

Renata Treneska-Deskoska, Ph.D.

FINANCING OF POLITICAL PARTIES IN REPUBLIC OF MACEDONIA (1991-2012)

1. Introduction

Reliable funding is an important factor for ensuring stable political parties which would be capable to represent different citizens' interests. Nevertheless, the financing of political parties is among the most sensitive and difficult questions raised in the countries of Central and Eastern Europe, once they introduced political pluralism. It is always difficult to obtain stable financing of political parties, to avoid structural biases in favor of particular political parties, to avoid political corruption and to ensure its transparency. Republic of Macedonia has been facing these problems ever since 1991 until today.

Introduction of the political pluralism in the political system of Macedonia began with the constitutional amendments adopted in 1990. These amendments essentially changed the 1974 Macedonian Constitution and they were among the first (if not the first) signs of the attempts to abandon the existing authoritarian regime.

According to the Amendment LXVIII, adopted in 1990, the candidates for representatives in the Assembly and for members of the assemblies in the municipalities are proposed by the citizens, political organizations and other forms of associations.

This Amendment and the Law for social organizations and associations of citizens, adopted in 1983 and changed in 1990, were used as a base for organization of political parties. This law provided the citizens with a possibility to associate in political organizations, parties and other forms of political organizations in order to realize their political interests and aims (Article 2, paragraph 3).

According to this law, 10 citizens with permanent residence in Macedonia could found social organization. But the Law on parliamentary and local-self government elections from 1990 provided that registered political parties which had at least 1500 members had a right to propose candidates for members of Assembly. The political parties with more than 500 members could propose candidates for the bodies of the units of local self-government.

The first multi-party parliamentary elections were organized in 1990 on the basis of these two laws. On that occasion 18 political parties, 1 social organization and 43 independent candidates participated in the elections. The first multi-party Assembly in 1991 adopted new Constitution which proclaimed the political pluralism as a basic value of the constitutional order of the Republic of Macedonia (Article 8, para.8, al.5).

The Constitution guarantees the freedom of association and the right of the citizens to form political parties. Before the second parliamentary elections in 1994 the Law on political parties was adopted. This law regulated the right to form political parties. According to this law, at least 500 adult citizens with permanent

residence in Republic of Macedonia can found political party. Each political party is obliged to give written evidence to the Appellate court in Skopje that the number of its founders is not smaller than 500.

The new Law on political parties was adopted in 2004. It preserved the same minimum of signatures required for founding a political party. This Law was amended in 2007, raising the required number of founders of a political party to 1000 citizens.

2. The legal framework for party funding 1991 - 2004

Politics cannot proceed without financial means. Political funding is necessary for the existence of political parties and for the realization of political pluralism. However, money is not only necessary, but it can also cause many “evils” and problems with regard to the fairness of the political system.

Macedonian legislators have not paid much attention on that. Thus, for a long time, there have been only few legal provisions on party funding in our legal system.

Immediately after the beginning of the transition period the party funding was regulated (or rather non-regulated) by the Law on social organizations and associations of citizens from 1983 (changed in 1990). This Law was created to suit “different forms” of organizations, which existed in the socialist period: Communist Union, Union of Youth, Socialist Union of Working People etc. This legal act was totally inappropriate for regulating the position of new political parties in a multi-party system. There were attempts for “adaptation” of this law to the new situation and to the needs of political pluralism, but they were not successful from the point of view of regulation of party funding. They contained only a provision that social associations can obtain means. These associations, which included political parties, could obtain objects, money and material rights.

In practice, the political parties were financed by the membership fees, by some donations from the individuals (living in Macedonia or in Diaspora), from some companies etc. However, the amount of money spent by the political parties at that time was modest.

The control over financing, using and spending the means was in competence of the Service for social accounting.

In 1994 the Assembly of Republic of Macedonia managed to adopt a new law which regulated the position of political parties. Six articles of the Law on political parties from 1994 were devoted to the funding of political parties. One of these articles was changed by Decision of the Constitutional court in 2001.

According to the original text of the Law, the political parties can obtain means for their functioning from the following sources: membership fees, donations, gifts, incomes, their own property, credits, legates and the Budget of Republic of Macedonia.

It was forbidden that the political parties obtain financial resources from:

1. Governments, international institutions, bodies and organizations of foreign states and other foreign persons;

2. From state bodies, bodies of the local self-government, except the allocations from the state Budget of the Republic of Macedonia;

3. From companies owned by the state, including those which are in process of privatization.

The law obliged the political parties to have accounting with regard to their incomes and expenses. The sources of the incomes of the political parties supposed to be public. The supervision of the financial work of the political parties was made by the Bureau for internal revenue.

One of the smaller political parties has raised the initiative in front of the Constitutional court for evaluation of the constitutionality of the Article 28 para.1 of the Law on political parties which regulates the sources of party funding. The Constitutional court has reached its Decision on 28 February 2001. It repealed a part of this provision. According to the Decision of the Constitutional court, the political parties cannot obtain means for their funding from "incomes from their own property". The Constitutional court reasoned that: (1) political parties are civil associations (not economic associations) and that (2) the aims of associations are of global social, political, economic, cultural and other nature (and not in the interest of one part of the society, for example, the members of one party). That means that the activities of the political parties are, from substantial point of view, ideological and spiritual in their nature and, from formal point of view, they are general and global in their nature. The Constitutional court held the opinion that the possibility that the political parties obtain material means from the incomes deriving from their property may lead to distraction of the constitutional concept of the functions (rights and obligations) and aims of the political parties. It also opens the possibility for violation of the principle of rule of law which is one of the basic principles of the constitutional order of Republic of Macedonia. It may also violate the freedom of market and entrepreneurship, i.e. the equal position of the subjects on the market.

According to the laws regulating financial area: Law on taxes on property, Law on value added tax and Law on tax on income, there were no tax privileges neither for political parties, nor for their donors.

The political parties, as well as the nongovernmental organizations (further in the text NGOs) were not mentioned in these laws. The NGOs have organized some round table discussions for initiating changes in these laws that would introduce tax privileges for NGOs. No such initiative came from political parties. There were many reasons for that. The most important was the fact that the political parties obtained money in cash from their donors. These donations did not exist on any paper or any account and they did not pay any taxes on it. These donations made the largest part of the financial means of the political parties.

3. Legal framework on party funding since 2004

In 2004 two separate laws were adopted: Law on political parties and Law on financing of political parties. The Law on

financing of political parties has gone through several changes and one of its provisions was repealed by the Constitutional court.

The current legal framework on financing of political parties regulates private and public funding of political parties, as well as the control over it.

The Law determines the percent of the State Budget that should be used for party funding – 0,06% of total incomes of the Budget. The law determines that 30% of this amount should be divided equally among the political parties that obtained at least 1% of the total votes cast during the last parliamentary or local elections. The remaining 70% of this amount is divided among the political parties whose candidates were elected for MPs or members of the municipal councils. The amount received by each political party should be proportional with the seats it has obtained.

As private sources of party funding the Law enumerates membership fees, donations, bequests, income from selling promotional material and personal incomes.

This law defines the term donation. It clarifies that a donation may be given in money, material means and services. The services which are given free of charge are also considered as donations and the donor has to inform the political party about the market value of that service. Also, the difference between the market price of the good or service and the price paid by the political party is treated as donation.

The annual amount of donations from same donor is limited. The companies can donate maximum 150 average salaries annually to one political party, while for individual persons the limit is 75 average salaries.

The political parties are obliged to keep register of donations containing information about the name of the donor, type and value of the donation and date of receiving the donation. The register of donation should be published on the web page of the political parties.

Forbidden sources for financing of political parties are:

- foreign governments, natural and legal persons, as well as international organizations and institutions;
- companies controlled by foreign investors;
- state and local government bodies, other than those allocated to direct public funding, according to the Law on financing of political parties or Electoral code;
- public institutions, enterprises and funds who manage state funds;
- public institutions, enterprises and funds created by municipalities;
- public institutions and companies in which the state owns 20% or more shares;
- private companies providing goods or services to state bodies;
- non-governmental organizations, religious communities and groups;
- anonymous or unidentified sources.

Political parties cannot have bank accounts in foreign banks or other financial institutions.

According to the Law, political parties have to keep accounts of their income and expenditure. As regards accounting obligations, parties are subject to the Law on Accounting for Non-profit Organizations. Income must be recorded according to type, amount and source.

Parties have only one bank account. Local branches may have sub-accounts, but in this case, the reports of the party and all its branches have to be consolidated. Books and accounts are to be kept for a specific length of time, depending on the type of documents (Article 13, Law on Accounting of the Budgets and the Budget Users):

- documents relating to sales and invoices are kept for 3 years;
- accounting documents on the basis of which data is entered into the books are kept for 5 years;
- documents and data relating to employees' salaries are kept permanently.

Also, political parties have to keep a register of donations received, with information about the name of each donor, the type and the amount of donation and the date when it was received.

Political parties have to prepare an annual report by 31 March every year. This report should concern the operations of the party and its branches for the previous year. It includes data on the various assets and sources of income and on overall expenditure. It is submitted to the State Audit Office, the Public Revenue Office, the Ministry of Finance and the Central Registry.

Political parties have specific reporting obligations regarding private funding - they need to draw a quarterly report on received donations.

4. Party funding in the practice of Republic of Macedonia

4.1. Party Structures Dealing with Party Funding

In the official documents of the political parties in Macedonia, there are special committees that are in charge with financial matters of the party. In practice, however, secretaries of the parties are responsible for funding. Secretary of the party is a person who knows everything about the income and expenditure of the political party, even when, according to the constitution of the political party, the secretary generally has no such competence.

The question of financing of political parties is addressed in the constitutions of political parties. They regulate the bodies that are responsible for financing of the political party and the sources for financing.

None of them imposes voluntary extra restrictions on their sources of funding. Also, none of the political parties have codes of conduct addressing the issues of funding.

4.2. Membership fees as a source of funding

All constitutions of political parties oblige their members to pay a membership fee. There is no legal limit on the amount of membership fees. That question is not regulated in any law. The membership fee is determined by the political parties themselves and

it is 0,5 EUR monthly. The amount is the same for the members who belong to the Diaspora of Macedonia.

The holders of party functions and positions in the state bodies or bodies of local-self governments and which they have obtained as candidates of the political party pay higher membership fees.

The political parties do not determine the highest limit of the membership fees. Thus, members who want to pay a higher membership fee may freely do that. In that way some donations are concealed as membership fees.

Also, no political party imposes sanctions over the members who do not pay their membership fees.

The practice of collecting membership fees is similar for all political parties. The membership fees are collected in the local organizations of the parties and the regularity of collecting these fees varies from one to another municipality. The membership fees are collected in cash and, after that, the total sum is put on the bank account of the party. This practice provides for the opportunity to put on the account some donations (which are given in cash) and to present them as money deriving from the membership fees. The officials in the political parties state that they collect their membership fees and that nobody may be sanctioned for not paying it.

However, one of Members of the Parliament, an ex-leader of a political party has admitted that no political party collects the membership fees on a satisfactory level and that all political parties present money from donations as membership fees.

4.3. Private donations as a source of party funding

Private donations are one of the main sources for the financing of political parties. Most of the donations in Macedonia are given in cash. Thus, there is no official evidence with regard to the donations and their amount and the legal provisions on limits of donations could be violated easily.

Also, some corporations pay the bills for some expenses of the political parties. These bills are sent directly to them. In this way, they sponsor the political parties without paying financial means to the political party's bank account.

The prohibition for the state owned companies to give donations to the political party is also violated. These companies give money to the political party that is in power. That is made indirectly, through "paying" some goods or services to some other company that donates the money to the party in government.

In the Macedonian political life, it has been common for the companies to donate financial means to several political parties in the same time. However, the largest amount has always been given to the ruling political party. Their explanation for that practice has been that they "protect their businesses". Because of that, most of the donations to the governmental political party look like paying "racket". The practice showed that being a ruling political party has been a profitable business in Macedonia.

4.4. Public funding of political parties

As it was mentioned above, the political parties that obtained at least 1% of the votes on parliamentary or local elections receive direct funding from the state budget. Those parties which obtained seats in the Parliament or in the local councils obtain an additional public funding.

Direct public funding of the political parties and their elites is also received in form of the MPs salaries and the additional benefits they get. Other party members also receive salaries from the budget of the state or the local self-government. State, local and public administrations are the places where the parties' "soldiers" build their carriers.

That is evident in the official reports for financing of the political parties. Usually, the ruling political parties do not have expenditures for salaries or that expenditure is minimal. That means that party members whose salaries should have been paid from the party budget are employed in the state or local bodies.

Also, many local organizations of the political parties who won state or local elections get financed by the state or municipality budget. The active members of these local organizations get employed in public companies or in the units of the Ministries in their municipalities if their party won the parliamentary elections, or in the bodies of local self-government if their party won the local elections. That facilitates funding of their local organizations. The local organizations of political parties which are in opposition on state and local level are mostly financed by membership fees and donations. Only local organizations of the political parties from poor and small municipalities get money from the central account of the party.

There are many ways for indirect public funding of political parties. One way of public funding is using rooms of the state bodies or local self-government for party activities. Another option is the use of state or municipal cars for party activities, use of National Television for biased informing for the party activities of ruling political party etc.

4.5. Party firms as a source of party funding

The question of owning party firms was one of the hottest questions on the political and economic scene in Republic of Macedonia.

VMRO-DPMNE, political party that came in power in 1998 was the first and only political party that had party firms. This political party used Article 28 of the Law on political parties which allowed the political parties to obtain, between the other sources, financial means "from incomes, from own property".

After VMRO-DPMNE became a leading governmental party, it began buying firms that were in process of privatization, as well as founding some companies. According to the official report for

incomes and revenues of this political party in 2000, it transferred 1 586 166 EUR to other subjects, i.e. it bought companies for that amount. These party firms had a privileged position in the market and they were favored by the Government.

Suddenly, party leaders (president, vice-presidents and secretary) of VMRO-DPMNE were put in the position to apply for the title “best managers in the year”.

As it was already said, after the initiative of one small political party, the Constitutional court repealed this part of Article 28 of the Law on political parties. There was no more legal basis for operating of these firms.

So, what happened with the companies of VMRO-DPMNE? The party decided not to give up of its commercial activities, but to evade the law. President of the Government of Republic of Macedonia and President of VMRO-DPMNE Ljupco Georgievski said in one interview: “VMRO-DPMNE decided to donate or to sell for very low prices all stocks in its firms to the people from the party.” (*Dnevnik*, 31 December 2001, 5.)

That means that the Executive committee of the party chose few reliable members of the party (the secretary of the party, his driver and some other) “to give them the firms as presents”, or “to sell them at very low prices”.

For the President of the Government and of VMRO-DPMNE at that time, “that is not a crime”. (*Dnevnik*, 31 December 2001, 5)

4.6. Problems (illegalities) with regard to the party funding in Macedonia

Party funding and financing of electoral campaigns are problematic even in the established democratic systems. The solution of these problems is not easy at all. The governments are fighting with these problems through adopting legal rules about: limits of party expenditures, limits of campaign expenditure, limits of donations, ban against certain types of contribution, disclosure regulations etc. Still, it is a notorious truth that laws and legal rules have little value, unless they are enforced. Actually, the proper enforcement of legal rules is real problem in most of the countries. In Macedonia, the problems are bigger because of the permanent violation of the legal rules and partisanship of the state bodies that should control the financing of political parties.

The biggest problem of the party funding in the Republic of Macedonia is the illegal financing, which includes many forms of illegal donations.

a) There is a public suspicion that there are cash (secret) donations to political parties. Cash donations lead to the existence of double accounting. But double accounting is not problematic only in the case of political parties, but also in the work of many legal entities in Macedonia. The amount of money which is possessed by the companies in cash opens the possibility for making such secret donations. There are at least two reasons for giving such donations.

b) This type of illegal donations is closely connected with the other form of illegality - exceeding of the limits for donations.

c) The third form of illegal financing is financing from the prohibited sources - from state bodies or companies owned by the state.

d) The fourth form of illegal financing are the donations from profits of organized crime. There is a public suspicion that some political parties are partially financed by people involved in the business with drugs, prostitution, arms, illegal gambling...

These evasions of the legal rules on party funding form a part of the corrupt practices in Macedonia. By giving money to the political parties, companies receive improper favors on the market. They get better chances than the other companies to earn money on the market, they get priority in the business with state bodies and state companies (of course if they donate to the governmental party), they even get an opportunity to obtain illegal profits, customs exemptions etc.

In its Evaluation Report on Transparency of Party Funding, adopted in 2010, GRECO said that although the legal framework was "well developed and contains a number of strong features", in practice there was "a lack of effective implementation of the rules on political financing". This problem could be attributed to a "scattered and generally inefficient system of external supervision" that may lead to "possible infringements to the political financing rules not being prosecuted". Because of that, among other, GRECO recommends provision of a "leading independent body assisted, if appropriate, by other authorities, with a mandate and adequate powers and resources to carry out a proactive and effective supervision, investigation and enforcement of political financing regulations".

5. Conclusion

Today, it is very difficult to imagine the existence of the politics without political parties. But, it is also difficult to imagine the existence of the political parties without money. Financing is one of the essential conditions for the existence of political parties.

The political parties in Macedonia in general are funded by donations, membership fees and the budget. More precisely, the big political parties are funded by these three sources of funding. The small political parties get nothing or very little of these sources. That is why most of them exist only in the court register.

The main sources of financing of the political parties are the donations. The "race" for these donations especially begins before the elections. That puts political parties and candidates in some kind of debtor's position in relation to the big donors. All other political parties are dependent on the donations by the corporations.

The system of party funding in Macedonia in which the biggest part of money derives from the donors gave more chances to major political parties. Funding from the budget is not enough to provide "decent life" of smaller political parties. Neither the donors are interested to help their survival, because the motives for donations are not altruistic, but very practical.

The party and campaign financing from donations in Macedonia is closely connected with corruption. Big donations to the political parties are always paid back. In return for their donations to the governmental political party, donors get favors on the market, which increase their chances for bigger profit.

The contribution of the citizens in party financing is very small. Membership fees are not collected on the regular basis. No political party thinks about introducing penalties for the members who are not paying their membership fees. In a country like Macedonia, where most of the people hardly manage to cover their living expenses, the political parties are fighting for their votes, not for their money. At least not in a form of membership fees.

The third source of financing is the Budget. But the Budget of the Republic of Macedonia is very “thin” and not able to protect the autonomy of the political parties from the interests of the big business.

One of the biggest problems in Macedonia is corruption in politics. Most of it is a result of the incapability of the state bodies that are competent to enforce legal rules on financing of political parties, as well as financing of electoral champagnes. So, despite of the existence of the rules for party financing which determine the forbidden sources of funding, limits of donations etc, these rules are grossly violated. And they are violated by those who are trying to attract citizen’s support promising the establishing of the rule of law.

SOURCES:

1. Amendments to the Constitution of the Socialist Republic of Macedonia, Official gazette of SRM, no. 28/1990
2. Balance of the incomes and revenues of Liberal Democratic Party for 1999
3. Balance of the incomes and revenues of Liberal Democratic Party for 2000
4. Balance of the incomes and revenues of Social Democratic Union of Macedonia for 1999
5. Balance of the incomes and revenues of Social Democratic Union of Macedonia for 2000
6. Balance of the incomes and revenues of Social Democratic Union of Macedonia for 1999
7. Balance of the incomes and revenues of Social Democratic Union of Macedonia for 2004
8. Balance of the incomes and revenues of Social Democratic Union of Macedonia for 2010
9. Balance of the incomes and revenues of VMRO-DPMNE for 2000
10. Balance of the incomes and revenues of VMRO-DPMNE for 2004
11. Constitution of the Republic of Macedonia from 1991
12. Constitution of the Socialist Republic of Macedonia from 1974
13. Customs law, Official gazette of RM, 21/1998
14. Decision for the amount and manner of paying membership fee, Social Democratic Union of Macedonia, 18 March 1999
15. Decision of the Constitutional court, Official gazette of the Republic of Macedonia, No. 23/2001
16. *Dnevnik*, 31 December 2001, p. 5.
17. Evaluation report on Transparency of Party Funding, Adopted by GRECO at its 46th Plenary Meeting (Strasbourg, 22-26 March 2010)
18. Law for associations of citizens and foundations Official Gazette of the Republic of Macedonia, No. 31/98.
19. Law for social organizations and associations, Official gazette of SRM, no. 13/1990
20. Law on political parties, Official gazette of the Republic of Macedonia, No. 41/1994
21. Law on political parties, Official gazette of the Republic of Macedonia, No. 76/2004, 5/2007, 8.2007, 7/2008 and 2011
22. Law on financing of political parties, Official gazette of the Republic of Macedonia, No.76/2004, 86/2008, 161/2008, 96/2009 and 148/2011
23. Law on tax on property, Official gazette of the Republic of Macedonia, No. 80/93, with changes in no. 3/94 and 71/96
24. Law on taxes on income, Official gazette of the Republic of Macedonia, No. 80/93, with changes in no. 43/95; 71/96 and 11/2001.
25. Statute of Liberal Democratic Party
26. Statute of PDP
27. Statute of Social Democratic Union of Macedonia
28. Statute of VMRO-DPMNE
29. Smilov, Daniel and Jurij Toplak, "Political corruption in Eastern Europe- Transition period", Ashgate, 2007.

Renata Treneska-Deskoska, Ph.D.

**FINANCING OF POLITICAL PARTIES IN REPUBLIC OF
MACEDONIA (1991 – 2012)**

(Abstract)

Ever since 1991 Republic of Macedonia faces the challenge to obtain stable financing of political parties, to avoid structural biases in favor of particular political parties, to avoid political corruption and to ensure transparency of party funding.

This article deals with a part of these challenges, i.e. with the financing of regular work of the political parties, apart from the financing of electoral campaign. It analyses the legal framework regulating party funding in the period from 1991 until now. It also analyses the practice of implementation of the legal rules in this area, as envisaged in the Law on political parties from 1994 and the Law on financing of political parties from 2004.

The author opens the questions of donations and membership fees as sources for party funding, as well as the public party funding. The article also points to the illegalities in party funding in Macedonia ever since 1991.

The author concludes that one of the biggest problems in Republic of Macedonia is corruption in politics. It is mostly a result of the incapability of the state bodies that are competent to enforce legal rules on financing of political parties, as well as financing of electoral champagnes. So, although there are rules regulating the party financing which determine the forbidden sources of funding, limits of donations etc, they are grossly violated.