

ECONOMIC PROGRAM

In 2022, the Economic Program focused on the following topics:

- **Foreign authoritarian influence, hybrid threats and disinformation.** In the wake of Russia's war in Ukraine, CSD intensified its efforts to build resilience and capacity, and to promote evidence-based policy responses to the vulnerabilities of the European countries to foreign authoritarian influences. CSD developed methodologies, metrics, training exercises, campaigns, and public-private partnership networks for countering Kremlin's disinformation toolkit and hybrid threats in the Black Sea region, including such related to weapons of mass destruction. CSD exchanged knowledge with leading research institutes in the field of media literacy, natural language processing, AI and big data. The Center also joined a Europe-wide initiative aiming to create an AI-based system that will assist citizens to critically reflect on information and news and identify sources of disinformation.
- **Countering corruption, illicit finance, state, and media capture.** CSD expanded the use of its State Capture Assessment Diagnostics (SCAD) and Monitoring Anti-Corruption Policy Implementation (MACPI) methodologies in the Western Balkans. The Center initiated a regional good governance public-private partnership platform in Southeast Europe, spanning ten current and aspiring EU Member States. CSD took a leading role in advocating measures for rolling back state and media capture in the region through social media campaigns, solid anti-corruption policy research and analysis, and policy forums in Zagreb and Belgrade. The Economic Program worked to strengthen the capacity of civil society and public authorities on the methods of tackling entrenched state and media capture networks and illicit finance.
- **Economic security and undeclared work.** The Center supported the European Labour Authority in its efforts at sharing good practices on tackling undeclared work among the EU Member States. CSD engaged in developing solutions for strengthening Europe's economic security and competitiveness vis-à-vis authoritarian economic coercion through supporting the EU's mechanisms for investment screening and anti-money laundering. CSD also provided a platform for promoting the economic cross-border cooperation between Bulgaria and North Macedonia through constructive capital and developed specific policy solutions for attracting constructive capital in the two countries.
- **Innovation and competitiveness.** CSD prepared the chapter on Bulgaria's international competitiveness, published in IMD's *World Competitiveness Yearbook 2022*, and contributed to the development of the annual *Innovation.bg* report devoted to the key role and the challenges to the digital and green transition amid the current economic crisis.

I. Foreign authoritarian influence and disinformation

The Kremlin's arsenal of adversarial tools for power projection is a growing source of hybrid threats. Despite falling below the threshold of actual warfare, these threats can have far-reaching and pernicious implications for victim states. The lack of a coordinated EU approach in this area is becoming increasingly alarming in the context of the military conflict in Ukraine. Against this backdrop, CSD promoted the creation of a new European strategy for tackling disinformation that considers the complexity of building resilience without encroaching on free speech. In this effort, CSD cooperated with the East StratCom Task Force of the European External Action Service, the Beacon Project by the International Republican Institute, European Digital Media Observatory-affiliated initiatives

such as BROD and FENCE, the EU's citizens' engagement program CERV, and the Konrad Adenauer Stiftung. CSD became part of **TITAN** – an EU-supported initiative aiming to create an AI-based system that will help citizens critically reflect on information and news that they encounter and identify sources of disinformation.

CSD also exposed the Kremlin's media capture tactics and recommended appropriate policy responses at a number of events held in 2022. CSD took part in the discussion **"Foreign Influence Threats to European Democracy and the Role of Disinformation"**, organised by the Bureau of the European Parliament in Bulgaria in Bulgaria on 14 March 2022. The participants outlined recommendations for the systematic verification of facts by the media and the development of critical thinking skills in education.



Public discussion "Foreign Influence Threats to European Democracy and the Role of Disinformation", Sofia, 14 March 2022



COUNTERING THE KREMLIN PLAYBOOK IN EUROPE AFTER RUSSIA'S INVASION OF UKRAINE

Policy Brief No. 115, October 2022

The Russian invasion of Ukraine has led to the collapse of Europe's longstanding Ostpolitik. Accommodating Russia, even when its foreign policy undermines European security, is no longer defensible. This provides a historic window of opportunity for transatlantic cooperation in reinforcing democratic institutions and upholding liberal international order. If anything, the war in Ukraine has made it clear that governments must urgently address political corruption and state capture, which have led to widespread democratic backsliding and allowed the Kremlin to increase its economic and political influence in Europe.

This malign influence builds on the confluence of interests between Kremlin-supported Russian oligarchs and their local counterparts. Given the EU's role by consensus on key issues, Russia's visit in some European countries often undermines the EU's strategic priorities, in turn weakening the very foundations of its liberal international order. A strategic decoupling from the Kremlin-led campaign of state capture in Europe should be a transatlantic foreign policy priority. Weakening Europe's unity on sanctions and economic diversification is the Kremlin's greatest desire.

The roots and mechanisms of Russia's aggression were unmasked by CSD's analysis of the Kremlin Playbook,¹ which revealed a complex and multilayered strategy. Leveraging European energy dependence on Russian hydrocarbons is now a widely recognized aspect of this strategy. However, the broader corrupting effect of illicit Russian financial flows entering European financial hubs and the capture of traditional media by Russia-enabled local oligarchs have not been

¹ Shantov, O., Stefanov, R., and Vladimirov, M., *The Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2020.

KEY POINTS

- The Kremlin has not only invaded Ukraine, but also intensified its influence operations across Europe, which in many cases have resulted in state capture. Reversing this process must be the first order of business on the foreign policy agenda on both sides of the Atlantic.
- Russia's most harmful influence operations fall into three primary domains: **political corruption** fueled by dirty Russian money, **media capture** by way of controlling critical nodes of the media infrastructure of Central and Eastern Europe, and a foothold in key sectors of the European economy, coupled with leveraging Russia's position as a **dominant energy supplier**.
- The establishment of a single European AML authority, closely cooperating with American enforcement institutions, would be a uniquely effective move in rolling back political corruption.
- The Kremlin's media presence should be displaced by the creation of a **network of publicly funded and independently run media outlets**. This can be accomplished by replicating the model of U.S. government support for media freedom inCEE in the early 1990s.
- Europe needs a **strategic decoupling of its economy from Russia's**. Priority should be given to breaking energy dependence and dismantling Russian oligarchic networks across the continent.
- In the more vulnerable economies of Eastern and Southern Europe, Russia's weaponization of trade must be opposed by pursuing a **policy of strategic investment** by the U.S. and Western Europe.

In the policy brief *Countering the Kremlin Playbook in Europe after Russia's Invasion in Ukraine*, published in October 2022, CSD maps the key mechanisms of *The Kremlin Playbook in Europe*. The brief includes policy recommendations for Europe's economic and political decoupling from Russia, as well as for closing governance gaps exploited by Russia to evade sanctions and preserve its influence in strategic sectors.

To encourage constructive dialogue, CSD, the America for Bulgaria Foundation, and the International Republican Institute's Beacon Project co-organised the roundtable "Building Disinformation Resilience: Scoping Institutional Infrastructure and Responses", held on 13 September 2022 in Sofia. The discussion noted the need for exchange of information and experience at transatlantic and EU level in order to identify the existing and technologically advanced threats.

The Economic Program highlighted Bulgaria's particular susceptibility to an-

ti-democratic disinformation narratives and the need for a long-term media literacy strategy supported by legal and financial instruments at the press conference "Pro-Russian Disinformation and the Kremlin's Anti-Democratic Messages in Bulgaria in the Context of Information War" held on 13 October 2022. Multiple media outlets published CSD's conclusions and policy recommendations, including the Bulgarian Telegraph Agency, Mediapool, OFFNews, Capital weekly, the Bulgarian National Radio, Novini.bg, 24 Chasa daily, Utro Ruse, and Actualno.com.

The Center emphasised the importance of reversing media capture in *Policy Agenda for Countering Media Capture in Europe*, published in October 2022. The focus of such efforts should go beyond tackling disinformation to expose and decouple critical nodes of European media infrastructure from corrosive Russian capital. Countries in Central and Eastern Europe are of particular concern, as some display alarmingly high



POLICY AGENDA FOR COUNTERING MEDIA CAPTURE IN EUROPE

Policy Brief No. 116, October 2022

Both in the run-up to the war in Ukraine and afterward, the Kremlin has intensified its disinformation campaigns, particularly those targeted at Europe. Reversing media capture, which allows Russian disinformation to affect citizen attitudes in Europe, must be the first order of business on the foreign policy agenda on both sides of the Atlantic. The focus of such efforts must go beyond tackling disinformation to expose and decouple critical nodes of European media infrastructure from corrosive Russian capital. Countries in Central and Eastern Europe are of particular concern, as some display alarmingly high levels of cognitive capture swaying public opinion towards Russia and its authoritarian model.

The Kremlin has openly and repeatedly voiced its intention of disrupting the EU and NATO as models of governance.¹ Russia has deployed a variety of instruments as part of its media capture campaign,² including direct ownership and/or informal financial (advertising, public procurement) and political ties to the editorial and management bodies of local media outlets, broadcasting of Russian charmers, diffusion-proofing, building networks of friendly journalists and content-creators, and nurturing agents of influence among politicians and other public figures. The Kremlin has been able to capitalize on the decline of traditional media and the erosion of their funding base. In addition, the rise of social media with its unchecked algorithms, lack of appropriate moderation, and democratic culture, has provided fertile breeding ground for click-bait Russian propaganda. Countering media capture in Europe would entail addressing all four of its components:

¹ Shantov, O., Stefanov, R., and Vladimirov, M., *The Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2020.

² Shantov, O., Stefanov, R., and Galov, T., *Tackling Kremlin's Media Capture in Southern Europe*, Sofia: Center for the Study of Democracy, 2020.

KEY POINTS

- The Kremlin has intensified its disinformation campaigns since launching its war in Ukraine, utilizing **captured media assets** and the **tax regulatory frameworks** of many local media networks to exploit policy loopholes and evade the removal of false or misleading content.
- Western sanctions have made significant strides in blocking direct avenues of Russian media capture, but if the legal gaps and governance deficits which the Kremlin previously exploited are not addressed, their **grey media infrastructure** could easily resurge after the end of the war.
- European states must use this opportunity to **capture-proof their institutions and media**, adopting a whole-of-government approach to close governance deficits. This can be achieved by introducing **annual threat assessments** under the NATO umbrella to identify vulnerabilities and **drafting new EU legislation** to clearly define the line between legal free speech and criminal disinformation.
- Ensuring the **transparency of ownership** of media outlets, with a particular focus on tracing the financial assets of media owners, is a vital step towards capture-proofing. This effort could be bolstered by **strengthening national media regulatory agencies** and enabling them to monitor the actions of foreign state-sponsored media subsidiaries more closely.
- **Building funding instruments and mechanisms for independent media platforms** is a top priority. The EU should devote specific focus to Central and Eastern Europe, the Western Balkans, and the Eastern Neighborhood. Europe's three most vulnerable regions with regard to Russian disinformation and media capture – **Private-sector driven institutions** with initial public funding, independent boards, and private-sector volunteers and support should be established.



Press conference “Pro-Russian Disinformation and the Kremlin’s Anti-Democratic Messages in Bulgaria in the Context of Information War”, Sofia, 13 October 2022



(L-R): Justin D. Maddox, Adjunct Professor, George Mason University, Ambassador Herro Mustafa, U.S. Embassy and CSD Chairman Dr. Ognian Shentov at the conference “Countering Hybrid Threats: Policy Options for Building Resilience to the Kremlin Playbook in Europe”, Sofia, 30 November 2022


levels of cognitive capture, swaying public opinion towards Russia and its authoritarian model.

To bring attention to the need of institutional capacity building and coordination on national and EU level, CSD, in cooperation with the U.S. Department of State and the Konrad Adenauer Stiftung, organised an international conference on the policy options and the practical tools for tackling hybrid threats in Bulgaria. During the conference, which took place on 30 November 2022 in Sofia, CSD presented its policy brief *Countering Hybrid Threats in Bulgaria*, outlining its latest findings on Russia's hybrid warfare tools, with a particular focus on the risks posed by the Kremlin's state and media capture strategies.

The Center also organised a series of thematic events designed to increase policy-makers' and civil society organisations' awareness of the national security implications of the Kremlin's disinformation tactics, including two workshops held in Plovdiv and Varna on 3 and 5 October 2022. These were preceded by the interdisciplinary workshop "Countering Hybrid Threats: Foreign Influence and Disinformation", held on 15 June 2022, at which the Center underlined the complexity of hybrid threats by focusing on unconventional weapons and disinformation as instruments of foreign malign influence. CSD has summarised the key learning points and recommendations for action from these collaborative exercises in the policy brief *Countering Hybrid Threats in Bulgaria* published in November 2022.

II. Countering corruption, illicit finance and state capture

CSD's regional civil society anti-corruption initiative, the Southeast European Leadership for Development



COUNTERING HYBRID THREATS IN BULGARIA

Policy Brief No.118, November 2022


Russia has long prepared its war in Ukraine by deploying the full array of hybrid warfare tools at its disposal in Europe: election meddling and strategic corruption aimed at political parties and media, cyberattacks on critical infrastructure and disinformation, economic coercion, and targeted assassinations using difficult-to-detect toxic agents, to name a few. Europe has been slow to react, with EU member states failing to anticipate the war in Ukraine even after the Kremlin started preparations for its final act by deliberately reducing gas storage levels in Germany in the autumn of 2021. Some EU and NATO member states and many political party leaders across the continent remain in denial, even as the war approaches a full year of destruction. NATO and European institutions have begun to prepare policy and operational responses to these emerging hybrid threats, but implementation remains slow and uneven.

Over the past two decades, Russian security services have been implicated in a series of high-profile cases in which radioactive and chemical warfare agents were used to poison individuals perceived as adversaries and political opponents (Figure 1). The most well-known of these cases is the 2006 assassination of Alexander Litvinenko, a Russian defector and dissident, for which the Kremlin's involvement was confirmed in court. The investigations of the Novichok poisonings of the former Russian spy, Sergei Skripal, and opposition leader Alexei Navalny indicate that these incidents have followed a similar pattern to that of Litvinenko. While targeted assassinations are not a novel tactic in the Kremlin's toolbox for power projection *per se*, the use of toxic substances traditionally associated with chemical and nuclear weapon programs signals Moscow's determination to both maintain and deploy its offensive WMD capability, when deemed necessary.

¹ See European Court of Human Rights, *Center v. Russia*, no. 30540/17, September 21, 2021.

KEY POINTS

- Long before Russia's actual incursions in 2014 and 2022, the Kremlin began to prepare for its war of aggression against Ukraine by perfecting a play-book of hybrid warfare tools. Russian security services have been investigated in criminal cases against defense industrial sites and the usage of radioactive and toxic chemical agents to target adversaries of the Kremlin's interests throughout Europe. This has come on top of Russian threats to use nuclear weapons and the spread of disinformation on biological research activities in Ukraine.
- Southeast Europe remains among the most vulnerable regions to such hybrid threats in Europe. Since February 2022, the Kremlin has intensified its disinformation campaign, focusing in particular on tactically specific and malign narratives around nuclear and biological weapons.
- Bulgaria's gaps in operational and technical preparedness and capacity to counter weapons of mass destruction-related hybrid threats has been compounded by state and media capture and political instability.
- The Bulgarian government must upgrade its institutional capacity and coordination. If Bulgaria can address the benchmarks, it will be able to detect, prevent, and respond to the full array of hybrid threats including those involving the use of weapons of mass destruction.
- As a matter of urgency, the Bulgarian institutions must focus on addressing ongoing disinformation and cyberattacks on the country and its critical infrastructure.

 This publication was funded by a grant from the United States Department of State. The authors' names and conclusions stated herein are those of the author(s) and do not necessarily reflect those of the United States Department of State.

and Integrity (SELDI.net), expanded its work in the Western Balkans, working to counteract authoritarian and corruption-related backsliding, which has been reinforced by Russia's war in Ukraine. CSD focused on advocacy and on the implementation of state-of-the-art practical tools for strengthening anti-corruption capacities across the region, such as CSD's State Capture Assessment Diagnostics (SCAD) and Monitoring Anti-Corruption Policy Implementation (MACPI).

During the regional policy forum in Skopje, held on 7 April 2022, CSD underlined the challenges that Western Balkan societies face and the institutional gaps that allow the flourishing of corruption. CSD experts presented the results from the Corruption Monitoring System (CMS) for the period 2014–2021. The panelists, including members of the European Parliament, stressed that the anti-corruption progress achieved in the Western Balkans between the early 2000s and mid-2010s has been halted or even



(L-R): Ambassador Kate Marie Byrnes, U.S. Embassy, Slavjanka Petrovska, Minister of Defense, Republic of North Macedonia and CSD Program Director Ruslan Stefanov at the policy roundtable “Strengthening Democratic Resilience in North Macedonia”, Skopje, 29 August 2022



Policy roundtable “Strengthening Democratic Resilience in Montenegro”, Podgorica, 31 August 2022



(L-R): CSD Senior Analyst Dr. Vanya Petrova, Deborah Mennuti, Deputy Chief of Mission, U.S. Embassy, CSD Program Director Ruslan Stefanov and Dr. Sead Turčalo, Dean, Faculty of Political Science, University of Sarajevo at the policy roundtable “Strengthening Democratic Resilience in Bosnia and Herzegovina”, Sarajevo, 1 September 2022

reversed. The lack of political will in implementing systemic reforms remains as a core democracy challenge. More decisive actions are needed, including stricter monitoring of budget spending, harsher sanctions for rule of law violations, and increased support and EU funding for those who implement successful reforms. Participants noted the insidious impact of Russia’s war in Ukraine on governance in the Western Balkans, adding a worrying geopolitical dimension to efforts to dismantle state and media capture networks across the region.

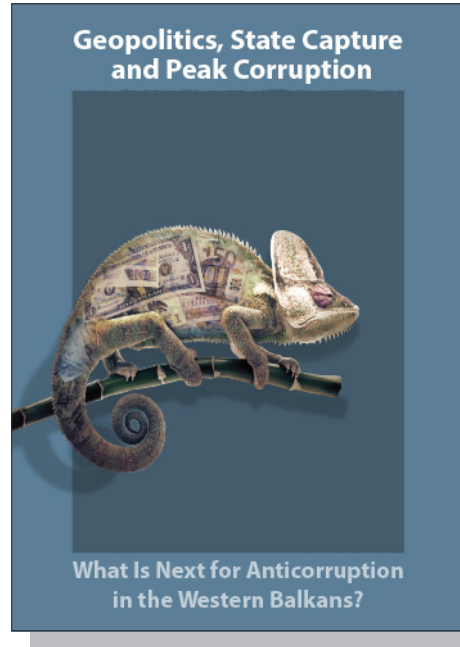
To tackle the twin challenge of state capture and Russian corrosive influence on governance institutions in the Western Balkans, CSD organised a series of regional workshops in [Montenegro](#), [North Macedonia](#) and [Bosnia and Herzegovina](#) on the topic “Strengthening Democratic Resilience: Tackling the Kremlin

Playbook in Southeast Europe”. The discussions, held in the period 29 August – 1 September 2022, highlighted these countries’ vulnerabilities towards disinformation, illicit finance and foreign malign influence from authoritarian states such as Russia and China.

CSD’s Western Balkan resilience tour culminated in the regional [policy forum on good governance and anti-corruption](#), held on 26 September 2022 in Belgrade. It was the first good governance event of such proportion to be held in the region after the global pandemic. Speakers at the forum included Emanuele Giaufret, Head of the Delegation of the European Union to Serbia, Christopher Hill, US Ambassador to Serbia, and Anna Vezyroglou, Deputy Head of Unit at DG NEAR. CSD experts presented the first regional assessment of the size of illicit financial flows in the region and the way these had enabled state and me-

dia capture and the rise of authoritarian influence. CSD and SELDI launched the regional anti-corruption report *Geopolitics, State Capture and Peak Corruption* focused on the feasible actions to reinvigorate the EU integration drive amid rising pressures of authoritarian relapse. The study showed the dynamics of corruption and state capture in the Western Balkans, and the anti-corruption infrastructure designed to reduce them.

In light of the renewed ambition for European Enlargement to the Western Balkans and the Eastern Neighbourhood, CSD re-affirmed the role of good governance and constructive capital in promoting democratic resilience in Europe. The experts and policy-makers who took part in the [policy roundtable](#) on democratic resilience in the EU's neighbourhood on 12 October 2022 in Brussels, agreed that the existing approaches should be upgraded with new methods for fighting illicit finance and counteracting disinformation, investment screen-

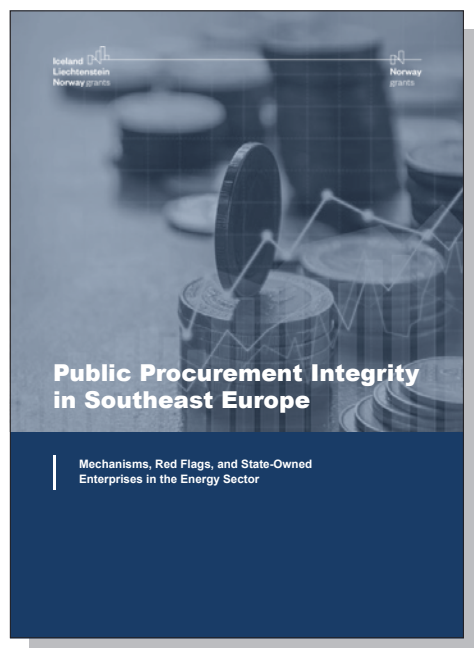


ing, and good neighbourly relations based on increasing inflows of European and international constructive capital.



Policy forum “Good Governance and Anti-Corruption in Southeast Europe in Times of Geopolitical Uncertainty”, Belgrade, 26 September 2022

Building on CSD's long-standing work on anti-corruption in the Western Balkans, in 2022 the Center delivered the first results from the inauguration of a regional good governance public-private partnership platform, spanning civil society, public institutions, and regional cooperation bodies from ten current and aspiring EU Member States in Southeast Europe. CSD presented the key findings from the platform's first SEE good governance report *Public Procurement Integrity in Southeast Europe* at an anti-corruption and good governance policy forum held on 7 June 2022 in Zagreb. The analysis underlined two of the most challenging governance vulnerabilities faced by the nine studied countries (Bulgaria, Croatia, Hungary, Romania, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia) – the integrity of the public procurement systems and the lack of accountability and transparency in the management of the energy sector.



CSD experts focused on the need for enhanced corruption prevention and monitoring tools such as the [Corruption](#)



Policy roundtable "Democratic Resilience in the EU's Neighborhood: The Role of Good Governance and Constructive Capital", Brussels, 12 October 2022



(L-R): Nora Mehsen, Sector Officer, EEA and Norway Grants, Ambassador Haakon Blankenborg, Embassy of Norway, Ognian Zlatev, Head, European Commission Representation in Croatia, Dr. Vjekoslav Bratić, Director, Institute of Public Finance and CSD Director of Research Dr. Todor Galev at the policy forum “Anti-Corruption and Good Governance in Southeast Europe: Towards Innovative Public-Private Partnership Solutions”, Zagreb, 7 June 2022



Training “Innovative Tools and Methodologies for Tracking Illicit Financial Flows, State Capture and Corruption”, Budapest, 18-20 May 2022

Monitoring System, the State Capture Assessment Diagnostics, Opentender.eu, and the Balkan Barometer. They recommended that the procurement rules should be brought to their stricter pre-COVID state, and that all high-value investments and infrastructure contracts should be scrutinised for “hidden clauses”. They also outlined a good governance agenda for managing state-owned enterprises, a key channel for enabling state capture practices and siphoning of public resources.

The anti-corruption platform led by CSD held its [second regional capacity building training](#) on 18–20 May 2022 in Budapest and the third one, held on [13–15 December](#) in Bucharest. The trainings were structured around the initiative’s key methodologies and explored new topics and areas, such as:

- the role of the Financial Intelligence Units in the fight against illicit fi-

nance, money laundering and terrorist financing;

- the use of big data and online surveys for assessing corruption risks;
- network analysis to map politically exposed people and companies.

CSD continued its monitoring of anti-corruption and rule of law developments in Bulgaria as part of the network of local research country correspondents of DG Home of the European Commission. CSD experts also carried out capacity building and technical assistance for the development and implementation of a methodology for corruption risk assessment in the National Revenue Agency of Bulgaria supported by DG REFORM of the EC. The Center expanded its knowledge on state capture through cooperation with the World Bank, Washington D. C., on exploring the economic effects of politically exposed companies.



Conference “Promoting Constructive Capital in North Macedonia”,
Skopje, 6 October 2022

III. Economic security and undeclared work

Russia's invasion in Ukraine has upended Europe's security infrastructure and has demonstrated the EU's serious economic security vulnerabilities. In particular, it has exposed the corrosive effect of Russian and other authoritarian capital on the governance of European countries. Corrosive capital flows have underlined existing fissures within and between countries, such as the political disagreements between Bulgaria and North Macedonia, which have slowed down the EU enlargement process.

The two countries need to move beyond the politicised issues of identity and shared history by joining forces for proactive action aimed at unlocking the region's economic potential. CSD and the Institute for Democracy "Societas

Civilis" (IDSCS) highlighted the detrimental effects of corrosive capital and mapped the opportunities for constructive cross-border cooperation, during the conference "Promoting Constructive Capital in North Macedonia" held on 6 October 2022 in Skopje.

The Foreign Ministers of Bulgaria and the Republic of North Macedonia, Nikolay Milkov and Bujar Osmani, noted the need of a roadmap for cooperation in the private sector and increased connectivity between Bulgaria and North Macedonia at a [policy discussion](#) on 8 November 2022 at CSD in Sofia. Bulgarian Members of Parliament Delyan Dobrev, Chairman of the Energy Committee, and Daniel Lorer, Deputy Chairman of the Committee on Economic Policy and Innovation, as well as representatives of the diplomatic missions of EU Member States, the US, and Switzerland contributed to the policy discussion.



(L-R): Nikolay Milkov, Minister of Foreign Affairs of Bulgaria, CSD Chairman Dr. Ognian Shentiov and Bujar Osmani, Minister of Foreign Affairs of North Macedonia at the policy roundtable "Promoting Constructive Capital in Bulgaria and North Macedonia", Sofia, 8 November 2022



PROMOTING CONSTRUCTIVE CAPITAL IN BULGARIA AND NORTH MACEDONIA

Policy Brief No. 117, November 2022

The war in Ukraine has renewed the EU's focus on the need for a speedier yet merit-driven integration of the Western Balkans and Eastern Neighborhood countries into the European Union. The European Commission and the member states have sought to resolve outstanding bilateral issues in the region, which have hampered the accession progress and served both as a disruption to integration and an entry point for malign foreign powers such as Russia. One of those outstanding issues is the ongoing tension between Bulgaria and North Macedonia.

In the past two decades, Bulgaria and North Macedonia have achieved considerable political, social, and economic progress. However, both countries face outstanding challenges related to an incomplete reform agenda in the rule of law domain and large gaps between law and practice. Bulgaria still faces a number of protracted socio-economic hurdles, and is the country with the lowest productivity and GDP per capita in the EU. Most notably, the country has not yet become a member of the Schengen Area, despite meeting the technical criteria as early as 2014, (the European Council is under a currency board arrangement), or the OECD. North Macedonia has yet to complete important structural economic reforms, which has kept unemployment and informality high. EU accession and integration play a significant role in the two countries' modernization agendas, which have been held back consecutively by the Yugoslav wars, the Eurozone Crisis, and the war in Ukraine, as well as deep-seated bilateral disagreements across South East Europe (SEE).



This publication is supported by a Grant from the Center for International Private Enterprise in Washington, D.C.

KEY POINTS

- Over the past 20 years, Bulgaria and North Macedonia have achieved significant progress toward Euro-Atlantic integration. However, both countries face outstanding governance challenges which enable state and media capture, harm prosperity, and weaken European security.
- Following the French Proposal for resolving the remaining thorny differences between the two countries, it is time for the governments in Sofia and Skopje to prioritize a joint agenda for investment and growth. The EU and NATO frameworks provide ample resources to implement such an agenda. From 2023 through 2027, Bulgaria is slated to receive the largest public sector investment package in its history, while North Macedonia could benefit from a sizable increase in EU and US funding.
- Bulgaria and North Macedonia should seek to leverage these substantial public resources to attract at least three times as much private-sector constructive capital, i.e., investments that are transparent, accountable, and market-oriented.
- The two countries should accelerate mutual trade and investment, increase the number and diversity of joint EU projects in digitization and green transition, finalize their rail and road connections, interconnect their gas and electricity grids, and create opportunities for the private sector and civil society to engage in joint public-private partnerships.
- Bulgaria could lead the way declaring more national resources to connectivity and development assistance. It could provide the whole body of EU support, as well as technical assistance in preparing North Macedonia for EU accession. Skopje could prioritize East-West corridors and border region development.

future development of a Bulgarian FDI screening mechanism.

The Center supported the [European Labour Authority](#) by developing a series of papers, analyses and toolkits, aimed at sharing good practices and experiences on tackling undeclared work among the EU Member States. The papers focused on the best methods for preventing under-declared employment through innovative approaches and identified the most effective penalty measures. CSD experts contributed to the study of the effectiveness of undeclared work policies in the EU commissioned by DG Employment, Social Affairs and Inclusion of the European Commission.

IV. Innovation and competitiveness

CSD also continued its cooperation with the Institute for Management Development (IMD) and its World Competitiveness Center in Switzerland. CSD prepared the chapter on Bulgaria's international competitiveness, published in IMD's *World Competitiveness Yearbook 2022*. In the last fifteen years, the Bulgarian economy, pulled by the EU, has been slowly recovering; however, it is far from reaching its full potential. In 2022, Bulgaria ranks 53rd out of 64 countries, demonstrating that the country has not moved in the ranking since 2021, marking a deterioration of five positions compared to 2020, and fifteen positions compared to 2009.

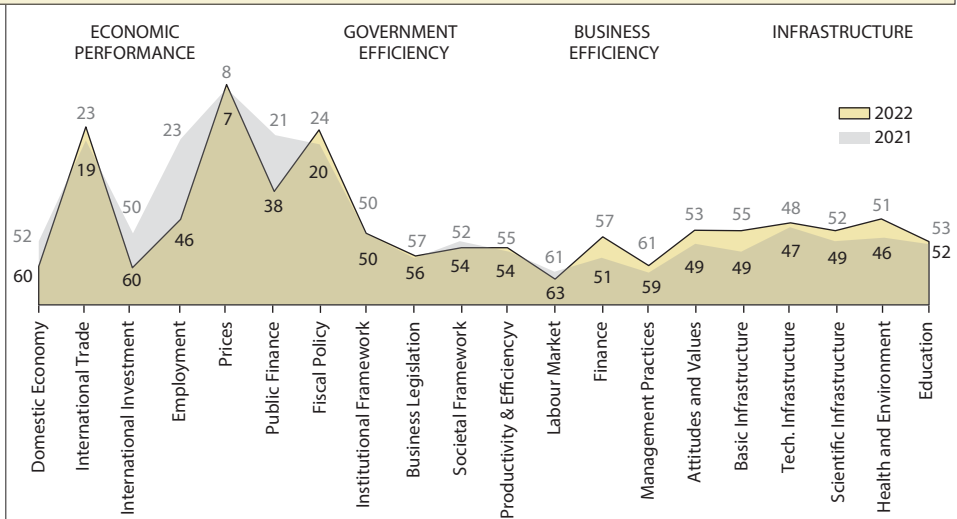
The major challenges to improving Bulgaria's competitiveness in 2022 were:

- geopolitical disruption and rising inflation, driven by energy costs;
- inconsistent energy and climate policies;
- confrontation between the executive and the judiciary;
- lack of credible anti-corruption enforcement;

The policy brief *Promoting Constructive Capital in Bulgaria and North Macedonia*, presented at the event, addressed the outstanding economic security challenges faced by both countries. These challenges relate to, among other factors, the incomplete reform agenda in the rule-of-law domain, the fact that Bulgaria has not yet become a member of the Schengen Area despite meeting the technical criteria as early as 2014, and the high unemployment and informality in North Macedonia. The policy brief provided a coherent set of recommendations on how Sofia and Skopje can leverage their EU and NATO membership to attract increasing flows of constructive capital from the private sector in the US and the EU.

A key policy instrument for ensuring economic security across the EU, and for countering the corrosive capital and malign foreign influence, is the foreign direct investment screening. CSD is mapping the existing FDI legal framework of Bulgaria. This effort aims at the

Changes in the competitiveness landscape of Bulgaria in 2021 – 2022



Source: World Competitiveness Yearbook 2022, Institute for Management Development (IMD).

- limited investment in R&D and innovation.

The experts from the Economic Program also contributed to the development of the annual *Innovation.bg* report. The focus of *Innovation.bg* 2022 was on key role and the challenges to the digital and green transition amid the current economic crisis and the disruption of the global supply chains caused by the Covid-19 pandemic and Russia's invasion of Ukraine.

The key recommendations outlined in the report were as follows:

- improving the business environment and attracting investment in research and high-tech activities;
- retaining and attracting talent through comprehensive measures supporting entrepreneurship, participation in lifelong learning and higher quality of education services;
- promoting the adoption of digital and green technologies in all economic sectors and the social sphere

to improve the quality of life and reduce the footprint on the environment. The *Innovation.bg* report,



which has become the main policy document for regular monitoring of innovation performance in the country, was presented on 7 December 2022 at the 18th National Innovation Forum held under the auspices of the President of Bulgaria.

In 2022, CSD also embarked on an exciting study for DG Research and Innovation of the European Commission on identifying better ways of measuring Member State performance towards achieving sustainable development goals beyond GDP metrics.



Beyond GDP discussion at DG Research and Innovation in Brussels, 13 October 2022