

## PROMOTING CONSTRUCTIVE CAPITAL IN BULGARIA AND NORTH MACEDONIA

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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 Eurozone (although it 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).

### 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 2021 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 digitalization 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 dedicating more **national resources to connectivity and development assistance**. It could provide the whole body of EU *acquis* as well as technical assistance in preparing North Macedonia for EU accession. Skopje could prioritize **East-West corridors and border region development**.

The EU's Recovery and Resilience Facility (RRF) provides Bulgaria with its largest ever public funding package through 2027, and North Macedonia expects to benefit from a substantial increase in EU pre-accession funding. To make the most of these opportunities, though, both governments must **leverage public funding to attract constructive capital<sup>1</sup> from the private sector**, i.e., investments that are transparent, accountable, and market-oriented. If put to proper use, the EU's public investment support could result in a three-fold influx of private constructive capital from the EU and US. Strengthening the collaboration between Sofia and Skopje has the potential to open up the EU accession process for the entirety of the Western Balkans and raise the prospects for prosperity of the SEE region.

## Investment and trade

For the past nine years, Bulgaria has remained the second-largest export destination of North Macedonia. In 2021, Macedonian exports to Bulgaria totaled €335 million, an all-time high. Similarly, Bulgarian exports to its southwestern neighbor reached a ten-year peak in 2021 at €411 million. North Macedonia ranks 22nd among Bulgarian import partners, while Bulgaria is the 8th largest import partner of North Macedonia. Both figures indicate that there is considerable room for **expansion of trade relations**. North Macedonia still seems to be better integrated with the value chains of former Yugoslavia than with its EU neighbors.

There is substantial room for **deepening investments** between the two countries. Both countries have been among the top destinations for each other's fledgling foreign investment activity. The Bulgarian FDI stock in North Macedonia stood at ninth place at €158 million<sup>2</sup> at the end of 2021. Bulgaria is the sixth largest destination for Macedonian investments, which stood at close to €9 million<sup>3</sup> in 2021. Bulgarian companies have invested in banking and insurance, metallurgy, technology and communications, and the food and hospitality industries in North Macedonia. The Bulgarian software

industry has also made inroads in North Macedonia. After a sizeable investment by Musala Soft in 2015, Scalefocus, Bulgaria's largest software company, entered the Macedonian market in 2019 with a planned investment of €45 million, expected to create about 300 jobs. Macedonian investors in Bulgaria are most active in agriculture, hunting, and forestry, where they are second only to Austria.

## Policy framework

Bulgaria delayed the start of the EU negotiations for North Macedonia's accession from 2020 to 2022, reigniting longstanding grievances between the two countries. This rift has presented a political opportunity for **opponents of the region's EU integration**, including **Russian proxies in both countries**.<sup>4</sup> Political instability in Sofia and Skopje and the slow pace of EU integration have also solidified governance deficits and **state capture vulnerabilities**, holding back economic development and narrowing the opportunities for constructive capital.<sup>5</sup> **Public procurement and state aid** have been particularly affected, seriously damaging fair market competition.<sup>6</sup> **Media capture** has been further entrenched, limiting the space for non-politicized dialogue and open discussion.<sup>7</sup> This instability has also allowed third parties such as Russia, China, and others to seek to skew public opinion and harm the economic security and cooperation of both countries.<sup>8</sup> As a result, Bulgaria and North Macedonia have been among the most heavily targeted countries in Europe by Rus-

<sup>1</sup> **Constructive capital** refers to well-governed investment flows that serve transparent, market-oriented, and accountable purposes at both funding sources and destinations. See further: *A Framework for Constructive Capital: Investment, Integrity, Impact*, Washington D.C.: Center for International Private Enterprise, 2022.

<sup>2</sup> **Data** from the Bulgarian National Bank.

<sup>3</sup> **Data** from the National Bank of the Republic of North Macedonia.

<sup>4</sup> Stefanov, R., and Vladimirov, M., *The Kremlin Playbook in Southeast Europe: Economic Influence and Sharp Power*, Sofia: Center for the Study of Democracy, 2020.

<sup>5</sup> Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019; 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.

<sup>6</sup> 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.

<sup>7</sup> Filipova, R., Vladimirov, M., and Gerganov, A., *Tackling Kremlin's Media Capture in Southeast Europe: Shared Patterns, Specific Vulnerabilities and Responses to Russian Disinformation*, Sofia: Center for the Study of Democracy, 2021.

<sup>8</sup> A study commissioned by the European Parliament outlines that a number of Slovenian and Hungarian owned media in North Macedonia take active part in the disinformation campaign, aimed at damaging relations with Bulgaria. See European Parliament, *Mapping fake news and disinformation in the Western Balkans and identifying ways to effectively counter them*, Policy Department, DG for External Policies of the Union, PE 653.621 - February 2021, pp. 28 and 30.

sian disinformation.<sup>9</sup> However, thanks to the efforts of the French Presidency of the EU and the framework offered by France for resolving the outstanding issues between the two, the positive power for change of the EU integration process can be unleashed.

In 2020, Bulgaria and North Macedonia co-chaired the Berlin Process.<sup>10</sup> The first-ever joint Presidency of the yearly Summit was a positive signal, emphasizing that the two countries can unite to keep the region's European perspective high on the EU Agenda. Although most of the Presidency was held online because of the pandemic, then-Prime Minister of North Macedonia Zoran Zaev traveled to Bulgaria to co-chair live a meeting with his Bulgarian counterpart, Boyko Borissov.

On 18 January 2022, the new prime ministers of Bulgaria and North Macedonia, Kiril Petkov and Dimitar Kovacevski, agreed to reinvigorate efforts to improve bilateral relations. Since the beginning of 2022, the sectoral dialogue in the fields of economy, infrastructure, energy, education, and culture has intensified. On 17 July 2022, the two countries' foreign ministers signed the bilateral protocol to Art. 12 of the Treaty of Friendship. Among others, the document lays out a number of measures to improve transport, energy, and individual-level connectivity between the two countries.

In September 2022, the two countries pledged to deepen bilateral cooperation in the sectors of electricity and natural gas transportation. Bulgaria is engaging with the European Commission to find ways to provide additional amounts of electricity without infringing EU regulations, which would ensure a stable energy supply to Macedonian households and businesses.<sup>11</sup> The implementation of a roadmap for coupling the two

electricity markets is pending the establishment of a day-ahead market in North Macedonia, Skopje.<sup>12</sup>

The authorities of Bulgaria and North Macedonia are currently discussing several joint initiatives to increase the two countries' **energy security**. North Macedonia will be granted access to Bulgaria's Chiren Gas Storage Facility. Skopje has also already voiced its interest in participating in the potential enlargement of the facility's capacities. On October 20, 2022, with the support of the US, the Bulgarian gas network operator Bulgartransgaz and the State Company for Transmission of Gas of the Republic of North Macedonia, GA-MA, began discussions for the construction of a gas interconnector between the two countries at Kyustendil-Zhidi-lovo. This would enable North Macedonia to receive gas from Azerbaijan and other sources through the Interconnector between Bulgaria and Greece (IGB), which was officially launched on October 1, 2022.

## European opportunities

Bulgaria and North Macedonia can make use of EU public sector investments in the two countries within joint initiatives and projects aimed at achieving their **shared priorities of digital and green transition**. Sofia and Skopje can also coordinate their efforts towards decarbonization and a circular economy by combining their capacity and knowledge and engaging in Twin Transition with the use of constructive capital.

The EU provides by far a **much higher level of public financial assistance to Bulgaria** than to the countries of the Western Balkans, including North Macedonia. Over a period from 2021 to 2027, Bulgaria is slated to receive €11 billion<sup>13</sup> from the EU Structural and Cohesion Funds, which could be supplemented by over €10 billion from the Recovery and Resilience Facility. Aside from these bilateral EU-Bulgaria funding mechanisms, the country also has access to numerous EU-wide programs in all European policy domains. In addition, Bulgaria ranks in the top five EU member states with the most solid fiscal positions, thanks to a combination of low public debt and budget deficit. As such, Bulgaria could take the lead in developing and implementing policies for economic cooperation with the Republic of North Macedonia aimed at improving the investment

<sup>9</sup> Center for the Study of Democracy, *Capture Proofing Media in Southeast Europe*, Policy Brief No. 98, March 2021.

<sup>10</sup> The Berlin process aims to aid the EU Enlargement strategy by concentrating on reducing structural disparities in the Western Balkans (and SEE) and by promoting connectivity in all its aspects (transport, economy, energy, digital and new technologies, environment, people-to-people, etc.).

<sup>11</sup> Bulgaria can export about 200-megawatt hours (MWh) of electricity per day—approximately 10% of its electricity supply to neighboring countries—to North Macedonia until the end of March 2023. However, North Macedonia has requested to buy electricity at prices below the prevailing market levels. Under the relevant EU regulations, Bulgarian authorities need to pre-clear such conditions with the European Commission to avoid infringement procedures. Bulgaria is currently exploring with the EU Commission possibilities to compensate the price gap via EU funds.

<sup>12</sup> European Commission, *North Macedonia Report 2022*, SWD(2022)337, Brussels, 12.10.2022, p. 93.

<sup>13</sup> European Commission, "EU Cohesion Policy: Commission adopts €11 billion Partnership Agreement with Bulgaria for 2021 – 2027", Newsroom, 6 July 2022.

climate and the inflow of private constructive capital in the two neighboring countries.

In 2020, in a bid to increase their assistance to the region and accelerate its integration, the European Commission, EU member states, and Norway launched the **Economic and Investment Plan for the Western Balkans**.<sup>14</sup> The plan mobilizes €9 billion of EC public support from 2021 to 2027 to enhance the region's economic and social convergence with the EU. The Plan aims to spur the long-term recovery of the region while overcoming structural weaknesses and accelerating green and digital transition. In addition, the EU will provide €1 billion in guarantees to lower the cost of financing investments. The Plan is also augmented by the **Western Balkans Guarantee Facility**, which aims to raise investments of up to €20 billion over the next ten years.<sup>15</sup>

The funds for the Economic and Investment Plan and the Western Balkans Guarantee Facility are derived from the Western Balkans Investment Framework,<sup>16</sup> a multi-donor platform which combines financial institutions including the European Bank for Reconstruction and Development (EBRD) and European Investment Bank with bilateral donors. Bulgaria can use this opportunity to **become one of the bilateral donors** in this joint European initiative to support North Macedonia's convergence with the EU, strengthening the two countries' cooperation in the process. This could also help position Bulgaria as one of the strategic partners of the Common Regional Market of the Western Balkans.

In February 2022, the first package of 21 projects supporting the Plan's investment flagships was approved to the tune of €1.1 billion in EU grant funding through the Instrument for Pre-Accession Assistance 2021-2027 (IPA III) and €3.2 billion in total investment value, with bilateral contributions from EU member states and Norway and favorable loans from international financing institutions. One of the 21 approved projects is the final stretch of the rail corridor between North Macedonia and Bulgaria, a total investment of €412 million.

<sup>14</sup> Western Balkans Investment Framework, [Economic and Investment Plan for the Western Balkans 2021-2027](#).

<sup>15</sup> European Commission, "[Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence](#)", Press Release, October 06, 2020.

<sup>16</sup> Western Balkans Investment Framework, About us, [Who We Are](#).

North Macedonia and Bulgaria can cooperate bilaterally to boost the competitiveness of their local industries via the **Interreg-IPA Cross-Border Programme for North Macedonia and Bulgaria**.<sup>17</sup> Adopted in 2015, the program was worth more than €19 million by 2020.<sup>18</sup> For the current programming period from 2021 to 2027, the size of the EU contribution has increased to €31 million.<sup>19</sup> This program budget also includes funding for one strategic project, the Klepalo border crossing, for which about €10 million is reserved. The program covers two border regions in Bulgaria – the districts of Blagoevgrad and Kyustendil – and three border regions in North Macedonia, Northeast, Southeast, and East, a total of 9 501 sq. km and more than 480,000 people.<sup>20</sup> The program fosters projects related to nature conservation and biodiversity, the sustainable use of natural resources, environmental protection, and cross-border risk management.

Since 2007, Bulgaria and North Macedonia have launched **more than 130 regional projects** under the INTERREG cross-border program. Currently, trainings and awareness campaigns are the primary activities. The majority of leading partners are public authorities such as municipalities, state agencies, associations, and cultural and educational entities. **Businesses and private enterprises**, as well as their associations, are **significantly underrepresented**. The current edition of the program will finance projects under three priorities: boosting integrated development in the cross-border region, making the region greener, and making it better-connected (e.g., the new Klepalo border crossing).<sup>21</sup>

Aside from the major EU instruments dedicated specifically to the two countries that were previously described, they can also utilize an array of other EU tools and programs open to Sofia and/or Skopje for funding joint projects, including:

<sup>17</sup> Interreg EU, [Interreg IPA CBC Bulgaria – Republic of North Macedonia](#), May 11, 2018.

<sup>18</sup> [Interreg – IPA CBC, 2020+](#).

<sup>19</sup> Ministry of the Regional Development and Public Works, [INTERREG VI-A IPA Bulgaria - North Macedonia 2021-2027](#).

<sup>20</sup> These 5 regions are divided according to the European Nomenclature of Territorial Units for Statistics (NUTS). The 5 regions are NUTS III level.

<sup>21</sup> In March 2022, an online session of the Joint Working Group of the Interreg-IPA Cross-Border Cooperation Program between Bulgaria and North Macedonia for the new programming period 2021-2027 was held. Following the adoption of the final draft by the Joint Working Group, the Program was submitted for final adoption to the European Commission in Brussels. Approval by the EC is pending.

- **Trans-European transport corridor** funding: The construction of the rail Corridor VIII in North Macedonia towards Bulgaria is facing significant delays, which is a source of concern for EU funding. Additional and urgent efforts are needed to accelerate progress in all phases of this rail corridor and other priority sections of the core network for both rail and road.<sup>22</sup>
- The **European program for research and innovation – Horizon Europe**, which commands a total budget of €95.5 billion and is open to Bulgaria's and North Macedonia's research organizations and companies.
- Funding instruments of the **European Investment Fund** and the **European Investment Bank**, as well as the International and the European Bank for Reconstruction and Development.
- The EU Solidarity Fund for disaster relief and the CARE Facility for refugees.
- The EU's **macro-regional territorial strategies** and their respective funding programs. Bulgaria is part of the Danube Regional Strategy, while North Macedonia<sup>23</sup> is part of the Adriatic and Ionian Region.
- The programs and initiatives of **regional and bilateral donors**, such as the Central European Initiative, the Višegrad Fund, and US, Norwegian, Swiss, German, Austrian, etc. development cooperation.

## What's next

Bulgaria and North Macedonia must seek to implement the political compromise reached under the French Presidency of the EU, which paved the way for opening Skopje's accession negotiations with the EU. The two countries must also discontinue nationalist rhetoric and hate speech and instead emphasize and pursue positive economic opportunities for mutual cooperation and development. Resolving outstanding bilateral issues will also increase the two countries' resilience against malign foreign influence. The Western Balkans Democracy and Resilience Act, currently making its way through the US Congress, would be a posi-

tive framework to follow, as would the EU's Democracy Action Plan. The following policy recommendations could form the backbone of a joint strategy of Bulgaria and North Macedonia for attracting more constructive capital to the region to raise prosperity:

### Energize cooperation

- Implement and build on both political and practical implementation for the various **sectoral measures** described in the Joint Protocol between Sofia and Skopje on 17 July 2022, namely in the following fields:
  - Economy, trade, and innovation;
  - Infrastructure, transport, and connectivity;
  - European cooperation, green transition and digital transformation, and rule of law;
  - Tourism, culture, science and education, and youth and sports.

The activity of the different working groups at the ministerial level must be resumed and implemented under specific action plans and timelines.

- **Exchange experience in the field of EU integration**, including by leveraging the nations' language proximity, which could accelerate the transposition of EU acquis in North Macedonia. The two countries could follow the example of Czechia and Slovakia, which shared their translations of the EU acquis. Sofia and Skopje could support their practical efforts through a bolder declaration of political ambition by agreeing on a timeline to work for the accession of North Macedonia to the EU.
- **Engage in the planning and implementation of more joint projects** under the mutually available EU funding instruments. Bulgaria could take the lead in this process and commit more planning and resources to intensifying such cooperation. Bulgaria could also commit a **dedicated bilateral infrastructure development fund**, of €1 billion over the next decade, as a statement of political willingness and practical readiness to deliver change and bring in more constructive capital to the neighboring countries. In addition, Sofia could increase its **development aid** funding dedicated to North Macedonia; this could be done bilaterally or as part of EU initiatives and in cooperation with other donors, such as Norwegian, Swiss, Austrian, Italian, Slovak, and US aid agencies and programs, a process which has already started. Bulgarian development cooperation aid should seek to increase business-to-business

<sup>22</sup> European Commission, *North Macedonia Report 2022*, SWD(2022)337, Brussels, 12.10.2022, p. 94.

<sup>23</sup> Bulgaria and North Macedonia are not part of a common region. The only other country from the Western Balkans not a part of any such region is Kosovo.

and civil society-to-civil society cooperation. For its part, North Macedonia must identify mechanisms to considerably increase its currently weak capacity to deploy new funding opportunities.

## Increase connectivity

- Invest greater resources to achieve tangible results in improving road and rail infrastructure along all border crossings, which would improve the free circulation of goods and people and enhance NATO military mobility among Allies on the Eastern Flank. Speed up the construction of the new Klepalo border checkpoint between the municipalities of Strumyani and Berovo.<sup>24</sup> Accelerate the development of the **Corridor VIII route and railway** line from Sofia to Skopje.<sup>25</sup> Bulgaria, North Macedonia, and Albania should undertake joint actions before the European Commission for the inclusion of the Sofia-Skopje-Tirana-Durres connection in the route of the proposed new Western Balkans Corridors as part of the development of the new trans-European transport networks (TEN-T).
- Build on the momentum and opportunities that the Greece-Bulgaria Gas Interconnector offers to develop **additional gas interconnections between Bulgaria and North Macedonia**, while also moving to grant North Macedonia access to the Gas Storage Facility in Chiren, Bulgaria.
- Establish a **day-ahead electricity market in North Macedonia**, as a precursor for the implementation of a roadmap for coupling the electricity markets of North Macedonia and Bulgaria.
- Trade, investment and tourism can be further expanded. As an overarching goal, the two countries could **each aim to have the fastest-growing trade and investment turnover for the other's respective market**. They should also promote mutual investments, ensure investor protection, and seek value-chain integration. Bulgaria and North Macedonia can create opportunities for developing joint touristic products and services, taking advantage of traditional bio-production and agricultural excellence. The IT sector could be further incentivized to share experience, knowledge, and resources. Sofia could benefit from a deeper pool of expertise, while Skopje could gain access to a vibrant and well-resourced start-up support infrastructure.
- Foster an **exchange of experience and technical assistance** (TAIEX) to design measures and activities to enhance development of entrepreneurship and competitiveness of SMEs. Bulgarian experts could be engaged in coordinating business and branch policies in Chapter 20 (Enterprises and Industrial Policy). Collaborate and share information on the SME support model and the business infrastructure to support SMEs, i.e., business centers, incubators, technology centers, etc.
- Develop, strengthen, and coordinate economic security mechanisms, such as **investment screening** and **sanctions enforcement** within the EU framework, learning from the experience of CEE countries, the EU, and the US. This could be part of an overall strengthening of the capacities of the two countries to respond more adequately to increased hybrid threats. Focus on **specific sectors with potential for growth and job creation** on both sides of the border and in line with the digital modernization and the green transition of the two economies.
  - There is untapped potential for the **IT sector** in both countries to collaborate and jointly develop products and services to be offered on the European and US markets.
  - Modernize legislation for the digital economy, such as regulating crowdfunding, easing work visas for non-EU expats, and providing alternatives to invest in different pension funds; these policies will in turn attract FDI and start-ups. Creating a **joint fund for start-ups and stimulating investment in innovation** will reinforce mutual cooperation and warm up the business climate. Bulgaria-based investment funds must be liberalized, and should allow enterprises to be registered in countries outside the EU.

<sup>24</sup> The construction of the new border crossing is financed under the cross-border cooperation between Bulgaria and North Macedonia 2021-2027 (INTERREG VI-A IPP Bulgaria North Macedonia 2021-2027 program). Bulgaria has committed to ensure national public co-financing in the amount of 15%. The project will complete and rehabilitate the roads leading to Strumyani and Berovo.

<sup>25</sup> If there were a high-speed railway line, traveling between Sofia and Skopje would have been less than one hour. The Railway Corridor VIII has a total length of 315 km, only 50% of which have been constructed so far. In 2017, the two national Ministries of Transport signed a Memorandum of Understanding (MoU) for building the connecting railway networks. Corridor VIII is a critical project for ensuring the free circulation of goods and people. It is also critical for ensuring NATO military mobility to/from the Alliances' Eastern Flank (links Italy through Albania, North Macedonia and Bulgaria to the Black Sea).

- Increase efforts and dedicate resources to foster more **people-to-people connectivity**,<sup>26</sup> as an indispensable tool for overcoming divisions from the past.
  - Jointly address **demographic and “brain drain” problems**, which weaken the two economies and deter investor interest. Leverage existing knowledge and introduce efficient return migration policies to attract skilled nationals to return home for work (i.e., introducing a tax-free period, housing and childcare incentives, lump sum payment, etc.) using the appeal of their joint markets. In addition, the bilateral process for obtaining work and residence permits should be simplified – Germany, for instance, has a special immigration regime for citizens of the Western Balkans – and alternatives for investment in different pension funds should be provided.
    - Provide better scholarship opportunities. An estimated 150-250 Macedonian students a year start their studies in Bulgaria; this figure could be improved if the Bulgarian government, civil organizations, and universities (e.g., the American University in Bulgaria) grant more scholarships for full-time studies to students, specialists, and PhD candidates from North Macedonia. North Macedonia should consider reciprocating measures.
    - Set up an institutionalized and publicly funded **youth entrepreneurial dialogue** founded on the principles of reciprocity and mutual understanding and benefit and based on the model of the Franco-German Youth Office. The dialogue could organize youth exchanges, volunteer opportunities, and other joint projects, and cooperate within the Erasmus+ and Horizon Europe programs to develop entrepreneurial and business skills.
    - Create a joint program to support the cooperation of civil society organizations with a specific focus on economic cooperation, business security, innovation in green and digital tech, and entrepreneurship.
- upon their NATO membership as a launch pad for **improved security for business development**.
- While closer convergence with the EU is clearly the primary long-term priority for both countries, the failure of previous accession rounds and the current geopolitical unrest in the Western Balkans should prompt them to seek **closer cooperation with the US**. Bulgaria and North Macedonia must join Greece and Romania in expanding their defense and economic cooperation with the US, as Washington remains indispensable for guaranteeing the democratic transition of the entirety of the Balkans and Black Sea region. Bulgaria should seek to expand its role under the Three Seas Initiative and align its work there with its priorities of bilateral cooperation with North Macedonia.
  - Seek to deepen **defense cooperation** in areas with significant potential, including but not limited to:
    - Solidifying military cooperation focusing on the Eastern Flank as part of the new Alliance adaptation solutions for deterrence and defense capability building. Furthermore, both countries should participate in regional defense initiatives and NATO and EU Military Mobility projects, including the construction of Corridor VIII and defense industry cooperation for the modernization for their armies.
    - Participation of the Republic of North Macedonia in the multinational NATO battlegroup formed in Bulgaria, as well as the fight against hybrid threats, and initiatives for cybersecurity and crisis management.
    - **Prioritizing integrated border management**; a joint working group for combating cross-border fraud, human trafficking, and the smuggling of drugs and arms should be created.
  - Stand together to **address the dual challenges of state and media capture and Russian economic warfare** and influence in the region.
    - Seek, in cooperation with the EU, to jointly address outstanding **institutional, economic, political, and other vulnerabilities** which can lead to state capture. Focus civil society cooperation on following up on the EU’s Rule of Law report for Bulgaria and Annual Reports for North Macedonia. Deploy innovative diagnostic instruments such as the State Capture Assessment Diagnostics (SCAD),<sup>27</sup> Monitoring Anti-Corruption Policy

### Address state capture and economic security vulnerabilities

- The war in Ukraine calls for **increased security for constructive capital**. Sofia and Skopje must build

<sup>26</sup> Jusufi, I. et al., *From Dispute to Connectivity: Greece-North Macedonia-Bulgaria between a Difficult Past and a European Future*, Athens: Eliamep; Skopje: Analytica, 2022.

<sup>27</sup> Stoyanov, Gerganov, and Yalamov, *State Capture Assessment Diagnostics*, Sofia: CSD, 2019.

Implementation (MACPI),<sup>28</sup> and the Corruption Monitoring System on a regular basis.<sup>29</sup> The US (through USAID) and the EU (through DG NEAR) could further aid the process of mutual learning and exchange of experience.

- o Place a high priority on **rolling back Russian-enabled state capture, in particular in the energy and climate sectors**. Jointly implement the pillars of the EU's Energy Union trilemma, seeking to achieve a balance between green transition, economic competitiveness, and energy security. One possible instrument for better planning joint energy cooperation is the Energy and Climate Security Risk Index.<sup>30</sup> The Index could provide a beneficial mutual understand-

ing of the risks and opportunities faced by each country and pinpoint the best areas for EU integration.

- o Roll back media capture by Russian proxies, as well as mutually reinforcing Serbian proxies in the case of North Macedonia. Engage ongoing US and EU initiatives focused on **tackling media capture and disinformation** in digital and social media. Address all four elements of media capture: ownership, advertising, government, and cognitive. Further deepen cooperation between media from the two countries with a view towards improving journalistic standards, fostering positive narratives, and countering disinformation.

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Russia's war of aggression has inspired an unprecedented display of unity, resolve, and resilience from the global democratic community, especially in Europe. This has opened a window of opportunity for the countries of the Western Balkans to return to the path of democratic market reforms and Euro-Atlantic integration. Bulgaria and North Macedonia should seize this opportunity by leveraging financial and technical **support from the EU, US, and NATO to attract constructive capital** and deliver tangible progress on the rule of law and economic transformation that raises prosperity for all of their citizens.

It is up to the governments, the private sectors, and the civil society leaders of both countries to fulfill this promise together. Sofia and Skopje must act swiftly, though, **enhancing connectivity across a variety of domains** – infrastructure, energy, economy, and the people-to-people level, while also advancing legislative solutions to close gaps on the rule of law and state and media capture. The road will not be easy – it must be paved atop previous failures – but if they rise to the moment, Bulgaria and North Macedonia will strengthen their economies, their societies, and their defenses against interference from Russia and other authoritarian states, making the EU and NATO stronger and more united in the process.

<sup>28</sup> Gerganov, A., *Monitoring Anti-Corruption Policy Implementation in High-Risk Sectors: Benchmarking Reports of Nine Public Organisations in Bulgaria, Italy, Romania and Spain*, Sofia: Center for the Study of Democracy, 2021.

<sup>29</sup> Shentov, O., Stefanov, R., and Todorov, B., *Anti-Corruption Reloaded: Assessment of Southeast Europe*, SELDI, 2014.

<sup>30</sup> *The Energy and Climate Security Risk Index (ECSRI)* is an evidence-based policy instrument that tracks the most important energy security and climate vulnerabilities faced by EU Member States. For more information, refer to: 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.