



Groupe d'Etats contre la corruption  
*Group of States against corruption*

**DIRECTORATE GENERAL OF HUMAN RIGHTS AND LEGAL AFFAIRS**  
**DIRECTORATE OF MONITORING**



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## **Third Evaluation Round**

### **Evaluation Report on "the former Yugoslav Republic of Macedonia" Transparency of Party Funding (Theme II)**

Adopted by GRECO  
at its 46<sup>th</sup> Plenary Meeting  
(Strasbourg, 22-26 March 2010)

## I. INTRODUCTION

1. “The former Yugoslav Republic of Macedonia” joined GRECO in 2000. GRECO adopted the First Round Evaluation Report (Greco Eval I Rep (2002) 7E) in respect of “the former Yugoslav Republic of Macedonia” at its 12<sup>th</sup> Plenary Meeting (9-13 December 2002) and the Second Round Evaluation Report (Greco Eval II Rep (2004) 11E) at its 25<sup>th</sup> Plenary Meeting (Strasbourg, 10-14 October 2005). The aforementioned Evaluation Reports, as well as their corresponding Compliance Reports, are available on GRECO’s homepage (<http://www.coe.int/greco>).
2. GRECO’s current Third Evaluation Round (launched on 1 January 2007) deals with the following themes:
  - **Theme I – Incriminations:** Articles 1a and 1b, 2-12, 15-17, 19 paragraph 1 of the Criminal Law Convention on Corruption (ETS 173)<sup>1</sup>, Articles 1-6 of its Additional Protocol<sup>2</sup> (ETS 191) and Guiding Principle 2 (criminalisation of corruption).
  - **Theme II – Transparency of party funding:** Articles 8, 11, 12, 13b, 14 and 16 of Recommendation Rec(2003)4 on Common Rules against Corruption in the Funding of Political Parties and Electoral Campaigns, and - more generally - Guiding Principle 15 (financing of political parties and election campaigns).
3. The GRECO Evaluation Team for Theme II (hereafter referred to as the “GET”), which carried out an on-site visit to “The former Yugoslav Republic of Macedonia” from 23 to 25 September 2009, was composed of Mr Karen GEVORGYAN, Deputy Dean of International Relations, Faculty of Law, Yerevan State University (Armenia), Mr Jussi AALTONEN, Ministerial Adviser, Ministry of Justice (Finland) and a scientific expert, Mr Frank ENGEL, Member of the European Parliament (Luxembourg). The GET was supported by Ms Laura SANZ-LEVIA and Ms Sophie MEUDAL-LEENDERS from GRECO’s Secretariat. Prior to the visit the GET was provided with a comprehensive reply to the Evaluation questionnaire (document Greco Eval III (2009) 6E REPQUEST, Theme II) as well as copies of relevant legislation.
4. The GET met with representatives from the following state organisations: the State Electoral Commission, the State Audit Office, the State Commission for Preventing Corruption, the Assembly’s Commission on Political System, Ministries of Justice and Finance, the Public Revenue Office. The GET also met representatives and accountants of four of the major political parties: VMRO-DPMNE (Internal Macedonian Revolutionary Organisation - Democratic Party for Macedonian National Unity, liberal, main party of the ruling coalition), SDSM (Social Democratic Union of Macedonia, opposition), DUI (Democratic Union for Integration, member of ruling coalition) and LDP (Liberal Democratic Party, opposition), as well as representatives of Transparency International and an academic.
5. The present report on Theme II of GRECO’s Third Evaluation Round on Transparency of party funding was prepared on the basis of the replies to the questionnaire and the information provided during the on-site visit. The main objective of the report is to evaluate the measures adopted by the authorities from “the former Yugoslav Republic of Macedonia” in order to comply with the requirements deriving from the provisions indicated in paragraph 2. The report contains a

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<sup>1</sup> “The former Yugoslav Republic of Macedonia” ratified the Criminal Law Convention on Corruption (ETS 173) on 28 July 1999. The Convention entered into force in respect of “the former Yugoslav Republic of Macedonia” on 1 July 2002.

<sup>2</sup> “The former Yugoslav Republic of Macedonia” ratified the Additional Protocol to the Criminal Law Convention (ETS 191) on 14 November 2005. It entered into force in respect of “the former Yugoslav Republic of Macedonia” on 1 March 2006.

description of the situation, followed by a critical analysis. The conclusions include a list of recommendations adopted by GRECO and addressed to “the former Yugoslav Republic of Macedonia” in order to improve its level of compliance with the provisions under consideration.

6. The report on Theme I – Incriminations, is set out in Greco Eval III Rep (2009) 6E-Theme I.

## **II. TRANSPARENCY OF PARTY FUNDING – GENERAL PART**

### Definition of political party

7. According to Article 2(1) of the Law on Political Parties, a political party is a voluntary organisation of citizens, constituted for the purpose of exercising and protecting political, economic, social, cultural and other rights and beliefs and for participating in the political decision-making process when part of the authority.
8. Political parties may set up legal entities, such as think-tanks or research institutes, but only for non-profit purposes.

### Founding and registration

9. The Law on Political Parties sets the following conditions for the founding of political parties: they may be founded by at least 1000 citizens of “the former Yugoslav Republic of Macedonia” who have the right to vote and have signed a founding statement of the party. A person may not sign the founding statement of more than one party. Registration of political parties is compulsory and has to be renewed every 4 years by gathering and submitting a new list of 1000 signatures (Article 11, Law on Political Parties).
10. In order to be registered, newly founded parties have to submit, within 30 days of the date of their founding assembly, an application to the first instance court in the jurisdiction of which they have their seat (Article 18, Law on Political Parties). This application is to include:
  - the minutes of the founding assembly;
  - the founding decision;
  - the founding statements;
  - the statutes of the party and its work programme;
  - the decision of election of the bodies of the party, indicating the names of the president or representative of the party and of the person(s) in charge of the party’s financial activities;
  - the citizenship certificates of the founders;
  - an illustration of the logo of the party.
11. The court checks that the application and supporting documents are complete and fulfil the conditions set out by the Law on Political Parties and if it is satisfied, it issues a decision of entry of the political party into the court registry. In case the application is incomplete or the programme, statutes, name or logo are contrary to the law, it asks the applicant to make the necessary corrections; if the result of this process is still unsatisfactory, it rejects the application. This decision is subject to appeal to the Appeal Court of Skopje (Articles 20 to 25, Law on Political Parties).
12. A copy of all data contained in the decentralised court registers is held in a central single court register of political parties, kept at the Basic Court of Skopje 2 (Article 17-a, Law on Political Parties). This registry - containing the name, abridged name, seat of the party as well as the

names of its president or representatives and of the person(s) in charge of the party's financial activities - is public (Article 17, Law on Political Parties).

13. From the moment of entry in the court registry, the political party acquires legal personality and has to open a bank account within the next 15 days (Article 26, Law on Political Parties). From that moment on the party is liable for its obligations with all its assets.
14. At the time of the GET visit, there were 90 registered political parties, some of which were in the process of re-registering as required by law (see paragraph 9). The two major parties, which have shared power since 1991 are the VMRO-DPMNE (Internal Macedonian Revolutionary Organisation - Democratic Party for Macedonian National Unity) and the SDSM (Social Democratic Alliance of Macedonia) which, at the latest elections, formed part of the SUN Coalition.

### Participation in elections

15. "The former Yugoslav Republic of Macedonia" has a uni-cameral Parliament, the *Sobranie*, composed of 123 members elected for a four-year term by universal and direct vote, following a model of proportional representation. The President of the Republic<sup>3</sup> is elected by direct popular vote for a five-year term, with a maximum of two consecutive terms in office. Lists of candidates for the office of President of the Republic may be submitted by at least 10 000 voters or 30 members of Parliament (Article 59, Electoral Code).
16. According to Article 22 of the Constitution, all citizens who have reached the age of 18 have the right to vote, unless they have been deprived of the right to practice their profession by a court verdict. Similarly, citizens having reached the age of 18, having working capacity and who are not serving a sentence of imprisonment for a criminal offence or have been sentenced by a final court decision to unconditional imprisonment of at least 6 months, have the right to be elected to Parliament (Article 7, Electoral Code)<sup>4</sup>
17. Any registered political party or group of parties as well as any group of at least 1 000 voters has the right to propose a list of candidates to Parliament (Articles 60 and 61, Electoral Code). The person who formally submits a list of candidates is considered as a "campaign organiser" (Article 70, Electoral Code) for the purpose of the application of the provisions of the Electoral Code on election campaigns.
18. For the purposes of the parliamentary elections, the territory of the country is divided into six electoral districts, in each of which 20 members of Parliament are elected (Article 4(2), Electoral Code). These districts gather approximately equal numbers of voters, but their boundaries do not correspond to any other administrative or territorial division. The remaining 3 members of Parliament represent citizens living abroad and are elected by proportional representation, one from each of the three districts of Europe and Africa; North and South America; and Australia and Asia.

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<sup>3</sup> Although the Constitution entrusts the president with some powers, the president's position is mainly of a ceremonial nature. The most recent presidential elections took place in May 2009, when Gjorge Ivanov was elected.

<sup>4</sup> The same conditions apply to the right to be elected in local elections, with the added condition of residence in the municipality where the candidate wishes to stand (Article 7, Electoral Code). Candidates to the office of President of the Republic have to be citizens, at least 40 years old, and must have resided on the territory of the country during at least 10 years during the 15 years preceding the election (Article 80, Constitution).

19. The 120 parliamentary seats are awarded according to a proportional electoral system, following the D'Hondt method<sup>5</sup>. After determining the total number of votes cast in every electoral district, each list of candidates put forward is divided by 1, 2, 3, 4 and so on until all 20 seats of the district are allocated. There is no threshold for entering Parliament.
20. Local elections comprise elections to the local councils as well as the council of the city of Skopje. These are held every four years and are based on a proportional electoral system; elections for mayors of the municipalities and the city of Skopje are held every four years and follow a majority electoral mode.

#### Party representation in Parliament

21. The last parliamentary elections took place on 1 June 2008: 18 parties, coalitions or voters groups took part in these elections<sup>6</sup>, of which 5 acquired seats:
 

- Coalition VMRO-DPMNE	- 63 seats
- SUN Coalition for Europe	- 27 seats
- Democratic Union for Integration (DUI)	- 18 seats
- Democratic Party of the Albanians (DPA)	- 11 seats
- Party for European Future (PEI)	- 1 seat
22. The VMRO-DPMNE Coalition, the Democratic Union for Integration (DUI) and the Party for European Future (PEI) form the current coalition government.

#### Overview of the political funding system

##### Legal framework

23. The Law on Financing of Political Parties No 76/04 (LFPP), adopted in 2004, governs the funding of political parties. It covers the funding of the routine activities of political parties and their supervision and was last amended in July 2009. Some provisions on the financing of political parties are also contained in the Law on Political Parties, which was first adopted in 1994 and amended in 2007.
24. The financing of electoral campaigns is regulated in Chapter VI of the Electoral Code – Election Campaign and Financing of the Election Campaign No 40/2006, which was revised on 29 October 2008 and deals with the organisation of the campaign, access to the media, financing of the elections, financial reports and reimbursement of election expenses.

<sup>5</sup> The D'Hondt method is a highest averages method for allocating seats in party-list proportional electoral systems.

<sup>6</sup> These political parties and coalitions were: Group of electors PM, Group of electors PG, VMRO Democratic Party, Party for Democratic Prosperity, National Democratic Union, Party of Free Democrats, Democratic Union of the Albanians, Permanent Macedonian Radical Unification, Party for European Future, Radical Party of the Serbs in Macedonia, Democratic Union for Integration, Movement for National Unanimity of the Turks, Democratic Party of the Albanians, Father's Macedonian Organisation for Radical Renewal – Vardar-Egej-Pirin, SUN Coalition for Europe (gathering the Social Democratic Union of Macedonia, New Social Democratic Party, Liberal-democratic Party, Liberal Party of Macedonia, New Alternative, Green Party of Macedonia, Party of Pensioners of the Republic of Macedonia, Democratic Union of the Vlachs from Macedonia), Social Democratic Party of Macedonia, Coalition VMRO-DPMNE (composed of the Socialistic Party of Macedonia, Democratic Union, Democratic Renewal of Macedonia, Democratic Party of the Turks of Macedonia, Democratic Party of the Serbs of Macedonia, Union of the Roma in Macedonia, Macedonia's United Party for Emancipation, Party of Justice, Party of Democratic Action of Macedonia, Party of the Vlachs of Macedonia, Party for the Integration of the Roma, People's Movement for Macedonia, Bosniaks Democratic Party, Party of the Green, Democratic Union of the Roma, Labour Agricultural Party of the Republic of Macedonia, Party for Full Emancipation of the Roma) and Union of Tito's Left Forces.

25. Some provisions on the supervision of political parties and election campaigns are also contained in the laws governing the various supervisory institutions, especially the Law on Prevention of Corruption No 28/2002, amended in 2004 and 2006 and the State Audit Law No 95/97, last amended in 2006.

#### Direct public funding

##### *Political parties*

26. A percentage (0.06 %) of the annual budget of the State as well as of the budgets from the municipalities and the city of Skopje is devoted yearly to the funding of political parties (Article 9, LFPP). These funds are distributed periodically – quarterly, bi-annually or annually depending on the available liquidities - according to the following formula: 30 % is distributed equally between all parties that won at least 1% of the votes cast in the last parliamentary or local elections. The remaining 70% is distributed among the political parties in proportion to the number of their elected representatives in Parliament or in the municipalities' councils (Article 10, LFPP). The Ministry of Finance calculates the amount due to each political party on the basis of the information sent by the State Electoral Commission on their respective number of votes and seats in the last elections.
27. The 2009 State budget amounts to about 2.5 billion Euros, bringing the total amount of public funding of political parties, outside of election campaigns, to some 1.5 million Euros. For the bigger parties, this represents the main source of funding in years when no election is taking place.

##### *Election campaigns*

28. The Electoral Code provides for direct public funding of election campaigns through reimbursement of electoral campaign expenses. This reimbursement, however, is reserved for the elected candidates, who are entitled to receive MKD 15 (0.25 Euros), paid from the state or local budgets for each vote obtained (Article 86, Electoral Code).
29. Reimbursement of campaign expenses is granted by a decision of Parliament, the relevant municipal council or the Council of the city of Skopje, upon presentation by the campaign organiser of a financial report of the campaign (Article 86, Electoral Code).

#### Indirect public funding

30. Some forms of indirect public funding of election campaigns are foreseen in the Electoral Code: campaign hoarding (billboards) are provided free of charge by municipalities (Article 78, Electoral Code) and public meeting rooms (schools, cultural centres or other state or municipal buildings), equipment and facilities may be used for electoral rallies if no other appropriate facilities are available (Article 82, Electoral Code). The public media is not allowed to provide free political advertisement, with the exception of the free air time which is allocated on an equal basis to all candidates to elections, in order for them to present themselves and their programme (Article 75, Electoral Code).

## Private funding

### *Political parties*

31. Pursuant to Article 13 LFPP, political parties may only receive private funding in the form of:
  - membership fees;
  - donations in cash, assets or services, both from natural and legal persons;
  - bequests of immovable or movable property;
  - revenue from the sale of advertising goods;
  - income from party property, bank accounts and activities (such as ticket sales to events organised by the party).
  
32. As regards the amount/size/periodicity of private contributions, Article 16 LFPP provides that contributions from any individual donor may, for natural persons, not exceed 75 times the average monthly salary in a given year and for legal persons, 150 times the average monthly salary<sup>7</sup>. The donation ceilings are therefore of about MKD 1,5 millions (24,877 Euros) for natural persons and MKD 3 millions (49,754 Euros) for legal persons. The GET was informed that this source of funding is a form of investment during election periods, especially for the main parties, as the donors expect “paybacks” if the party they support is successful in the elections.
  
33. A number of restrictions apply to the sources of private funding. According to Article 20 LFPP, political parties may not receive funding from:
  - foreign governments, natural and legal persons, as well as international organisations and institutions;
  - companies controlled by foreign investors;
  - state and local government bodies, other than those allocated to direct public funding as explained above (see paragraph 26);
  - public institutions, enterprises and funds who manage state funds;
  - public institutions, enterprises and funds created by municipalities;
  - public institutions and companies of which the state owns 20% or more of the shares;
  - private companies providing goods or services to state bodies;
  - non-governmental organisations, religious communities and groups;
  - anonymous or unidentified sources.
  
34. Membership fees paid by each party member may not amount to more than one average monthly salary<sup>7</sup> (Article 14, LFPP). The parties met by the GET during the visit reported that membership fees paid by their members range from about 50 Eurocents to 2.5 or 3 % of their members' net income. Some party members such as students or single mothers are exempt from the payment of this fee, while elected representatives and members having responsibilities within the party have to pay a higher fee. This is an important source of funding for parties, especially outside of election periods. Parties met during the visit reported an increase in membership and thus in income from membership fees when a party is in power and a decrease when it is in opposition.

### *Electoral campaign period*

35. Pursuant to Article 83 of the Electoral Code, the allowed sources of private funding for election campaigns are political party membership fees, donations from natural persons of up to 5 000 Euros and donations from legal persons of up to 20 000 Euros. Donations may be in the form of cash or in-kind. Goods and services which are provided free of charge or are paid for by a third

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<sup>7</sup> June 2009 average net salary: about MKD 20,000 (332 Euros)

- party are regarded as donations and fall therefore within these limits (Article 83-a, Electoral Code).
36. By contrast, goods and services provided at a discounted price are not covered by the limits for private donations (Articles 83(3) and 83-a, Electoral Code). This applies in particular to discounts given by media broadcasters and printed media to the participants in electoral campaigns.
  37. Private funds have to be deposited on a special bank account which is to be opened by the campaign organiser for the purposes of covering the election expenses (Article 71, Electoral Code). All campaign expenses have to be paid from this bank account, which has to be opened within 48 hours of approval by the relevant electoral commission of the list of candidates (Article 71, Electoral Code). The bank account is closed after the election, once the campaign expenses have been reimbursed by the state (see paragraphs 28 and 29).
  38. As regards limits or restrictions on the types of private funding allowed in the context of an election campaign, Article 83 of the Electoral Code foresees restrictions that are similar to those applicable to political parties. These prohibitions concern funding from:
    - the state budget other than those allocated to direct public funding as referred to above (see paragraph 26);
    - the budgets of municipalities and the city of Skopje other than those allocated to direct public funding as referred to above;
    - public enterprises and institutions;
    - associations, foundations, religious communities and groups;
    - foreign governments, natural and legal persons as well as international organisations and institutions;
    - joint ventures whose capital is controlled by foreign investors;
    - unidentified sources.
  39. In case the private donations exceed the above-mentioned limit or their origin cannot be determined, the campaign organiser has to transfer them to the state budget (Article 83 (4), Electoral Code).

#### Taxation regime

40. There are no tax incentives for private donations to political parties or election campaigns (article 17, Law on donations and sponsorships in the public domain No 47/06 and 86/06).

#### Expenditure

41. There are no general restrictions on the expenditure of political parties. In the context of election campaigns, however, Article 84 of the Electoral Code provides that campaign organisers may spend no more than MKD 180 (2.93 Euros) per registered voter in the electoral district where the list of candidates has been deposited. These expenses must only be paid from the bank account opened during and for the electoral campaign (see paragraph 37).

### III. TRANSPARENCY OF PARTY FUNDING – SPECIFIC PART

#### (i) Transparency (Articles 11, 12 and 13b of Recommendation Rec(2003)4)

##### Books and accounts

42. According to Article 23 LFPP, 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 Organisations. Income must be recorded according to type, amount and source. The GET was informed that the main political parties follow an analytical system of accounting, with individually itemised records of income and expenses. The local branches of the parties report on their income periodically at central level and payment of expenditure is made at central level, the parties having 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 (Article 26, LFPP).
43. Books and accounts are to be kept for specific lengths 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.
44. In addition, political parties have to keep a register of donations received, with information about the name of each donor, the type and amount of the donation and the date it was received (Article 17 LFPP). This obligation also applies in the context of election campaigns (Articles 83-b and 85, Electoral Code). The GET was informed that a Rulebook and a template for the registration of donations were issued by the Ministry of Finance on 9 November 2009.

##### Reporting obligations

45. Political parties have to prepare an annual report by 31 March every year on the operations of the party and its branches for the previous year. This report includes data on the various assets and sources of income (overall revenue, grants, money, material means, equipment, services, own revenue, membership fees) and on overall expenditure (Article 27 LFPP). This report is submitted to the State Audit Office, the Public Revenue Office, the Ministry of Finance and the Central Registry (Article 26, LFPP).
46. Parties are also subject to specific reporting obligations regarding private funding: according to Articles 17 and 25 LFPP, the parties have to draw up a quarterly report on donations received, on the basis of data contained in the registry of donations (see paragraph 44). Such reports are submitted to the Ministry of Finance and the State Audit Office and since the July 2009 amendments to the LFPP, they are also sent to the Public Revenue Office.

##### *Electoral campaign period*

47. At the latest 15 days after the election, campaign organisers have to submit an overall financial report on the campaign, in order to obtain reimbursement of campaign expenses. Such reports are to be drawn up following a template to be issued by the Ministry of Finance and are to be submitted to the State Electoral Commission, the State Audit Office, the State Commission for Preventing Corruption and Parliament. In the case of local elections, such reports are also to be

sent to the councils of the municipalities and the Council of the city of Skopje (Article 85, Electoral Code).

48. The media is also subject to some reporting obligations, in order to ensure that the provisions of the Electoral Code regarding equal treatment of candidates are respected. Advertising media have to submit a report, at the latest, 15 days after the election on the advertising spaces that were allocated to each list of candidates and the price that was applied. Such reports, prepared on a template issued by the Ministry of Finance, are to be submitted to the State Electoral Commission, the State Audit Office and the State Commission for Preventing Corruption (Article 85-a, Electoral Code).

#### Publication requirements and access to accounting records

##### *Political parties*

49. Article 23 LFPP establishes a general principle of publicity of political parties' revenues and expenditures. For the sake of transparency, the recent amendments to this law have added further publication requirements: political parties have to publish their entire annual financial reports on their website, in the Official Gazette and in at least one daily newspaper (Articles 26 and 27-a LFPP). The registry of donations and the list of donors also have to be made public.
50. In addition, political parties are subject to the law on free access to public information, similar to that which applies in respect of state institutions.

##### *Election campaigns*

51. Article 85 of the Electoral Code provides that the financial reports submitted by the campaign organisers are to be published by the State Election Commission on its website.
52. Audits performed by the State Audit Office on these financial reports are also made public by the Office on its website (Article 85 b, Electoral Code).
53. Reports submitted by the media on political advertising during the campaign are also to be made public by the recipient institutions – State Election Commission, State Audit Office, State Commission for Preventing Corruption – on their respective websites (Article 85-a, Electoral Code).

#### **(ii) Supervision (Article 14 of Recommendation Rec(2003)4)**

##### Internal supervision

54. According to Article 24 LFPP, political parties have to foresee in their statutes, or in another document, a mechanism for internal supervision and appoint a body to that effect. Representatives of the major political parties informed the GET that they had met this obligation by establishing a hierarchical mechanism of approval of the accounts and financial reports. These accounts and financial reports, drawn up by professional accountants employed by the parties, are reviewed by an internal monitoring body and then endorsed by the party's general assembly or central committee.

## External supervision

55. Responsibilities regarding the external supervision of political parties are scattered among a number of bodies.

### *State Audit Office*

56. Public funding of political parties and election campaigns is subject to external supervision by the State Audit Office (Article 1, Law on State Audit; Article 26, LFPP; Article 85 Electoral Code). The State Audit Office is an independent institution, whose head and deputy head are appointed by Parliament for a term of 10 years (Article 13, Law on State Audit). State auditors are specialised in economy or law and have work experience in accounting or financial operations. They must be independent from the party that they are checking (Article 26, LFPP). During the on-site visit, the GET was informed that the State Audit Office performs about 90 audits per year among all institutions and bodies that are subject to its control.
57. Pursuant to Article 6 of the Law on State Audit, political parties receiving public funding are among the bodies that should be audited at least once a year by the State Audit Office, according to its annual programme. Competence of the State Audit Office over the public funding of political parties was introduced in 2005 and the GET was informed that, during that year, the State Audit Office checked the accounts of some political parties. Since then, however, political parties have not been audited, as the State Audit Office operates on the basis of its annual programme, that contains criteria for selecting the entities subject to audit. Although the State Audit Office is one of the recipients of the annual financial reports and the quarterly reports on donations (see paragraphs 45 and 46), political parties have not so far been subject to checks. The State Audit Office could decide to perform a specific audit on the accounts of a political party if it receives a complaint, but this has not yet materialised.
58. By contrast, the State Audit Office does perform a regular check on public funds received and spent during election campaigns (Article 5, Law on State Audit), on the basis of the financial reports submitted by campaign organisers (see paragraph 47). The aim of this control is to ascertain that the ceilings on donations and expenditures have been respected, that the donations have not come from forbidden sources and that the rules issued by the Ministry of Finance on reporting and account formats have been complied with. The GET was informed that the reason for the focus on election campaigns is that they concern large flows of money and that, consequently, the risks of illegal funding and expenses are believed to be higher.
59. The report prepared by the State Audit Office on public funds during election campaigns is submitted to the authorities that are competent to supervise the audited entity's operation (Article 23, Law on State Audit), that is, in the case of political parties, the Ministry of Finance and the Ministry of Justice. Moreover, all reports containing financial findings are submitted to the Ministry of Finance (Article 23, Law on State Audit). The State Audit Office may also send its reports to Parliament if it finds that "the financial statements do not provide a true and fair representation of the position and the results of the operations" (Article 24-a, Law on State Audit).
60. If, in the course of the audit, the State Audit Office has reasonable grounds to suspect that a criminal offence has been committed, it must inform the public prosecutor (Article 24, Law on State Audit).

### *State Commission for Preventing Corruption*

61. The State Commission for Preventing Corruption is competent to monitor the financial activities of the parties, both during election campaigns and in respect of their regular activities, in particular to ensure that they do not obtain and use anonymous or illegal sources of funding (Article 13(1), Law on the Prevention of Corruption) or public funds other than those specifically allocated to the funding of political parties and election campaigns (Article 10, Law on the Prevention of Corruption).
62. The State Commission for Preventing Corruption is an independent institution, composed of 7 members appointed by Parliament for a non-renewable term of 5 years. They are assisted by a Secretariat of 14 persons, soon to be brought up to 21 or 22. The GET was informed that during election periods, most of the staff is involved in the monitoring of election campaigns. Outside of election periods, one adviser is specialised in the regular funding of political parties. The State Commission for Preventing Corruption may act upon reports by citizens, media, anonymous reports and on its own initiative.
63. The GET was informed that the State Commission for Preventing Corruption exercises supervision on three parallel lines, by checking the financial reports on election campaigns submitted by campaign organisers, the reports by the Broadcasting Council on paid political advertisement (see paragraph 72) and by comparing the information contained in those reports.
64. If it has reason to suspect irregularities, the Commission may ask the competent authorities, that is the Public Revenue Office, the financial police and other state authorities, to start an investigation and examine the movements on a party's or candidate's bank accounts (Article 13, Law on the Prevention of Corruption). The Commission may also contact the banks directly. On the basis of its findings, the Commission may submit a report to Parliament if public funds have been misused in the framework of an election campaign or more generally (Article 12, Law on the Prevention of Corruption).

### *Public Revenue Office*

65. The competence of the Ministry of Finance to monitor the financial activities of political parties is exercised by the Public Revenue Office (Article 26, LFPP), which is a governmental body placed under its authority. Although the main mission of the Public Revenue lies with the implementation of tax policy and the collection of taxes, it is also competent to monitor the financial activities of political parties (Article 26, LFPP). It has a staff of 1200 persons, 300 of which are working on external audits. Inspectors are independent from the party they are monitoring (Article 26, LFPP).
66. The supervision of the Public Revenue Office focuses on the expenditure of political parties, both in the framework of their regular activities and during election campaigns, on the basis of the parties' annual reports and accounts, as well as the election campaign accounts. The Public Revenue Office operates following a plan of action, according to which it monitors about one party per year.
67. The Public Revenue Office has no investigative powers. If it suspects irregularities, it reports to the Financial Police for further investigation. On the basis of its findings, it may also report to the competent authorities in order for them to initiate misdemeanour proceedings.

### *Other bodies*

68. Several other bodies have a more remote involvement in the supervision of political parties:
69. The State Election Commission, which is in charge of organising and monitoring elections, has the duty to receive the financial reports submitted by election campaign organisers and to publish them on its website. However, its role is limited to making sure that the reports are received within the prescribed deadline and to taking appropriate action if they are not; it does not perform any check on the content of these reports and publishes them as they have been received.
70. The State Election Commission is also competent to initiate disciplinary, misdemeanour or criminal proceedings if it suspects that the provisions of the Electoral Code – including those on the funding of electoral campaigns – have been violated (Article 31(3), Electoral Code). However, the GET was informed that in practice, as regards funding provisions, this competence is exercised in consultation with the State Audit Office: on the basis of the findings of the latter, both institutions agree on which of them should initiate the appropriate proceedings.
71. The reports on election campaigns are also submitted to Parliament for a review, first by the Commission on Political System and then by the Plenary itself.
72. Finally, the Broadcasting Council monitors, *inter alia*, compliance of the political parties and campaign organisers with the rules regarding paid political advertisement during election campaigns.

### **(iii) Sanctions (Article 16 of Recommendation Rec(2003)4)**

73. The laws governing the financing of political parties and election campaigns contain several provisions on fines that can be imposed upon political parties, persons in charge of the financial management within the parties, campaign organisers and donors for violations, qualified as misdemeanours, of the provisions of these laws. In addition, the Criminal Code foresees a sanction of imprisonment in the case of misuse of electoral campaign funds.
74. The sanctions foreseen by the Law on the Financing of Political Parties were strengthened as a result of the July 2009 amendments, as detailed below:
  - if donors exceed the ceilings on donations, natural persons are subject to a fine of 1,000 Euros to 2,000 Euros in MKD counter value and legal persons to a fine of 5,000 Euros to 10,000 Euros in MKD counter value (Article 28(1), LFPP);
  - in the case of excess of donation ceilings, if the party fails to return the excess funds to the donor, it is liable to a fine from five to ten times the amount of the difference between the amount allowed and the donated amount (Article 28(2), LFPP);
  - if the party fails to transfer funds from anonymous or unidentified sources to the state budget, it is liable to a fine from ten to twenty times the amount of the donation (Article 28(3), LFPP);
  - in addition to the above sanctions, if the party obtains and uses funds from illegal or anonymous sources, it may lose its right to public funding the following year (Article 20(3), LFPP);
  - if the party fails to meet the various reporting and publishing requirements set out by the LFPP, it is liable to a fine of 5,000 Euros to 10,000 Euros in MKD counter value (Article 29, LFPP).

75. These sanctions may be imposed by the first instance court in the jurisdiction of which the political party has its seat (Article 31, LFPP).
76. According to Article 189 of the Electoral Code, political parties are liable to a fine from 4,000 Euros to 5,000 Euros in MKD counter value if they fail to submit the report on the financing of the electoral campaign or if they exceed the limit of allowed expenses. If the person in charge of the financial activities within the party is found responsible, he/she may be fined, from 500 Euros to 1,500 Euros in MKD counter value. These fines may be imposed by the first instance court in the jurisdiction of which the party has its seat, following the initiation of proceedings by the State Electoral Commission. The court's decision is subject to appeal.
77. In addition to the fines described above, pursuant to Article 165 a of the Criminal Code, a prison sentence of up to 3 years may be imposed on a campaign organiser "who misuses his legally defined powers" by:
- failing to report the sources of election campaign funding;
  - failing to submit a financial statement about the campaign expenses;
  - exceeding the legally defined funding limits;
  - using illegal funds;
  - making payments contrary to campaign rules;
  - or in any other way.

#### Immunities

78. There are no immunities foreseen in legislation for offences committed in connection with funding of political parties and/or election campaigns.

#### Statutes of limitation

79. Different statutes of limitations apply, depending on whether the violations are qualified as misdemeanours - this is the case of all violations liable to fines, as described in paragraphs 74 and 76 - or as criminal offences, such as the misuse of electoral campaign funds.
80. For misdemeanours, pursuant to Article 42 of the Law on Minor Offences, the statute of limitations for prosecution is 1 year from the day the misdemeanour was committed. The statute of limitations may be interrupted, but in any case, it may not continue beyond 2 years from the day of commission of the misdemeanour.
81. As regards criminal offences, the statutes of limitation are the following:
- for the prosecution of offences committed by legal persons, 5 years from the commitment of the criminal offence (Article 96-f, Criminal Code);
  - for the execution of sanctions by legal persons, 3 years from the date the judgment became effective in case the sanction is a fine and 5 years in case the sanction involves the prohibition from performing certain activities (Article 96-f, Criminal Code);
  - for the prosecution of offences committed by individuals, 10 years from the date of commitment of a criminal offence for which a sanction of imprisonment of more than 5 years may be pronounced (Article 107, Criminal Code);
  - for the execution of the penalty, 10 years from the date the judgment became effective (Article 109, Criminal Code).

## Statistics

82. In its task of monitoring compliance with the provisions of the law relating to the prevention of corruption during the election campaigns of 2005 (local elections), 2006 (parliamentary elections), 2008 (parliamentary elections) and 2009 (presidential and local elections), the State Commission for Preventing Corruption found no grounds for suspicion of the use of illegal or anonymous sources of funding by political parties and consequently, it did not initiate any proceedings on these grounds.
83. As regards expenses for paid advertisement during election campaigns, the Broadcasting Council found that during the election campaigns of 2005, 2006, 2008 and 2009, the political parties had exceeded several times the allowed limit.
84. In 2009, the State Electoral Commission recommended the initiation of misdemeanour proceedings before competent courts in 127 cases of delayed submission or failure to submit financial reports about the election campaign, 126 of which concerned local elections and 1, the presidential election. No information was provided to the GET on the outcome of these proceedings.

## **IV. ANALYSIS**

85. The legal framework for the financing of political parties and election campaigns in “the former Yugoslav Republic of Macedonia” is recent and rather well-developed. The main law governing party funding and its supervision is the Law on Financing of Political Parties No 76/04 (hereafter LFPP), adopted in 2004 and last amended in September 2009, shortly before the on-site visit. As regards the financing of election campaigns, the relevant legislation is contained in Chapter VI of the Electoral Code – the Election Campaign and Financing of Election Campaign No 40/2006, adopted in 2006 and last amended in October 2008. The provisions contained in the aforementioned laws are fairly extensive and show the intention of the legislator to ensure transparency and accountability of political financing. The Law on Financing of Political Parties in particular, which was adopted as the result of consensus between political parties, contains a number of strong features, such as a ban on foreign and anonymous donations, caps and disclosure rules, including quarterly reports on private donations and a prohibition of “quid pro quo agreements”. The emphasis on transparency, as evidenced by the general principle of publicity of political parties’ revenue and expenditure as well as the various reporting and publication requirements can also be commended. The most recent amendments to this law have remedied a number of shortcomings that existed previously, although it is too early to assess their effectiveness. However, other deficiencies in respect of transparency still remain, the details of which will be examined below.
86. Moreover, in contrast to the rather robust legal framework, there is, in practice, not a single major case of a party or candidate prosecuted or sanctioned for violations of the rules on political financing, even though several interlocutors met by the GET referred to irregularities, for instance as regards the transparency of donations or the caps on expenditure during election campaigns. In the view of the GET, a decisive factor hampering the effective enforcement of legislation in this field is the great number of bodies involved in the supervision of political parties and the fragmented attribution of competences to each of these bodies. As a result, external supervision of political parties and election campaigns is extremely scattered and the GET is concerned that this affects negatively not only the efficiency of the supervision itself, but also compliance with the legislation as a whole.

## Transparency

87. Despite the legal emphasis on transparency, the general perception of the public, as relayed by civil society, is that in a country where cash economy still plays an important role, transparency is generally low in practice and that political parties and candidates for elections receive and spend much more money than appears in their financial reports. As regards expenses incurred during election campaigns, the State Commission for Preventing Corruption, in its 2006 Annual Report<sup>8</sup>, found evidence that some of the main parties had spent three times more than they had reported. The irregularities reported in connection with the 2008 elections were less serious, but overspending was still prevalent, especially in the area of paid political advertisements.
88. The recent amendments to the Law on Financing of Political Parties and to Chapter VI of the Electoral Code – which were adopted in July 2009 and October 2008, respectively, following pressure from civil society for greater transparency – have gone some way towards filling certain gaps that had been identified on previous occasions<sup>9</sup>, by *inter alia*, broadening the definition of donations to more accurately reflect donations in-kind, increasing the ceilings on expenditure during election campaigns and strengthening reporting and disclosure requirements. The GET is of the opinion that these amendments are going in the right direction as they may help increase transparency, in particular during election campaigns.
89. That said, in the interest of achieving proper transparency in the funding of election campaigns, the GET wishes to stress that the rules regarding the financial reference period applicable to election campaigns need to be revisited so that the financial activity during election campaigns is fully accounted for. As explained in the descriptive part of the report (see paragraph 37), under current rules, all expenses related to elections have to be paid from funds deposited on a dedicated bank account, to be opened by the campaign organiser within 48 hours of the approval by the relevant electoral commission of the list of candidates (Article 71, Electoral Code) and to be closed after the election and the reimbursement of the campaign expenses by the state. According to the information gathered by the GET, there are uncertainties as to the start of the campaign period: two dates are of relevance, namely the date at which the elections are announced and the date when the campaign officially starts. Between these two dates, there is a period within which the campaign organisers are unsure as to whether expenses are to be qualified and recorded as campaign expenses – and, as such, paid from the campaign account and reported in the campaign financial report – or as ordinary expenses, appearing in the party's books and accounts concerning routine activity. It is the GET's view that under the current rules, election campaign accounts are opened too late and closed too early to meet all the financial needs of the campaigns: funds have to be raised and some expenses have to be made well in advance, for example to rent a meeting venue or indeed to travel throughout the country in order to collect the necessary signatures to back the lists of candidates – which must be deposited and approved *before* campaign organisers are allowed to open campaign accounts. Likewise, after the closure of campaign accounts, some expenses incurred in connection with the campaign remain to be paid. It was explained to the GET that such income and expenses appear on the party's regular accounts and that money is transferred to the campaign accounts once they are opened in order to meet the campaign's needs. It follows that the current rules on election campaign accounts do not convey the full picture of campaign financing. Consequently, the GET recommends **(i) to introduce clear provisions determining the commencement of an**

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<sup>8</sup> [http://www.dksk.org.mk/en/images/stories/PDF/annual\\_report\\_2006.pdf](http://www.dksk.org.mk/en/images/stories/PDF/annual_report_2006.pdf)

<sup>9</sup> Cf. for instance the Joint Opinion No. 356/2005 on the Electoral Code of "the former Yugoslav Republic of Macedonia", adopted by the Venice Commission and OSCE/ODIHR in June 2006, <http://www.legislationline.org/countries/country/31>

**election campaign in view of the obligation to keep campaign accounts and campaign financial reports; and (ii) to extend the financial reference period applicable to election campaigns so that the financial activity during this period is accurately and comprehensively recorded.**

90. The GET is also troubled by the exception to the ceilings for private donations during election campaigns (i.e. 5,000 EUR from natural persons and 20,000 EUR from legal persons, respectively) provided by Articles 83(3) and 83-a of the Electoral Code insofar as goods and services at discounted prices are concerned. This exception is particularly problematic as regards discounts granted by media broadcasters and printed media to political parties and candidates for election. According to information provided to the GET by several interlocutors, discounts on advertisements as high as 97% of the market price have been granted to political parties by some broadcasters. This practice circumvents legal provisions on donation ceilings and allows virtually unlimited donations from media broadcasters, in particular to the biggest parties and coalitions. In turn, when in government, these parties and coalitions reportedly order advertisements on the government's policies and achievements, which are paid from the state budget at market value. This situation was criticised by several monitoring bodies, including the State Audit Office, the State Commission for Preventing Corruption and the Broadcasting Council, in their reports on recent elections, as well as by international observers such as the Venice Commission of the Council of Europe and the OSCE. Furthermore, in the GET's view, this state of affairs is likely to have a considerable effect on medias' willingness to report in an impartial manner on political financing.
91. The GET further noticed that the provisions of Articles 83(3) and 83-a of the Electoral Code not only represent a way of circumventing the statutory ceilings on private donations during election campaigns, as explained above, but are also in conflict with other legislation in force, notably, the Law on Financing of Political Parties, which requires in its Article 15 that goods and services at discounted prices be accounted for as donations. The GET was informed on-site that a proposal to correct this shortcoming in the Electoral Code had been put forward at the time of the latest amendments in 2008, but that it was not retained in the final version of the law. The GET therefore recommends **to amend the Electoral Code in order to ensure that goods and services granted to election campaign organisers at discounted prices are properly identified and accounted for at their market value, as donations, in order to ensure that the rules on donation ceilings are not circumvented.**
92. Another area where transparency needs to be improved concerns the consolidation of party accounts so as to reflect income and expenditure, assets and debts of entities which are related directly or indirectly to political parties or otherwise under their control, as referred to by Article 11 of Recommendation Rec(2003)4. While the Law on Financing of Political Parties requires the accounts of political parties' local branches to be reflected in the party's accounts (Article 27, LFPP), it makes no reference to the accounts of entities established by the parties. As mentioned above, such entities may be set up by parties solely for non-profit purposes. During the on-site visit, it was explained to the GET that some political parties have created think-tanks or research institutes and that these entities have separate accounts. This state of affairs was not seen as a problem, for the reasons that the entities concerned did not generate any income and that all their expenses were covered by the party they were related to; consequently, these expenses would appear in the party's accounts. However, the GET is concerned that very little information is publicly available about these entities and that there is a potential risk of them serving to shoulder expenditure by the political parties or being indirectly involved in election campaigns, for example, by organising conferences or producing materials to draw the attention of the public to the party's

programme and ideas. Even leaving aside those risks, taking merely into account the fact that the entities concerned are financed exclusively by political parties and that, as such, they may be the final recipients of public funding allocated to the parties, the public has a right to be informed about the use of the public funds. Therefore, the GET recommends **to increase the transparency of the accounts and activities of entities related, directly or indirectly, to political parties, or otherwise under their control, and to include, as appropriate, the accounts of such entities in the accounts of political parties.**

93. Following the interviews on-site, it would appear that the major political parties have a good grasp of their obligations under the recently amended legislative framework concerning party funding. The political parties interviewed referred to training and consultation events held in this area and did not perceive any difficulties in meeting the various reporting requirements. Regarding the administration of political parties and their finances, the parties which the GET had the opportunity to meet all had accountants in charge of their finances, and that has been the case for a long time. The parties thus implement a professional system of financial administration and this professional approach is to be commended. This does not, of course, exclude shortcomings in the framework of a constantly evolving legal and regulatory environment, in which “everybody does as best they can, to the best of their knowledge”. In this context, the GET was told that smaller parties, which are not always able to rely on professional accountants, may experience greater problems in coping with the existing complex set of obligations. In the GET’s view, it is essential to ensure that all parties subject to legal obligations in this area are fully aware of their rights and duties. Therefore, the GET recommends **to ensure that all political parties are adequately informed and advised (e.g. through the provision of training/guidelines) on the applicable political funding regulations, particularly as regards their accounting aspects.**

#### Supervision

94. As indicated above, the lack of effective supervision of the legal regulations on political financing is currently the biggest challenge within the area of political financing. During the on-site visit, the GET came across six different bodies, all of which play a part in the supervision of the financing of political parties and election campaigns: the *State Audit Office*, which is competent to supervise the public funding of political parties and election campaigns (see paragraphs 56 to 60); the *State Commission for Preventing Corruption*, which focuses its control on possible illegal or anonymous sources of funding received by political parties and the use of illegally obtained funds, both in the framework of parties’ routine activities and during election campaigns (see paragraphs 61 to 64); the *Public Revenue Office*, which forms part of the Ministry of Finance and monitors the expenditure of political parties, as regards both their routine activities and election campaigns (see paragraphs 65 to 67); the *State Election Commission* which monitors compliance with the Electoral Code, including its provisions on financing, and has the power to initiate proceedings in case of violation of these provisions (see paragraphs 69 and 70); *Parliament*, which through its Commission on the Political System, is one of the addressees of the reports on parliamentary election campaigns submitted by campaign organisers (see paragraph 71); the *Ministry of Justice*, that has a general responsibility to oversee the implementation of the Law on Financing of Political Parties (Article 36, LFPP); and finally, the *Broadcasting Council*, which monitors finances of political parties and election campaigns, in particular as regards paid political advertisements.
95. There can be no doubt that this extreme fragmentation of powers can only be detrimental to the efficiency of external supervision. In the GET’s discussions with the representatives of the various bodies mentioned above, it had the distinct impression that each of them conceived its role in a

very narrow manner, cautious not to exceed the boundaries of their mandates and powers. Still, the risk of duplication is obvious. While conferring a supervisory role onto several bodies could be an asset by ensuring complementarity, the GET is of the clear opinion that in this case, the multiplicity of these bodies rather has counter-productive effects, as it prevents any of these bodies from being in charge of the process. Instead they rely on the others – waiting for their reports or findings. Moreover, they lack investigative powers or have to share or defer the power to instigate proceedings. Even when exercising the supervisory functions that the various institutions do have, the GET noted the lack of a proactive approach, as the reports and accounts submitted are seldom scrutinised beyond the information that parties and campaign organisers themselves provide. As a result, no one seems to have a complete picture of political funding. In that regard, the fact that only minor irregularities were detected in the course of supervision is telling.

96. The gaps in monitoring and the overall lack of substantive supervision are most apparent as regards political parties' routine activities. All supervisory bodies represented at the talks declared that their activity focused on election campaigns, for the reason that perceived risks of misuse of the rules were higher in that area. The GET agrees that this may be the case, yet Recommendation Rec(2003)4 requires, in its Article 14, independent monitoring of political parties' regular funding as well.
97. Against this background, the GET wishes to stress that in order for the legal framework concerning political financing to become more than a paper tiger, measures need to be taken to streamline the current system of supervision in order to ensure oversight of the whole range of political financing, both as regards routine party activities and election campaigns, as well as genuine complementarity of the supervisory authorities. In the GET's view, this could be achieved by giving a leading role to one single independent institution, which needs to be provided with resources and powers to carry out proactive and substantial monitoring. Consequently, the GET recommends **to provide 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.**

### Sanctions

98. The Law on the Financing of Political Parties and the Electoral Code foresee a range of sanctions for relevant misdemeanours or criminal offences, including loss of public funding, fines and imprisonment, which apply to political parties, persons in charge of the administration of party funds and election campaign finances, as well as donors. The level of fines was increased further to the recent amendments of the LFPP. The GET welcomes the wide range of sanctions available, the incremental character of some of them and their recent strengthening.
99. Yet, even if the sanctions appear adequate on paper, their use is insignificant in practice. The GET was struck by the fact that none of the interlocutors met during the on-site visit could give any example of these sanctions ever being applied. Representatives of some of the monitoring institutions reported that misdemeanour proceedings had been initiated in some cases of minor infringements by political parties or campaign organisers of the political financing rules, but they were not aware of the outcome of these proceedings. As already mentioned, this situation clearly appears to be a direct consequence of the lack of effective supervision. In order for the sanctions to become effective and dissuasive, a leading or single authority needs to ensure that political parties and campaign organisers are held accountable for infringements of the rules, by taking proactive action and initiating and following the appropriate administrative or criminal procedures.

This authority could even, if appropriate, be given the power to impose administrative sanctions, subject to adequate appeal channels/judicial review.

100. As regards the loss of public funding (Article 32, LFPP, Article 87, Electoral Code), the GET was informed during the visit that the Constitutional Court had repealed Article 32 of the Law on Funding of Political Parties concerning the loss of public funding in case of repeated violations of the LFPP, on the grounds that no procedure was foreseen in law for processing a motion for loss of public funding, although the court did not object to the substance of this sanction. According to the information provided to the GET, Article 20 LFPP and Article 87 of the Electoral Code were not repealed, although they similarly lack procedural provisions. In the opinion of the GET, a sanction such as the loss of public funding is without doubt dissuasive and it is unfortunate that it cannot currently be applied in practice.
101. In light of the preceding paragraphs, the GET recommends **(i) to ensure that the mechanism by which sanctions are imposed for violations of the rules on political funding works effectively in practice, and (ii) to ensure, in particular, that the sanction of loss of public funding by political parties and election campaign organisers can be applied in practice.**

## V. CONCLUSIONS

102. The legal framework for the financing of political parties and election campaigns in “the former Yugoslav Republic of Macedonia” is recent and rather well-developed. In particular, the Law on Financing of Political Parties puts a commendable general emphasis on transparency and contains a number of strong features, such as a ban on foreign and anonymous donations, caps and disclosure rules on private donations (including the obligation for political parties to report on a quarterly basis), and the specific prohibition of “quid pro quo agreements”. That said, additional measures can be taken in order to further enhance transparency of political finances. In this context, it is important for the credibility of the system to ensure that election expenditure limits are duly respected in practice, in particular by establishing an adequate financial reference period during election campaigns, allowing to ascertain the full extent of campaign expenditure, as well as by ensuring that goods and services granted to election campaign organisers at discount prices (e.g. discounts given by media broadcasters and printed media to participants in election campaigns) are properly identified and accounted for, at their market value, as donations. Further recommended measures to strengthen the legislative framework include greater transparency of the accounts of entities connected with political parties and the provision of adequate information and advice to all political parties on their duties and obligations. In contrast to the rather robust legal framework, there is in practice an alarming lack of effective implementation of the rules, to be attributed to an extremely scattered and overall inefficient system of external supervision of the funding of political parties and election campaigns, which is currently the country’s biggest challenge in respect of political financing and results in possible infringements to political financing rules not being prosecuted and ultimately sanctioned. This challenge needs to be tackled as a matter of priority, by ensuring effective, pro-active and properly coordinated monitoring of party funding rules, as well as the determined application of sanctions when infringements occur.
103. In view of the above, GRECO addresses the following recommendations to “the former Yugoslav Republic of Macedonia” :
  - i. **(i) to introduce clear provisions determining the commencement of an election campaign in view of the obligation to keep campaign accounts and campaign**

financial reports; and (ii) to extend the financial reference period applicable to election campaigns so that the financial activity during this period is accurately and comprehensively recorded (paragraph 89);

- ii. to amend the Electoral Code in order to ensure that goods and services granted to election campaign organisers at discounted prices are properly identified and accounted for at their market value, as donations, in order to ensure that the rules on donation ceilings are not circumvented (paragraph 91);
  - iii. to increase the transparency of the accounts and activities of entities related, directly or indirectly, to political parties, or otherwise under their control, and to include, as appropriate, the accounts of such entities in the accounts of political parties (paragraph 92);
  - iv. to ensure that all political parties are adequately informed and advised (e.g. through the provision of training/guidelines) on the applicable political funding regulations, particularly as regards their accounting aspects (paragraph 93);
  - v. to provide 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 (paragraph 97);
  - vi. (i) to ensure that the mechanism by which sanctions are imposed for violations of the rules on political funding works effectively in practice, and (ii) to ensure, in particular, that the sanction of loss of public funding by political parties and election campaign organisers can be applied in practice (paragraph 101).
104. In conformity with Rule 30.2 of the Rules of Procedure, GRECO invites the authorities of “the former Yugoslav Republic of Macedonia” to present a report on the implementation of the above-mentioned recommendations by 30 September 2011.
105. Finally, GRECO invites the authorities of “the former Yugoslav Republic of Macedonia” to authorise, as soon as possible, the publication of the report, to translate the report into the national language and to make this translation public.