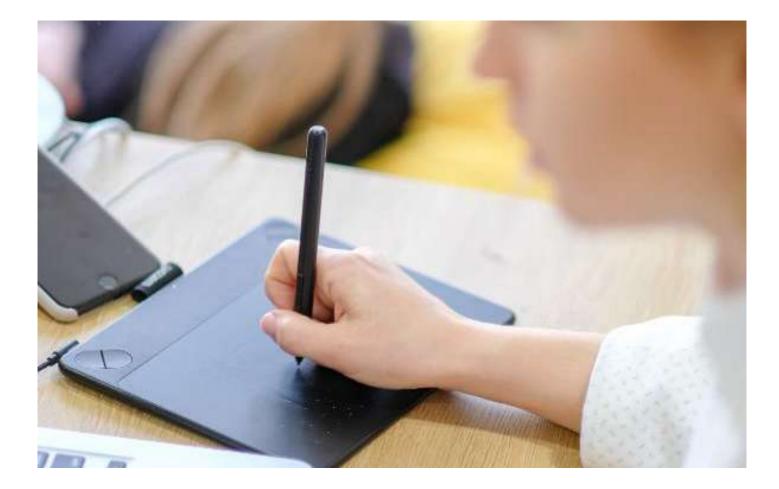
- Has a quality graphic or photographic representation.
- ⁻ Should not exceed 6x6 centimeters.
- ⁻ The appearance of the product must be numbered and described (e.g., front view).
- For more details, check the <u>prerequisites</u> set by the Department of Registrar Companies and Intellectual Property.

Documents

- ⁻ The stylization of your design.
- An industrial design or model form <u>BΣY</u>1.

S Cost

- Five (5) years protection fees: 85.43 EUR.
- Additional fees for first five (5) years: 51.26 EUR.
- Publication fees: 68.34 EUR.
- Publication postponement fees: 42.72 EUR.



V. Key support organizations and initiatives (not exhaustive)

Accelerators & Incubators

ARIS

<u>Chrysalis Leap</u>

Cyprusseeds

IDEA Innovation Center

LVLUP ACCELERATOR

Narwhal Accelerator

Coworking spaces

<u>Tech hub</u>

<u>Unity</u>

Media Outlets & Events

<u>Clustering – EU Innovative Entrepreneurship</u>

<u>Cyprus Mail</u>

IFX EXPO

<u>IMH</u>

Government Support

Chief Scientist for resarch & innovation

Cyprus Chamber of Commerce and Industry

Cyprus Invest

Deputy Ministry, Innovation and Digital Policy

Ministry of Commerce Industry

Research & innovation foundation

Hügge

Antwork

Hub Nicosia

Regus - Limassol Victory House

Regus - Nicosia Jacovides Tower

Regus - Nicosia Prodromou Av

SOHO Coworking Space

Youth Makers Space

Funding institutions

33EAST

<u>Cyban</u>

GEM Capital

KV Fund

Lifeline Support for Businesses

The Games Fund

Zero Gravity Capital

Research & Centers of Excellence:

Center for entrepreneurship

Cerdies

CMMI -Cyprus Marine

<u>Cyens</u>

ECECT

EOCO2 Center of Excellence

ERATOSTHENES Centre of Excellence

International Water Resarch center

Corporates & consultancies

ADDTIESS

Capatior & Partners

The Obsidian.co

VIZ Ventures

Institutions & NGOs

Cyprus Computer Society

JA Cyprus

Startup Cyprus

Tech Island

Competitions and Awards

Beyond Pre-Accelerator - JA Cyprus

CASSINI Space Entrepreneurship Initiative

ClimateLaunchpad

CyEC Competition

<u>SDG Innovation Pre-Accelerator Programme -</u> <u>CyprusInno</u>

SG Challenge

Startups for Peace

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APPENDIX

Appendix 1: Launching your startup: key success factors

Addressing market demand

Your startup should provide a compelling solution to a specific problem within a large and eager market. Think of it as a puzzle piece that fits perfectly into the demand landscape. Steve Blank's <u>Customer Development Model</u> can guide you in creating a product or service that customers cannot resist.

Feasibility analysis

Conduct a thorough feasibility analysis. This process empowers you to make informed decisions, spot areas needing improvement, and allocate resources effectively. It is your tool for maximizing your chances of crafting a successful, long-lasting venture.

د المعالم Market insights

Dive deep into market analysis. Understand the current state of your industry segment and define your target market. A strong grasp of market dynamics is essential for positioning your product or service effectively.

Building a stellar team and network

Source and group a team of multitalented experts. This is one of the fundamental steps to scale a startup. These diverse talents will complement each other and will help you access a strong, interconnected network that can be your secret weapon for gaining support, mentorship, and continuous learning.

Analyzing the competition

Competitive analysis is not just about sizing up rivals; it is a vital part of your strategic planning, systematic research and evaluation of your competitors' strengths and weaknesses. It will guide you into finding your competitive edge and creating your added value ion the market.

Legal Flexibility

The legal form of a startup must allow for flexibility. Choose a legal structure for your startup that offers the flexibility needed for growth. Make it easy for shareholders to join and leave the company and ensure your memorandum of association can adapt to your evolving needs. In fact, the memorandum of association must be drawn up freely and allow the opening of share capital.

Appendix 2: What type of support to expect at each stage of a startup lifecycle

	Startup development stages	Government support	Funders support	SSOs support
Outreach	 Idea formation Problem validation Team establishment 	 Promote entrepreneurs hip education Facilitate Ideation: Hackathons, startup Weekends, etc. Promote innovation and entrepreneurs hip culture 	 Financial literacy and entrepreneurs hip awareness programs Networking opportunities to connect with potential mentors, advisors, and industry experts 	 Access to experienced mentors who provide guidance and advice on various aspects of startups Provision of office space, shared facilities, and infrastructure to support the early-stage development of the business
Pre start	 Idea development Business modeling Problem/Solution fit: prototyping Team Formation: access to training and mentorship 	 Offer entrepreneurs hip training and education Facilitate Proof of concept and proof of Business Facilitate Business Modeling Validate MVP 	 Seed funding for idea validation and product development Coaching to refine business ideas and plans Access to incubators or accelerators providing resources, infrastructure, and networking opportunities 	 Assistance in refining the product/service, pricing strategies, and go-to-market plans Support in conducting market research and understanding the target market, customer needs, and competitors

	Startup development stages	Government support	Funders support	SSOs support
Launch	 Business Creation Early-stage fundraising Initial Go-To market: MVP development 	 Provide Early- Stage Financing Facilitate access to client and Go- To -Market Strategic partnerships Housing Operation set up and labeling 	 Seed funding to launch the business Cover initial operational costs Access to angel investors or venture capital firms Guidance on legal and regulatory compliance Support in building a strong founding team and advisory board 	 Guidance on company registration, intellectual property protection, and legal compliance Support in identifying funding sources, preparing investor pitches Connecting with potential investors
Growth	 Product/Market Fit International Go- To-market Expansion and scaling 	 Facilitate access to Finance Facilitate internationalizat ion via events, strategic partnership, etc. Provide operational support 	 Series A, B, or C funding rounds for scaling operations and market expansion Strategic guidance and industry insights from investors Assistance in negotiating partnerships and strategic alliances Exit strategies and assistance with mergers, acquisitions, or public offering 	 Assistance in scaling operations, managing growth, and overcoming operational challenges Access to industry experts Provide sector-specific knowledge and guidance

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