

POLITICAL THOUGHT

YEAR 20, NUMBER 65, DECEMBER 2022, SKOPJE

65



**THE BIGGER
PICTURE**

**L'EUROPA NON È
LONTANA?**

**THREE DECADES
OF FOREIGN AND
DEFENSE POLICY**

POLITICAL THOUGHT

YEAR 20, No 65, DECEMBER, SKOPJE 2022



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Полемика

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Tim Peter

THE BIGGER PICTURE **What Russia's War** **against Ukraine Means** **for Europe's Economy**

POLITICAL THOUGHT

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Russia's war against Ukraine is one piece of the puzzle that explains the challenges Europe's economy is currently facing. It is a considerable piece but certainly not the only one. What Russia's war against Ukraine means for Europe's economy (and what not) will be shown in the following.

Comparing economic forecasts before and after February 24, 2022, paints a dim picture. For example, in its Winter Forecast from February 10, 2022, the EU Commission projected the EU economy to grow by 4.0% in 2022 and by 2.8% in 2023.¹ Moreover, the Commission expected a full recovery in all member states after the economic slump due to the Covid Crisis. For the United Kingdom, the OECD projected 4.7% GDP growth in 2022 and 2.1% in 2023 in its Economic Outlook from December 2021.² By contrast, in its Autumn Forecast from November 11, 2022, the EU Commission estimates a GDP growth of 3.3% for the EU in 2022, 0.3% in 2023 and 1.6% in 2024.³ Also for the UK, the OECD projects GDP growth to be 4.4% in 2022, -0.4% in 2023 and 0.2% in 2024 in its Economic Outlook from November 2022.⁴

The link between Russia's war and the economic development of Europe suggests itself but it is not mono-causal. The aftermath of the Covid Crisis with supply chain interruptions, additional financial strain for companies, massive state aid programs, looming inflation and Europe's underlying debt problem also played their part.

Let's start with inflation. The German economist Thomas Mayer, the former chief economist of Deutsche Bank, describes the current inflation with the analogy of starting an engine. The starting motor is supply chain interruptions due to the Covid Crisis in general and China's Zero Covid Strategy in particular, and the rising raw material and energy prices in the wake of Russia's war against Ukraine. The ignition spark is, according to Mayer, rising wages following rising prices. The gasoline, however, is the large amount of money in circulation that was created by the Central Bank and distributed by national states. The income transfers during the Covid Crisis stabilized demand while supply faced massive problems and interruptions. According to the economist Jan Schnellenbach, this robust demand meeting limited supply created inflationary pressure already before the war in Ukraine.⁵ Schnellenbach further underlines that, as far as the Eurozone is concerned, the European Central Bank (ECB) reacted hesitantly and considerably late with raising its interest rates. He explains that with the fiscal dominance of the ECB: The central bank does not only consider its mandate of price stability for its decision of raising interest rates but also the fiscal solidity of euro-states. Since Italy's GDP/debt ratio is at

1 https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_22_926/IP_22_926_EN.pdf

2 <https://www.oecd-ilibrary.org/docserver/66c5ac2c-en.pdf?expires=1671469037&id=id&accname=oid047262&checksum=D91D1534431F81D8D8C615F44280C147>

3 https://economy-finance.ec.europa.eu/system/files/2022-11/ip187_en_3.pdf

4 <https://www.oecd-ilibrary.org/sites/f6da2159-en/index.html?itemId=/content/publication/f6da2159-en>

5 <https://www.kas.de/de/analysen-und-argumente/detail/-/content/inflation-ein-ordnungs-politischer-zwischenruf>

about 151%, Spain's at 118%, France's at 113% and Greece's at 193%,⁶ raising interest rates could impede the medium-term refinancing of some economic heavyweights of the Eurozone. For example, Italian bonds that need to be refinanced by the end of 2026 amount to about 1 Trillion Euro including interest rates.⁷ However, as soon as inflation expectations decouple from the supply-driven inflation of supply chain problems as well as energy prices and thus become entrenched, Central Banks will have to take consistent measures to lower inflation expectations again.⁸ Coming back to the analogy of starting an engine: The engine of inflation is running, inflation expectations are high, and it is extremely difficult for central banks to make it stop. However, Russia's war against Ukraine is only one part of this equation.

One crisis at a time would have been considerably easier to manage for politics and economics. What we are facing right now, however, are overlapping crises. The Covid Crisis is slowly abating (but raging in China) and then an additional energy price shock due to Russia's war against Ukraine was added on the camel's back. Europe's economy was hit at an inconvenient time. States had issued massive economic support programs during the pandemic. That stabilized the economy but also made states more vulnerable as it raised their debt/GDP ratio.⁹ How fragile the situation can become, could be witnessed in the latest real-time experiment when Liz Truss tried to finance massive tax cuts with even more massive new debt for the United Kingdom. What applies to states also applies to companies. Several of them used up their reserve assets during the Covid Crisis and would have needed more time to replenish them. Others, however, were swimming in liquidity receiving further funds from state aid and did not even know how to invest it. The starting position of Europe's businesses was remarkably heterogeneous when Russia launched its offensive war.

With the war against Ukraine and Russia capping one natural gas pipeline after the other, spot gas prices surged until the end of summer 2022.¹⁰ Then they receded sharply but with high volatility. In comparison to oil, natural gas is more difficult to supplement. The international oil market is more diversified and oil tanker routes can more easily be adapted. However, Europe's gas supply relied on imports via pipeline. Natural gas can also be transported as LNG but this is more expensive and the international market is hitting its capacity limit. To show the initial dependency in numbers, in 2021, the EU

6 https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_2130919/bookmark/table?lang=en&book-markId=152a7c06-d89e-4d74-a059-3c0c4d07716c, data for 2021.

7 <https://www.handelsblatt.com/finanzen/inflation-die-rueckkehr-der-euro-krise-die-zinsanstiege-sind-dramatisch/28447392.html>

8 Wollershäuser, T. (2022), Geldpolitik und Inflation: Handlungsspielräume der Europäischen Zentralbank, in: Die Politische Meinung, No. 575, July/August 2022, Issue 67, Pages 74–79.

9 https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_2130919/bookmark/table?lang=en&book-markId=152a7c06-d89e-4d74-a059-3c0c4d07716c

10 <https://www.powernext.com/spot-market-data>

imported 83% of its natural gas, of which 35.7% was supplied by Russia in February 2022 and has been dropping ever since then.¹¹

The good news is Europe found other suppliers. Above all the US but also Norway are scaling up their deliveries. The bad news is that natural gas has become a rare resource on the international market and therefore expensive. In fact, Europe and Asia are in a price fight about who can direct more LNG tankers to their shores. Consequently, natural gas prices in Europe will probably stay several times higher than in the US.¹² This puts Europe at a competitive disadvantage not only in energy-intensive industries. Since the gas and the electricity market are coupled and the gas shortage is addressed with supplements, high gas prices have ramifications for the whole energy market, including coal, firewood and pellets. Higher energy prices mean higher producer prices. Especially in the agriculture sector, energy is necessary for every production stage: from the gas needed for fertilizer production to the fuel for the tractor. On top of that, grain supplies from Ukraine have sharply decreased as Russia is occupying and shelling farmlands and has mined large parts of the Black Sea. These food supply problems are hitting those countries hardest that were already dependent on international aid before. For Europe, higher producer prices for agriculture products and basically for every other sector that is hit by higher energy prices gradually translate into higher consumer prices – the index we call inflation.

What does this mean in the medium and long run? The term “energy price shock” is used on purpose to describe the situation Europe is in. A shock occurs quickly but it also recedes soon. From mid-2023 to 2027, natural gas prices are expected to fall gradually until they are only twice as high as in the US and only slightly higher than in Asia.¹³ The price difference to the US can be attributed to the higher transportation costs for LNG in comparison to pipeline gas. The energy market is inflexible in the short run but flexible in the medium and long-term. The short-term demand for energy is rather inelastic: people need to heat their homes to a certain degree after all. This is why Russia had an instrument to put pressure on Europe. In the medium and long term, increasingly more alternative suppliers will tap new gas fields to send LNG tankers to Europe, and Europe is expanding its reliance on renewables and nuclear energy at a tremendous pace. Meanwhile, Russia has already lost its best customers that probably will not come back soon.

Nevertheless, structurally higher energy prices mean that Europe’s industry will have to adapt to be competitive in the international market. Certain energy-intensive products,

11 <https://www.consilium.europa.eu/en/infographics/eu-gas-supply/#:~:text=In%20August%202022%2C%20Russia%27s%20share,the%20US%2C%20Qatar%20and%20Nigeria.>

12 <https://www.handelsblatt.com/unternehmen/industrie/wirtschaft-drei-szenarien-fuer-die-zukunft-der-deutschen-industrie/28868092.html>

13 *ibid*

such as ammonia, will probably be produced in regions with lower energy prices and then imported to Europe. However, for the industry as a whole, low energy prices have never been the decisive location factor: infrastructure, tax burden, bureaucracy and availability of qualified personnel play an equally important role. What European states can do in this situation is support those companies that have a functioning business model and are only hit by the energy price shock in the short run. By contrast, large-scale subsidizing of production sites that are unlikely to become competitive again is inefficient in comparison to promoting new business models.

In summary, Europe's economy is currently facing multifarious challenges – but not all of them can be attributed to the effects of Russia's war against Ukraine. The Covid pandemic caused supply chain interruptions that still lead to coordination problems in international trade, some companies had used up their reserve assets during the Covid Crisis and were vulnerable to a new external shock, others, by contrast, were swimming in liquidity also sponsored by state aid programs. This robust demand on the one hand and disrupted supply on the other built up inflationary pressure. The additional shock of high energy prices due to Russia's war against Ukraine heated up inflation and put Europe's economy under further strain. However, in the medium term, energy prices are expected to fall gradually and businesses are adapting to the new circumstances. In the meantime, European states can promote building up new energy sources, such as renewables and nuclear, and support those companies that have a functioning business model. Thereby, the effects of the energy price shock can be cushioned and the way for long-term economic growth in Europe can be paved.

SHORT BIOGRAPHY



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Vasko Naumovski

“L'EUROPA NON E LONTANA”

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“L’EUROPA NON E LONTANA”?¹

The signing of the Maastricht Treaty thirty years ago marked perhaps the most successful episode in European unification so far, followed by enthusiasm for further strengthening integration, deepening areas of cooperation, preparing for future enlargement and rounding off the project for a complete and united Europe. Symbolically, the Eurovision victory of “Together: 1992” (“Insieme: 1992”) euphorically announced the European unification in Zagreb, then SFR Yugoslavia, a state on the border between the EU and the former Eastern bloc. What was a reality for the then member states, and the near future for the states from Central and Eastern Europe, in 2022 still remains a debatable prospect for the states from the Western Balkans.

The territory of the Balkan Peninsula includes countries with different degrees of integration into the European Union: Greece is part of the so-called Old Europe (members before the enlargement with the states of Central and Eastern Europe); Slovenia is part of the countries that entered the EU during the great enlargement of 2004; Bulgaria and Romania have been in the EU since 2007, as part of the further expansion of the previous wave; Croatia has been a member since 2013; Serbia, Montenegro and Turkey have been negotiating for membership for a long time; our country and Albania are at the beginning of negotiations; Bosnia and Herzegovina is the newest candidate state for membership; and Kosovo, on the other hand, submitted the latest application for membership. Greece, Slovenia and Croatia are members of both the “Euro-zone” and the “Schengen-zone”, while Bulgaria and Romania are still outside these two forms of deepened integration.

The different stages of entry into the EU also bring different experiences, which can represent an additional benefit in the negotiations for the countries that are not yet full members, which can gain from the negotiation experiences of the other countries. Although the criteria for membership are formally the same as those negotiated by the countries of Central and Eastern Europe, it is clear that their application and interpretation today is different from ten or twenty years ago. This only emphasizes the political aspect of the negotiations themselves, the essence of which should be of a professional, expert nature, with a precise methodology based on specific data. The recent candidate status granted to Ukraine and Moldova only reinforces the perceptions that, however, the positions that are part of the foreign policy of the EU and its member states dominate over the expert assessments and the formal criteria.

¹ “Europe is not far”, verse from the song “Together: 1992”, performed by Toto Cutugno, with which Italy won the Eurovision song contest, Zagreb, 1990.

Historically, in the process of expansion with the countries from the Balkans, several precedents were created, which of course do not contribute to the credibility of the union itself among the citizens of the region. Namely, the premature entry of Greece into the EC in 1981 (before Spain and Portugal in 1986) was realized thanks to the political decision of the leaders of the member states, contrary to the remarks of the European Commission, according to which there were several challenges for Greece, among which the bilateral relations with Turkey.²

Thirty years later, it was Greece that blocked the beginning of the Republic of Macedonia's negotiations, putting a veto, despite multiple positive recommendations from the Commission. Also, the controversial admission of Cyprus to the EU in 2004 was the result of Greece's threat that it would block the entry of all other countries if Cyprus was not part of the countries joining that year.³ It is incredible to imagine that a country from the Balkans could enter the EU if part of its territory is under the control of another country. Turkey's problems in joining the EU are significantly aggravated precisely by the obstacles posed by Greece and Cyprus.

The application of the right of veto by a member state has never been used as much as it was/is in the case of the rapprochement of the Balkan states. Enlargement was/is “sacrificed” because of disputes between Slovenia and Croatia, Turkey and Cyprus (and Greece); or the obstacles we had because of the dispute with Greece, the need for a new methodology and the veto from France, or the historical issues with Bulgaria. National interests once again dominated over common European interests, and the policy of enlargement. Thus, the different interpretation of the membership criteria is a reality that should be accepted, and the Balkan states should try, in addition to the formal fulfillment of them, to influence the political decisions of the member states.

The Russian invasion of Ukraine has seemingly made Europe aware of the need for faster integration of states whose political and economic stability can be maintained in the long term only with a confirmed certainty of membership in the Union. Although the granting of candidate status to Ukraine and Moldova is perhaps a tardy step, it nevertheless provides some confirmation of the EU's commitment to enlargement in this part of Europe. The turmoil in Bosnia and Herzegovina and the possible unsustainability of its unitary character are perhaps an additional reason for the country's candidate status, a step through which the EU tries to discourage the country's divisive tendencies. The situation in which Serbia finds itself complicates its European path - the pressure on Belgrade to harmonize its foreign policy with that of the EU, as well as the developments

² Opinion on Greek application for membership (transmitted to the Council by the Commission on 29 January 1976) Bulletin of the European Communities. February 1976, n° Supplement 2/1976. Luxembourg: Office for Official Publications of the European Communities.

³ Giannou, G.S.: The accession of Cyprus to the EU: challenges and opportunities for the new European regional order, *JEMIE - Journal on ethnopolitics and minority issues in Europe*, 2, 1-13. u Spiterri, S.: Greece: Without Cyprus no EU enlargement, *EU Observer*, 13.06.2022, <https://euobserver.com/eu-political/6615>

in Kosovo, seem to “freeze” the already slow membership negotiations. Montenegro is in a new political crisis, indicating that external mediation will be needed for its resolution.

These processes call into question the feasibility of enlargement in the medium term, knowing that in the further course of mutual relations the motivation of the Balkan states will decline, and the possibility of a new veto by a member state remains open. The Union is facing the challenge of accelerating the enlargement and not compromising the fulfillment of the criteria, but also not allowing any of its members to abuse the right of veto for the sake of individual interests. The states from the region, on the other hand, are called to implement the reforms, and to convince their citizens that the previous frustration and failure to meet expectations will remain only an episode in joining the EU.

On the other hand, some of the Balkan states that have been in the EU for a long time still face problems that are similar to those of the candidate states - related to corruption, organized crime, disregard for minority rights, illegal migration, economic-financial challenges, etc. Some of the countries from Central and Eastern Europe have similar problems, which is why the Union decided to take certain steps towards freezing part of the funds from the common budget. This legitimately raises the question: do the states that become EU members continue to fulfill the criteria even after they become members? It is not by chance that the so-called new enlargement negotiations methodology foresees the reversibility of the process, until its formal end. What remains is to strengthen the mechanisms for corrections of the behavior of the states that are already members, in order to prevent the de-Europeanization of their societies.

In addition to these aspects, the strengthening of Euroscepticism in the Balkans is also related to the disappointments from the previous relations with the EU, as well as the inability of the Union to create a mechanism to prevent the abuse of the right of veto, in the cases where it is not related to the fulfillment of the membership criteria is continuously being strengthened.

The true Europeanization of the Balkans should be a process that will include the existing member states in the region, establishing a kind of mechanism for the continuous fulfillment of the Copenhagen criteria, thus demonstrating the true transformative power of EU membership. The shortcomings of the transformation during the negotiation process itself are similar, easily visible in the cases of Serbia and Montenegro, which, even after several years of negotiations, face the same challenges as the countries that have not started the negotiations.

The crisis related to the Covid-19 pandemic, the so-called vaccine diplomacy that followed, as well as the post-crisis financial packages, did not demonstrate European solidarity with the Balkans in the best possible way. The energy crisis caused by the war in Ukraine is a chance for a re-exam, where the EU can show that it is truly committed to ensuring the well-being of the citizens of its future member states.

The demands from the EU for results in the reform processes in the candidate countries are related to specific steps in the integration. The conditionality policy itself must include the benefits for the candidate states, which will inject new energy into the region, especially in the context of attempts to destabilize it. The further delay of the decisions related to the negotiations will only increase the frustration among the political leaders from the region, and especially among the citizens of the countries who have been expecting a bright European future for thirty years. As two interdependent aspects, progress in the next phase of integration is conditioned by reforms, but the reforms themselves must be driven by a clear European perspective.

Aware of the insincerity of the leaders in the region when it comes to their commitment to reforms, one of the most common remarks addressed to the Balkan states is the need to move from declarative commitments to visible results in meeting the membership criteria. Despite the duly adopted legislative changes, what is lacking is implementation, followed by political will and leadership. The Union is constantly looking for results, social mobilization and political unity for the necessary reforms. Consequently, the citizens of the region expect visible results from the Union, a sincere political will for the integration of the entire Balkans in the EU, as well as fulfillment of the promises made. Only in this way, the Balkans will be convinced that, indeed, "Europe is not far away".



SHORT BIOGRAPHY



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Aleksandar Spasenovski

THREE DECADES OF FOREIGN AND DEFENSE POLICY: MACEDONIAN LESSONS

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INTRODUCTION

The beginning of each new decade is also marked by the anniversaries associated with the independence of today's North Macedonia¹.

If 1990 is the year when the processes of democratic transition and political pluralism begin and intensify², and 1991 is the year when the country's independence process began³, then 1992 is the year when the process of creating and consolidating the key attributes of the already established sovereign and independent state - the Republic of Macedonia - started.

Bearing in mind the aforementioned, 30 years later, in 2022, we celebrate two important anniversaries related to one of the most important elements of Macedonian statehood:

First, 30 years since the establishment of the country's foreign policy;

Second, 30 years since the establishment of the country's defense policy.

With the adoption of the Declaration on International Recognition of the Republic of Macedonia⁴, at the beginning of 1992, the process of establishing bilateral relations of our country began, first with Bulgaria⁵, then with Slovenia⁶ and with Croatia⁷. With the recognition by FR Germany⁸, however, this process gains additional intensity⁹.

In 1992, when the process of international recognition of the state began, the foundations of the defense were laid. Thus, after the adoption of the Constitution of our country¹⁰ according to which "the defence of the Republic is regulated by a law adopted by a two-thirds majority vote of the total number of Representatives ", in 1992 the Parliament adopted the Law on Defense¹¹.

Taking into account the previously mentioned, the paper: "30 years of foreign policy and defense of North Macedonia" has a double purpose:

- 1 This paper contains selected findings that are part of the publication "30 years of foreign and defense policy", published by the "Konrad Adenauer" Foundation, in September 2022. URL: <https://bit.ly/3TbMKrE>.
- 2 See Aleksandar Spasenovski, Vasko Naumovski and Jovan Andonovski "30 years of independence", Konrad Adenauer Foundation and Institute for Social Research MK-91, September 2021.
- 3 Watch documentary film: "30 years of statehood, the Constitution-foundation of the future", Konrad Adenauer Foundation Skopje, November 2021. URL: <https://bit.ly/3VKKJVS>.
- 4 Declaration on international recognition of the Republic of Macedonia, Assembly of the Republic of Macedonia, No.: 08-5099, 19.12.1991.
- 5 Diplomatic relations with Bulgaria were established on January 15, 1992.
- 6 Diplomatic relations with Slovenia were established on March 17, 1992.
- 7 Diplomatic relations with Croatia were established on 30.3.1992.
- 8 Diplomatic relations with FR Germany were established on 16.12.1993.
- 9 More on the history of Macedonian-German relations in: Vasko Naumovski, Aleksandar Spasenovski, Jovan Andonovski "Republic of Macedonia and Federal Republic of Germany - 25 years of diplomatic relations", Konrad Adenauer Foundation and Institute for Social Research MK-91, October 2018.
- 10 Constitution of the Republic of Macedonia, "Official Gazette of the Republic of Macedonia", g.: XLVII, no.: 52, Skopje, 1991, p: 805-815.
- 11 Defense Law, "Official Gazette of the Republic of Macedonia", No.: 8, Skopje, 1992.

First, to shed additional light on the key issues related to the conduct of foreign policy and the defense of our country and

Second, to investigate the citizens' perceptions regarding the process of independence in foreign relations and defense in these 30 years, as well as the expectations in these areas in the following decades.

Based on the obtained data, at the very end, specific conclusions are presented that stem from the previously analyzed segments.

1. ANALYSIS

The processes of the Socialist Republic of Macedonia (SRM) gaining independence through separation from the then Socialist Federal Republic of Yugoslavia (SFRY) began in 1990.

The political authorities at the time, following the developments in the other republics of the federal Yugoslavia, took appropriate steps that corresponded to the nature of the circumstances that were constantly deteriorating. Thus, in the summer and autumn of 1990, the republic's institutions made a series of key decisions that opened the way for Macedonian independence by constructing the new constitutional-legal system, resting on principles opposite to the until then socialist-federal ones.

On September 20, 1990, the Assembly of SRM adopted 25 amendments to the Constitution thus implementing the first changes in the constitutional-legal system¹². The monopoly of the ruling SKJ party is abolished (amendment LXVII), the delegate system is replaced by a parliamentary system (amendment LXXIV), a government is constructed instead of the executive council (amendment LXXVI), and the position of president of the Republic is established instead of the presidency of SRM (amendment LXXV).

Based on the mentioned changes, on September 24, 1990, the president of the legislature announced the first democratic multi-party elections, held on November 11 of the same year, and the Assembly in this composition was constituted on January 8, 1991.

Furthermore, on January 27, 1991, the deputies elected the first democratic president of the Republic, Kiro Gligorov, and on March 20, 1991, the first democratic expert government headed by Nikola Klyusev was elected.

¹² Decision on Promulgation of Amendments LVII - LXXXI to the Constitution of the Socialist Republic of Macedonia, Amendments to the Constitution of the Socialist Republic of Macedonia, Official Gazette of the Socialist Republic of Macedonia, Year: XLVI, No.: 28, Skopje, 21.9.1990, p.: 506-511.

In this way, the foundations of the new democratic system of state government organization were laid.

In the meantime, on January 25, 1991, the representatives of the citizens in the Parliament passed the "Declaration for Sovereignty of Macedonia"¹³, which, in Article 1, expresses sovereignty in accordance with the constitutional determinations for independence and territorial integrity of the Macedonian state, as well as the right of the Macedonian a people to self-determination including the right to secede.

Furthermore, on June 7, 1991, constitutional amendment LXXXII was adopted, which omitted the term "socialist" from the name of SRM¹⁴. In this sense, on May 7, 1991, the President of the State submitted to the deputies a proposal for the adoption of a new democratic constitution which was voted on November 17, 1991, preceded by the independence referendum of September 8, 1991 and the "Declaration on the occasion of the plebiscite expressed will of the citizens for a sovereign and independent state of Macedonia", adopted at the session of the Assembly on September 17, 1991¹⁵.

This way the new constitutional-legal system of today's North Macedonia as a democratic and independent state was completed.

Finally, on December 19, 1991, with the adoption of the "Declaration on International Recognition of the Republic of Macedonia", the process of international recognition of the already created state began.

The declaration of international recognition consists of five points and it was signed by the then president of the Assembly, Stojan Andov. In it, the MPs demand that "the Republic of Macedonia, which is a sovereign and independent state, be recognized internationally", while stating that the state accepts the criteria in this sense of the Council of Ministers of the European Community from 17.12.1991, as well as the draft document of the Conference for Yugoslavia in Hague, at the same time stating that the country supports the efforts of the United Nations (UN) for a peaceful resolution of the Yugoslav crisis.

After the adoption of this document, the then Republic of Macedonia began to establish diplomatic relations and to establish relations of closer cooperation with states and with other entities of international relations. The first country that recognized the independence of our country was the Republic of Bulgaria on January 15, 1992, followed by the recognition of Slovenia on March 17, 1992 and Croatia on March 30, 1992. Today,

¹³ Declaration of Sovereignty of the Socialist Republic of Macedonia, Assembly of the Socialist Republic of Macedonia, No.: 08-220-1.

¹⁴ Decision on the Proclamation of Amendments LXXXII to LXXXV to the Constitution of the Socialist Republic of Macedonia, Amendments to the Constitution of the Socialist Republic of Macedonia, Official Gazette of the Republic of Macedonia, year: XLVII, no.: 27, Skopje, 11.6.1991, p.: 357.

¹⁵ Declaration on the occasion of the plebiscite expressed will of the citizens for a sovereign and independent Macedonian state of Macedonia, Assembly of the Republic of Macedonia, no.: 08-3786, 17.9.1991.

the Republic of North Macedonia, as a member of NATO and a country negotiating for membership in the EU, has established diplomatic relations and is building a dynamic foreign policy with more than 190 countries in the world¹⁶.

In 1992, when the process of international recognition of the state began, the foundations of the defense were also laid. Thus, after the adoption of the Constitution according to which “the defense of the Republic is governed by a law adopted with a two-thirds majority of votes from the total number of deputies”, in 1992 the Parliament passed the Law on Defense¹⁷.

The Defense Law of 1992 consists of 135 articles divided into 11 chapters and according to it, the defense of the Republic aims to ensure the independence and territorial integrity of the country, and it is carried out by citizens, state administration bodies and the Army of the Republic of Macedonia (ARM)¹⁸. Apart from the afore mentioned, this law is characterized by Article 3 and Article 7, providing for military service of all adult male citizens for a period of 9 months.¹⁹

The foreign and defense policy of North Macedonia for the past 30 years has been characterized by certainty, stability and predictability.

2. PUBLIC OPINION RESEARCH

For the purposes of this paper, a comprehensive public opinion survey was conducted at the end of August 2022.

The sample size is chosen in accordance with the needs of the research. In this case, 1111 respondents are included, keeping the general ratio in terms of basic demographic characteristics (gender, age over 18 years, ethnicity, profession and education), while respecting the appropriate geographical balance.

The research aims to reveal citizens’ perceptions regarding the process of independence, the successes and failures of North Macedonia in the external and defense fields in the past three decades, as well as the expectations in these areas in the years to come.

¹⁶ More about bilateral relations on the official website of the Ministry of Foreign Affairs of North Macedonia www.mfa.gov.mk.

¹⁷ Defense Law, “Official Gazette of the Republic of Macedonia”, No.: 8, op.cit.

¹⁸ Ibid.

¹⁹ Ibid.

2.1. General assessments of foreign policy and defense

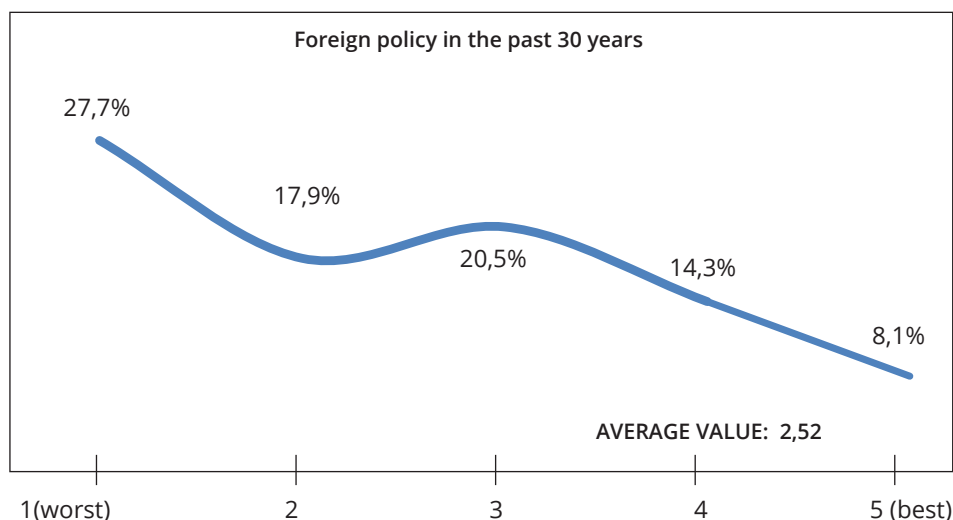
The questions in the first part can be divided into two groups, where in the first group the respondents give their assessment from 1 to 5 on the conduct of foreign policy, as well as on the performance of the Army over the past 30 years (see table 1 and table 2).

The analysis of the results shows that the average rating of the respondents regarding the way the foreign policy of the country is conducted in the past three decades is 2.52, while for the behavior of the Army it is 3.37.

It is characteristic that there is no particular difference in the scores between the respondents through the prism of their ethnic origin, geographic origin or education.

The significantly higher evaluation of the respondents for the performance of the Army compared to the conduct of foreign policy can be attributed to the accession of North Macedonia to NATO, which represents the most significant three-decade long goal that is strongly supported by the majority of political parties in the country. Of course, the traditional support of the citizens to the security system of the state has its influence in relation to the results of both questions, which is confirmed in almost all public opinion surveys over the years until today²⁰.

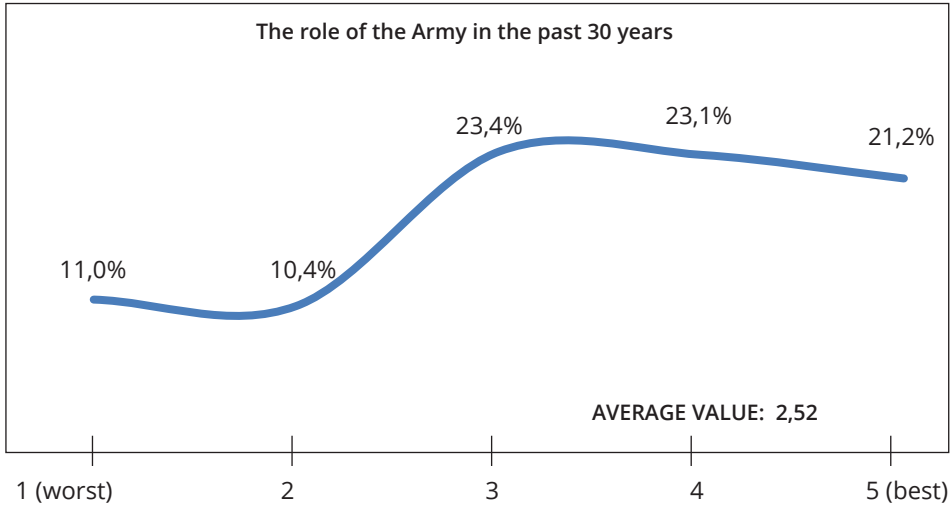
Table 1²¹



²⁰ More information on this topic in the text: "Slightly visible, but with the greatest trust" in "Nova Makedonija", novamakedonija.com.mk, August 2022.

²¹ The ratings presented in this and in all other tables of this type in this text represent personal perceptions of a specific group of respondents, compiled on the basis of established criteria for methodologically correct implementation of a public opinion survey.

Table 2

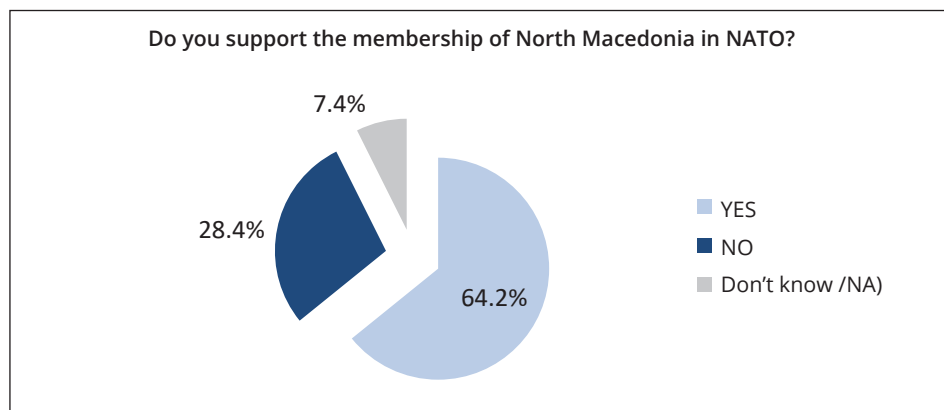


2.2. NATO and the European Union

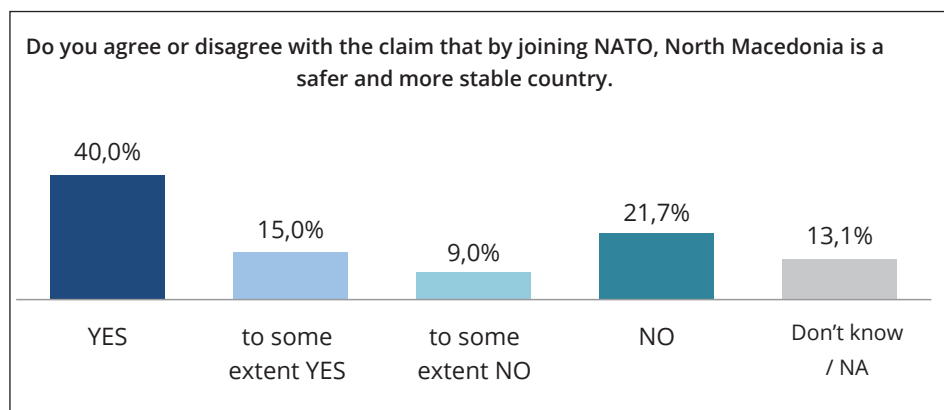
The next segment of the research analyses the respondents' perceptions regarding the two most important foreign policy and defense goals.

A high 64.2% of the respondents support the membership of North Macedonia in NATO against 28.4% who oppose (see table 3), which represents a ratio of 2:1 in favor of the advocates of the country's integration in this defense alliance. In this sense, there are noticeable differences in the statements, mainly based on the ethnicity of the respondents. Thus, 90.1% of the members of the Albanian ethnic community support the membership of North Macedonia in NATO in contrast to the rest of the ethnic communities, where the support for this strategic goal of the state ranges between 55% and 65%, representing a difference of about 30%.²²

²² Regarding the ethnic stratification of the respondents, the membership of North Macedonia in NATO is supported by 56.3% of the Macedonian respondents, 90.1% of the Albanian respondents and 63.6% of the respondents who belong to other ethnic communities in the country.

Table 3

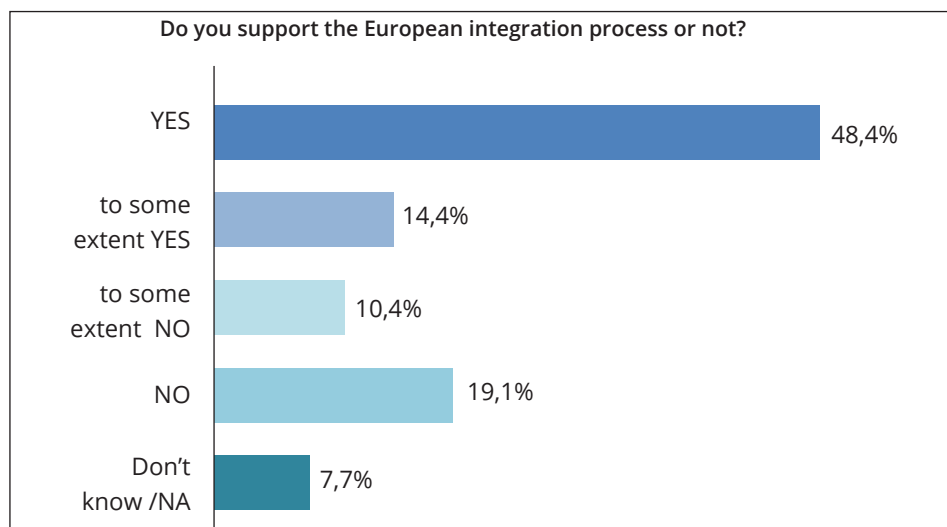
In addition to the previous question, cumulatively, a high 56.2% of respondents agree with the statement that North Macedonia is safer and more stable with NATO membership, compared to 30.7% who do not think so, representing a difference of 25.5% in favor of the first group. Just as for the previous question, in this case too, differences in the ratio of answers are observed based on the ethnicity of the respondents.

Table 4

European integration and membership in NATO are foreign policy goals that continuously have high support from the citizens. However, unlike the first decade of independence, the second and third decades are characterized by a continuous decrease in citizens' support for North Macedonia's EU membership. Thus, 48.4% of respondents give full support for the country's integration into the Union, while 14.4% give partial support (see table 5). In total, 62.8% of all respondents are in favor of one day North Macedonia being

part of the EU. Although this percentage is still very high, however, compared to the first two decades of independence, significant shifts in a negative direction are visible.

Table 5



2.3. Relations with other countries

The next segment of the research analyses the bilateral relations of North Macedonia with other reference countries.

Respondents have the most positive impressions of the quality of North Macedonia's mutual relations with Turkey, with 71.6% positive ratings; with Serbia, with 68.6% positive ratings and with Germany, with 64.3% positive ratings (see table 6). The research also notes that a significant 37.7% of respondents positively evaluate the quality of Macedonian-Greek bilateral relations. Also, 58.5% of the respondents have a positive opinion about the bilateral relations of North Macedonia with the USA and 57% have the same attitude about the bilateral relations of our country with Albania.

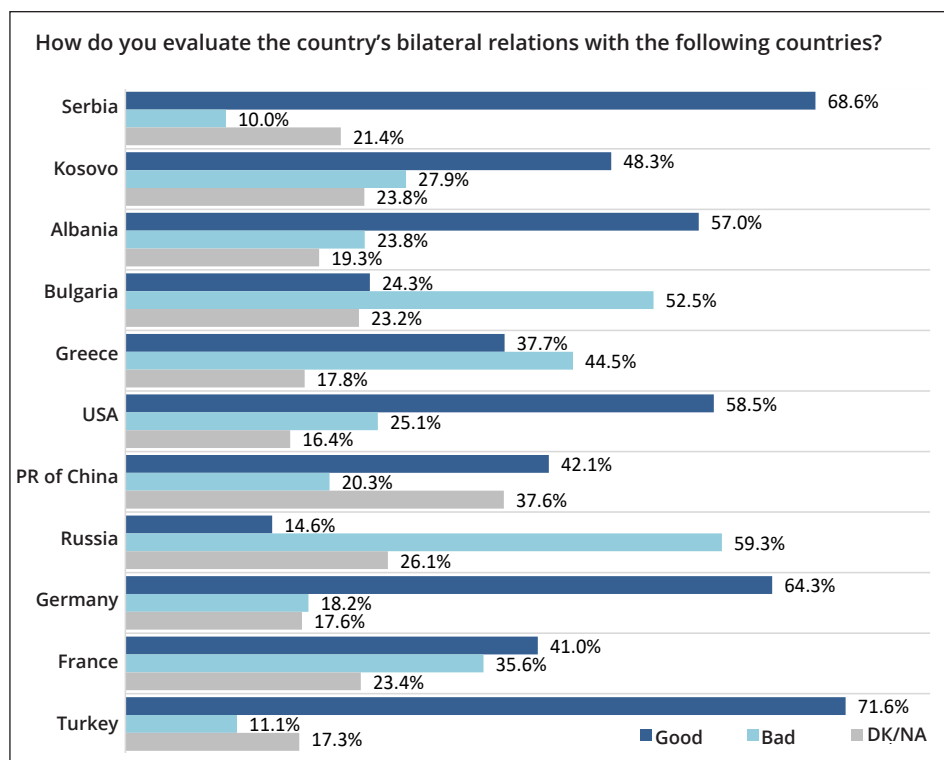
At the bottom of the scale are Russia and Bulgaria, for which 59.3% and 52.5% of respondents believe that they have bad bilateral relations with North Macedonia. The public opinion survey of 2021, which referred to the three decades since the establishment of North Macedonia's independence, the citizens' opinion on the character of our country's bilateral relations with Bulgaria and Russia was examined²³. Then, 17.3%

²³ See Aleksandar Spasenovski, Vasko Naumovski and Jovan Andonovski, "30 years of independence (Analysis and survey of public opinion)" Institute for Social Research "MK91" and Konrad Adenauer Foundation, 2021..

of respondents rated North Macedonia's bilateral relations with Russia as bad, and 59.8% with Bulgaria. This means that, unlike 2021, in 2022 the negative opinion of the citizens towards Bulgaria is almost unchanged, and towards Russia it has visibly worsened. This situation in relation to respondents' opinions about Russia can be correlated with Russian aggression against Ukraine, also evident from the question in the penultimate segment of this analysis.

The analysis of the respondents' answers points to the conclusion that the perceptions of the quality of bilateral relations between our country and the mentioned countries are relatively permanent and without major fluctuations, with the exception of Greece as a positive example and Bulgaria and Russia as negative.

Table 6

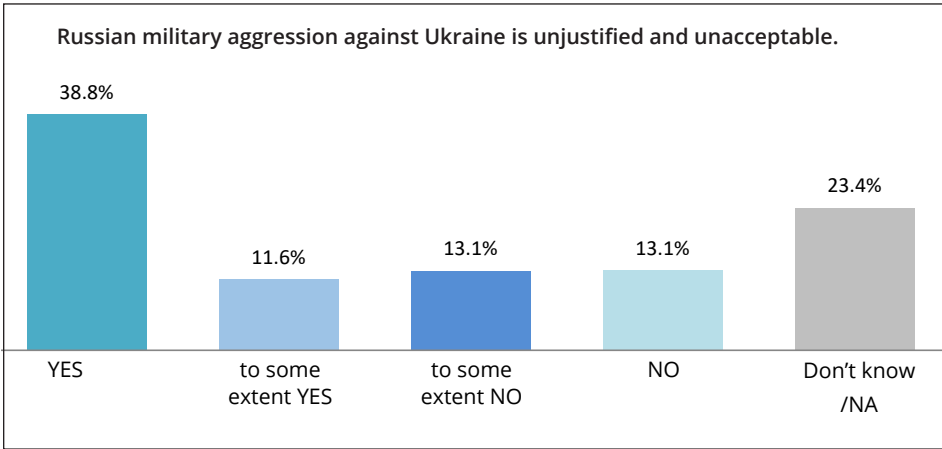


2.4. Current challenges

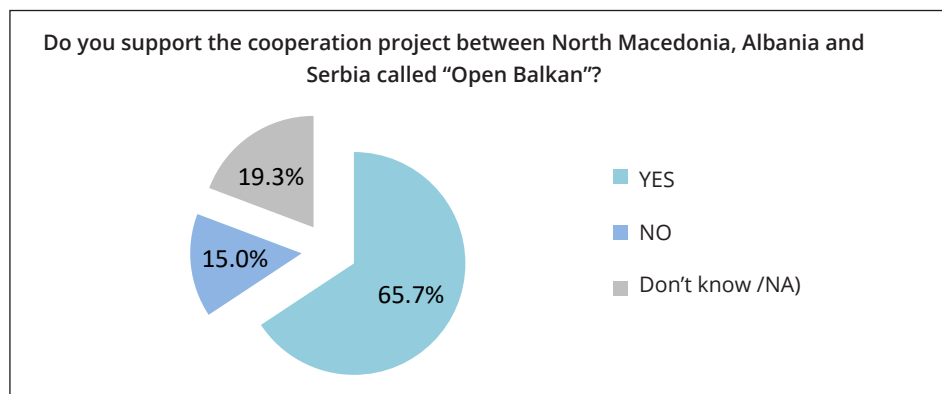
The next segment of the research covers two current issues in the field of foreign relations and defense.

The first question presents the respondents' impressions regarding the current situation in Ukraine (see table 7). Thus, 50.4% of the respondents consider that the Russian military aggression against Ukraine is unjustified and unacceptable, while 26.2% consider that it is justified and acceptable, which represents a ratio of 2:1 in relation to the first group. The analysis of the results points to the conclusion that the respondents have approximately the same attitude regarding this topic as the citizens of other EU and NATO member states.

Table 7



The second question of this segment analyses the disposition of the respondents regarding the regional form of closer integration of North Macedonia, Albania and Serbia called “Open Balkan” (see table 17). Thus, 65.7% of respondents support the “Open Balkans” project, while 15% do not support it, which means that the number of respondents who support this form of closer cooperation between North Macedonia, Albania and Serbia is 50.7% higher. The reasons for the high support for this form of regional integration can be attributed to the high marks that citizens give to the bilateral relations of North Macedonia with each of the two countries individually. Of course, considering the opportunities for cooperation that are opened up by the realization of this trilateral project, surely this is also a significant reason for such a positive impression of the respondents.

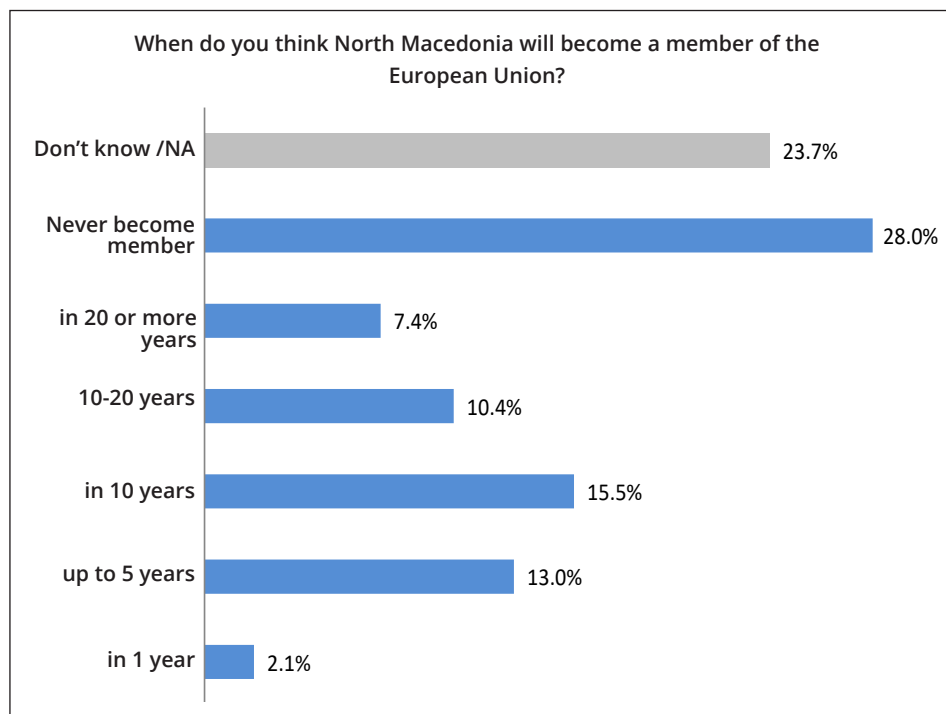
Table 8

2.5. Expectations for the future

After the accession of North Macedonia to NATO, the remaining major foreign policy challenge for the country is integration into the EU, to which the last question is devoted (see table 9). Thus, when asked when you think North Macedonia will join the Union, 28% of the respondents stated that it will not happen, which is the largest group, while 23.7% expressed their pessimism through the answer that they do not know when it will happen, that is, that they have no answer. Opposite to these two groups are the more optimistic respondents. Namely, 7.4% stated that the country's membership in the EU will take place in 20 or more years, 10.4% in 10-20 years, 15.5% in 10 years and 13% of the respondents believe that North Macedonia will join the EU in 5 years .

From the responses of the respondents, a pronounced pessimism about the membership of North Macedonia in the EU is visible, as well as about the speed by which this strategic goal will be achieved. The pessimism of the citizens regarding the integration of North Macedonia in the EU does not arise from the character of the Union or from the dissatisfaction with the way it functions, but is the result of the continuous obstacles and stoppages that the country has had over the years, mainly as a result of bilateral problems. Thus, overcoming the bilateral obstacles and opening a clear perspective for the dynamic integration of North Macedonia without additional downtime, would most certainly result also in correcting the impressions of the citizens in a positive sense in relation to the Union itself, as well as in relation to the time of our membership.

Table 9



CONCLUSIONS

Regarding the conduct of the state's foreign policy and the professionalism of the Army over the past three decades, the average score of the respondents on a scale from 1 to 5 is 2.52, i.e. 3.37. The visibly higher rating for the Army compared to the conduct of foreign policy can be attributed to the accession of North Macedonia to NATO, which represents a significant three-decade goal of the state;

64.2% of the respondents support the membership of North Macedonia in NATO against 28.4% who oppose it, representing a ratio of 2:1 in favor of the supporters. Also, 56.2% of the respondents believe that with NATO membership, North Macedonia is safer and more stable;

62.8% of respondents are in favor of North Macedonia's membership in the EU. Although this percentage is still very high, clear negative trends are visible compared to the first two decades of independence;

Respondents have the most positive impressions of the quality of North Macedonia's mutual relations with Turkey, with 71.6% positive ratings; with Serbia, with 68.6% positive ratings and with Germany, with 64.3% positive ratings. A significant 37.7% of respondents positively evaluate the quality of Macedonian-Greek bilateral relations. Also, 58.5% of the respondents have a positive opinion about the bilateral relations of North Macedonia with the USA and 57% have the same position about the bilateral relations of our country with Albania. At the bottom of the scale, on the other hand, are Russia and Bulgaria, for which 59.3% and 52.5% of respondents believe that they have bad bilateral relations with North Macedonia;

50.4% of respondents believe that Russian military aggression against Ukraine is unjustified and unacceptable, while 26.2% believe that it is justified and acceptable, which represents a ratio of 2:1 compared to the first group;

65.7% of respondents support the "Open Balkans" project, while 15% do not support it, which means that the number of respondents who support this form of closer cooperation between North Macedonia, Albania and Serbia is 50.7% higher;

When asked when you think that North Macedonia will join the EU, 28% of the respondents stated that it will never happen, which is the largest group, while 23.7% expressed their pessimism through the answer that they do not know when it will happen, i.e. that they have no answer. Opposite these groups are the more optimistic respondents. Thus, 7.4% stated that the country's membership in the EU will happen in 20 or more years, 10.4% in 10-20 years, 15.5% in 10 years and 13% in 5 years. Deep pessimism about the membership of North Macedonia in the EU, as well as about the speed by which this strategic goal will be achieved, is visible from the answers of the respondents. Overcoming the bilateral obstacles and opening a clear perspective for the dynamic integration of North Macedonia without additional delays, will most certainly also result in correcting the impressions of the citizens in a positive sense regarding the Union itself, as well as in relation to the time of our country will become a member.

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SHORT BIOGRAPHY



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Aleksandar Kostadinov

HOW POPULATION CENSUS AFFECTS VAT TRANSFERS FROM CENTRAL GOVERNMENT TO LOCAL ADMINISTRATIVE UNITS IN NORTH MACEDONIA

POLITICAL THOUGHT

65

INTRODUCTION

The rapid rise of the value-added tax (VAT) is probably the most important tax development of the latter twentieth century. Nowadays, most of the countries in the world have introduced VAT as a source of revenue in the central budget and VAT itself accounts for a significant part of tax collection.

VAT in the country was introduced on April 1st, 2000¹ and represent significant source of revenue for the central budget, accounting for almost one third of all taxes collected. The VAT although collected at the national level, is not entirely spent by the central government, and share of it is redistributed among 80 municipalities and the City of Skopje to finance the services and activities for which they are responsible. The financing of the municipal budgets is stipulated in the Law on financing of local self-government units (LSGU) which was introduced in 2004, and amended in 2007, 2009, 2011, 2015, 2018, 2021 and 2022 and is essential to regulate the financing system of the LSGU's and the City of Skopje, and hereby the redistribution of VAT to the LSGUs.

According to the legislation in force, 5.5% of the VAT collected from the previous year would be transferred to the LSGU's budget in the following year in accordance with the formula equalization where the population would have more than 50% of calculation weight. The share of VAT planned for redistribution for 2023 is divided by 4.5% (basic amount) and the remaining 1% is conditioned by: 0.5% on performance indicators and 0.5% in conditionality for those municipalities that will experience drop in personal income transfers.

VAT revenue transfers are important in the LSGU's budgets because about 43 million euro were transferred in 2022 according to the formula and the guideline on VAT redistribution to the LSGUs, approved by the government.

Preliminary analysis show that municipalities with larger population have a higher percentage increase in VAT transfers than those with less population. For example, in 2010/2011 the percentage increase in amount was not equal between the smaller and the larger municipalities, where small in population municipalities obtained 3 to 4% percent increase, while larger municipalities obtained an increase of more than 6%.

Another caveat is that the formula relies mostly on population size and recent population census showed that there is a decrease of population by 9.19% which will additionally put pressure on municipalities whose resident population decreased disproportionately. However, not all municipalities have experienced same decrease in population and such

¹ Official gazette of the Republic of Macedonia (1999): <https://www.sivesnik.com.mk/issues/7657D042436044D38B03F0B2ACB460A5.pdf>

situation means that those municipalities which have registered less population in 2021 census, will have to expect less money for the 2023 municipal budgets.

Following paper analyses how the recent population census in North Macedonia affects the redistribution of VAT from the central government to the local government. It also showcases municipalities that are most affected as a result of population decline. The data presented in this paper are based on simulations and estimations from the current legislation and precede official data that may differ.

FINANCING LOCAL SELF-GOVERNMENT UNITS FROM VALUE ADDED TAX IN NORTH MACEDONIA

The law which governs the sources of financing of the LSGUs is the Law on financing Local self-government units (LSFU's) which was introduced in 2004². The law describes and defines revenue streams to which the municipalities can access to and/or are entitled from various sources (citizens, business entities) and the central government budget.

These include **four** broad groups:

- > Self-financing activities;
- > Local taxes and fees;
- > **Transfers, allocations and subsidies from the central budget** and
- > Loans and other sources (donors).

In order to properly service the tasks and services to the citizens residing in the local self-government units, transfers, dotation and subsidies from central budget play a significant role in adding to their budget. VAT transfers from central budget to municipal budgets is one such transfer that adds from 5% to 15% in the budgets of the local self-government units.

Value Added Tax (VAT) is a consumption tax that is calculated on the value added to goods and services. It applies to broad range of goods and services that are bought and sold for use or consumption in the country. Goods and services sold for export are not subject to VAT. The VAT is collected in installments fractionally, via a system of partial payments whereby taxable subjects (persons or businesses registered for VAT purposes) deduct from the VAT they have collected the amount of tax they have paid to other tax on purchases made for their business activities.

2 <https://dejure.mk/zakon/zakon-za-finansiranje-na-edinicite-na-lokalnata-samouprava>

VAT in Macedonia is collected at national level and it would be difficult to collect fractions among various business entities at the local level and calculate their share of tax collected and returned to the municipal budgets. Hence, once collected at the national level, VAT transfers are made from central budget to the municipalities based on the VAT redistribution formula, where the share of VAT planned to be redistributed is announced in advance for the upcoming fiscal year that is calculated from January 1 to December 31.

At the beginning of the implementation of this methodology, starting in 2007, the VAT share was 2%³ and steadily increased to 4.5% over the years. The share of VAT transfers and the methodology are subject of governmental approval annually, while the equalization formula remained unchanged over the whole period.

In 2009, the VAT collected was EUR 572 million and increased to EUR 946 million in 2021. Statistics show that in the past 13 years (2009-2021) the amount collected increased by 61%.

Table 1: VAT collected by the central government, by year

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Mil- lion EUR	572	613	687	626	648	713	678	747	778	801	846	762	946

Source: Ministry of Finance of North Macedonia

The share of VAT planned for redistribution for 2023 is 5.5% of which 4.5% is the basic amount and the remaining 1% is conditioned by: 0.5% on performance indicators and 0.5% is based on conditionality for those municipalities which will experience drop in personal income transfers⁴.

According to Ministry of Finance reports, in 2022, the projected VAT collection is expected at 1.1 billion euros⁵, which represents the highest income class in the central budget and accounts for 31% of all taxes and social contributions collected.

Based on the amount of VAT collected, the 4.5% is expected to generate approximately EUR 50 million which will be redistributed between 80 municipalities and the City of Skopje over the course of 2023.

Additionally, the VAT redistribution to municipalities regulation, for the fiscal year 2023, provides that an additional 1% to be added to the 4.5% base. However, this amount is conditioned: 0.5% to performance indicators, and 0.5% is based on conditionality for

³ Official gazette, number 79, year 2006

⁴ <https://vlada.mk/2022-55>

⁵ <https://finance.gov.mk/%d0%b8%d0%b7%d0%b2%d0%b5%d1%88%d1%82%d0%b0%d0%b8-%d1%82%d1%80%d0%b5%d0%b7%d0%b5%d1%80/>

those municipalities that will experience a drop in personal income tax transfers. The amount that will account for 1% of the VAT collected makes almost an additional EUR 11 million available for redistribution among the 80 municipalities and the City of Skopje over the course of 2023. As of the end of 2022, lawmakers did not propose a formula or method on which the simulation for redistribution would be made. For example, if the remaining amount of the municipalities that did not experienced a decrease in personal income tax transfers would be transferred to other municipalities that did register a decrease, and whether the same formula will be applied, or it would add a lump sum to the municipalities that will meet the criteria.

THE METHODOLOGY AND EQUALIZATION FORMULA FOR VAT REDISTRIBUTION

Out of the VAT collected in the central budget for a given fiscal year, the government annually proposes and approves a regulation on the methodology and percentage of participation ⁶. While the percentage share and methodology changes from year to year, the formula has remained ever since.

The formula for the redistribution of VAT redistribution between municipalities is following:

- > **Fixed part:** 3 million MKD (~49,000 euro) are equally redistributed between all municipalities (80) and the City of Skopje
- > **Variable part:** the remaining amount is redistributed:
 - > 12% to Skopje and the municipalities within Skopje (10), and
 - > 88% to the remaining 70 municipalities.

The variable part (12%) is then redistributed with a ratio of 40%:60% for Skopje and municipalities within Skopje.

Formula for variable part redistribution towards the municipalities:

$$Di = \frac{0.65EFn}{BZn} BZi + \frac{0.27xEFn}{Pn} Pi + \frac{0.8xEFn}{Pn} BNMi$$

- > 65% - population (without City of Skopje)
- > 27%- part of the municipality's area in the country's area (without City of Skopje)
- > 8% - number of settlements within the municipality out of total (without City of Skopje)

⁶ The share of VAT redistribution changed over the years. For example, during the pandemic years 2020-2021, when the amount of VAT collected registered drop, the methodology changed in such a way that last three fiscal years are calculated as basic amount of VAT collected.

Formula for variable part redistribution towards Skopje and municipalities within (40%:60%):

$$Di = \frac{0.65EFso}{BZsk} BZi + \frac{0.27xEFso}{Psk} Pi - \frac{0.8xEFo}{Psk} BNMi$$

- › 65% - population (within City of Skopje)
- › 27%- part of the municipality's area in the country's area (within City of Skopje)
- › 8% - number of settlements within the municipality out of total (within City of Skopje)

The regulation on the VAT redistribution methodology municipalities contemplates the following sources to be used for the data in the formula⁷:

- › Latest population census data for the population
- › Measurement of the LSGU area from the State cadaster and
- › Number of settlements in accordance with article 11 of the Law on territorial organization of the local self-government units.

In the formula, the City of Skopje has the predictable part because it gets the fixed part of 3 million MKD, and in addition, it receives 40% part out of the 12% co-shared with Skopje and the municipalities within Skopje.

SCENARIOS AND SIMULATIONS

Given that the new population census was conducted in 2021, the Regulation on VAT redistribution to municipalities provides that the population data from the most recent census be used in the redistribution formula. Therefore, the scenario with the use of data from the old population census and new data puts some municipalities in a position to expect less money than the previous period. The list of municipalities with simulation where the population censuses of 2002 and of 2021 are compared is shown below:

Table 2: Estimations of VAT redistribution to municipalities in 2023 and comparison

Municipality	EUR (2021 population census)	EUR (2002 population census)	Difference (if compared with 2002 or 2021 population census results)
City of Skopje	2,266,624	2,266,624	-
Aerodrom	406,173	394,077	12,096
Butel	309,871	308,155	1,716
Gazi Baba	583,196	606,997	- 23,801
Gjorce Petrov	371,974	365,394	6,580

⁷ Regulation on the methodology of redistribution of the VAT to the municipalities in 2021

Karposh	377,273	369,922	7,351
Kisela Voda	365,985	355,641	10,344
Saraj	677,893	671,225	6,668
Centar	245,337	258,778	- 13,441
Cair	311,167	330,422	- 19,255
Shuto Orizari	171,214	159,473	11,741
Arachinovo	325,893	272,425	53,468
Berovo	549,903	573,333	- 23,431
Bitola	2,238,782	2,184,191	54,591
Bogdanci	254,900	258,691	- 3,791
Bogovinje	603,610	647,201	- 43,591
Bosilovo	382,677	399,205	- 16,527
Brvenica	415,494	416,728	- 1,234
Valandovo	464,105	459,477	4,628
Vasilevo	397,393	395,923	1,470
Vevchani	108,400	103,241	5,159
Veles	1,271,601	1,254,986	16,615
Vinica	563,998	619,687	- 55,689
Vrapciste	547,141	589,797	- 42,656
Gevgelija	728,247	693,764	34,483
Gostivar	1,548,298	1,755,828	- 207,530
Gradsko	248,424	248,775	- 351
Debar	465,395	495,279	- 29,883
Debrca	366,787	387,798	- 21,011
Delcevo	550,935	582,151	- 31,216
Demir Kapija	290,600	293,666	- 3,066
Demir Hisar	484,657	503,817	- 19,160
Dojran	204,358	201,891	2,467
Dolneni	565,519	537,343	28,176
Zhelino	554,545	596,833	- 42,288
Zelenikovo	221,155	224,452	- 3,297
Zrnovci	121,248	136,087	- 14,839
Ilinden	466,012	391,478	74,534
Jegunovce	338,392	347,119	- 8,727
Kavadarci	1,288,615	1,243,381	45,234
Karbinci	273,928	274,902	- 973
Kicevo	1,361,732	1,550,854	- 189,122

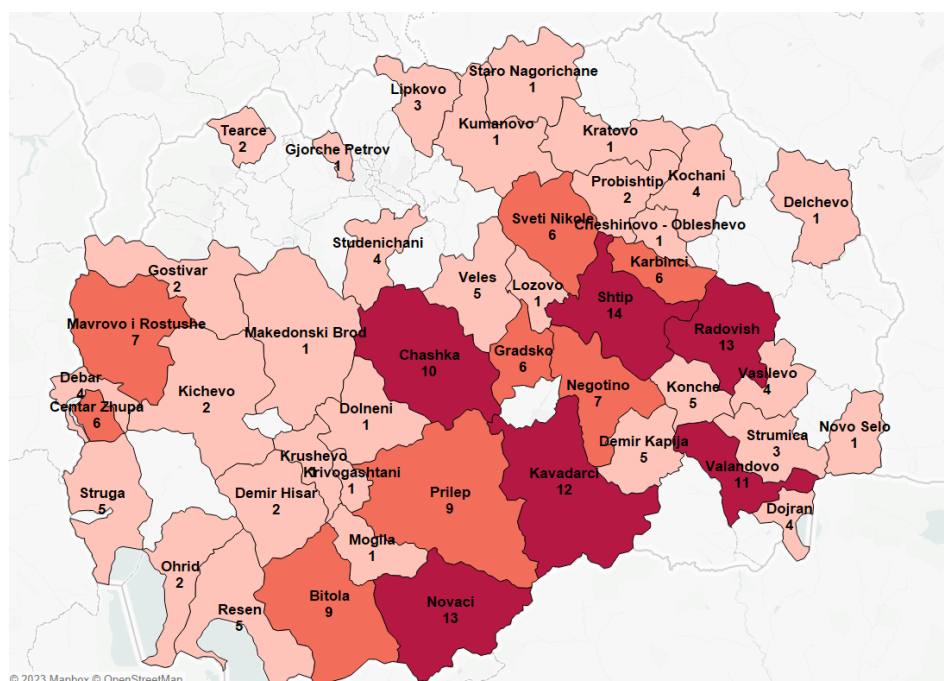
Konce	233,138	239,830	-	6,692
Kocani	898,240	925,016	-	26,776
Kratovo	425,244	455,116	-	29,872
Kriva Palanka	689,185	687,961		1,224
Krivogastani	216,906	219,922	-	3,016
Krusevo	338,017	337,746		271
Kumanovo	2,346,841	2,207,335		139,505
Lipkovo	661,993	683,836	-	21,843
Lozovo	188,628	192,796	-	4,169
Mavrovo and Rostuse	528,150	576,722	-	48,572
Makedonska Kamenica	279,793	291,328	-	11,535
Makedonski Brod	658,336	664,068	-	5,732
Mogila	311,547	321,988	-	10,441
Negotino	663,829	631,842		31,987
Novaci	512,026	520,498	-	8,472
Novo Selo	324,674	385,739	-	61,065
Ohrid	1,424,162	1,358,917		65,245
Petrovec	354,382	313,762		40,620
Pehcevo	236,251	252,111	-	15,860
Plasnica	165,607	159,698		5,910
Prilep	2,081,702	2,028,021		53,680
Probistip	530,981	542,708	-	11,727
Radovish	822,985	828,918	-	5,933
Rankovce	258,991	261,358	-	2,367
Resen	749,142	752,606	-	3,464
Rosoman	202,926	198,564		4,361
Sveti Nikole	633,286	646,803	-	13,517
Sopiste	306,815	270,032		36,783
Staro Nagoricane	384,028	397,806	-	13,778
Struga	1,387,796	1,464,582	-	76,786
Strumica	1,246,432	1,191,382		55,050
Studenicani	649,647	507,213		142,434
Tearce	490,553	525,183	-	34,631
Tetovo	1,912,089	1,711,910		200,179
Centar Zhupa	212,787	251,425	-	38,637
Caska	650,190	623,788		26,402
Cesinovo-Obleshevo	243,870	264,120	-	20,250

Cucer Sandevo	361,065	323,586	37,479
Stip	1,294,229	1,222,667	71,561
TOTAL	50,165,914	50,165,914	-

Source: State Statistical Office, own representation

The results of the recent population census also showed that 205 settlements (in 45 municipalities) had no resident population at the registration period in 2021. This situation raises another issue that may need to be addressed in the Law on territorial organization of the local self-government units⁸ where the number of settlements needs to be modified. The map of municipalities that have experienced a decrease in settlements according to the 2021 Population census is shown below:

Map 1: Municipalities that had settlements with zero resident population in 2021



Source: State Statistical Office, own representation

Estimations based on the amounts that will affect the budgets if the number of settlements with residents is considered in the formula, would range from minus EUR 20,000 to plus EUR 20,000 . In this paper the simulations are carried out on the number

8 Law on territorial organization of local self-governing units in the Republic of North Macedonia

of settlements provided by the Ministry of Local Self-government. Hence, each of the municipalities shown on the map above with dark red will receive between 12-19 thousand euros less money due to the decreased number of settlements.

DISCUSSION

This paper provides data-based evidence that the formula and methodology for VAT redistribution toward self-government units has many weaknesses. Given that greater weight in the formula favors larger municipalities in population, it means that a certain percentage increase in the amount of VAT available for redistribution among municipalities would be transformed into higher-than-average increase for larger municipalities than for smaller municipalities.

The State Statistical Office has recently published the data from the 2021 Population and Housing Census for enumerating the population residing in the country during the last 12 months (i.e. usual residence population, in accordance with the UN recommendations). According to the data published, the resident population in the country was 1.83 million in 2021 and decreased by 9.19% compared to 2002 Population census. However, not all municipalities were affected equally with the population decrease, therefore, municipalities such as Gostivar and Kichevo may experience up to 13% decrease of the planned income from VAT for 2023 due to the decrease of resident population, while Studenichani may expect up to 25% increase.

The number of settlements with resident population has changed over the years. Although it has little weight in the formula, the new available data should reflect the number of settlements in line with the newest data available.

The methodology doesn't provide clear instructions on the methods on how the performance based 1% of the VAT would be redistributed in 2023. However, one part of this percentage that is connected to the conditionality of 0.5% drop of the personal income tax, would mean that only 5.5 million EUR would be available to all municipalities and City of Skopje in 2023.

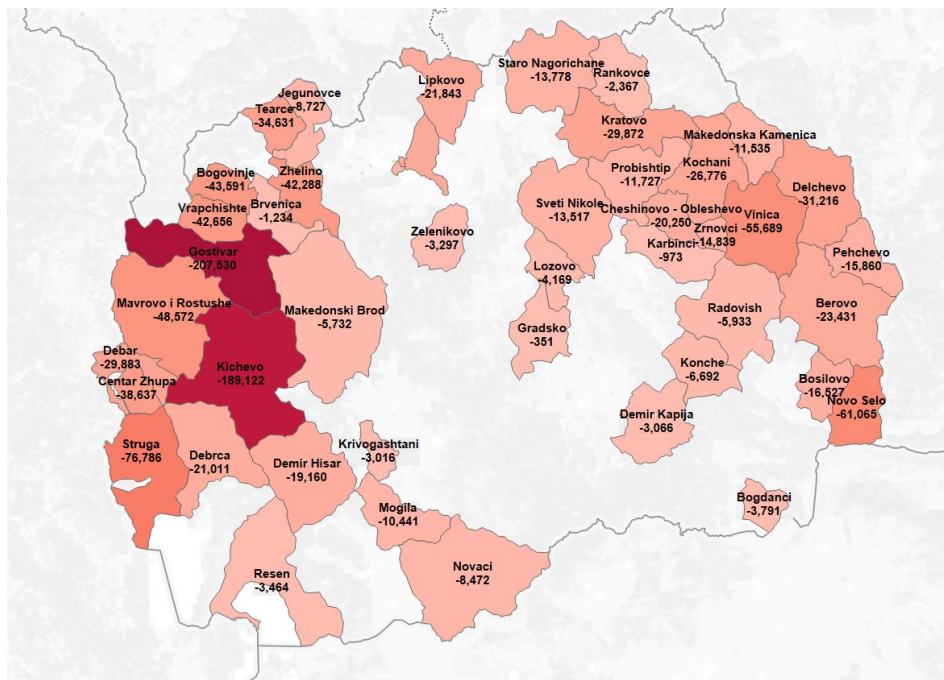
These additional observations may add up to the current discussion on the topic of VAT redistribution and possible amendments of the methodology and formula.

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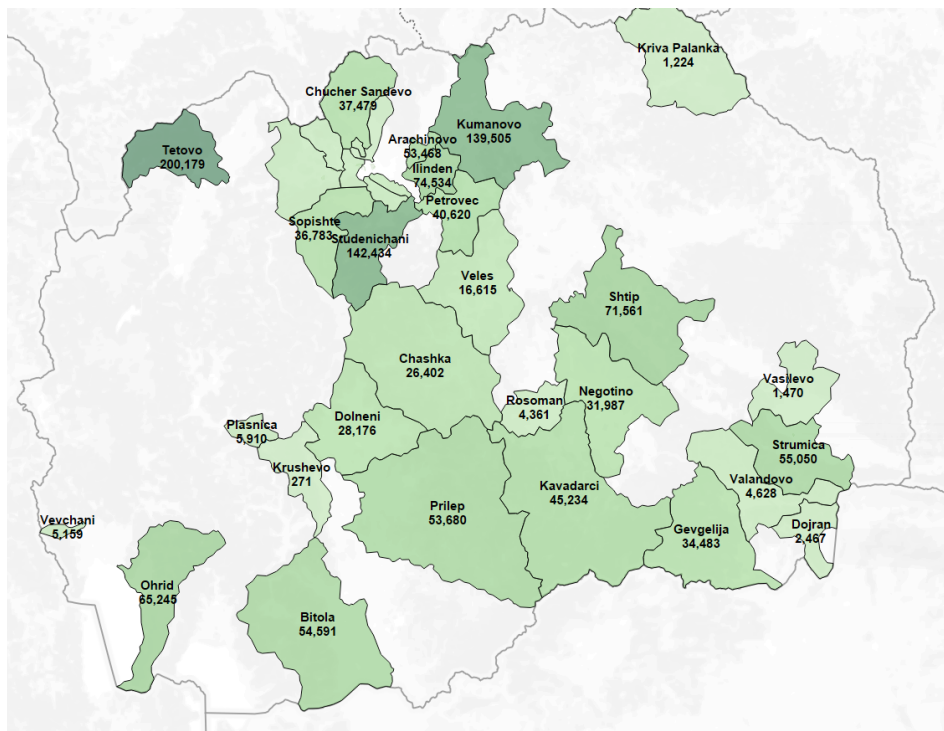
1. Law on financing local self-governing units in Republic of Macedonia (Official gazette 61/2004) and amendments;
2. Law on territorial organization of local self-governing units in the Republic of Macedonia (Official gazette 55/2004) and amendments;
3. Regulation on the methodology of redistribution of the VAT to the municipalities in 2007 (Official gazette 79/2006);
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5. Various editions from the treasury of the Ministry of Finance, accessed [on December 30, 2022](#);
6. Ebrill, L. P., Keen, M., & Perry, V. J. (2001). The Modern VAT. USA: [International Monetary Fund](#).

ANNEX

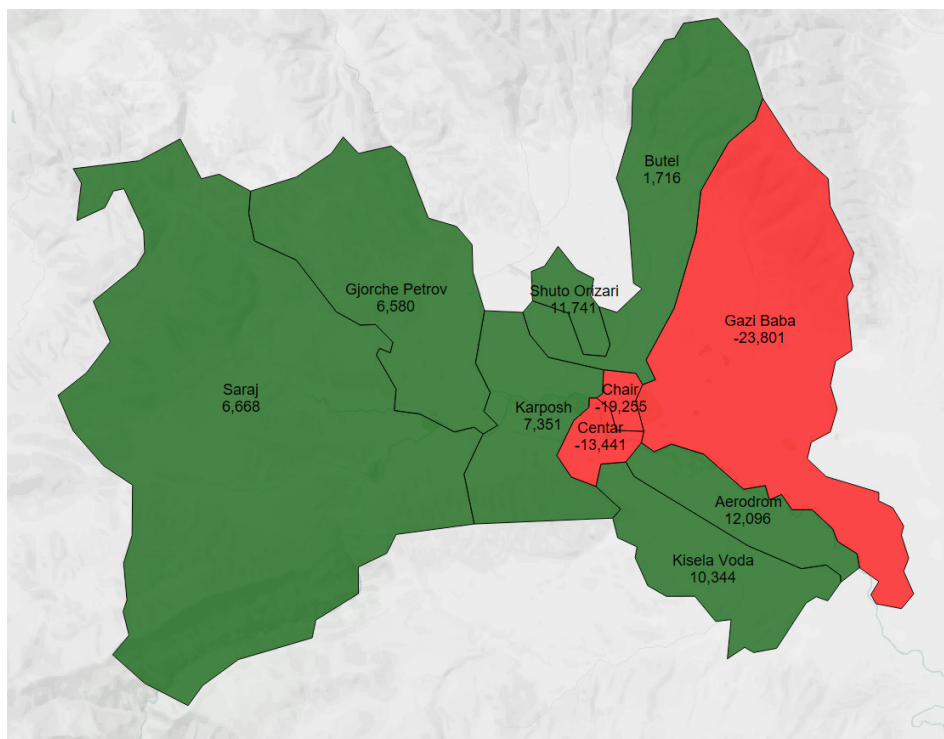
Municipalities expected to receive **less** transfers from VAT due to population change, in EUR



Municipalities which are expected to receive **more** transfers from VAT due to population change, in EUR



Municipalities within Skopje which are expected to receive **more or less** transfers from VAT due to population change, in EUR



SHORT BIOGRAPHY



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graduated from the Faculty of Law “Justinian First” - Skopje, Department of Political Studies. She obtained the title of master of economic sciences, in the field of international economics, in 2010, with a master’s thesis under the title “The role of international organizations in the world economy.” Started her professional career in 2009 in the Assembly of the Republic of Macedonia. Her previous work experience includes participation in international conferences, trainings and workshops, in the European Parliament, in the countries of Europe and the USA.

Стручна научна статија
УДК: 321.7:342.5349497.7]"1990/2020"

Marina Dimovska

THE ROLE OF LEGITIMACY OF DEPUTIES IN BUILDING DEMOCRACY

POLITICAL THOUGHT

65

INTRODUCTION

A number of theorists writing about democracy argue that it is an instrument of human development as long as it encourages people to take responsibility for their own political lives. One can say, when looking through the prism of political science research¹, that each state has its own specifics in the functioning of democratic and parliamentary life, although these researches focus to a large extent on the power of social groups and their consensus in making social and political decisions, whereas parliamentarians are much less analyzed as individuals, legitimate representatives of the citizens who should make the decisions.

This paper, by taking as a starting point the prism of the individual, will focus on the procedure for the nomination and selection of candidates for MPs in different electoral systems, the voter turnout, the process of transferring sovereignty and decision making on behalf of the citizens. This is supplemented with excerpts from surveys on citizens' perceptions of the work of MPs in the Macedonian legislature, from the aspect of how much the MPs represent them and decide on their behalf.

According to the concept of the Macedonian constitution², the citizen is the bearer of sovereignty who, through the voting process, transfers his decision-making right to the MP. That is why the process of transfer of sovereignty is extremely important. This matter is regulated in the Electoral Code³, which is subject to changes in accordance with the situation, the needs of the citizens, but also the perceptions of the scientific public.

The legitimacy of the deputies, expressed through the will of the citizens to participate in the electoral process, provides the key principles of the topic, which is the subject of analysis. The perception of the situation, through the prism of the Macedonian electoral model settings, and the general principles of selection and nomination of candidates for MPs will also be elaborated.

Electoral systems contain the mode according to which voters express their party and/or candidate preference with votes and translate them into mandates.⁴ In other words, "the electoral system determines how votes are translated into seats in the House of Representatives".⁵ On the other hand, the electoral system in a broader sense represents

1 Harold D. Lasswell, *A Preview of Policy Sciences* (New York: American Elsevier Publishing, 1971); Yehezkel Dror, *Ventures in Policy Sciences: Concepts and Applications* (New York: American Elsevier Publishing, 1971); Edward S. Quade, *Analysis for Public Decision*, 3d rev. ed., ed. Grace M. Carter (New York: North Holland Publishing, 1989); David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice*, 2nd ed. (Englewood Cliffs, NJ: Prentice Hall, Inc., 1992); Duncan Mac Rae Jr., *The Social Function of Social Science* (New Haven, CT: Yale University Press, 1976).

2 Constitution of the Republic of Macedonia, Official Gazette of the Republic of Macedonia, year XLVII, No. 52, Skopje, 1991

3 Electoral Code ("Official Gazette of the Republic of Macedonia", Mo. 40/06, 136/08, 148/08, 155/08, 163/08, 44/11, 51/11, 54/11, 142/12, 31/13, 34/13, 14/14, 30/14, 196/15, 35/16, 97/16, 99/16, 136/16, 142/16, 57/17, 67/17, 125/17, 35/18, 99/18, 140/18, 208/18, 27/19, 98/19 и 42/20)

4 Nolen, Dieter and Mirjana Kapović, Electoral systems in Eastern Europe, "Friedrich Ebert", Skopje, 1997, p.7

5 Sartori, J. "Comparative Constitutional Engineering: A Review of Structures, Motivation, and Outcomes." New York, 1997, p.3

“a set of rules with the help of which the entire electoral process is regulated”.⁶ The electoral system is extremely important for every country, it regulates the way in which the citizens will transfer their sovereignty. In Macedonia, sovereignty comes from the citizens and belongs to the citizens.⁷

1. ELECTORAL SYSTEMS

Electoral systems can be grouped into two basic groups: majoritarian electoral systems and proportional electoral systems. By combining parts of both types, a new group called mixed electoral systems is obtained.

1.1 Majoritarian Electoral Systems

According to majoritarian electoral systems, the right to a mandate (place in the House of Representatives) belongs to the candidate who won the required majority of votes in the held elections⁸.

Theory distinguishes several types of majorities:

1. plural majority - the highest number of votes in relation to the other candidates;
2. relative majority - 50% of the total number of; votes cast
3. absolute majority - 50% of the total number of registered voters;
4. qualified majority - any majority that provides for a greater percentage of votes than 50%.

1.2 Proportional representation electoral systems

According to the model of proportional representation, representative seats are allocated conforming to the votes won, that is, each party is represented in the House of Representatives in proportion to the share of votes received from the electorate⁹. The basic difference according to which the proportional systems are differentiated is the election formula, that is, the way in which mandates are distributed depending on the election results.

⁶ Heywood, E. "Politics", Basingstoke, 2007, p. 256

⁷ Constitution of the Republic of Macedonia, Official Gazette of the Republic of Macedonia, No. 52, Skopje, 1991.

⁸ Siljanovska-Davkova, G. "On the road to the distribution of electoral mandates - electoral models". In "Constitutionalism, Universalism, and Democracy." Rotterdam, 1999, p. 2

⁹ Ibid, p. 3

The most commonly used election formulas are the following:

- a) The Electoral Quota Model (Hare Quota)
- b) D'Hondt formula
- c) Sainte – Lague formula

1.3 Mixed electoral systems

In an attempt to combine the advantages of majoritarian and proportional electoral systems, electoral system experts during the second half of the twentieth century developed some new hybrid systems, popularly called mixed electoral systems, which represent a combination of certain majoritarian and proportional systems.

Mixed electoral systems can be classified into two main groups: inter-independent systems and inter-dependent systems. Within the framework of mutually independent systems, known as parallel systems, the result in one component has no influence on the result in the other, that is, part of the deputies are elected through a majority electoral system, and the other part through a proportional one completely independently (in parallel) of each other. On the other hand, in interdependent systems (which are considered “true” mixed electoral systems) the results in one component have an impact on the other component, that is, the majority and proportional components of the system are interconnected.¹⁰

Types of mixed election systems are:

- a) Parallel election system
- b) Mixed system with additional representation (the “German model”)
- c) System of individual non-transferable vote

In the Macedonian Legislature, a proportional electoral system with party lists is used in the election of deputies to the Parliament, starting with the parliamentary elections in 2002 and up to date. According to the electoral legislation¹¹, 120 MPs are elected in the parliamentary elections, using D'Hondt electoral formula for calculating the results, whereby the state is divided into six electoral units and 20 MPs are elected in each.

¹⁰ Norris, P. “Electoral Engineering: Voting Rules and Political Behavior”, Cambridge, 2004, p.55

¹¹ Electoral Code (“Official Gazette of the Republic of Macedonia”, No. 40/06, 136/08, 148/08, 155/08, 163/08, 44/11, 51/11, 54/11, 142/12, 31/13, 34/13, 14/14, 30/14, 196/15, 35/16, 97/16, 99/16, 136/16, 142/16, 57/17, 67/17, 125/17, 35/18, 99/18, 140/18, 208/18, 27/19, 98/19 и 42/20)

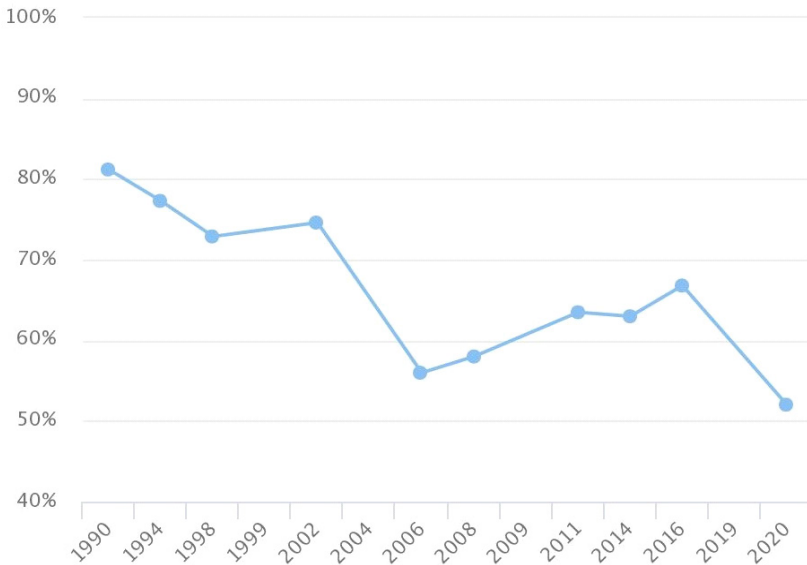
fully proportional distribution of the expressed will of the citizens, that is, the number of votes received by the parties does not correspond to the distribution of mandates.

2. VOTER TURNOUT

Voter turnout is one of the most important topics in the focus of political science. It is the way in which citizens transfer their sovereignty to their future representatives, and in order for this process to be democratic, it requires the active involvement of citizens in it. The increase in voter turnout also means greater legitimacy of the elected deputies to make decisions on behalf of the citizens.

The data on the voter turnout in Macedonia show a significant drop. While in the first election cycles since the independence the trend was over 70%, in the last 20 years it ranges from 56 to 67%, whereas in the last parliamentary elections it was 52%.

Chart 1. Voter turnout - parliamentary elections Macedonia



Source: <https://www.idea.int/data-tools/country-view/207/40> , accessed on January 10, 2023¹⁴

¹⁴ International IDEA, <https://www.idea.int/data-tools/country-view/207/40>

The data provided in Graph 1 clearly show the turnout decreasing trend. The last parliamentary elections held in 2020 saw the lowest voter turnout of only 52%. The data on the voter turnout show a decrease in the interest of citizens to participate in the election process.

The first assumption is whether changing the proportional electoral model or the number of electoral units from six to one (parliamentary elections), could lead to a possible higher turnout due to the understanding that the citizens would be better represented and have a greater influence? This is followed by the assumption that the presence of many more deputies who would be from smaller political parties would make unstable political ruling majorities with unstable governments? It is to be expected that there are other factors that influence the voter turnout, such as the interest of the citizens, and the (dis)belief that politics can solve their problems, a specific political culture, as well as the influence of the parties during the selection of candidates and similar.

Political participation in the Macedonian context can be an initial indicator for a deeper approach when considering the question of the (in)adequacy of the existing electoral model and the opportunities it leaves for citizens to clearly express their position. The very analysis of the voter turnout provides an opportunity to consider the election model, which largely has an impact on the process of selection and nomination of candidates for MPs.

3. THE DIFFERENT ELECTORAL MODEL ALSO OFFERS A DIFFERENT WAY OF SELECTING THE CANDIDATES FOR REPRESENTATIVES

As it can be expected, the electoral model has its own influence in the way MP candidates are selected, taking place in the parties themselves long before the elections are announced. The models that predict voting for individuals have one approach, while the models with closed lists predict a different approach, as can be seen from the given examples.



Table 1: Selection of candidates for parliamentary elections¹⁵

Selection of candidates for the parliamentary elections		
Electoral system used for national elections	How parties usually select candidates for these elections	Example
Proportional system with closed lists (party list)	Party officials (or special party bodies) prepare the lists of ranked candidates	Netherlands
A majority system with plural majority	Local branches select the candidate, who is sometimes drawn from a proposed list of the leadership	Canada, Great Britain
Mixed systems	The party compiles a list for the proportional part, and the local branches select a candidate for the proportional lists	Germany

In the selection of candidates for MPs in proportional election models, due to the fact that party lists are used, the party leaders have a greater influence on the candidates. This leads to the conclusion that citizens would vote for candidates where narrow party leadership/party leaders would have the decisive say and not who is most acceptable to the community. One of the factors for low voter turnout can be due to this element. The elected deputies, although they get their legitimacy from the citizens in the elections, remain indebted to the leader who actually put them on the list for deputies.

In the majority model, the role of local party structures is much greater or the very character of the people, their reputation in the local community has a greater influence. It is to be expected that such elected MPs would have more legitimacy, to democratically decide by representing the interests of the local community from where they were elected instead of strictly representing party positions.

When it comes to mixed electoral systems, they combine the elements of proportional and majority in order to eliminate the shortcomings of one or the other system.

For the purposes of the assertions made here, the German electoral model is interesting. Deputies in the Bundestag are elected according to the mixed electoral system with a proportional sign, that is, one part is elected from the party lists, and the other part

¹⁵ Hague, Rod and Martin Harrop, *Comparative government and politics*, 7th Edition Revised and Updated, Palgrave Macmillan, 2009, p.248.

from the uninominal (one-mandate) electoral units. The German model creates highly proportional representation, which means that it is almost impossible for a majority to be made up of just one party. German coalition governments are usually stable and enjoy legitimacy among the electorate. The main controlling role is played by the opposition, which is represented by a large number of MPs. The relationship between the government and the opposition is mostly consensual and based more on cooperation than confrontation.

However, such relations are more the result of the German political culture than of the electoral system itself and its effects. Such a model includes the positive features of both the proportional and the majority system, taking into account both proportionality and accountability to the voters.

In our country, the question of building the electoral model is still open and does not lose its relevance. The assumption is that the German model of electoral system would be acceptable in our society. In the eventual application of the mentioned mixed model, a new division into 60 uninominal electoral units is needed, by which 50% of the mandates in the Parliament would be filled. Given that citizens would have the right to two votes, the second would be given to the party list they prefer, and for the remaining 60 seats the result would be calculated at national level.

This way, the contradiction between the powerful party structure and the popular individuals who would have a chance to win a mandate in the uninominal constituencies is calmed down. It should be kept in mind that the real effect of a new electoral system should not be expected at its first application. It is necessary to practice a certain model of electoral system at least several times, in order to be able to perceive its real impact on the social fabric.

Of course, a competent electoral engineering is expected above all to accept democracy as a basic goal, establish representative and responsible institutions, as well as nurture the social climate that will enable such a policy.¹⁶

4. CITIZENS' PERCEPTIONS OF THE MPs

In support of the thesis about the legitimacy of MPs from the point of view of voter turnout, the electoral system and the method of MP candidates selection, I want to share results from other researches.¹⁷

¹⁶ Gaber, Natasha and Aneta Jovevska, Designing an Electoral System, Friedrich Ebert, Skopje, 1997, p.. 88-94.

¹⁷ https://ids.cs.org.mk/wp-content/uploads/2022/07/A4_MKD-ANKETA-2022.pdf

Namely, when asked if the respondents even know their MPs elected from their electoral unit/municipality/region, one third of the citizens, 38%, did not know the names of the MPs from their electoral unit/municipality/region.

When considering the behavior of MPs in terms of representing interests, almost half of the respondents, 47%, believe that the elected MPs partially represent the interests of the citizens, while 44% believe that the MPs do not represent the interests of the citizens at all. Then follow the interests of the party, the business, the ethnic community to which they belong, but also the interest of other countries. At the bottom of the scale, the citizens see the representation of their interests, i.e. only 7% of the respondents believe that the MPs always represent their (citizen's) interest.¹⁸

CONCLUSION

Taking into account these findings, the possibility of introducing a dimension of the majority electoral model in the Macedonian system, which should ensure greater responsibility of the deputies to the citizens instead of to the political parties, opens up.

This change, in addition to being expected to increase the motivation to participate in voting, will also have an impact on the internal party processes for selecting candidates with personal integrity.

The presented German electoral division, through its arrangement, in addition to ensuring a proportional ratio of votes received and mandates won, also ensures connection, that is, the responsibility of the deputies to their voters. Such a model includes the positive features of both the proportional and the majority system, taking into account both proportionality and accountability to the voters.

The data from the voter turnout show a decrease in the interest of citizens to participate in the election process. Although one thesis that can be put forward is that there is a correlation with the electoral model, however, the influence of political culture and the political offer itself for citizens and their belief in parties and institutions in terms of solving citizens' issues cannot be ruled out.

The MPs who are elected with a higher turnout may have greater responsibility in making decisions, and greater legitimacy of the decisions made, that is, their acceptance by society and the citizens who then implement them.

¹⁸ Ibid.

21. Electoral Code, Official Gazette of the Republic of Macedonia No. 40/06, 136/08, 148/08, 155/08, 163/08, 44/11, 51/11, 54/11, 142/12, 31/13, 34/13, 14/14, 30/14, 196/15, 35/16, 97/16, 99/16, 136/16, 142/16, 67/17, 125/17, 35/18, 99/18, 140/18, 208/18, 27/19, 98/19 и 42/20
22. Constitution of the Republic of Macedonia, Official Gazette of the Republic of Macedonia, No. 52, Skopje, 1991.