

ILLICIT FINANCIAL FLOWS AND DISINFORMATION IN SOUTHEAST EUROPE

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Russia's brutal and ongoing war against Ukraine's fledgling democracy has been a rude wakeup call for the European Union and Western democracies.¹ The conflict has come as a stark reminder for Europe and the West that their tolerance of the Kremlin's **state capture bullying** and **sharp power hybrid war** tactics across democratic Europe has lasted far too long. The Kremlin's oligarchic networks have been granted free integration into the EU's financial and industrial fabric, allowing Moscow to **weaponize energy and financial flows** into Europe as it prepared its assault on Ukraine. In addition, the Kremlin's media hydra has been allowed to leverage the vulnerabilities of the transition to social media to broadcast a wave of unchecked propaganda and disinformation to every corner of the continent, blanketing the European media environment with the **pernicious white noise of pro-authoritarian, anti-European narratives**.² This ongoing campaign of hybrid warfare has been enabled by a network of strategic corruption, targeting political parties, media outlets, and state-owned enterprises across Europe.

After Russia's invasion of Ukraine, however, the EU has been able to unify and provide a resolute joint response to the Kremlin's aggression, securing unprecedented support for Ukraine and levying strong, consecutive rounds of **sanctions** on the Russian war machine. This strong defensive posture from the EU and NATO has

¹ This policy brief summarizes the ideas from Center for the Study of Democracy, *Winning the War outside Ukraine: Countering the Nexus of Disinformation and Illicit Financial Flows in Southeast Europe*, Sofia: CSD, 2023. (forthcoming).

² Vladimirov, M., Gerganov, A., and Filipova, R., *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.

KEY POINTS

- Southeast Europe (SEE) remains one of **the most vulnerable soft targets** for the Kremlin's ongoing hybrid war against the European Union and the democratic West. The combination of state and media capture, simmering ethnic divisions both between and within countries, and the legacy of Russian cognitive bias all make the region a prime target for the Kremlin's aggression following their invasion of Ukraine.
- Illicit finance and disinformation are two of the most potent **sharp power tools** that the Kremlin has deployed to undermine democratic processes in Southeast Europe. The usage of these tools has also provided fertile ground for the corrosive influence of China and other authoritarian powers.
- Illicit financial flows (IFFs) underpin **state and media capture oligarchic networks** across SEE. Amounting to 6% of the region's GDP, IFFs are more pervasive in the Balkans than the global average, which stands at 3-5% of world GDP.
- **Widespread disinformation** is one of the most insidious symptoms of media capture in SEE. Serbia in particular has emerged as the primary launchpad for both illicit financial flows and pro-Kremlin disinformation in the Western Balkans. However, Bulgaria's experience has demonstrated that even EU membership does not wipe these problems away if state and media capture practices persist.
- Tackling the nexus of IFFs and media capture in the Balkans calls for continued **democratization and rule of law reforms** within the framework of an accelerated EU integration. Political leaders throughout the region should be called to account for their support, either open or indirect, of outside authoritarian influence and corrosive capital inflows.
- Stemming the tide of IFFs requires a **new EU approach to economic security** (e.g., accelerated rollout of the European Anti-Money Laundering Authority). There should be a continued strategic direction of **constructive capital to SEE** through EU funds and development aid to help the region decouple faster from corrosive oligarchic networks through improving sanctions enforcement and investment screening.

been complemented by measures seeking to **enhance Europe's economic security and decouple its economy** from Russian energy and financial networks. The EU has also sought to overcome its geopolitical weaknesses by **speeding up the enlargement process** in the Western Balkans and extending the promise of accession to Ukraine, Moldova, and Georgia. It has further strived to strengthen its internal democratic and rule of law processes through the enforcement of the Democracy Action Plan and the Rule of Law Mechanism, as well as the launch of the European Public Prosecutor's Office and the European Anti-Money Laundering Authority. The EU has quickly fortified its economic security safeguards through the establishment of a **sanctions coordinator** and an **investment screening mechanism**. However, further efforts will be needed, in particular with regard to proper enforcement measures capable of uprooting the Kremlin's **entrenched oligarchic networks** across Europe.

Southeast Europe remains **the continent's most vulnerable region** to Russia's hybrid threats; Moscow will likely continue to seek to destabilize SEE regardless of the outcome of the war in Ukraine.³ Parallel to its aggression against Ukraine, Russia has continued to employ **economic influence, disinformation, and hybrid threats** to undermine the national policies of NATO and EU members and candidate countries of strategic importance. Hungary and Bulgaria, members of both the EU and NATO, have weakened and undermined EU sanctions on Russia, threatening to use their **veto power or carving out derogations**, and Bulgaria's government has spiraled downward into political instability, partly fueled by its own strategic ambiguity and incapacity to enforce decoupling. Serbia has thus far been **the only European country to oppose sanctions** on Russia; Belgrade seeks to maintain the status quo in its relationship with Moscow, and continues to allow Russian state-owned media to operate in the region. The Kremlin has constantly threatened Moldova diplomatically, militarily, and economically, pushing the country into a political crisis. The Republika Srpska region in Bosnia and Herzegovina has continued to sow division and threaten secession, seeking the Kremlin's backing. Continuing **fissures** between countries in the region, such as the dispute between Serbia and Kosovo and between Bulgaria and North Macedonia, provide further opportunities for authoritarian meddling in the region by Russia and other actors.

The brutality of the war has ensured the widespread condemnation of Russia's invasion, and has considerably **weakened Moscow's international standing**. Even Serbia, Russia's most obvious ally in the region, has chosen to vote in favor of UN General Assembly resolutions condemning Russia's aggression in Ukraine. As the initial shock and urgency from the invasion wears down with time, however, it would be a mistake for the EU and NATO to turn their focus away from their efforts to **democratize SEE** and decouple the region from Russia. On the contrary, they should use this historic yet transitory window of opportunity for coordinated **transatlantic and intra-regional action** to address the pervasive state capture vulnerabilities in SEE that have long been exploited by Russia and increasingly by China and other authoritarian powers to derail the region's democratization.

The **Kremlin Playbook networks**, which utilize a broad array of tools to pursue state capture in Europe, particularly in the highly vulnerable and strategically important Balkans, remain alive and well.⁴ **Media capture tactics** and **illicit financial flows** in particular comprise two of Moscow's chief instruments for state capture. Both are inextricably linked to each another and to a **merging of interests** between Kremlin-aligned Russian oligarchs and their local counterparts, with the latter yielding considerable political influence in the still-unconsolidated Balkan democracies.

Illicit Finance in the Context of Foreign Malign Influence in SEE

Over the past decade, authoritarian regimes have intensified their rejection of western democracies. Accordingly, they have boosted their tactical spending in campaigns aimed at manipulating public opinion and perceptions in the West. To this end, autocracies have **weaponized diverse tools** that include the development and exploitation of media and information, the abuse of wide-ranging cultural activities and educational programs, and the deployment of full-on disinformation and propaganda armies. These methods of authoritarian influence do not aim to attract or even persuade the citizens of democratic societies, but instead conspires to distract, divide, and manipulate

³ Stefanov, R., and Vladimirov, M., *The Kremlin Playbook in Southeast Europe: Economic Influence and Sharp Power*, Sofia: Center for the Study of Democracy, 2020.

⁴ Shentov, O., Stefanov, R., and Vladimirov, M. (eds.), *The Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2020.

them. The **epitome of sharp power**⁵ is the use of illicit financial flows stemming from the Kremlin to establish and cultivate relations with political parties, social groups, and high-ranking individuals, with the purpose of influencing key policy decisions.

Russia and China have long used **obfuscated corporate ownership structures and illicit financial flows** to secure everything from new technologies and expertise to economic and political influence within countries of interest. Russia has established a **pattern of malign economic impact** in Europe through its cultivation of opaque networks of patronage across the region; it then deploys these networks to influence decision-making in key markets and institutions.⁶ The Kremlin has repeatedly taken advantage of its integration into the Western financial system to exploit governance gaps through the corrosive effect of corruption and illicit finance and, in turn, support its nefarious interests at home and abroad. The brutal invasion of Ukraine shed a harsh light on the dangers of **kleptocracy** and the risks to which Europe has exposed itself—and the world—by taking a **lax approach to dirty money**.

The size of IFFs is estimated at \$1-1.5 trillion a year on a global level;⁷ while this figure totals to roughly 3-5% of world GDP,⁸ IFFs in the Balkans stand at around 6% of the region's GDP.⁹ IFFs in Southeast Europe are **manifold and multi-directional**.¹⁰ The common denominator of the SEE countries is their vulnerability to these illicit financial flows, exacerbated by institutional weakness and state capture. IFFs promote rent-seeking and criminal behavior, reduce governments' capacity to support development and inclusive growth, undermine the rule of law, erode the functioning of criminal justice systems, and jeopardize the business environment. Illicit financial flows drain public resources, reduce the scope and quality of public services, and thus damage the integrity of state institutions, along with

public confidence in them. They also create **powerful networks of influence**, which serve local or external malign interests.

Defining Illicit Financial Flows

Understanding and estimating the size of IFFs is a herculean task, as there is no universally accepted definition or single indicator that can comprehensively capture the phenomenon. Although the term 'IFFs' was coined in the 1990s, it has only recently gained attention among decision-makers and international organizations. The UN Sustainable Development Goals (SDGs) specifically draw attention to the substantial threat posed by IFFs. Dirty money is money that has been **illegally earned, moved, or used**. Illicit financial flows are **dirty money that cross an international border**. Narrowly defined, IFFs are unrecorded financial flows involving funds that are illegally earned, transferred or utilized. In a broader sense, IFFs—**funds that, through legal loopholes and other artificial arrangements, circumvent the spirit of the law**—include any cross-border flows that harm the economy, either directly (e.g., via lost tax revenue) or indirectly (e.g., by eroding institutions). Thus, illicit finance is a powerful political tool for malign foreign influence. A financial flow can be classified as illicit if either its origin (**source**), the method used for moving it (**channel**), or its eventual **use** is illegal. The channels of IFFs are the methods by which illicit flows move across borders, including different forms of money laundering, trade mis-invoicing, cash transfers, and capital account channels. A single flow of money might go through multiple different channels, and each source tends to favor specific channels over others. Common sources of IFFs include:

- **Corrupt proceeds** (money stolen from the state or funds acquired through abuse of state power);
- **Criminal proceeds** (drug money, individual tax evasion, or tax fraud);
- **Commercial proceeds** (multinational tax or tariff evasion).

⁵ Walker, C., and Ludwig, J., *Sharp Power: Rising Authoritarian Influence*, Washington: National Endowment for Democracy, 2017, p.6

⁶ Stefanov, R. et al., *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, Washington, DC: Center for Strategic and International Studies, 2016.

⁷ Spanjers, J., and Salomon, M., *Illicit Financial Flows to and from Developing Countries: 2005-2014*, Global Financial Integrity Report, Washington, DC: Global Financial Integrity, 2017.

⁸ Spanjers, J., and Kar, D., *Illicit Financial Flows from Developing Countries: 2004-2013*, Washington, DC: Global Financial Integrity, 2015.

⁹ CSD estimates based on three different methods of calculation.

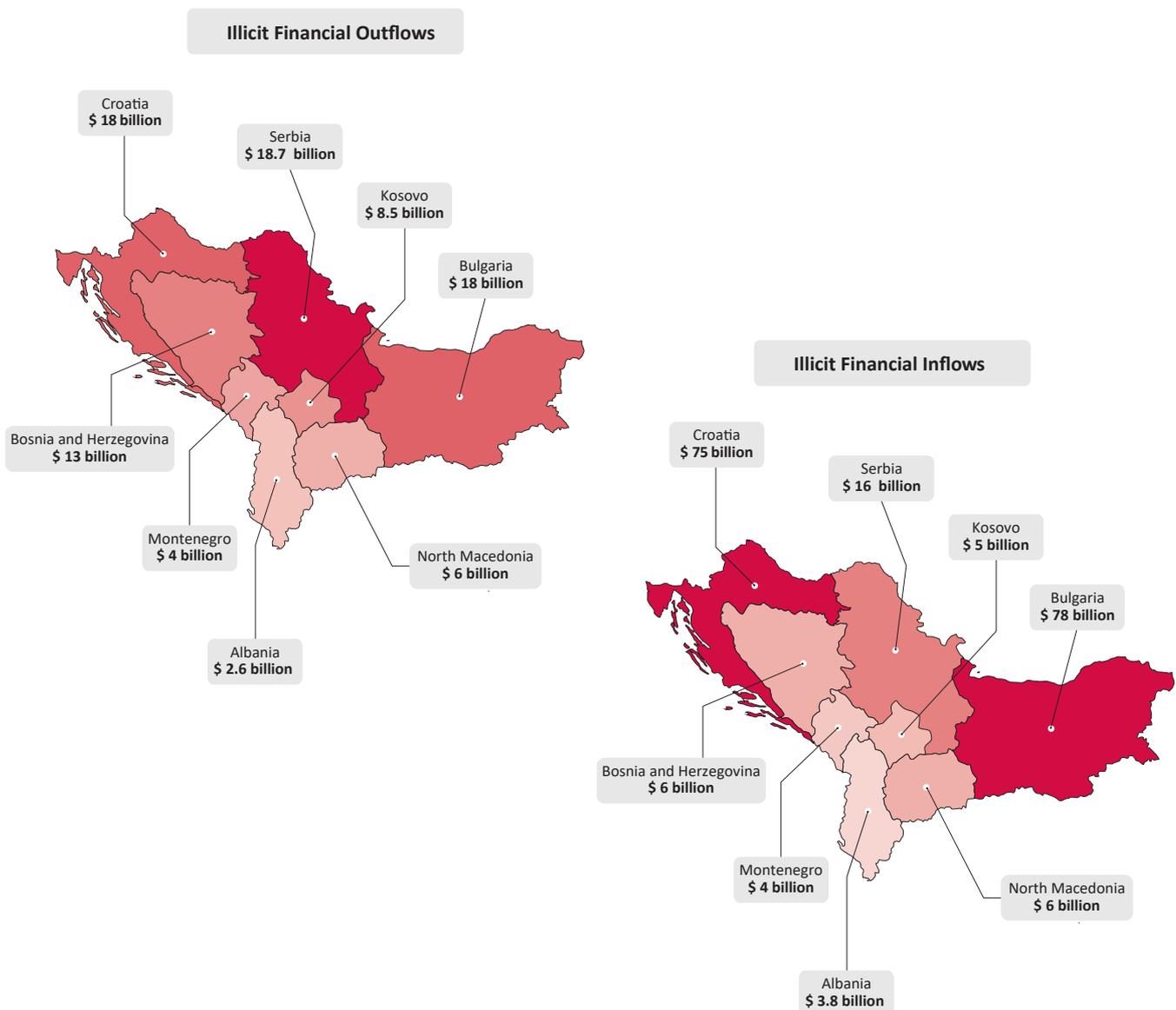
¹⁰ Reitano, T., and Amerhauser, K., *Illicit Financial Flows in Albania, Kosovo, and North Macedonia: Key Drivers and Current Trends*, Political Economy Report, Geneva: Global Initiative against Transnational Organized Crime, 2020.

Source: CSD based on Blankenburg, S., and M. Khan (2012), Baker, Raymond. W. (2005), Reuter, P., and Truman, E. M. (2004), the United Nations, the International Monetary Fund, Global Financial Integrity.

Illicit flows circulate in and out of the SEE region, enabled by **an ecosystem of governance weaknesses, endemic corruption, crime, and corporate evasion.**¹¹ The region's economies are less competitive than their EU peers, plagued by an abundance of undue political interference and state ownership,¹² an underdeveloped private sector, and the frequent, obscured presence of intergovernmental agreements with

authoritarian states.¹³ As the bridge between Asia and Western Europe, SEE has traditionally served as the **gateway route** for drugs, migrants, and a variety of dual use and excise goods. The significant increase in infrastructure investments in recent years—largely powered by China's Belt and Road Initiative—has added fuel to the fire, intensifying the existing flows of both legitimate and illicit commerce.

Figure 1. Illicit finance in Southeast Europe (2000 – 2020)



Source: CSD based estimations via Trade Mis-invoicing and Hot Money Narrow.

¹¹ 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.

¹² 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.

¹³ Vladimirov, M. et al., *Russian Economic Footprint in the Western Balkans: Corruption and State Capture Risks*, Sofia: Center for the Study of Democracy, 2018.

IFFs are also eased by the region's **porous borders**, the interdependent nature of its economies, and their **large informal sectors**.¹⁴

An estimated USD 1 trillion of Russian capital has been invested across Europe since the collapse of the Soviet Union. A significant chunk of these funds has been used to **capture key assets in strategic economic sectors** such as energy, telecommunications, banking, construction, and logistics.¹⁵ On the eve of the invasion of Ukraine, Russian companies had **firmly entrenched** themselves in the European economy: In January 2022, Russia controlled EUR 277 billion in foreign direct investment stocks (inward FDI stocks) across the 27 EU member states – up by a third since the introduction of sanctions against Russia following the 2014 annexation of Crimea.¹⁶ The true figures of Russian investment are likely much higher than the official central bank numbers indicate, as at least 50% of all Russian financial flows to Europe pass through offshore destinations such as Cyprus, the British Virgin Islands (BVI), Ireland, Luxembourg, and the Netherlands, where Russian funds are hidden behind nominal ownerships, trusts, and portfolio investments via third-party investment funds. Russian corporate assets within Europe reached almost EUR 600 billion at the end of 2021, and European banks still held EUR 83 billion in liabilities to Russian companies and individuals, with countries such as Austria, the Netherlands, Italy, and France most heavily exposed to the Russian market. Many of the **transactions enabling the capturing of strategic assets in SEE** passed through these European financial hubs.

The **cronyism** which lies at the heart of Russia's economy allows the Kremlin to **weaponize Russian investment in Europe** and elsewhere for political ends, thanks to informal networks of enablers.¹⁷ European oil and gas companies have locked national economies into a long-term dependence on Russia, buttressed by their longstanding business relations with their Russian counterparts. This has incentivized a tightening of Russian energy monopolies' grip on SEE markets, both across

the region and in individual countries; this trend provided **additional pools of illicit profits** to strengthen oligarchic corporate networks and political dependencies.

The unprecedented **sanctions** against Russia have spelled the end of the three-decade-long process of Russian economic and political penetration into Europe. The EU, U.S., and G7 have responded to Russia's invasion of Ukraine by targeting the main financial pillars of the Russian economy. More than 4000 companies registered in the EU with ultimate beneficial ownership in Russia have been sanctioned. However, no Russian companies have been effectively sanctioned in SEE due to deeply entrenched dependencies and the **dangerously low capacity of law enforcement** to deal with matters of economic security.

Media Capture: Subjugating the Hearts and Minds

The combined effects of foreign malign influence and systematic domestic corruption are particularly pronounced in the media landscapes of the Balkans. The region's small and relatively underdeveloped media markets are highly dependent on ruling elites and **politically connected oligarchic networks**, whose economic interests are often connected to Russia. Countries across the region, including EU member states Bulgaria and Croatia, lack sufficient institutional safeguards regarding the disclosure of ultimate beneficial owners and funding sources, as well as proper restrictions regarding ownership concentration. This dilemma is compounded by the rise of social media platforms which provide **an open forum for the spread of disinformation** and other types of propaganda while simultaneously eroding the funding base of traditional media.

Social surveys conducted throughout the region by both local and international observers marked **a noticeable decrease in public support for Russia** with the beginning of the invasion. However, the malign editorial policies and agendas of key pro-Kremlin and sometimes even mainstream media outlets and political parties have endured. Political actors sympathetic to Moscow, such as the SNS and the SPS in Serbia, Revival and the BSP in Bulgaria, and the SNSD in Bosnia, have retained

¹⁴ SELDI, *The hidden economy in the Western Balkans in a time of crisis: Friend or foe*, Policy Brief No. 14, June 2022.

¹⁵ Center for the Study of Democracy, *Countering the Kremlin Playbook in Europe after Russia's Invasion of Ukraine*, Policy Brief No. 115, October 2022.

¹⁶ Data from CSD's *Interactive Kremlin Playbook Database*.

¹⁷ Belton, C., *"Putin's People: How the KGB Took Back Russia and then Took on the West"*, New York: Farrar, Straus, Giroux, 2000.

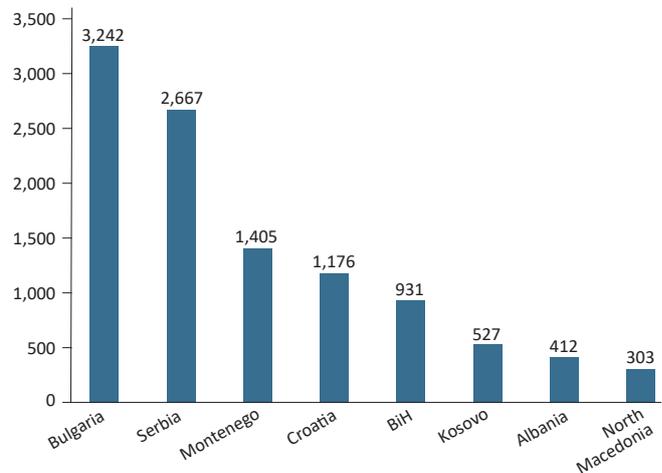
their parliamentary positions and decision-making power throughout a series of general elections in 2022-2023. Their success was aided by known **pro-Kremlin outlets**, which have similarly maintained and even **increased their activity**, contributing to a partial rebound of public sympathies toward Russia following the initial upset of the invasion. Various mainstream traditional media outlets, including public TV broadcasters such as BNT in Bulgaria and RTRS in Bosnia, have also contributed to this dynamic due to their cursory and uncritical coverage of the inflammatory and misleading statements of Russian politicians and their local sympathizers.

Russia had already successfully capitalized on the lax regulatory environment in SEE to engage in media capture through **opaque local networks of influence** in the years prior to the invasion. These networks consist of Kremlin-aligned business tycoons, politicians, and other influence agents, who direct the editorial policies of major outlets and give credence to disinformation narratives.¹⁸ They have ensured that **the mainstream information environment remains conducive to the Kremlin's operations**, which have only intensified after the launch of its invasion of Ukraine.

Bulgaria and Serbia continue to act as **the main coordination hubs and launchpads** of the Kremlin's influence in information spaces across the region. Bulgarian politicians and reporters normalize pro-Kremlin disinformation domestically and in Euro-Atlantic institutions, while, Serbia helps extend the Kremlin's disinformation operations throughout the Western Balkans via Serbian-language media outlets based both within Serbia and in Serbian enclaves such as Republika Srpska. Cross-country traffic metrics from mainstream news websites in the Western Balkans reflect **an informational competition** for Serbo-Croatian-speaking audiences between Serbian pro-Kremlin outlets and the relatively Euro-Atlantic-leaning Croatian outlets.

In over half (five out of eight) of the countries in SEE, at least one of the five most visited online outlets is **an endemic proliferator** of pro-Kremlin disinformation.¹⁹ Serbia stood out as the most pronounced case, with four out of five of its most visited news

Figure 2. Number of references to Russian state-controlled sources – RT, TASS, RIA Novosti, and Sputnik – in the top five most visited news websites



Source: CSD based on data from Sensika in the period 1 January – 30 June 2022.

websites consistently publishing pro-Kremlin disinformation. The mainstream outlets in all eight countries were found to be **referencing sources from Russian state-controlled media**, with Bulgaria and Serbia accounting for over half of all identified references.

Leading online pro-Kremlin outlets continue to **blanket the Balkan digital landscape with a constant stream of disinformation** and other types of propaganda. In some cases, the most prominent and consistent online amplifiers of explicit pro-Kremlin disinformation are also among the most visited news websites in the respective country, as is the case in Bosnia and Herzegovina (*nezavisne.com*), Bulgaria (*blitz.bg*), Montenegro (*in4s.net* and *mondo.me*), and Serbia (*novosti.rs*, *kurir.rs*, *rts.rs* and *srbijadanas.com*). These outlets are virtually synchronized with the Kremlin's talking points, and act as its local mouthpieces without any known investment of resources or direct ownership from Moscow.

Facebook remains the dominant social media platform in the region, with its popularity ranging from 98% of all web traffic to social media platforms in Albania and Bulgaria to 72% in Croatia at the lower end.²⁰

¹⁸ Vladimirov, Gerganov, and Filipova, *Tackling Kremlin's Media Capture in Southeast Europe*, Sofia: CSD, 2021.

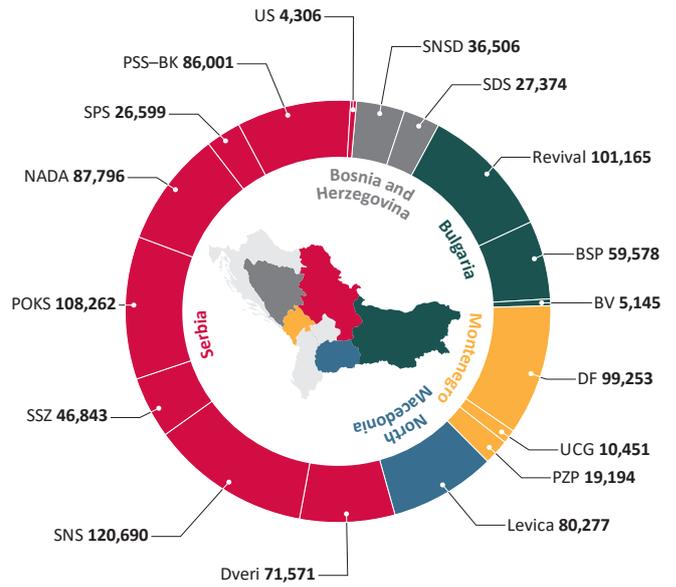
¹⁹ This was the case in Bosnia and Herzegovina, Bulgaria, Montenegro, North Macedonia and Serbia.

²⁰ Statcounter, *Social Media Stats Macedonia, North*, Feb 2022-Feb 2023; Vincos, *World Map of Social Networks*, January 2023.

The platform continues to serve as a **hotbed for the information operations of foreign authoritarian actors and their local proxies**, and has proven to be a critical component for their outreach efforts. Pro-Kremlin parties throughout the region boast nearly 1 million combined followers, and published over 22,000 posts in 2022, receiving approximately 13 million interactions.

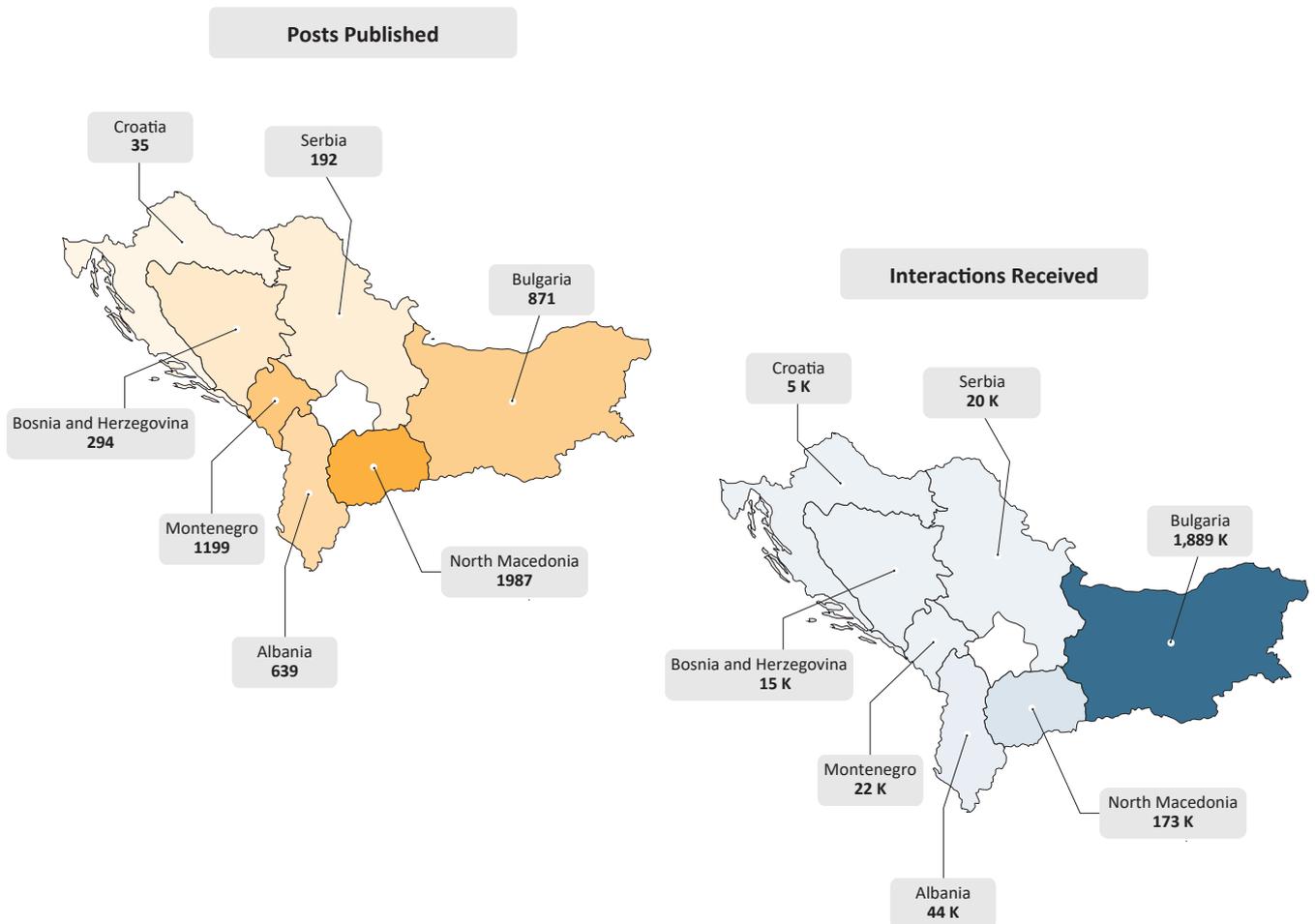
Metrics of the Facebook pages of Russia’s embassies in the region in 2022 indicate that **Moscow’s diplomatic missions expanded their outreach efforts** the most in North Macedonia, followed by Montenegro and Bulgaria, albeit with varying success. The Kremlin’s official messaging holds by far the greatest sway in Bulgaria’s Facebook sphere, where the Russian embassy has a follower count of 65,000, twice as many as that of all the other six embassies’ pages combined. In 2022, the Russian Embassy in Bulgaria boasted a staggering 1.9 million interactions – nearly seven times the number of interactions received by the six other embassy pages combined.

Figure 3. Follower counts of the Facebook pages of pro-Kremlin parties in 2022



Source: CSD based on data from CrowdTangle.

Figure 4. Number of posts published and interactions received by Russian Embassy pages in 2022



Source: CSD based on data from CrowdTangle.

What's Next? Winning the War outside Ukraine

The Kremlin has not only invaded Ukraine, but has also **intensified its influence operations** across Europe, which in many cases have successfully achieved some degree of state capture. Reversing this process must be the first order of business on the agenda in SEE, Brussels, and Washington.²¹ IFFs underpin state and media capture oligarchic networks across SEE; the Kremlin has consistently utilized the infrastructure of these networks to weaponize information and economic resources. Hence, **decoupling the region's economies from Russia has proven exceedingly difficult**, even after the full-scale invasion of Ukraine.

Stemming the tide of IFFs and related media capture and disinformation requires both **a whole-of-society and an international approach**. This is a tall order for the limited capacity of SEE governments and civil society, and calls for stronger political engagement from the European Union and the United States. The EU must **agree on a clear short-term timeline for the accession of the Western Balkans**, as well as for Bulgaria and Romania's membership in the Schengen Area of freedom, security and justice. The U.S. needs to ramp up its re-engagement with the wider region of Southeast Europe and the Black Sea, encouraging more **friend-shoring** of its business, and strengthening its development cooperation in critical domains such as cybersecurity, media, and law-enforcement. Washington should follow up its Summit for Democracy initiative with a longer-term democratization, rule of law, and economic security support and capacity building across the region.

Stemming the Tide of IFFs

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 Southeastern Europe, Russia's weaponization of trade must be opposed by pursuing **a policy of strategic investment** by the EU and the U.S. Two concurrent policies would produce a tangi-

ble result: exposing and targeting the loci of political corruption, and increasing the level of anti-money laundering enforcement against Russian financial flows in SEE.

- The *first step* is to assess the nature and scope of the threat, by **identifying the government institutions and decision-making processes** that have been affected by institutionalized political corruption (state capture). The EU must establish an evidence-gathering mechanism capable of verifying the existence of capture practices across various economic sectors and regulatory institutions. The initial application of such a mechanism to selected countries in Europe has revealed numerous and varied sources of risk and levels of governance vulnerabilities.²² Its further regular use across Europe and in SEE should involve a broad coalition of civic actors.
- There is a critical need to increase the **quantity and quality of data** available on the nature and magnitude of IFFs, in order to comprehend their key drivers, channels and trends and initiate a stronger policy response. As a transnational problem, the push to curb IFFs requires **coherence** within and between national and international normative frameworks, and coordinated action within the scope of EU enlargement and the Berlin Process.
- The *second step* of an effective response to Russian capture is **concerted transatlantic action against illicit money and rogue assets** in SEE through the effective enforcement of the unprecedented sanctions against Russia following the invasion of Ukraine. There is an urgent cause for screening and halting Russian strategic investments in SEE linked to Russian state-owned companies and oligarchic networks close to the Kremlin.
- To prevent Russian companies from evading sanctions, the EU should prioritize halting Russian illicit financial flows, including by **accelerating the integration of SEE into the rollout of the newly designed Anti-Money Laundering Authority**. The Authority and its SEE counterparts should coordinate their actions closely with U.S. FinCEN and the financial intelligence institutions in each EU member state. Under the current status quo, the

²¹ Center for the Study of Democracy, *Countering the Kremlin Playbook in Europe after Russia's Invasion of Ukraine*, Policy Brief No. 115, October 2022.

²² Stoyanov, A., Gerganov, A., and Yalamov, T., *State Capture Assessment Diagnostics*, Sofia: Center for the Study of Democracy, 2019.

authorities of the member states serve as the EU's anti-money laundering supervisors, and there is often more than one supervisory authority in each country.

- Not all of the funds that run through IFFs originate from a predicate crime. Capital which has been generated legally, quasi-legally, or informally may be transferred through illegitimate channels and held in offshore jurisdictions. Thus, the SEE countries must **allow money laundering to be investigated as a separate crime**. Authorities have also been dragging their feet in areas that have long been vulnerable to illicit finance, such as **beneficial ownership transparency**, which directly related to preventing, detecting, prosecuting, and sanctioning financial crimes. Enforcement of transparency requirements for beneficial ownership is vital, as is the **stricter security vetting of investments** by third parties in SEE and European companies or operations. More attention should be given to **the crypto sphere**, which comprises a prominent new channel to move money illicitly in and out of the SEE countries, especially due to the lower-than-average levels of compliance with international standards on risks from virtual assets.
- The **heart of strategic decoupling** is finding a **solution to the European and SEE energy and climate security conundrum**. This would mean ensuring the diversification of the supply of both fossil fuels – to prevent a breakdown of the European economy – and of key resources for the energy transition, which is already locking Europe into dangerous new dependencies.²³
- **Invest in security:** In the smaller, more susceptible SEE economies, Russia's state corporatism and weaponization of trade must be opposed by a **policy of strategic investment by the EU and the United States**. U.S. and European investment flows should seek to introduce fair market practices. Increasing Western corporate presence in these countries is the only way to ensure that Russian business practices do not warp economic policies for the benefit of the Kremlin.
- As a matter of urgency, SEE countries must update their investment and national security strategies

²³ See detailed recommendations on addressing European energy and climate security risks in: 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, pp. 57-64.

to include a robust **FDI screening mechanism** as a key defense against foreign malign influence and an additional safeguard for boosting quality foreign investment. The governments should integrate the private and civil society sectors in the development of this mechanism, and ensure adequate transparency of the process.²⁴

Rolling Back Media Capture and Disinformation²⁵

Countering disinformation in SEE would entail addressing all four components of media capture²⁶: (i) ownership, (ii) advertising, (iii) government, and (iv) cognitive capture. The EU and national governments across Europe **successfully targeted direct channels** of Russian media capture immediately after the invasion of Ukraine in February 2022. Similarly, advertising, government, and cognitive capture declined across Europe as support for Russia's authoritarian model dissipated at the sight of the brutal scenes coming from Ukraine. However, the **Kremlin's grey media infrastructure** remains largely in place, especially in SEE, and could resurge after the war.

An effective public policy approach should **address both the production and impact of disinformation** through a combination of deterrence and preventive measures. Countries in the region should take advantage of cooperation mechanisms with the U.S., EU, and Euro-Atlantic institutions, including the EEAS's Strategic Communication Task Forces and Rapid Alert System and the NATO Strategic Communications Centre of Excellence.

A top priority is **solving the institutional gaps** that enable media capture and impair the quality of the media landscape. This involves increasing the transparency of ownership, business structures, and funding sources of media outlets, as well as implementing **limits to the concentration** of media ownership. Guarantees should be provided to ensure that media regulators are safeguarded from political pressure, and that competition and antitrust laws will be applied impartially and in strict accordance with the

²⁴ Center for the Study of Democracy, *Investment Screening in Bulgaria*, Policy Brief No.123, December 2022.

²⁵ For an additional comprehensive review of needed policy action in this domain, please see: Center for the Study of Democracy, *Policy Agenda for Countering Media Capture in Europe*, Policy Brief No. 116, October 2022.

²⁶ Vladimirov, Gerganov, and Filipova, *Tackling Kremlin's Media Capture in Southeast Europe*, Sofia: CSD, 2021.

rule of law. Governments should support independent media by establishing sustainable business models and funding mechanisms based on private capital, while simultaneously **limiting** the media sector's **reliance on government financing**.

A first line of defense against disinformation entails **establishing the digital forensics infrastructure** necessary to detect and investigate disinformation campaigns, as well as the actors that drive them, in near real-time. Existing media monitoring and audience analysis tools should be deployed to measure the volume and reach of recurrent disinformation narratives across traditional and social media. These should be complemented by more sophisticated tools that analyze the digital makeup of news websites in bulk and automatically detect typical signs of abuse, such as domain repurposing, doppelgänger websites, false contact information, and lack of terms of use, among others.

Data acquired through the improved investigation and analysis of ongoing disinformation campaigns should be used to inform the development of **preventative**

measures that limit the impact and demand for disinformation. A key step is building trust in democratic institutions by providing strategic communication units throughout government ministries with the necessary resources to consistently raise awareness and clarify policy initiatives. The experience and expertise of **civil society** should be employed in the development of educational resources that increase media literacy and societal resilience against disinformation. Regular public awareness campaigns, standard-setting initiatives, and normative appeals will similarly contribute to limiting the impact of disinformation.

The Kremlin's presence in the critical nodes of SEE's media infrastructure can only be displaced by the creation of an **equally distributed network of publicly funded and independently run media**. Its scale should match the magnitude of Russia's foothold, as its long-term goal is not simply to counteract disinformation with fact-checking, but to **reinvigorate the civic nature of journalism and broadcasting** as a crucial element of democratic culture. To this end, the model of U.S. government support for media freedom in CEE in the early 1990s should be revisited.

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A democracy that delivers. Tackling malign Russian influence in SEE should prioritize dismantling the array of instruments the Kremlin deploys to capture media, buy up strategic assets, and subvert political decision-making. This effort can only succeed, however, if the underlying economic and political currents and deep, structural democratic deficits in SEE are addressed with priority, establishing specific timeframes for EU accession and related reforms. China's vague demands for peace, which have amounted to a silent endorsement of Russia's aggression in Ukraine, coupled with the tightening of Beijing's authoritarian grip on the country, implies that it will continue to exploit and reinforce Russia's illicit capital networks across SEE.

The brutality of the war in Ukraine has prompted long-overdue action against the **grey infrastructure** which Putin has created across the continent over the last two decades. Before fatigue from this sanctions campaign sets in, though, urgent action is needed to achieve a thorough **de-Putinization** of Europe, and in particular SEE. A joint transatlantic push should aim to transform the current political will into concrete institutional mechanisms which would prevent the Kremlin and Beijing from ever being able to undermine European democratic order and economic integrity in SEE again.

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