



TURNING THE TIDE: A POLICY AGENDA FOR RE-ENGAGING THE WESTERN BALKANS

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Over the last twenty years, the countries of Western Balkans have introduced significant democratic reforms and made a considerable shift toward a market economy. The rise of reformist politicians, external support from international partners, and an active civil society have ensured that advanced democratic standards have been adopted, at least nominally, in the works of government.

A number of internal and external factors, however, are converging to make the next few years a critical juncture for the countries in the region. Evidence has been mounting that the momentum towards better governance and economic prosperity is wearing down. Economic and government reforms are encountering stronger headwinds, mostly due to the infiltration of public institutions and political parties by clientelist networks which subvert decision making for private gain.¹ Slow and patchy progress has allowed private interests to secure a tight hold on government, resulting in state capture and democratic backsliding. Economic growth has not been inclusive, nor has it led to increased economic transparency.

The current international environment is making the Western Balkans' geopolitical position increasingly precarious. Russia's invasion of Ukraine has forced governments to make stronger commitments to European solidarity, but has also fuelled domestic political and social divisions. Tensions between Kosovo and Serbia have flared up again, stoked by Russia, while the influence of secessionist actors has increased in Bosnia and Herzegovina. An energy crisis precipitated by the war has necessitated a realignment of strategic suppliers while, external autocratic forces jeopardise the already fragile

¹ Shentov, O. Stefanov, R., and Todorov, B. (eds.), *Western Balkans 2020: State-Capture Risks and Policy Reforms*, SELDI, 2020.

KEY POINTS

- Internal and external factors are converging to make the **next few years a critical juncture for the Western Balkans**. The momentum towards better governance and economic prosperity is wearing down. A number of urgent policy actions are needed to return the region to the reform track.
- **The dismantling of state capture should be the topmost priority**. The region should utilize mainstream evidence-gathering mechanisms which identify capture practices in economic sectors and regulatory institutions.
- The governments should update their investment and national security strategies to include a **robust FDI screening mechanism**. The state corporatism and the weaponisation of trade by Russia and China should be opposed through **strategic investment** by the United States and Western European economies.
- **Media capture should be reversed** through an approach based on cooperation among national policymakers, the private sector, civil society, and European and U.S. institutional actors.
- In order to enhance its energy security and propel its green transition, the region should define **consistent energy and climate policies and improve the quality of energy governance**.
- For the Western Balkan states to become energy-secure, they should pivot to the EU and adhere to the Union's regulations and policies. The EU, for its part, should introduce a **strong climate and rule of law conditionality** for the disbursement of its funding for the region.

democratic progress. Moscow's presence in the politics and economy of the Western Balkans further entrenches state capture networks that exert undue influence over the countries' key decision-making processes. China, for its part, is bent on ensnaring governments into debt traps. Although professing support for the region's European perspective, Beijing exploits corruption and investments which lead to state capture, implicitly promoting its authoritarian model. Meanwhile, the European Union seems to have run out of ideas for sustaining the Western Balkans' momentum towards membership, emboldening nationalists and populists throughout the region through their inaction.

Peace, stability, and prosperity in the Western Balkans is directly tied to opportunities for democratic and economic advancement. However, state capture networks are stonewalling the requisite reforms in most spheres of public governance. Their grip on decision-making and legislating can be loosened by breaking out of traditional policy silos. The concerted actions of national stakeholders and international partners in the following policy areas can reignite the region's reformist momentum.

Prioritise the Dismantling of State Capture

The results of the *State Capture Assessment Diagnostics* of the Southeast Europe Leadership for Development and Integrity (SELDI) show that state-capture pressure in the region remains at high levels.² Anything short of making this task a key priority of the EU accession process would mean that the anticorruption reform process is simply going through the motions. A proper understanding of the problem of state capture in the Western Balkans requires abandoning the traditional formula: "if government is the problem, government should be the solution". Accordingly, loosening the tight grip of private interest on the levers of government can only be achieved through a **rethinking of the structure of anticorruption stakeholders and their cooperation dynamics**. Non-governmental organisations, business associations, trade unions, academia, media, and other civic actors must become an integral part of the anticorruption cycle as a

whole – from designing policies to monitoring their implementation, supported through an independent local funding mechanism. Within the overall effort to roll back state capture, several measures should be prioritised:

- **Focus on critical governance areas for sustained impact** – above all, the judiciary and its capacity to ensure the rule of law in sectors prone to corruption. No swift judicial victories can be expected when it comes to complex crimes of state capture and political corruption – not without sustained focus on capacity-building and focusing the attention of judicial anticorruption task forces on exemplary cases.
- **Stem the flow of illicit finances**, in particular those linked to disruptive foreign powers such as Russia and China. Building resilience in this respect would require a serious capacity upgrade in areas ranging from investment screening to asset tracing and anti-money laundering (including through the planned EU Anti-Money Laundering Authority).
- **Measure effect, not intentions**. Currently, both national governments and international monitors mostly examine input indicators (regulations, procedures, resources), rather than outputs, i.e., actual impact. A genuine anticorruption drive should be based on evidence-driven anticorruption policies. The evidence that would inform these policies should be gathered through a number of proven data-generation mechanisms: *State Capture Assessment Diagnostics*, which uses big data analysis to reveal patterns of collusion;³ SELDI's *Corruption Monitoring System*, a tool for both measuring corruption levels and understanding public attitudes;⁴ an assessment of the anticorruption performance and resilience of individual public institutions, as well as identifying policy implementation gaps.⁵ The Western Balkans should mainstream the usage of these evidence-gathering mechanisms, which enable monitors to identify the existence of capture practices in various economic sectors and regulatory institutions.

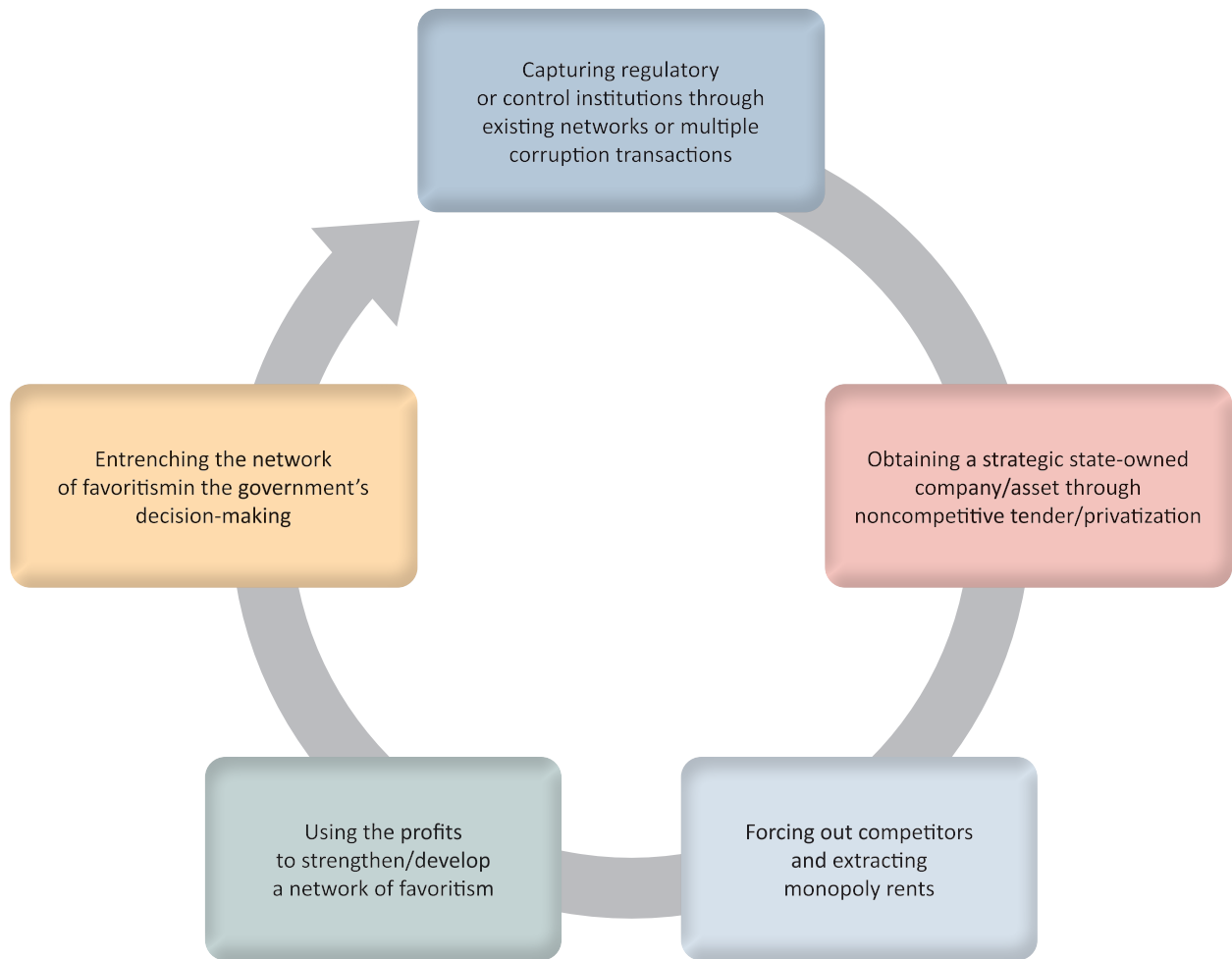
³ For further details about this instrument see: Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019.

⁴ For the methodology of this instrument see: Shentov, Stefanov, and Todorov, *Western Balkans 2020: State Capture Risks and Policy Reforms*, SELDI, 2020.

⁵ For further details about this instrument see: Stoyanov, A. et al., *Monitoring Anti-Corruption Policy Implementation (MACPI). Bridging Policy Evaluation and Corruption Measurement*, Sofia: Center for the Study of Democracy, 2015.

² Shentov, O. Stefanov, R., and Todorov, B. (eds.), *Geopolitics, State Capture and Peak Corruption: What Is Next for Anticorruption in the Western Balkans?*, SELDI, 2022.

How the Kremlin Uses State Capture to Achieve Political Influence



Source: Center for the Study of Democracy.

Improve Economic Governance by Promoting Constructive Capital

Government policies in the Western Balkans make little effort to distinguish constructive capital (investments that are transparent, accountable, and market-oriented) from corrosive capital (aimed at non-market outcomes) and investments flowing into their countries.⁶ As a result, external actors – particularly undemocratic states – have been able to reassert their influence and undermine the region’s development. The Western Balkans thus remain highly vulnerable to corrosive capital inflows, and have had a history of

unchecked investments from authoritarian regimes and offshore havens. The region’s legal frameworks lack effective instruments for comprehensive FDI screening, or appropriate safeguards against potential abuse. Investment screening and due-diligence reviews of FDI are done, if at all, on an ad-hoc basis, through non-standard, non-public methods.

- In order to encourage higher levels of trade and direct investment by constructive capital, the governments of the Western Balkans should **update their investment and national security strategies to include a robust FDI screening mechanism as a matter of urgency**. These updates should include screening tools to identify and deter malign investments and other coercive economic practices. Governments must integrate the private and civil society sectors in the development of these mechanisms, and ensure adequate transparency of the process.

⁶ Petrova, V., Stefanov, R., and Tsabala, K., *Promoting Constructive Capital in Bulgaria and North Macedonia*, Sofia: Center for the Study of Democracy, 2022.

- **Radically upgrade the transparency requirements for companies' beneficial ownership**, and mandate stricter security vetting of investments by third parties in European companies or operations. Economic support from the EU should include anti-state capture considerations, i.e., investing in a way which enhances competition, boosts local professionalism, integrates local producers and service providers in European supply chains, reduces informality, promotes corporate governance standards, etc.
- **The region should aim to increase its connectivity** by improving road and rail infrastructure along border crossings, which would in turn increase the free circulation of goods and people. Connectivity can also be boosted by developing additional gas interconnections and establishing a roadmap for connecting the region's electricity markets.
- The Western Balkan countries should **jointly engage and leverage other international or regional initiatives for cooperation** in order to attract additional constructive capital investments. Examples of these initiatives include the Berlin Process, the Regional Cooperation Council and the South-East European Cooperation Process, the Southeast European Cooperation Initiative, and EU Macro-Regional Strategies (Danube and Adriatic – Ionian), etc.

Invest for Security

The region's international partners will be instrumental in helping constructive capital drive out corrosive money. In the economically susceptible states of the Western Balkans, Russian and Chinese state corporatism and weaponisation of trade must be opposed by a **policy of strategic investment by the United States and Western European economies**. In the context of widespread governance deficits, systemic corruption, and a consequently heightened risk of capture by illicit capital, U.S. and European investment flows should seek to introduce fair market practices. Throughout the region, increasing Western corporate presence is the only way to ensure that Russian business practices do not warp economic policies for the benefit of the Kremlin.

The EU should reinforce its position as the primary driver of economic development in the region by filling the funding gap for the **implementation of strategic economic development projects**, such as the completion of transportation corridors, the

modernisation of energy grids and residential and industrial buildings, and the launch of new energy transition investments.

Counter Media Capture

The media landscape in the Western Balkans has deteriorated to a significant degree, with all four elements of media capture visibly present in the region: ownership capture by oligarchs, pressure on advertisers, government interference, and cognitive capture of the populace. The governments of the Western Balkan countries have become the main direct and indirect captors of their national media ecosystems.⁷ Therefore, reversing media capture, which allows Russian disinformation to affect citizen attitudes across the region, should be a priority 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. An effective and all-encompassing response to Russian and other authoritarian media capture and disinformation in the region would require an **integrated, multi-stakeholder approach based on cooperation among national policymakers**, the private sector, civil society, and European and U.S. institutional actors. Achieving such a whole-of-society approach to countering Russian disinformation in the region calls for heightened coordination, flexibility, and response speed.
- Policies should prioritise the **transparency of ownership of media outlets**, with a particular focus on tracing the financial assets of media owners. This should be bolstered by strengthening national media regulatory agencies and enabling them to monitor the actions of foreign state-sponsored media subsidiaries more closely. These policies should be supported by the creation of equally transparent funding instruments and mechanisms.
- While the EU focuses on addressing the Western Balkans' vulnerability to Russian disinformation and media capture, while the United States should focus on replicating the same model it used to assist to media freedom in Central and Eastern Europe in the early 1990s.

⁷ SELDI, *Media Capture in the Western Balkans: From captured states to captured media*, Policy Brief No. 18, December 2022.

- Governments should **investigate the illicit flows of capital** channelled into the dissemination of media coverage favourable to Russia and China.
- The European Commission should also **introduce more stringent rules and monitoring** for the methods by which national governments allocate EU funding for communications and media purposes. Specific focus should be dedicated to preventing the flow of these funds to local media tycoons, who tend to be easy targets for foreign authoritarian states.⁸

Enhance the Integrity of Public Procurement

Pressure from corrosive capital and the grip of special interests on government also affect another important component of the regional economies – public procurement. It constitutes a substantial portion of GDP in the Western Balkans, and thereby plays a crucial role in economic and social development. However, it is also one of the government activities most vulnerable to corruption. Failure to achieve value for money in government spending can occur due to a number of practices, including preferential treatment of companies whose owners are politically connected, contract modification in the implementation phase of public works, overpricing of procurement contracts, overly specific tender requirements that only fit the qualification and expertise of a specific firm, and a lack of open and transparent procedures.⁹ The integrity of public procurement in the Western Balkans should be restored through a number of priority measures:

- Procurement monitoring should be strengthened, the share of non-open procedures should be reduced, and contract-awarding mechanisms should be improved. **Governments must allow open access to their procurement data** to facilitate better diagnostics and control, while the EU member-states from SEE should continue **building capacity to identify and tackle red flags** for public procurement corruption.

⁸ See further Center for the Study of Democracy, *Policy Agenda for Countering Media Capture in Europe*, Policy Brief No. 116, October 2022.

⁹ Mineva, D. et.al., *Public Procurement Integrity in Southeast Europe. Mechanisms, Red Flags, and State-Owned Enterprises in the Energy Sector*, Sofia: Center for the Study of Democracy, 2022.

Governments should withdraw the Covid-19 emergency procurement rules by reverting to their original procurement legislation. **Emergency spending** in the future should be accompanied by **stronger built-in ex-post monitoring and evaluation of efficiency**.

- The EU and its partners from the EEA and the U.S. must continue to provide technical assistance in **mainstreaming EU public procurement good practices**, both in the management of EU funds for the region and the governance of national resources. Particular attention should be devoted to increasing the combined capacity and joint work of anticorruption and public procurement regulatory authorities in the executive branch, public prosecution, and courts.

Ensure Energy Security and the Green Transition

The energy sector in the region suffers from systematic governance problems, which lead to significant losses of public wealth and provide inroads for illicit finance and foreign authoritarian influence in the region.¹⁰ Some of the largest investment projects in the region are the result of intergovernmental agreements with non-EU states, most notably Russia. **Public accountability deficits in state-owned-enterprises (SOEs)** in the energy sector are visible in a number of cases, as uncovered by investigative media reports, civil society reports, and the audits of relevant public authorities. A legal framework with multiple loopholes is a key factor which enables limited financial transparency and widespread political meddling in the management of SOEs. The energy security and green transition agenda in the region should be catalysed through several priority measures:

- In order to enhance its energy security and propel its green transition, the Western Balkans should address the structural challenges of defining consistent energy and climate policies and **improve the quality of governance** in strategic economic areas. The faster deployment of renewable energy sources and the **uptake of green technologies across all economic sectors** would ensure the achievement of long-term decarbonisation objectives while also enhancing the competitiveness of the region's economies.

¹⁰ Ibid.

- The Western Balkan countries which have not implemented **National Energy and Climate Plans** should make this a priority, and the plans in question should ensure alignment of the national legislation on energy efficiency with EU standards.
- The Western Balkan countries should seek **constructive capital investments in their smart grids**, which will play a key role in the improved integration of a large number of renewable energy-based power plants in the electricity system.
- Governments should **refrain from entering into large-scale bilateral energy projects without proper safeguards**, which at a minimum should include the involvement of international public financial institutions such as EIB, EBRD, or the World Bank. Such projects must include a system of information disclosure with higher reporting standards than those typically prevailing in the region.
- The Western Balkan countries should explore the intra-regional potential for achieving a balance between green transition, economic competitiveness, and energy security. One potential instrument for more efficient planning of joint energy cooperation is the *Energy and Climate Security Risk Index*.¹¹ The Index could provide a mutually beneficial understanding of the risks and opportunities faced by each country, and help pinpoint the best areas for EU integration.
- A robust monitoring and enforcement mechanism would help **discontinue energy projects that undermine the low-carbon energy transition** in both current member states and candidate countries for accession. Governments should employ a system for reviewing the security implications of investments in the energy sector, especially those originating from autocratic states. Foreign-backed investments should be in line with EU's strategic and energy policy, and comply with EU rules on competition, public procurement, employment, and technical standardisation.
- **The independence of energy and anti-trust regulators** should be ensured, and market-distorting subsidies for state-owned energy companies should be removed, along with the presence of political appointees in their governance and management. Additionally, taking into account the high fiscal and social costs of decarbonization, any domestic fiscal stimulus for households and businesses or external EU funding should be directed at strategic energy sector transformation rather than short-term solutions.

In summary, for the Western Balkans states to become energy secure, they will need to pivot towards the EU and adhere to the Union's regulations and policies. The EU, for its part, should introduce a strong **climate and rule of law conditionality** for the disbursement of its funding for the region. The region should utilise these EU funds to create the necessary investment environment for ushering a private sector and citizen-led transition to renewables *en masse*, instead of the current focus on a few large-scale projects.

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The Western Balkans may face a fork in the road lying ahead. In a worst-case scenario, domestic problems could fuse with complications in the international environment to completely rob the reform process of any remaining momentum. The current moment provides the countries in the region and their foreign partners in Europe and North America with the opportunity to make this a historical inflection point towards alternative sources of governance energy. Success will depend on maintaining the alliance of reformist stakeholders and fostering domestic demand for clean government.

The external enabling framework for the national reform efforts in the Western Balkans is, of course, provided by the **prospect of EU accession**. The EU should test its newfound geopolitical prowess to get renew the forward progress of the region's accession process, albeit with conditionalities. This will require abandoning orthodox policy practices and formulating ambitious agendas involving a broad coalition of stakeholders.

¹¹ See Vladimirov, M., Rangelova, K., and Dimitrova, A., *The Great Energy and Climate Security Divide: Accelerated Green Transition vs. the Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2022.

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