

Important project financing by issue of bonds in the Federation of Bosnia and Herzegovina

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Abstract

This article deals with the development of the Federation of Bosnia and Herzegovina based on the opening of infrastructure facilities for which funding is proposed to incorporate the issue of securities, primarily government bonds because there is a real basis for its demand deriving by banks, citizens and other organizations and institutions. The basic conditions for the functioning model of financing development and strategic projects by issuing securities herein include: a) accelerate reforms and create the legal framework that will allow the establishment of important missing institutions for the business sector, b) more efficient functioning of the executive and legislative bodies in Bosnia and Herzegovina on creating a favorable business environment, c) the implementation of identified strategic commitment from all levels of government in relation to the creation of a single economic space, labor market, harmonization of entity policies and other policies that influence the overall business environment, d) the development of infrastructure projects and power facilities, and e) the inclusion of private funding and knowledge aimed at improving the construction and management of roads.

Keywords: emission of securities, strategic development document, government bonds, capital market.

Introduction

The simplest definition of capital is the money used for investment purposes, and accordingly, the capital market is a market where the trading of money is used for investment purposes. The capital market is determined by the market as long-term securities (Ristić, 2000a). That is, the most significant from the standpoint of obtaining the funds needed for the operation and expansion of the company because they represent the largest part of the long-term needs of the company (Vidučić, 2002; Foley, 1998).

Given that there are securities appear for the first time in the capital markets or they perform their reselling different primary and secondary capital market securities.

Primary securities market is one in which they for the first time offered to potential buyers. On this market, companies are issued securities and their first sale on the capital market to obtain, primarily funds (Karić & Hodžić, 2004). Here takes place mobilization miniaturized household savings for commercial purposes, so the primary market increases the property of the economy. In the primary market of securities issue of new shares usually take place through private placement - issue of shares to familiar customers.

Secondary securities market is a market in which one turnover of existing long-term securities (Orsag, 2003). Those already broadcast on the primary market. This is about their resale (Orsag, 1992; Ristić, 2000). Transactions on the secondary market capital were launched different motives. Primarily it comes to the investment motive, which is based on long-term making money through investment and investment management.

2. Capital market in the federation of Bosnia and Herzegovina

2.1. The participants in the capital market

The main participants in the capital market in Federation of Bosnia and Herzegovina are as follows (Rovčanin, 2006:41-42):

- The Securities Commission of the Federation of Bosnia and Herzegovina is the supreme regulatory body that oversees the work of all participants in the market and has broad powers.
- The Sarajevo Stock Exchange is a central place where there is a bringing together the supply and demand for securities. In addition, the stock market is the place where on the basis of these data form the market price of securities.
- Registry of Securities in the Federation of Bosnia and Herzegovina is a company which carries on registration, storage and maintenance of data on securities and business transfer, in accordance with the law governing the issuance and trading of securities.
- Brokers - authorized brokers, unique, licensed to perform trades on the stock exchange. Citizens execute their orders through brokerages, which are forwarded to the stock exchange.

2.2. Sarajevo Stock Exchange - SASE

Securities Act defines a stock as a "place to bring together the supply and demand of securities and trading securities, according to pre-established rules (Službene novine Federacije BiH, 39/98 i 36/99). Through the connection of the supply and demand for securities leads to courses (or price) of securities traded. The third function is to ensure exchanges of information on supply and demand and the market value of traded securities.

In the Federation, the basic capital market is Sarajevo Stock Exchange (SASE), which began operations in April 2002. Trading was conducted by applying a system of regular auction that took first place once a week - on Tuesdays. In 2003 and auctions take place twice a week - on Tuesdays and Thursdays, due to increased activity in the capital market, especially on the Sarajevo Stock Exchange. While in 2004, SASE

introduced trading four days a week, so it now trades all weekdays except Friday, which is reserved for maintenance extraordinary auctions with shares of PIFs.

Trading is fully computerized and based on the software system BTS (stock exchange trading system). Rules of the Stock Exchange is planned organization of securities trading in the two market segments – an official stock exchange quotation and the free market. For a listing of a particular security in the official quotation of the need to the issuer meets the requirements in respect of the share capital (at least 4 million) and the distribution of issued securities (at least 150 shareholders), as well as other conditions prescribed by the Securities Commission, and the conditions for the listing of securities trading in the free market considerably milder

Application for listing in the official quotation submitted issuer of the security, a requirement for admission to trading on the free market may be submitted by the issuer or a professional mediator if there is an interest of his clients. Trading is organized so that brokers from their offices, by means of computer workstations, access the BTS, which entered orders for the purchase and sale of securities that they received from their clients. Orders are entered every day, using the method of maintaining the equilibrium exchange rate for each security - the price at which the auction will be carried out so as to obtain the largest possible volume of traffic. After the auctions and no transactions exchange shall prepare a report on transactions concluded and submitted by brokerage houses, depository banks and brokerages Securities Registry. After receiving the report from the stock exchange, brokerage houses prepared and submitted depository banks instructions for execution of financial obligations arising from transactions in which securities are bought for their clients. Depository bank control instructions submitted, comparing them with the report submitted by the stock market and carry out the transfer of money to the account of brokerage firms that sold the securities. After banks depositors receive a report that the monetary alignment successfully completed register HR in the Federation of Bosnia and Herzegovina, based on reports from stock exchanges, make the transfer of ownership on transactions concluded on the stock exchange. Alignment of transactions on SASE is currently taking place using the so-called. gross principle - every transaction aligns individually.

Management companies and investment funds have an extremely important role in the capital market in the Federation. Since the beginning of organized trading on the regulated market PIFs are characterized by two main trends – trading PIF recorded average growth of trade volume and value of shares, while at the same time a process of concentration of ownership, and reduce the number of shareholders.

In 2015, the Sarajevo Stock Exchange recorded a total turnover of 1,219,583,580.59, which makes 68.57% of the total turnover achieved on the BH stock exchanges. As part of the 7015 transaction is 35,718,506 securities. They have successfully completed the 24 public offerings totaling 615,302,962.73 KM (Izvještaj o radu, 2015).

Table 1. Table of turnover on SASE in 2015

Month	Number of transactions	Securities	Value
January	354	1.685.730	6.719.866,97
February	456	911.867	4.385.905,34
March	582	2.070.940	92.509.367,36
April	616	3.135.028	25.839.959,13
May	441	1.583.915	75.646.839,05
Jun	436	1.843.138	54.722.756,58
July	798	7.103.269	428.859.926,46
August	862	4.118.252	50.708.798,02
September	554	2.058.165	129.558.289,83
October	521	2.928.608	72.831.017,55
November	548	1.613.669	99.985.235,39
December	847	6.665.925	177.815.618,91
Total	7.015	35.718.506	1.219.583.580,59

Source: IZVJEŠTAJ O RADU Komisije za vrijednosne papire Federacije Bosne i Hercegovine za 2015. godinu

In 2015, the largest turnover was realized in the month of July, a decisive impact on the value of realized turnover had one stock exchange transaction with UniCredit Bank Mostar in the amount of 227,800,904.13 KM and one off-exchange transactions (signed stake in Intesa Sanpaolo Banka BiH in the amount of 192,774,302.00 KM). In the month of July 2015 were traded per security (7,103,269 securities), while in the month of August recorded the highest number of completed transactions (798 transactions). The number of closed transactions in 2015 did not record large monthly fluctuations. Chart shows to some extent identical trend of monthly changes in the number of completed transactions in 2015 compared to 2014. Certain differences exist only in the months in which in 2015 achieved the largest number of transactions, which are August and December 2015 (Komisija za vrijednosne papire).

2.3. Securities Commission of the Federation of BiH

Securities Commission of the Federation of Bosnia and Herzegovina is an independent specialized institution of the Federation of Bosnia and Herzegovina, established under the Act by early 1999, with the primary mission of the establishment and development of capital markets, the performance of the functions of the market regulator, control transparency and legality of the participants in the securities market.

The jurisdiction of the Commission's regulation of conditions and ways of functioning and operation and supervision of the following institutions and participants in the capital market:

Securities Register, the Sarajevo Stock Exchange, brokerage houses, brokers / dealers, fund management companies and investment funds, banks authorized to conduct depository and trustee on the securities market. Also, is responsible for keeping the register of issuers of securities-stock companies, approval of issuance of securities, approval of tenders for the takeover of joint stock companies, approving

and monitoring implementation of corporate activities in joint-stock companies and others (Komisija za vrijednosne papire).

The Commission consists of five members and the president, vice The president and three members for a term of five years. The tasks and powers of the Commission are established by law and include:

- The regulation of conditions, manner of issuance and trading of securities;
- Approval of the issuance of shares and other securities companies and banks;
- Approval of the issuance of securities fund management companies, investment funds, mutual funds and other legal entities involved in issuing securities;
- Regulation of the conditions and method of issuing bonds cantons and municipalities;
- Prescribing rules and supervision of securities trading, which is based on the exchange of securities and the quotation system, through electronic means;
- Protect the interests of investors;
- The regulation and supervision of the application of reporting standards of investors and the public on the operations of participants in securities trading;
- Prescribing and supervising the application of corporate governance standards;
- The prescription of conditions, giving authorization and supervision of professional intermediaries (eg, brokers and dealers) and other participants in securities trading.

The Commission has established and regularly to keep the register of issued securities. In the register of issuers shall be entered in all the companies with information on the share capital, the type, number and nominal value of shares, and members of the management and supervisory board of the joint stock company. In the register of issuers of securities so far has enrolled a total of 742 issuers-joint stock companies, with total share capital in the nominal value of 10,441,190,753.04 KM shown in Table 2.

As a result of the mass privatization ownership in the joint-stock companies and investment funds is dispersed to a large number of shareholders. In recent years, through the operation of supply and demand in the market, there is a process of concentration of share capital from larger to smaller number of shareholders, which is a distinguishing feature and in other transition economies.

In the Commission to maintain a separate register of issuers of securities that are entered traded companies, banks and insurance companies as issuers of securities. In the register of issuers with the Commission, with the end of 2015, enrolled 615 issuers, and 577 companies and 38 banks and insurance companies. In addition, as the issuers of securities are recorded three municipalities and 11 closed-end funds. In 2015 in the register of issuers with the Commission registered four new issuers and to three companies that have changed the form of Ltd. in a joint stock company, and one just established a joint stock company.

Table 2. The total number of issuers with registered share capital

Issuers	Number of issuers	%	Nominal capital in KM	%
Business organizations	577	93,82	9.049.548.574,54	86,67
Banks and insurance companies	38	6,18	1.391.642.178,50	13,33
Total	615	100	10.441.190.753,04	100

Source: IZVJEŠTAJ O RADU Komisije za vrijednosne papire Federacije Bosne i Hercegovine za 2015. godinu

In the reporting period the issuers in 14 occasions submitted applications for approval of reduction of capital, of which 10 requests were positively resolved, and four were rejected. Of the 14 requests for reduction of the share capital, the three were related to the reduction of capital due to the withdrawal of its own shares, and 11 requests were filed to cover the loss.

Requests for the reduction of the share capital submitted issuers (Sarajevska berza):

- "Vakufska banka" dd Sarajevo (KM 27,506,500.00);
- "Camelija" Bihać (1,000,000.00 BAM);
- "Bazna hemija" joint-stock company Viškovići – refused;
- Joint Stock Company "ROADS" Mostar – refused;
- UPI OPERATING SYSTEM, dd for services and trade Sarajevo (558,942.66 KM);
- Furniture factory "FURNITURE" Gradačac (839,757.35 KM);
- "Bjelašnica" Joint-stock company Hadžići (762,076.77 KM);
- "Electrical Equipment Factory" Sarajevo – refused;
- LEDA Široki Brijeg – refused;
- Joint Stock Company "ROADS" Mostar (KM 4,400,367.51);
- HYPO ALPE-ADRIA-BANK (112,597,125.00 KM);
- Joint Stock Company "BUSCHERHOFF-PLASTIKAL" Kalesija (2,117,040.00 BAM);
- CLOSED DD "GS-FACTORY MACHINE Sansan" (693,165.60 KM);
- "UNIPROMET" Real estate Sarajevo (67,184.00 KM).

3. Model of financing for development and strategic projects by issuing securities

3.1. Basic assumptions for the functioning model of financing development and strategic projects by issuing securities

The development of the business sector and infrastructure in Bosnia and Herzegovina faces a number of limitations of the environment in which entrepreneurs and investors can not directly influence, but can through their association, require the improvement of business conditions, from all economic policy makers, and above all (Karić & Hodžić, 2004:75-76):

1) Accelerate reforms and create a legal framework that will ensure the establishment of institutions of missing important business sector of Bosnia and Herzegovina (single economic space, creating development and stimulating export-stimulating business-

system environment, the formation of public corporations for specific sectors: roads, railways, utilities, energy, post, communications services.)

2) The executive and legislative authorities of Bosnia and Herzegovina to effectively operate in the creation of a favorable business environment that will enable better utilization of available resources, increase the competitiveness of local companies and their effective integration into regional, European and world integration processes (signing of the Stabilization and Association Agreement with the EU to promptly respond to the proposals of businessmen in the parliament of Bosnia and Herzegovina regarding the improvement of economic legislation because existing deals tremendous damage to the business sector and society at large).

3) The implementation of the identified strategic commitment of all levels of government regarding the creation of a single economic space, the labor market, harmonization of entity of Policy and other policies that influence the overall business environment in Bosnia and Herzegovina, primarily the elimination of discrimination and monopoly between the companies arising from ownership structure of capital.

4) The development of infrastructure projects and power facilities is a fundamental prerequisite for raising the competitiveness of the business sector in the domestic, regional and global markets. Already by the entity and state authorities adopted necessary strategic documents, as well as ways of funding in terms of finding strategic partners.

5) The inclusion of private funding and knowledge in order to improve the construction and management of roads. Private financing of infrastructure, or the use of tolls, unburden the public funds that can be used to maintain existing roads or satisfying other social priorities.

Toll roads provide great convenience to customers. They can provide high quality service, safety, comfort, saving time and fuel, repair and maintenance of roads and so on. The state should define coherent and stable system of financing road infrastructure for the whole country.

3.2. Prepared projects that can be financed by securities

At the level of Bosnia and Herzegovina, but there are two types of strategic development projects that have been adopted by the relevant institutions of authority. The first relates to the development of road and rail traffic, and the other relating to the development and construction of power facilities. Due to the fact that we still have not formed a corporation in the field of railway and power sector at the national level, these are referred to the documents adopted at the entity level, while the project for the construction of the motorway (Corridor VC) was adopted at the level of Bosnia and Herzegovina. Their partial implementation has begun, but the results are more than modest because the implementation is done at the entity level. The Federation Government in June 2008 adopted a plan and program of energy sector development and financing of the same predicted of finding a strategic partner. Due to political instability and not the existence of the coherence of the ruling and opposition parties in terms of finding strategic partners for the construction of these facilities, even more compounded the political situation in the Federation.

The aim of the document-strategic plan and program of energy development in the Federation BiH is to determine the needs and opportunities of development of the power sector and unblock the stalemate of investing, which ultimately should be reflected positively on the sustainable development of the sector and society as a whole. The growth in electricity consumption due to the lifting of economic activity can stop further economic development, because the existing capacity cannot meet the growing demand for electricity. In the realization of the construction of new power plants, special attention should be paid to environmental standards in order to preserve the natural beauty of the country.

Conclusions

The signing of the Stabilization and Association Agreement with the EU for Bosnia and Herzegovina means a new period in its future development, on the one hand, and the further fulfillment of the conditions to the next five years become part of this great family, on the other hand. In all further activities related to European integration, has a significant place Central Bank of Bosnia and Herzegovina, which in 2007 received a road map in terms of future adjustments of its work in accordance with European standards. The question is able to integrate the Central Bank in the European mainstream, since it works on the principles of the currency board. The practice so far confirms that it should be no problem, because the transition countries, such as Estonia, Lithuania and Bulgaria joined the EU, although their central banks operated on the principle of the currency board. Accordingly, the currency board should not be any obstacle to European integration.

Central Bank has already arranged a number of areas that are compatible with other central banks in the EU, such as: efficient laws that operates the Central Bank of Bosnia and Herzegovina, procedures and guidelines in the field of investment, compatibility with European payment transactions, consistent monetary policy and stable exchange rate domestic currency. Because of all this in the near future Central Bank expects to get a better credit rating. This means more investment and security for investors.

The state of Bosnia and Herzegovina abroad charge around two billion euros, which regularly and timely serviced, while domestic debt is established and during the design of the model for service and these commitments. These facts indicate that the Central Bank should further strengthen the independence, and that supervision is still done at the state level. There should also be significant savings of citizens with commercial banks, which is more than five billion convertible marks. All this indicates that Bosnia and Herzegovina is able to broadcast government bonds, and funds to invest in the financing of strategic projects, in the sector of road communications, as well as the electricity sector. An important role in this work should be given to the Central Bank, which is capable to fully contribute to the future development of Bosnia and Herzegovina and that the state should not be 'borrowing abroad, but to use domestic resources in its development.

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