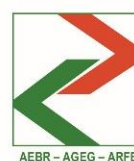




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## FINAL REPORT BY THE EXPERTS

**Advice case title:** Develop a successful business with my neighbour country

**Full official name of the advised entity:** Chamber of Commerce & Industry of Xanthi (Greece) and Regional Industrial Association – Smolyan (Bulgaria)

**Name of the expert contracted for the advice case:** Themistoklis Chatzikonstantinou and Eugeniy Ivanov

**Date:** 23 December 2022

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## I. Executive summary

The essence of the border obstacle between Greece and Bulgaria is the **complexity of rules for starting and operating a company on the Greek side of the border** that hampers the cross-border business activities of Bulgarian entrepreneurs. The key reasons, influencing the significantly lower business activity of Bulgarian companies in Greece, are the incomplete understanding of the Greek business environment, as well as the complexity of its national and local administrative and legal requirements.

The case study presents **key factors** on both sides of the border between Greece and Bulgaria, which provide an explanation about the significantly larger involvement of companies of Greek origin in business operations in Bulgaria, such as:

- Foreign direct investment
- Employment and labour market
- Business structure
- Cross-border visitor flows
- Mobility and connectivity
- Taxation regime

The Greek tax regime is regarded as one of the most important obstacles for attracting FDI, incl. from Bulgaria. Both the high tax percentages and the constant changes in primary and secondary legislation hinder financial planning and cultivate the feeling of uncertainty, which limits the attractiveness of Greece as an investment destination.

The **key obstacles to cross-border business establishment** are summarised as follows:

- Lack of sufficient understanding in the Bulgarian entrepreneurs of the Greek company law, the administrative and employment legislation
- The tax systems in Greece and Bulgaria are not harmonized – the tax regime in Greece is seen as much more burdensome for the businesses
- The social security systems in both countries are quite different (incl. for self-employed persons)
- The rules for establishing a business and the reporting procedures for companies significantly differ in the two EU member states, incl. with regards to public procurement
- There are significant differences in the administrative procedures applied at national level and at the level of municipalities in Greece and Bulgaria

In general, the rules in Greece for making business are regarded as much more complex compared to the Bulgarian ones, which hampers the transfer of cross-border activities of Bulgarian SMEs, including their establishment and operations in the neighbouring country. The main reason is the insufficient knowledge in companies of the business environment, which results in subsequent administrative and legal problems. These obstacles can be avoided if the companies are better prepared.

There are no specific legal provisions at EU level, which any of the two countries (Greece or Bulgaria) breaches and which impede the cross-border business activities, especially concerning SMEs. Therefore, **the current case study offers a number of potentially working solutions**, which in case being adopted, will encourage the cross-border exchange of businesses and will enhance the SME cooperation.

These solutions are grouped in 3 pillars:

- Development and implementation of wide-scale awareness and information campaigns in the cross-border region, headed by the local business organisations for promoting intraregional business opportunities and for clarifying the specifics of the Greek and Bulgarian legislation. This calls for the establishment of a new GR/BG EGTC, oriented at the business for encouraging cross-border business creation, acceleration and development
- More frequent organisation of cross-border business forums, fairs, meetings and exhibitions (matchmaking events in general, incl. people-to-people actions) to facilitate the flow and exchange of business ideas across the border and to facilitate the contacts between potential partners (contractors, sub-contractors, vendors)
- Enhancement of the cooperation between the state institutions in Greece and Bulgaria responsible for investments and business support in an effort to encourage mutual investments, incl. for the establishment of joint business incubators/accelerators, industrial zones, etc. This also requires the adoption of flexibility rules and mutual agreements, better coordination and harmonization of the implementation of regulatory arrangements in the border region (e.g. taxation issues), as well as identification of possible derogations from national legal provisions in the interest of promoting cross-border business creation

## **II. Description of the obstacle with indication of the legal/administrative provisions causing the obstacle**

### **2.1. Introduction**

The border obstacle between Greece and Bulgaria has been identified by the Chamber of Commerce & Industry of Xanthi (Greece) which is working in close cooperation with the Smolyan Regional Industrial Association (Bulgaria). In its essence is the **complexity of rules for starting and operating a company on the Greek side of the border** that hampers the cross-border business activities of Bulgarian entrepreneurs (mainly SMEs). Examples are given with Bulgarian companies, which have registered businesses in Xanthi and Drama (Greece), have rented premises, hired staff and 2-3 months after the start of their operations, have stopped business activities due to wrong perception of the situation.

Key factors that are seen as hampering the business activity of Bulgarian companies in Greece are the incomplete understanding of the Greek business environment, as well as the complexity of the national and local administrative and legal requirements.

Further discussions with Bulgarian entrepreneurs have highlighted another list of obstacles, pertaining to opening and operating a business in Greece, such as:

- Lack of sufficient knowledge on how to incorporate a business in Greece
- Insufficient information on how to obtain permissions for undertaking specific business activities in Greece (whenever needed)
- Unclear procedure for buying a property in Greece, as well as when and how to pay real estate tax/municipality duty
- Unclear remuneration system for employees, especially with regards to social security contributions, solidarity contributions,
- Different business culture in general, etc.

These and other obstacles apply to Greek companies intending to start business operations in Bulgaria as well but to a much lesser extent.

Situational analysis is presented below, which is focused on some key factors, providing an explanation about the significantly larger involvement of companies of Greek origin in business operations in Bulgaria. It covers key factors, such as:

- Foreign direct investment
- Employment and labour market
- Business structure
- Cross-border visitor flows
- Mobility and connectivity
- Taxation regime
- Social security

Just for reference purposes, the Greece – Bulgaria cross border region consists of 11 territorial units (4 in Bulgaria<sup>1</sup> and 7 in Greece<sup>2</sup>). Its area is around 40,000 sq. km with population of 2.6 million people, of which 30% live in the 4 Bulgarian districts.

## 2.2. Foreign direct investment

Foreign Direct Investments (FDI) are funds, which are directly invested by the parent country in the "host" country. FDI also includes the transfer across national borders of all production inputs, such as capital equipment, raw materials, know-how, quality control, etc. In principle, with FDI businesses become multinationals, as these are essentially businesses that own or control others in more than one country.

A necessary condition for this form of investment to exist is control. This must be exercised either through majority participation in the share capital of the subsidiary, or through minority participation. In any case, the parent company is considered to control its subsidiary(s) when it influences in some way the decision-making or when it is the exclusive supplier of know-how, organization and coordination of the operation of the resources.

FDI is carried out either through a wholly owned subsidiary, or through a joint venture, or through partial acquisition. Three main approaches are applied:

- (1) Greenfield strategy: creation of a new company with the purchase of land, the construction of facilities and the purchase of mechanical equipment
- (2) Brownfield strategy: acquisition of an existing company and its conversion into a new production unit or expansion of the company's activities into new fields of expertise
- (3) Offshore company: establishment of a new company abroad with exclusive activity in the respective foreign country

Most of the Bulgarian FDI in Greece are greenfield investments. The Greek companies investing in Bulgaria combine greenfield with brownfield investments.

<sup>1</sup> Blagoevgrad District (South West Region), as well as Smolyan District, Kardjali District and Smolyan District (all 3 located in South Central Region).

<sup>2</sup> Evros, Xanthi, Rodopi, Drama, Kavala (Eastern Macedonia-Thrace Region), as well as Serres and Thessaloniki (Central Macedonia Region).

Greece is among the top 10 investors in Bulgaria, preceded only by the Netherlands, Germany, Hungary, Luxembourg, Italy and Austria.

Around 14% of the Bulgarian FDI (2014 – 2021) amounting to € 279.8 million are made in Greece, which is the second most preferable investment destination for Bulgarian companies after the Netherlands (€ 324.8 million).

**Table 1. Net FDI in Bulgaria and Greece (2014 – 2021), € million**

FDI	2014	2015	2016	2017	2018	2019	2020	2021	Total
Bulgarian FDI in Greece	6.2	8.9	36.8	12.6	43.3	88.8	35.4	47.8	<b>279.8</b>
Greek FDI in Bulgaria	5.7	92.9	53.5	16.0	127.1	104.1	73.3	128.2	<b>600.8</b>

*Source: Bulgarian National Bank*

There is a significant difference in the type of investments made by Bulgarian companies in Greece and vice versa. Greek companies (SMEs or large ones) have invested in almost all sectors of the Bulgarian economy, such as manufacturing, trade, telecommunications, IT, services, banking and finance, agriculture, renewables, etc. This is justified by the higher economic development of the Greek economy compared to the Bulgarian one and the better experience Greek companies have in terms of taking advantage of internationalisation options.

Based on the purpose for which FDIs are carried out, the following categories are distinguished:

- (1) FDI in search of wealth-producing resources: the purpose is to acquire wealth-producing resources at the lowest possible cost, relative to the country of origin
- (2) Market-seeking FDI: the purpose is to produce products and provide services for both the host country and for the neighboring countries
- (3) FDI in search of efficiency: the purpose is the better organization of activities for more efficient use of the company's wealth-producing resources
- (4) FDI in search of strategic resources or capabilities: mainly concerns companies in the technology sector. The purpose is to improve their international competitiveness by acquiring other companies, which have unique capabilities

The Greek investments in Bulgaria mainly fall in the first two groups, while the Bulgarian investors are predominantly exploiting the Greek tourist resources (i.e. they fall in the group of „market-seeking FDI“). The FDIs in the last 2 categories, which have the highest value added (FDI in search of efficiency and FDI in search of strategic resources or capabilities) account for the smallest share of the investments. This is a clear indication that although there are ongoing mutual investment inflows, they are yet to reach their full potential.

According to a [recent study](#) presented at the 19th edition of the European Week of Regions and Cities (October 2021), in the period between 2000 and 2020, over 15,000 Greek companies have relocated to Bulgaria. The majority of them have done so to take advantage of the low taxes, low cost of labour and raw materials, and the stable macroeconomic and political environment. A smaller share of entrepreneurs have invested in an effort to avoid the unfavourable Greek tax regime. According to the same

study, between 2010 and 2018, the Sofia region has attracted around 85% of the Greek FDI. The latter have originated mainly from the Athens region – 82%. Only about 12% of the Greek investments to Bulgaria have landed in the cross-border region with Bulgaria.

Bulgarian investments in Greece, although increasing since 2018 onwards, are predominantly targeting the sectors of tourism and are mainly located in Northern Greece (e.g. Miraggio Thermal Spa Resort, Thassos Grand Resort, Mount Athos Resort, etc.). In the general case, these are medium-sized or large firms, which do not originate from the border region, and whose clients in Greece are Bulgarians or Romanians spending their holidays in the neighbouring country. Moreover, in the past few years, especially after the collapse of prices of real estate in Greece as a result of the austerity measures, a number of Bulgarian families bought holiday houses in Northern Greece mainly close to the Aegean Sea beaches in Halkidiki.

In conclusion, although there are significant inflows of FDI from Greece to Bulgaria and vice versa, they originate mainly from the most developed agglomerations in both countries, i.e. the Attica (Athens) and Sofia-city metropolitan regions. The indigenous SMEs from the border region have limited cooperation, especially in higher value-added sectors. This conclusion is supported by the fact that in the [5th Call for project proposals](#) under the Cooperation Programme INTERREG V-A Greece – Bulgaria 2014 – 2020 in 2019 („Grant scheme for supporting SMEs to grow and expand beyond local markets“) only 55 joint GR-BG applications have been submitted, of which 36 have been approved for funding.

Although the disproportional bilateral investment flows are primarily a result of the different levels of economic development of both countries, they also reflect the more burdensome investment regime in Greece and the lack of sufficient institutional collaboration between the FDI promotion institutions in both countries.

Therefore, specific measures are required to boost the cross-border cooperation between companies incorporated and operating in the administrative units (e.g. prefectures or districts and their respective municipalities) at both sides of the border – Northern Greece and Southern Bulgaria.

### **2.3. Employment and labour market**

The labour market differs significantly within the cross-border region both in terms of employment, unemployment, sectors of activity and earnings. The activity rate in 2019 has been 74.7% for Eastern Macedonia-Thrace in Greece and 73.8% for Bulgaria. The unemployment rate in Bulgaria in 2019 has been one of the lowest in Europe (6.7%). In Blagoevgrad, the unemployment rate in 2019 has been 4.1%, in Haskovo – 0.4%, in Kardjali – 2.0%, and only in Smolyan it has been as high as 8.8%. On the contrary, Central Macedonia and Eastern Macedonia-Thrace are considered among the regions with the highest unemployment rate in Europe, i.e. 19.6% and 16.2%, respectively.

The unemployment rates in both countries have further increased in 2020 due to the impact of COVID-19 pandemic on the economy. Tourism, recreation and commerce have been the most affected sectors. The latest national data comparing the current quarters to the same quarters of the previous year shows a decrease in the

employment rate for both countries in the 2nd and 3rd quarter of 2020. In Greece, the employment rate has diminished by 3% and 1.8% respectively, and in Bulgaria – by 3.3% and 2.6%. At EU-27 level, the change has been -3.1% and -2.3% for the same quarters.

Data on the labour market from the Bulgarian National Statistical Institute (2019) shows that Blagoevgrad and Haskovo have been the districts with the lowest annual average salary and wage nationally (4,405 euros and 5,283 euros, respectively). In Greece (no NUTSIII/II data available), the average net earnings have been estimated at 8,904 euros in 2020.

Due to geographical limitations (e.g. mountainous terrain) and the large distance between the major settlements across the border, the cross-border labour market (e.g. Bulgarians working in Greece and vice versa on a daily basis) is almost inexistent. Bulgarians are tempted to permanently work in Greece by leaving their domicile in search of a better payment. It should be noted that, according to different estimates, due to economic migration, between 100,000 and 150,000 Bulgarians live in Greece. These are people mainly employed in lesser paid jobs in the tourist industry, in services and in low skilled labour (e.g. agriculture). A very small portion of those people have established their own businesses in the recipient country.

The complexity of rules for self-employment of individual entrepreneurs and the higher tax rates in Greece encourage the non-compliance with registering for tax purposes.

The recently adopted Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union<sup>3</sup> may have a positive impact on leveling the incomes of the lower skilled workers across the border, which may encourage cross-border employment.

## **2.4. Business structure**

SMEs are an important generator of value added and employment in the CBC area. SMEs represent 63.5% of the total value added (EU average 56.4%) and have an employment share of 87.9% (EU average 66.6%).

In 2014-2018, the overall share of SMEs in value added has increased by 11.8%, with small firms showing the largest rise (25.7%) and micro firms showing a fall of 11.9% in Greece. In Bulgaria, in Blagoevgrad District, 93.4% of the enterprises have less than 9 employees and only 0.1% more than 250. In Haskovo, the percentages are 93.7% and 0.1% respectively; in Kardjali, the percentage of small businesses is 91.7% and the percentage of large enterprises is 0.2%, and in Smolyan – 92.2% and 0.3%.

In the 2014-2018 period, SMEs in the “non-financial business economy” (includes the sectors of industry, construction, distributive trades and services) have generated a substantial increase of 50.7% in value added. In contrast, the employment share of SMEs has moderately increased by 8.6%. More recently, in 2017-2018, the share of SMEs in value added has sustained a steady growth reaching 15%, whereas the employment share of SMEs has grown by only 1.6%.

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<sup>3</sup> <https://eur-lex.europa.eu/eli/dir/2022/2041/oj?locale=en>

The Greek Business Registry shows that, with the exemption of Thessaloniki, in all other regional units, “agriculture, forestry and fishing” account for large shares of total enterprises and labour. The percentage of agricultural businesses ranges from 72% (44% of the employment) in Rhodopi to 33% (7% of employment) in Thasos. While agricultural activities in the CBC area are dominating in number and, in many cases their employment share in the overall economic figures is low due to low value added.

One key feature of the cross-border region is the lack of large-scale joint initiatives for encouraging business co-creation between Greek and Bulgarian companies, such as joint business incubators, accelerators, industrial zones, entrepreneurship classes meeting in one place Bulgarians and Greeks, especially youths. The knowledge of the other country’s language is still a major problem in communication. As a result, there is a very limited number of companies with joint Greek and Bulgarian owners and capital. Although this deficiency cannot be attributed to specific administrative obstacles, it is a consequence of the insufficient institutional cooperation between business support institutions on cross-border issues – both non-governmental ones and more importantly, between regional/municipal authorities.

## 2.5. Visits of Bulgarians to Greece and visits of Greeks to Bulgaria

The cross-border people flows between Bulgaria and Greece indicate that there is a relative parity in the number of visitors coming from Greece to Bulgaria, and from Bulgaria to Greece.

**Table 2. Cross-border visitor flows**

	2017	2018	2019	2020	2021
Visits of Bulgarians to Greece	1,341,192	1,402,560	1,461,096	180,115	n/a*
Visits of Greeks to Bulgaria	1,272,997	1,290,313	1,277,610	386,012	344,970

Source: *Bulgarian National Statistical Institute*

Note: \*n/a - due to Covid-19 restrictions no statistical data has been collected

Naturally, during the Covid-19 pandemic (2020 – 2021), the visitor flows have been significantly reduced.

There are some differences in the reasons for visiting the neighbouring country. The majority of the Bulgarian nationals go to Greece for the purpose of tourism, mainly during the months of May, in the period of July – September and in December for the Christmas holidays.

The inflow of visitors from Greece to Bulgaria is a bit more diversified – a portion of them (especially from Northern Greece) visit Bulgaria for short tourist stays mainly in the border towns/villages (during the weekends), in Sofia (for sightseeing) or in the winter resorts (for skiing). Others come for business purposes or to study in the Bulgarian universities (long-term stays), or to cross the country on their way to Western Europe (transit).

The cross-border flows are significantly hampered by the fact that Bulgaria is not yet a member of the Schengen area. This is an ongoing problematic issue and the border



controls, although significantly eased over the past few years along the terrestrial road check points, still pose significant delays both for private passengers and for transportation vehicles. Sometimes, in peak hours, it may take several hours for cars and buses to cross the GR-BG border. With commercial trucks the situation may be even worse.

Nevertheless that Bulgaria and Romania have formally implemented all technical criteria for accessing the Schengen area, both countries still remain outside its coverage. Greece is the top destination for Romanian travelers, especially for summer vacation with over 1 million visits per year and the fact that the majority of them visit the country by car crossing Bulgaria means that they are stuck at the border together with Bulgarian visitors. This presents a significant bottleneck, which needs to find a resolution.

## **2.6. Mobility and connectivity**

The transport network of the area is generally characterized by the mountainous terrain and the absence of modern infrastructure. Until recently, large sections of the cross-border roads were in poor condition. Currently, these roads are used mainly for tourism activities, but their usage for the strengthening of the cross-border commerce is minimal.

What is more important, the main network corridors serve the Thessaloniki-Sofia axis, leaving the cross-border areas of Xanthi, Drama, Smolyan and Kardjali with limited transport choices since there are missing links in most of the multimodal connections between cross-border regions. This, combined with the limited border permeability due to Schengen rules, puts the check points at an increasing pressure.

Passengers and commercial connections are established mainly by road with the port-cities of Thessaloniki, Kavala and Alexandroupolis. Most of the commercial transportation between the two countries is passing through the cross-border area, but in terms of access to both rail and road connections, the cross-border region scores low compared to the EU average due to limited existence of modern infrastructure.

Motorways have been developed only recently (from 2003 onwards) in both sides of the borders and are still incomplete. Mountainous terrain restricts cross-border mobility, and road connections are limited in proportion to the length of the border line. Lack of effective crossing points has been (and still is) a long-term weakness regarding cooperation potential as it restricts direct goods and functional labour.

As regards the perception of accessibility issues linked to geographical barriers or transport infrastructure (Eurobarometer 2016), there is a substantial difference in whether this constitutes a problem for cross-border cooperation. 42% of residents in the Greek border regions have perceived that connectivity consists of a major barrier, whilst only 16% of residents on the Bulgarian side consider accessibility as a problem for cooperation.

The motorway network and overall connectivity relies on the completion of the construction of Egnatia's motorway vertical axes and the construction of large parts of the A3 and A4 motorways in Bulgaria. Nevertheless, lower-level roads in the mountain

areas are in a bad condition and make interconnections difficult. The lack of modern secondary connections in the main motorway axis (Thessaloniki – Sofia) affects the development of the inner area. The establishment of easy access between the two metropolitan centres combined with the inaccessibility to the inner lands can pose a threat to the development of CBC area.

Currently, there are only six operational border checkpoints along the GR/BG border, servicing a population of about 2.6 million people. These are:

- (1) Ormenion - Kapitan Petko Voivoda (1988)
- (2) Gotse Delchev – Drama point (2005)
- (3) Thermes – Zlatograd (2010)
- (4) Promahonas – Kulata (rebuilt in 2010)
- (5) Makaza – Nimphea (2013), and
- (6) Ivaylovgrad- Kyprinos (2010)

Especially Xanthi is in a very difficult position, since there no border crossings nearby, even though the existing road that starts from Xanthi through Echinós and ends at the Bulgarian border is only 49 km long. The situation might change significantly as the Dimario/Rudozem road and crossing point, currently under construction, is expected to open in early 2023, thus lifting another barrier for cross-border cooperation.

## 2.7. Taxation

The Greek tax regime is one of the most important obstacles for attracting FDI from Bulgaria. Both the high tax percentages, as well as the constant changes in laws, decisions and circulars overturn the financial planning of businesses and cultivate the feeling of uncertainty.

There are significant differences in the tax systems and in the tax rates in Bulgaria and Greece, the majority of them in favour of Bulgaria, which result in opportunistic investments to reduce the cost of doing business.

The current taxation regime in Bulgaria has been the result of a political decision to reduce grey economy<sup>4</sup> and to attract more foreign investments. This has led to a number of positive economic results, although in the past few years there are voices to introduce progressive taxation in order to support the low-income groups.

The taxation specifics in Greece are the result of the government's efforts to limit tax evasion and are a product of the austerity plan, following the debt crisis in the 2010s, although with doubtful results so far.

**Table 3. Comparison between taxes in Bulgaria and Greece**

Tax rates	Bulgaria	Greece	Δ BG vs. GR
VAT:			
Standard rate	20%	24%	(–) 4%
Reduced rate (for certain items)	9%	13%	(–) 4%
Super reduced rate (for certain items)	0%	6%	(–) 6%

<sup>4</sup> By introducing a flat rate of 10% on both corporate and personal income and by imposing stricter control by the National Revenue Agency.

<b>Tax rates</b>	<b>Bulgaria</b>	<b>Greece</b>	<b>Δ BG vs. GR</b>
VAT registration threshold	51,129.19 €	n/a	(-) 51,129.19 €
<b>Personal income tax:</b>			
First 10,000 € annual income	10% flat rate	9%	(+) 1%
Next 10,000 € annual income		22%	(-) 12%
Next 10,000 € annual income		28%	(-) 18%
Next 10,000 € annual income		36%	(-) 26%
Above 40,000 € annual income		44%	(-) 34%
<b>Social security contributions, incl.:</b>			
At the level of the employee	33.40%	36.66%	(-) 3.26%
At the level of the employer	13.78%	14.12%	(-) 0.34%
	19.62%	22.54%	(-) 2.92%
<b>Monthly social security contribution cap</b>	<b>1,738.39 €</b>	<b>6,500 €</b>	<b>(-) 4,761.61 €</b>
<b>Corporate income tax</b>	<b>10%</b>	<b>22%</b>	<b>(-) 12%</b>

Source: [Worldwide Tax Summaries](#), PWC

There are obvious discrepancies between the tax regimes in the two countries – both in terms of rates and with regards to the complexity of procedures at national and local level. Therefore, the more favourable taxation regime in Bulgaria is conducive to the establishment of Greek companies looking to optimise their investment and operational costs vis-à-vis the conditions in the host country.

## 2.8. Social security systems

The aggregate rate of social security contributions in Bulgaria according to the Social Security Code is 24.7% to 25.4%, of which 14.12% to 14.82% is payable by the employer and 10.58% is payable by the employee. The aggregate rate of health insurance contributions is 8%, of which 4.8% is payable by the employer and 3.2% is payable by the employee. Therefore, the total national insurance contribution rate (social security and health insurance) is 32.7% to 33.4%, of which 18.92% to 19.62% is payable by the employer and 13.78% is payable by the employee.

The social security contributions are generally calculated as follows:

- Basic social security (unemployment insurance, etc.): 17.3% of the gross salary
- Pension insurance: 5% of the gross salary
- Health insurance: 8% of the gross salary

The above rates are applicable to Bulgarian nationals, as well as to EU/EEA nationals who are subject to Bulgarian social security contributions.

The social security obligation of self-insured persons in Bulgaria arises from the day of commencement or resumption of their activity and continues until its cessation or termination. Self-insured persons must submit monthly a relevant declaration and must pay their social security contributions in advance in monthly installments. These installments must be paid on selected income, whose amount should not be less than the minimum and not more than the maximum monthly insurable earnings. The minimum monthly insurance base for freelancers and self-employed is BGN 710 (approximately 355 €), while the maximum monthly insurance base is BGN 3.400 (approximately 1.700 €). Therefore, if the person has indicated that he/ she will be

insured at BGN 1.800, the insurances will be accrued on this amount and not on the earned BGN 1.300, for example.

Social security contributions in Greece are due on salary and benefits in cash or in kind granted by an employer to its employees, with the exception of specifically enumerated extraordinary benefits of social character (e.g. marriage gifts, birth gifts). The imposition of social security contributions depends on the social security fund in which the employee is registered. By virtue of Law 4756/2020, as of 1st January 2021, the social security contributions for the primary social security fund (EFKA) are 14.12% for the employee and 22.54% for the employer.

Self-employed persons and freelancers, on the other hand, need to choose once a year a so called “insurance class”, based on which they will pay their insurance fees. The insurance cost is not related to their earnings. The insurance classes are as follows:

<b>Insurance class</b>	<b>Pension fund (€)</b>	<b>Healthcare (€)</b>	<b>Unemployment fund (€)</b>	<b>Total/month (€)</b>
1 <sup>st</sup>	155	55	10	<b>220</b>
2 <sup>nd</sup>	186	66	10	<b>262</b>
3 <sup>rd</sup>	236	66	10	<b>312</b>
4 <sup>th</sup>	297	66	10	<b>373</b>
5 <sup>th</sup>	369	66	10	<b>445</b>
6 <sup>th</sup>	500	66	10	<b>576</b>

The choice of insurance class is critical for the 1.3 million freelancers in Greece as their option determines to a large extent the pension they will receive when their working life is completed, according to the insurance years they will have. As is evident, the lower the insurance category chosen, the greater the risk of receiving equally low pensions in the future. Indicatively, 15 years of insurance in the lowest category entitles to pension not higher than 435 € gross, while the amount rises to 770 € gross for 40 years of insurance. Given that more than 80% of the self-employed choose this category every year, the risk of noticeably low pensions occurring over the years is real.

The discrepancies in the security system of the two countries, although not extreme in theory, are significant, especially if the sometimes-complex Greek procedures are taken into account. The fact that the system for the self-employed has recently changed, while there are constant variations on the monthly installments, contributes to the development of an unfavourable cross-border business and investment environment for private entrepreneurs.

## **2.9. Key obstacles to cross-border business establishment**

The key obstacles can be summarised as follows:

- Lack of sufficient understanding in the Bulgarian entrepreneurs of the Greek company law, the administrative and employment legislation

- The tax systems in Greece and Bulgaria are not harmonized<sup>5</sup> - the tax regime in Greece is seen as much more burdensome for the businesses
- The social security systems in both countries are quite different (incl. for self-employed persons)
- The rules for establishing a business and the reporting procedures for companies significantly differ in the two EU member states, incl. with regards to public procurement
- There are significant differences in the administrative procedures applied at national level and at the level of municipalities in Greece and Bulgaria, which concern the access to public services, calculation and payment of taxes (e.g. municipality duty, duty for the provision of cleaning and lighting services), incentives (e.g. for job enhancement), ownership of real estate property, urban planning, registration and licensing regimes and many others

In general, the rules in Greece for making business are regarded as much more complex compared to the Bulgarian ones, which hampers the transfer of cross-border activities of Bulgarian SMEs, including their establishment and operations in the neighbouring country.

The main reason is the insufficiently known business environment, administrative and legal problems, which obstacles could be avoided if these companies have been better prepared.

For example, even though the creation of a company in Greece looks quite easy per se, the whole procedure involves a number of different steps and entities/persons, which make it more complicated, especially for foreigners/foreign legal entities. These steps include:

- Select the appropriate legal form of the company (based on mostly used types of companies, e.g. Ltd.). Specific guidance for the explanation of the different types, tax regimes, VAT regimes, etc., might be needed
- Select a Greek lawyer to draft the statutes, especially in case the foreign national opts to set up a “Greek” company and not a branch of the mother company
- Find a legal address of the company in Greece. Help for the selection of the premises, additional municipal costs varying on the location, etc., from a realtor might be needed
- Set up a bank account. Even though Greek banks do not ask foreign nationals for additional paperwork for the establishment of the account, all documents issued abroad must have an apostille and this entails extra work burden and costs
- Register for a VAT number in the revenue agency. The apostille stamp is also needed (see point above)
- Find an accounting company to take care of the financial reporting, based on the legal reporting requirements
- Register to the relevant chamber, if needed (not obligatory but highly recommendable)
- Get permissions for specific activities, if needed

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<sup>5</sup> One option to address the differences in the national corporate tax systems is provided by the [EU initiative “Business in Europe: Framework for Income Taxation” \(BEFIT\)](#), which will evolve in the course of 2023.

An additional obstacle to attracting FDI in Greece is, sometimes, the generic non-acceptance of investments by society and local bodies. Many foreign investments are not accepted due to the reaction of environmental movements or local interest groups. Moreover, there is a significant gap in the provision of information on the legal and administrative rules, particularly with regards to cross-border employment and commerce.

### ***Specific obstacles for the creation of Bulgarian companies in Greece***

By red tape we mean high concentration of volume supporting documents and the time-consuming procedures that make it difficult the processing of either government or private affairs such as initiation of business activity, the approval of additional investments, the closure of an economic unit.

According to the World Bank, for the year 2019 (*this is the last year for which information is available*) in the “[Ease of doing business rank](#)”, amongst 190 countries, Greece occupies 79th position, while Bulgaria is no. 61.

Even though bureaucracy is often cited as a major source of concern, opening a business in Greece is not difficult. It is true that in the past, foreign investors have been prevented from coming to Greece because of bureaucracy. However, the services of the General Commercial Registry (G.E.MI.) have been completely digitalized, while the amount of the documents that need to be submitted has been reduced and grouped together.

The basic legislative framework that regulates the business activity of foreign nationals in Greece, both natural and legal persons, and the main areas of commercial activity, is the following:

- Law 3386/2005 on the entry, residence, etc. of third country (non-EU) nationals, as applicable, mainly concerns sole proprietorships and the exercise of independent economic activity
- The investment law 4399/2016, for investments in Greece with the participation of public and private entities
- The relevant provisions of the laws on the establishment of sole proprietorships and companies in general (anonymous, limited liability, sole proprietorship etc.), as well as a branch of a foreign company
- Most importantly, Law 4635/2019, which in Article 98 stipulates what a company located within the EU needs to submit to the General Commercial Registry (G.E.MI.) and in Article 99 explicitly mentions what needs to be submitted by companies with their headquarters in foreign or third countries, in order to start activities in Greece

Based on the combination of Articles 98 and 99, the documents<sup>6</sup> that a foreign company has to submit to G.E.MI. in order to establish business in Greece are:

- Decision of the company to establish a branch in Greece. This decision must describe: i) what will be the activities of the branch, ii) where will the registered office be (including its postal or other address), iii) what will be the name of the

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<sup>6</sup> The above supporting documents issued abroad must have an apostille or consular authority visa and an official translation into Greek.

company (if different from the parent company's name), iv) the individual details of the legal representative of the company, with a complete analysis of his/her responsibilities. The legal representative must hold a Greek VAT number and also submit, if he is an EU citizen, the exact copy of an Identity Card or Passport

- Statute of the foreign company, as valid during the time period of the application. The minimum capital of the parent company must be at least 25,000 euros
- Certificate of the Registry, in which the parent company is registered (Certificate of Good Operation of the competent authority or the Commercial Register of the country of origin) stating the legal form, the seat, the capital & the management/representation of the company at its seat
- Certificate from the G.E.MI. Service of the relevant Chamber for the pre-approval of the branch's name and/or distinctive title
- Application.

### III. Description of possible solution(s)

The CBC region between Bulgaria and Greece offers entrepreneurs a number of investment opportunities arising from its strategic geographical position and from its unique competitive advantages. As both countries are members of the European Union the benefit from access to emerging regional markets while they have developed economic sectors characterized by significant comparative advantages for every investor. They have developed infrastructure as well as a well-trained and skilled workforce. The abundant natural resources of the Greek-Bulgarian cross-border area, along with the wide range of specialized technological and industrial concentrations in various sectors, optimally support the business expansion.

Based on the analysis presented in the previous chapter, there are no specific legal provisions at EU level, which any of the two countries (Greece or Bulgaria) breaches and which impede the cross-border business activities, especially with regards to SMEs. The European Union rules do not govern national taxation policies as long as they comply with the single market regulations. Social policy is a shared competence<sup>7</sup> between the EU and its Member States; however, the EU cannot impose social security rates. The same applies for the administrative regulations for opening and operating a business.

Therefore, the possible solutions to encourage the process of **starting and operating a company on both sides of the Greek-Bulgarian border**, especially with regards to Bulgarian entrepreneurs, are the following:

- 1) Development and implementation of awareness and information campaigns in the cross-border region, headed by the local umbrella business organisations for promoting intraregional business opportunities (incl. new supply chains aimed at third-country investors) and for clarifying the specifics of the Greek and Bulgarian legislation
- 2) Implementation of joint investment promotion campaigns for highlighting the investment opportunities in the cross-border region, the exchange of experiences and the more effective use of available business areas for the establishment of joint industrial parks, joint business incubators and joint business accelerators

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<sup>7</sup> [Division of competences within the European Union.](#)

- 3) Undertake a wide-scale programme for language learning (GR – BG) in the CBC region to facilitate the better communication between businesses and administration on both sides of the border (the language barrier can be seen as an obstacle in certain cases)
- 4) More frequent organisation of cross-border business forums, fairs, meetings and exhibitions (match-making events in general) to facilitate the exchange of business ideas across the border and to meet potential partners (contractors, sub-contractors, vendors)
- 5) Establishment of an online platform for promoting the business opportunities in Greece and Bulgaria and for outlining the steps for opening, running and closing a business (roadmaps for different sectors, especially for ones where there are specifics, e.g. which require licenses)
- 6) Provision of education and training to entrepreneurs (incl. business language courses), that will contribute to encouraging entrepreneurship, through the development of appropriate mindset and awareness regarding CBC professional opportunities
- 7) Enhance the cooperation between the state institutions in Greece and Bulgaria responsible for investments and business support (e.g. [InvestBulgaria Agency](#) and [Enterprise Greece](#)) – establishment of working relations to support mutual investments
- 8) Establishment of new GR/BG EGTCs<sup>8</sup>, oriented at the business, and at cross-border business creation, acceleration and development
- 9) Adoption by the Greek side of incentives like competitive and stable 10-year taxation, reduction of insurance premiums and employer contributions to investments that will be related to extroversion and will create new jobs
- 10) Improving licensing procedures, simplification of urban planning rules and zoning issues especially in the industrial sector areas
- 11) Adoption of flexibility rules and mutual agreements, strengthening the relevant levels of competencies, better coordination and harmonization of the implementation of regulatory arrangements in the border region (taxation issues and legal commerce), provisions under European law for possible derogations from national legal provisions in the interests of sensible cross-border solutions
- 12) Adoption of legislative measures that will strengthen the capacity of the bodies responsible for monitoring and controlling corruption, while at the same time improving the transparency of procedures, simplifying of transactions with the public and establishing a speedy legal prosecution of high-ranking officials in corruption cases
- 13) Possible formation of investment zones within CBC municipalities with specific tax and regulatory rules intended to drive economic growth and investments, such as time-limited tax incentives

What is also needed, are dynamic cross-border business initiatives that:

- Will make more use of local products, traditional techniques, quality products of primary production (branded, standardized and certified quality agricultural and livestock products, agri-food sector development), areas and elements of cultural and ecological interest, thematic forms of tourism and agri-tourism with the

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<sup>8</sup> Currently, there are [2 officially registered](#) GR-BG [EGTCs](#): EGTC EFXINI POLI (seated in Fyli, EL) – Network of European Cities for Sustainable Development (EL/CY/BG), and HELICAS (Holistic Efficient Local Initiatives for Cooperation and Synergies) EGTC (seated in Thessaloniki-Thermi, EL) (EL/BG).



configuration and promotion of a new integrated tourist identity in each cross-border region

- Will support the creation of new business activities, such as provision of services to businesses (research, publishing, communication, distribution networks, consultancy and technical support, training, e-business), new services linked to the information society (information systems, telemedicine, distant learning, geographic information systems, internet of things etc.), entrepreneurship in the fields of environment and energy (environmental management, waste management and recycling, renewable energy sources), and the social economy
- Will encourage people-to-people actions in the area of business cooperation, e.g. organization of joint open markets for local producers, joint business competitions, joint boot camps for meeting and educating young entrepreneurs in how to make cross-border business, etc.

Of particular importance are the decentralized business support structures offering initial and permanent installation, such as incubators or technological parks, one-stop service networks, research centers, test/control laboratories, etc. It is necessary to upgrade and improve the services, which these structures provide to small and medium-sized enterprises in the context of the CBC region based on similar support structures in other EU countries. The establishment of regional entrepreneurship centers should be promoted as a uniform integrated mechanism for providing certified one-stop services for information, consulting, licensing, management of EU co-funded programmes, and facilitation of access to new financial tools.

Both states should specialize and continue to support incentive policies for the development of innovative entrepreneurship, tax exemptions for new investments and for high-risk businesses, subsidizing young people who choose the business arena for professional career, risk sharing through Business Participation Funds, guarantees etc. Encouraging entrepreneurship should continue with bravely empowering new people and new businesses that will undertake new initiatives in the utilization of research results and new knowledge.

Further emphasis should be also placed on the factors that are considered to be an obstacle to attracting investment, further reducing bureaucracy and corruption, providing incentives for investment in the form of a stable tax system or in the protection of investors in order to create an encouraging approach to investment.

Finally, the combination of development subsidies, guaranteed loans, new banking products and institutional business support shall create a more favourable context of alternative sources of financing to promote innovation and improve the competitive position of small and medium-sized enterprises in the cross-border region between Greece and Bulgaria.

#### **IV. A full list of all legal provisions relevant to the case with the correct citation both in original language and in English**

##### **4.1. In Greece**

In original language	In English
Νόμος 3386/2005	Law 3386/2005

In original language	In English
Είσοδος, διαμονή και κοινωνική ένταξη υπηκόων τρίτων χωρών στην Ελληνική Επικράτεια ΦΕΚ Α' 212/ 23-08-2005	Entry, residence and social integration of third country nationals in the Greek Territory Government Gazette A' 212/ 23-08-2005
<b>Νόμος 4072/2012</b> Βελτίωση επιχειρηματικού περιβάλλοντος - Νέα εταιρική μορφή - Σήματα - Μεσίτες Ακινήτων - Ρύθμιση θεμάτων ναυτιλίας, λιμένων και αλιείας και άλλες διατάξεις ΦΕΚ Α' 86/ 11-04-2012	<b>Law 4072/2012</b> Improvement of business environment - New corporate form - Signals - Real estate agents - Regulation of shipping, ports and fisheries and other provisions Government Gazette A' 86/ 11-04-2012
<b>Νόμος 4399/2016</b> Θεσμικό πλαίσιο για τη σύσταση καθεστώτων Ενισχύσεων Ιδιωτικών Επενδύσεων για την περιφερειακή και οικονομική ανάπτυξη της χώρας – Σύσταση Αναπτυξιακού Συμβουλίου και άλλες διατάξεις, κωδικοποιημένος με τον 4887/2022 ΦΕΚ Α' 117 /22-06-2016	<b>Law 4399/2016</b> Institutional framework for the establishment of Private Investment Support schemes for the regional and economic development of the country – Establishment of a Development Council and other provisions, codified with Law 4887/2022 Government Gazette A' 117 /22-06-2016
<b>Νόμος 4548/2018</b> Αναμόρφωση του δικαίου των ανωνύμων εταιρειών ΦΕΚ Α' 104/ 13-06-2018	<b>Law 4548/2018</b> Reform of the law of joint-stock companies Government Gazette A' 104/ 13-06-2018
<b>Νόμος 4635/2019</b> Επενδύω στην Ελλάδα και άλλες διατάξεις ΦΕΚ Α' 167/ 30-10-2019	<b>Law 4635/2019</b> Invest in Greece and other provisions Government Gazette A' 167/ 30-10-2019
<b>Νόμος 4756/2020</b> Μέτρα ενίσχυσης των εργαζομένων και ευάλωτων κοινωνικών ομάδων, κοινωνικοασφαλιστικές ρυθμίσεις και διατάξεις για την ενίσχυση των ανέργων ΦΕΚ Α' 235/ 26-11-2020	<b>Law 4756/2020</b> Measures to support workers and vulnerable social groups, social security arrangements and provisions to support the unemployed Government Gazette A' 235/ 26-11-2020
<b>Νόμος 4808/2021</b> Προστασία της Εργασίας - Σύσταση Ανεξάρτητης Αρχής «Επιθεώρηση Εργασίας» - Κύρωση της Σύμβασης 190 της Διεθνούς Οργάνωσης Εργασίας για την εξάλειψη της βίας και παρενόχλησης στον κόσμο της εργασίας - Κύρωση της Σύμβασης 187 της Διεθνούς Οργάνωσης Εργασίας για το Πλαίσιο Προώθησης της Ασφάλειας και της Υγείας στην Εργασία - Ενσωμάτωση της Οδηγίας (ΕΕ) 2019/1158 του Ευρωπαϊκού Κοινοβουλίου και του Συμβουλίου της 20ής Ιουνίου 2019 για την ισορροπία μεταξύ της επαγγελματικής και της ιδιωτικής ζωής, άλλες διατάξεις του Υπουργείου Εργασίας και Κοινωνικών Υποθέσεων και λοιπές επείγουσες ρυθμίσεις ΦΕΚ Α' 101/19-06-2021	<b>Law 4808/2021</b> Labor Protection – Establishment of an Independent Authority "Labor Inspection" - Ratification of Convention 190 of the International Labor Organization on the Elimination of Violence and Harassment in the World of Work - Ratification of Convention 187 of the International Labor Organization on the Framework for the Promotion of Safety and Health in Work - Incorporation of Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance, other provisions of the Ministry of Labor and Social Affairs and other urgent arrangements Government Gazette A' 101/19-06-2021
<b>Νόμος 4864/2021</b> Στρατηγικές επενδύσεις και βελτίωση του επενδυτικού περιβάλλοντος μέσω της επιτάχυνσης διαδικασιών στις ιδιωτικές και στρατηγικές επενδύσεις, δημιουργία πλαισίου για τις εταιρείες τεχνολογίας και άλλες επείγουσες διατάξεις για την ανάπτυξη ΦΕΚ Α' 237/ 02-12-2021 και ημερομηνία επανακυκλοφορίας: 10.02.2022	<b>Law 4864/2021</b> Strategic investments and improvement of the investment environment through the acceleration of procedures in private and strategic investments, creation of a framework for the techno-seed companies and other urgent provisions for the development Government Gazette A' 237/ 02-12-2021 and re-circulation: 10-02-2022
<b>Νόμος 4887/2022</b> Αναπτυξιακός Νόμος - Ελλάδα Ισχυρή Ανάπτυξη ΦΕΚ Α' 16/ 04-02-2022	<b>Law 4887/2022</b> Development Law – Greece Strong Development Government Gazette A' 16/ 04-02-2022

In original language	In English
<p><b>Νόμος 4919/ 2022</b>  Σύσταση εταιρειών μέσω των Υπηρεσιών Μιας Στάσης (Υ.Μ.Σ.) και τήρηση του Γενικού Εμπορικού Μητρώου (Γ.Ε.ΜΗ.) - Ενσωμάτωση της Οδηγίας (ΕΕ) 2019/1151 του Ευρωπαϊκού Κοινοβουλίου και του Συμβουλίου της 20ής Ιουνίου 2019 για την τροποποίηση της Οδηγίας (ΕΕ) 2017/1132, όσον αφορά τη χρήση ψηφιακών εργαλείων και διαδικασιών στον τομέα του εταιρικού δικαίου (L 186) και λοιπές επείγουσες διατάξεις  ΦΕΚ Α' 71/ 07-04-2022</p>	<p><b>Law 4919/2022</b>  Establishment of companies through the One Stop Services (SSO) and maintenance of the General Commercial Registry (G.E.M.I.) – Incorporation of Directive (EU) 2019/1151 of the European Parliament and of the Council of 20 June 2019 for the amendment of Directive (EU) 2017/1132, regarding the use of digital tools and procedures in the field of company law (L 186) and other urgent provisions  Government Gazette Α' 71/ 07-04-2022</p>
<p><b>Κοινή Υπουργική Απόφαση (ΚΥΑ) αριθμ. 63577/2018</b>  Καθορισμός διαδικασιών, Προϋποθέσεων, Τεχνικών Λεπτομερειών και λοιπών θεμάτων σχετικά με τη λειτουργία των υπηρεσιών μιας στάσης για τη σύσταση εταιριών  ΦΕΚ Β' 2380/ 21-06-2018</p>	<p><b>Common Ministerial Decision (CMD) no. 63577/2018</b>  Determination of procedures, conditions, technical details and other issues regarding the operation of one-stop services for the establishment of companies  Government Gazette Β' 2380/ 21-06-2018</p>

## 4.2. In Bulgaria

In original language	In English
Търговски закон, ДВ бр. 48/18.06.1991 г.	Commercial Law, State Gazette no. 48 of 18 June 1991
Закон за счетоводството, ДВ бр. 95/8.12.2015 г.	Law on Accounting, State Gazette no. 95 of 8 December 2015
Закон за защита на конкуренцията, ДВ бр. 102/28.11.2008 г.	Law for the Protection of Competition, State Gazette no. 102 of 28 November 2008
Закон за задълженията и договорите, ДВ бр. 2/5.12.1950 г. (ДВ бр. 30/13.04.1990 г.)	Law on Obligations and Contracts, State Gazette no. 2 of 5 December 1950 г. (State Gazette no. 30 of 13 April 1990)
Закон за корпоративното подоходно облагане, ДВ бр. 105/22.12.2006 г.	Corporate Income Tax Law, State Gazette no. 105 of 22 December 2006
Закон за данъка върху добавената стойност, ДВ бр. 63/4.08.2006 г.	Value Added Tax Law, State Gazette no. 63 of 4 August 2006
Закон за местните данъци и такси, ДВ бр. 117/10.12.1997 г.	Law on Local Taxes and Fees, State Gazette no. 117 of 10 December 1997
Закон за местното самоуправление и местната администрация, ДВ бр. 77/17.09.1991 г.	Law on Local Self-Government and Local Administration, State Gazette no. 77 of 17 September 1991
Кодекс за социалното осигуряване, ДВ бр. 110/17.12.1999 г.	Social Security Code, State Gazette no. 110 of 17 December 1999
Закон за бюджета на държавното обществено осигуряване (годишен) – Минимален осигурителен доход по основни икономически дейности и квалификационни групи професии, приеман всяка година	Law on the Budget of the State Social Insurance (annual) - Minimum insurance income by main economic activities and qualification groups of professions, adopted each year
Закон за здравното осигуряване, ДВ бр. 70/19.06.1998 г.	Law on Health Insurance, State Gazette no. 70 of 19 June 1998
Закон за малките и средните предприятия, ДВ бр. 84/24.09.1999 г.	Law on Small and Medium-sized Enterprises, State Gazette no. 84 of 24 September 1999
Закон за данъците върху доходите на физическите лица, ДВ бр. 95/24.11.2006 г.	Personal Income Tax Law, State Gazette no. 95 of 24 November 2006
Закон за насърчаване на заетостта, ДВ бр. 58/27.06.2003 г.	Law for Encouragement of Employment, State Gazette no. 58 of 27 June 2003
Закон за насърчаване на инвестициите, ДВ бр. 97/24.10.1997 г.	Investment Promotion Law, State Gazette no. 97 of 24 October 1997

In original language	In English
Закон за индустриалните паркове, ДВ бр. 21/12.03.2021 г.	Law on Industrial Parks, State Gazette no. 21 of 12 March 2021

## V. Other relevant aspects to this case if relevant

N/a

## VI. References

- [Approved projects](#) in the 5th Call for project proposals under the Cooperation Programme INTERREG V-A Greece-Bulgaria 2014-2020: „Grant scheme for supporting SMEs to grow and expand beyond local markets“
- [Cross-Border Cooperation Programme INTERREG VI-A Greece-Bulgaria 2021-2027](#)
- [National Statistical Institute \(Bulgaria\)](#)
- [Statistical section](#) of the Bulgarian National Bank: FDI data
- Korres G., [Entrepreneurship in Greece](#), University of the Aegean (*in Greek*)
- Mavromati A., [International Economic Environment and Businesses](#), University of Ioannina (*in Greek*)