# Capital Market in Bosnia and Herzegovina: Unused Potential as Alternative Source of Financing

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***Abstract:*** *One of the most important factors of conducting business successfully and also in achieving the interests of the owner of entity is adequate structuring of source of financing of company or institution. Debt as a source of financing has its advantages in terms of potential of increasing of wealth for the owner of capital. On the other side, debt alone as source of finance can be realized on a several ways, where plenty of factors influence that choice. In the past few years in Bosnia and Herzegovina (BiH), the possibility of finance big infrastructural projects through emission of debt securities has been often mentioned. Until now neither of these projects has been financed in this way. About this problematic can be spoken from many aspects such as: strategic decisions, limits concerning budget deficit, technical conductions, efficient managing of public debt and so further. These are the facts that we want to consider when we speak about capital market as alternative source of financing trying to reach the advantages and disadvantages of emission of debt securities including the possibilities, techniques and benefits of financing of infrastructural projects through bonds.*

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## Introduction

The foundations of the capital market in the Federation of Bosnia and Herzegovina were laid down with the adoption of the Law on Securities in 1998, the Law on Business Companies from 1999 and the laws establishing the fundamental capital market institutions – The Securities Commission of the Federation of Bosnia and Herzegovina and the Registry of Securities of the Federation of Bosnia and Herzegovina. The launch of the Sarajevo Stock Exchange in 2002 marked a milestone in the development of the capital market. On September 13, the Sarajevo Stock Exchange (SASE) was founded in accordance with the Law on Securities as a joint stock company by eight brokerage houses with the share capital of 300,000 KM. Following the adoption of the SASE Statute and the Rules, meeting of all the technical and personnel preconditions and completing extensive preparations, the first trading of shares was held on April 14, 2002 at the Sarajevo Stock Exchange.

The capital market development in the Federation of Bosnia and Herzegovina was linked closely with the process of (mass) privatization. The privatization receivables ("the certificates") which were issued to all adults in the Federation of B&H were mostly invested into the Privatization Investment Funds (PIF) and companies offering state capital. Poor awareness of the certificate owners and later share owners on the rights and obligations regarding their ownership in the funds and privatized companies lead to the fact that initial trading by these issuers on the Sarajevo Stock Exchange was mostly conducted by discount rates.

The total turnover in SASE's first year equalled to 41.6 million KM which was the lowest annual turnover in the Company's 10-year history. The market values of the listed joint stock companies at the end of 2002 (market capitalization) amounted to 321 million KM.

Table 1. Overview of turnover and the market capitalization in the last ten years

| Year | Turnover (KM) | Market capitalization on December 31 (in KM) |
|---|---|---|
| **2002** | 41.678.465,00 | 321.253.156,34 |
| **2003** | 118.888.794,00 | 780.246.167,55 |
| **2004** | 201.137.333,00 | 3.751.568.969,67 |
| **2005** | 555.353.931,00 | 6.694.365.072,29 |
| **2006** | 654.717.252,00 | 11.404.786.537,71 |
| **2007** | 1.274.340.113,98 | 15.518.257.216,11 |
| **2008** | 477.076.375,47 | 7.808.681.905,37 |
| **2009** | 219.048.701,00 | 7.158.678.913,80 |
| **2010** | 108.554.379,41 | 7.210.603.026,80 |
| **2011** | 244.787.112,11 | 4.371.013.728,43 |
| **2012** | 373.577.487,70 | 4.504.560.828,97 |

*Source: www.sase.ba*

The initial trading on the Stock Exchange was in the auction trading format with one auction per day. The number of auctions later increased which lead to the introduction of the Multi-Fixing Trading Schedule (MFTS) in 2004 intended for stocks with higher solvency.

The SASE turnover and market capitalization were constantly increasing until 2007 when the annual turnover for the year amounted to 1.274 billion KM and the total company market value equalling to 15.5 billion KM.

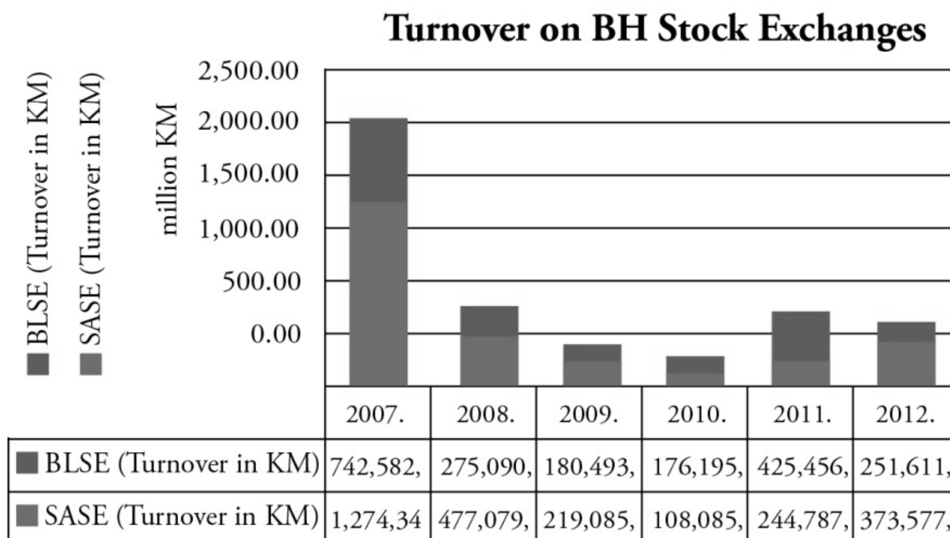
As a consequence of the global financial and economic crisis and its notable effect on the biggest investors (Slovenia and Croatia) on the FB&H capital market, the turnover in 2008 experienced a sudden plunge. The trend of turnover and market capitalization pull-down continued until 2010 which was followed by two years of turnover surge.

In the first six years of SASE, the primary market material was shares of issuers from the privatization process. After most of the companies of interest experienced ownership consolidation and considering the fact that there was a standstill in the privatization process the share of equities in the total turnover was reduced.

Despite the fact that in August 2007, a very successful sale of state-owned capital in "Interšped plc Sarajevo" was held, the political turmoil did not allow for the process to continue. Instead of equity instruments, the attention of the market from 2009 was drawn by the debt securities. This related to the bonds of the Federation of Bosnia and Herzegovina issued on the basis of internal debt (old foreign currency savings and war receivables). However, poor awareness of the bond owners on the possibility of their sale on the secondary market and a relatively long maturity period did not lead to the use of the securities' full potential on the market.

A big change on the local capital market occurred in 2011 when the Sarajevo Stock Exchange organized for the first time the primary market auction of treasury bills in FB&H. Perceiving the advantages of borrowing from the local market through the Sarajevo Stock Exchange, the FB&H Government had multiple entries on the local market and thus fulfilled all its requirements for short-term and long-term financing.

Figure 1. Comparison of trading volume on BH stock exchanges




| | 2007. | 2008. | 2009. | 2010. | 2011. | 2012. |
|---|---|---|---|---|---|---|
| BLSE (Turnover in KM) | 742,582, | 275,090, | 180,493, | 176,195, | 425,456, | 251,611, |
| SASE (Turnover in KM) | 1,274,34 | 477,079, | 219,085, | 108,085, | 244,787, | 373,577, |

*Source: www.sase.ba*

The development of the capital market in the other BiH entity followed the trends in the Federation of BiH. Although the Banja Luka Stock Exchange was establhed somewhat earlier than SASE, until 2010 the turnover ratio of the two BiH Stock Exchanges was 2/3 to 1/3 in favour of the Sarajevo Stock Exchange. However, in 2010 and 2011 due to a higher demand of the RS to finance its budget deficit and

the large number of municipal bond issuing, the ratio was turned in favour of the Banja Luka Stock Exchange.

## Ways of Financing Growth and Development

One of the most important factors of conducting business successfully and also in achieving the interests of the owner of entity is adequate structuring of source of financing of company or institution. Debt as a source of financing has its advantages in terms of potential of increasing of wealth for the owner of capital. The thing that we are speaking about is optimizing relationships of debt to ownership capital.

On the other side, debt alone as source of finance can be realized on a several ways, where plenty of factors influence that choice. We mean here on financing through bank credits versus financing by emission of debt securities. The sizes of a company or an institution together with the financial system are most important factors that determine not only the way of financing through emission of debt securities but also considering it as an option or a possibility.

In the past few years in BiH the possibility of financing big infrastructural projects through emission of debt securities has been often mentioned. Until now neither of these projects has been financed this way.

About this problem can be spoken from many aspects such as: strategic decisions, limits concerning budget deficit, technical conductions, efficient managing of public debt and so further.

If it is about finance of corridor 5C or about financing infrastructural projects on the local level, bank loans determine the way of financing in Bosnia. In most case these loans are offered by international finance institutions or some countries. On the other side by emission of bonds issued either by state/entity or more concrete public company „Autoceste FBH“, the state itself would become investor. Thus the state, entity, municipality and citizens instead of trading with bonds that are used with aim to cover budget deficits can be used for infrastructural projects and development.

These are the facts that we want to consider when we speak about capital market as alternative source of financing trying to reach what are the advantages and disadvantages of emission of debt securities, what are the possibilities, techniques and benefits of financing of infrastructural projects through bonds.

## Debt as an Alternative Source of Financing

When we talk about debt or financing through debt and its reflection on the economy, there is no single stance on the type of debt although there are the Maastricht Criteria which state that it should not exceed 60% of the GDP and that the deficit should not exceed 3% of the GDP.

The experts believe that the best way of debt management is to compare it with the conditions in the countries in the region or beyond. If we take a look at the world map and the state of public debt in each individual country, we will perceive that the most developed countries are the ones most indebted. Doesn't that lead us to a conclusion that it is justified to go into a debt? On the other hand, countries which are also considered as developed but are not indebted are either countries rich with natural resources such oil or gas or the ones whose hyper-production and export orientation generates a surplus which does not require them to borrow such as China for example. Nevertheless, if we look at the situation in certain European countries whose debt exceeds 100% of their GDP we will see that they are facing bankruptcy while countries such as Belgium whose debt amounts to 97% of their GDP has no problems with solvency and development (Denk, 2013).

What is important with debt? Firstly, the rate of growth of GDP must always be higher than the rate of growth of public debt preventing the country to reach insolvency and thus fail to fulfil its obligations. Secondly, to establish the reasons for borrowing bas that will determine whether the current or the future generations are to repay the debt: if the reason is to fill budget holes, then the burden should be borne by the current generation (taxes) but if the borrowing is intended for infrastructural investments for the benefit of the future generations then there are grounds of transferring the debt onto the future generations (borrowings). The third issue is whether to borrow from the local or foreign market as the effects on the local economy are significantly different. The main arguments for local borrowing: development of the local financial market and transparent trading and less exposure to external risks (changes in interest and exchange rates). All this leads to the fact that the most important issues regarding debt are not just parameters but proper debt management - minimizing the negative and maximizing the positive effects.

The expected changes in interest rates are forecasted for the issuing of securities. If the interest rates are expected to rise, long-term bonds will be issued but if they are expected to drop the short-term bonds are to be issued. In the borrowing or in the

process of creating debt, it is important to evaluate whether the local economy can bear the burden of debt repayment in the long-term. In order for the debt to have minimum negative and maximum positive effects it is important to harmonize the fiscal policy with the monetary policy. Moreover, the funds generated through borrowing should be invested into developmental projects otherwise the public debt policy is a risk factor which can endanger the future economic growth.

The alternative sources of financing may be viewed as a competition to the banking sector. Namely, on the developed markets the banking sector is just one of the players in the overall financial system struggling to earn its place in the system whereas in our context the banking sector almost holds a monopoly. It goes without saying that the competition gives rise to better services provided by the players in the system and the capital market is the alternative source of financing for all target groups of citizens, municipalities, cantons, entities, states and companies. How?

For example, the citizens can direct their savings in the bank, held at an interest rate of 2% to 3%, towards buying of bonds which will bring them a return of 12% to 13% on an annual level through an interest rate incurred on the bond plus the discount as they are buying before the maturity. That means that someone is selling something for 92% 10 months before the maturity when he would get 100%.

The municipalities, cantons and entities may issue bonds and thus incur funds from the investors (citizens, banks, companies) to finance their projects and obtain access to financing for a much cheaper price than borrowing from banks. This means that the characteristics of bonds as the capital market instrument cannot be disputed, it is only the means of investing such funds which may be disputed for example if the state is using the bonds to cover for the budget losses in order to pay off salaries to the state administration instead of investing them into financing of projects which would generate return of investment. The fact that the banks are investing the citizens' savings into the buying of bonds goes to prove the fact that the bonds are a safe investment. The poor awareness of citizens and the absence of capital market culture just add to the case.

Should we consider safety of bonds compare with banks, claiming that bank are more sure – then it is more than questionable because if the banks run into trouble their mother banks will not be liable for the sisters on our market as the principle of solidarity is not valid in this case. Some banks are basic companies with limited liability carrying the name of their mother company while the state can always

undertake fiscal measures such as taxes and make up for the money needed to settle the debt.

Furthermore, in addition to bonds the companies also have the possibility of "going public" i.e. the IPO which means that if they need new capital to expand their prospective business they can transform themselves into a joint stock company and list their shares on the primary market and thus obtain the funds instead of borrowing from credit funds. Many people in BiH see this as a loss in the ownership structure which is a completely wrong approach.

Not going beyond the borders of the former Yugoslavia, Stock Exchanges in the region have developed as a consequence of the economic transition i.e. the transformation of state capital into both state and private capital. As a result, the offers of our Stock Exchanges usually included equity securities or simply shares and stocks which were later followed by the debt securities notably bonds and treasury bills.

## Equity versus Debt

To explain briefly, shares are equity securities which give the shareholder the right to make decisions at an assembly and to participate in the distribution of dividends while the bonds and treasury bills are debt securities which oblige the buyer to pay the bidder the annual interest in addition to the principal upon maturity during the validity of the bond. The difference between the bonds and the treasury bills is that bonds are long-term debt securities while T-bills are short-term securities with a maturity of one year.

In principle, the bonds incur a regular income, less return with a low level of risk and volatility (although there are exceptions). Everyone can achieve financial profit if bonds are part of their financial portfolio. Bonds are debt securities issued by the state (state bonds), local authorities (for example: municipal bonds) and companies (corporate bonds) in order to finance different investments at a lower cost in comparison to a classic credit. As opposed to shares, the bonds do not give the owner the right to participate in decision-making and profit but they do entitle him to return of the invested principal increased by the contracted interest rate for the contracted period of time. The nominal value of the bond indicates the amount of money the bond owner will get at the time of its maturity. The nominal (coupon) interest rate on bonds is the rate used for calculating and paying interest in line with

the schedule stated in the bond. The maturity date is the date when the bond issuer must pay the principal to the bond owners. In view of the fact that the bonds are a long-term financing instrument, the maturity period is usually between 2 to 30 years after the bond issuing. Most often the short-term bonds have a maturity period less than a year, mid-term bonds have maturity period between two to ten years while long-term bonds usually last for more than 10 years. As for the bond issuers, the most common ones are state bonds, municipal bonds issued by the local authority or corporate bonds issued by large companies and corporations.

Bonds are usually considered to be a less risky investment than stocks. When you buy a bond at the time of their issue and you hold on to it until its maturity you will incur regular income (interest, return) and the whole investment amount upon maturity. The risk that you undertake (together with the inflation risk) might be in the fact that the issuer will not be able to settle all its obligations, pay the interest and pay your invested principal. This is known as the credit risk. In addition there is also the market risk i.e. the risk of the bond price change. There is a constant fluctuation in the value of bonds and if you wish to sell your bond before its maturity you might get less than what you have paid for. In any case, bonds are a good option for investment diversification (Orsag, 2011).

Bonds are a good form of investment for investors with low risk preferences and for reducing the overall risk of portfolio diversification. Namely, in contrast to the stocks, the bonds incur fixed return to their owners - the interest. Moreover, in the business result distribution hierarchy and its salvage value bonds hold a superior position over the share holders meaning that the companies are legally bound to pay off the outstanding debts stemming from bonds prior to any pay off to the owners of the company that has issued them. The state bonds are highly secure since the pay off of their receivables is warranted by the state.

In making their decisions on using the capital market as the source of financing for the development and/or expansion of their business activities, the legal entities have to decide on the type of security which they wish to issue - the equity or the debt securities. In the case of public sector- the state, cantons, city and municipality – this dilemma does not exist as they can issue only debt securities. With companies, the issue is whether they wish to enter into contractual relations (with the issuing of bonds) or they wish to expand their ownership structure (with the issuing of shares).

The issuing of shares changes more or less significantly the ownership structure of the company depending on the number of issued securities. That leads to changes in company management and profit distribution. The most notable transition is from the closed (equity) joint stock company into a (public) open joint stock company as this is usually the first time the ownership is separated from the management functions. This is the reason why the companies in BiH rarely opt for this move. On the other hand, this move enables the company to ensure long-term capital for their development as the issued shares do not have dates of maturity. Moreover, the dividend as one of the integral parts of the overall return to investor is not mandatory and is conditioned by the positive financial results and adequate assembly decision (Stanley, 1989).

With the issuing of bonds, the company borrows from the investor. They are entitled to period interest payoff (quarterly, semi-annually or annually) but do not have the right to manage the company nor participate in profit distribution. One advantage for the company is that there is no change in the ownership structure and it creates a possibility for a later buy off of the bonds from the investor provided that it stands in accordance with the decision on bond issuing.

From the investor's point of view, the bonds as debt securities are ranked into a category of safe securities in comparison to the stocks. The primary reason for this is that the bond owners have priority in payoff in case of company's bankruptcy while the shareholders are the last in line for the pay.

## Financing the Development of Local Municipalities

The municipal bonds i.e. the bonds issued by the local authority are a globally popular means of financing the development of municipalities and other local self-authority units. The reason for the instrument's popularity lies in the advantages that it offers to both the municipality and the investors. The following sector will present according to the author's long year dealing with these issues the advantages for the municipality:

*Lower financing costs*

In addition to the presence of the so-called "humanitarian loans", the loans from commercial banks are one of the most frequently used mechanisms of financing municipal development. One of the reasons for this is primarily due to easy

accessibility of such loans (if we are talking about a financially sound municipality) but also due to poor awareness of the municipal administration regarding alternative sources of financing notably through the capital market. In order to understand the advantage of lower financing bonds with the issuing of municipal bonds, it is important to draw your attention to the difference between the active and passive interest rates in the banking system. The passive interest rates are those incurred by the citizens or companies when they deposit or term deposit their assets in the bank while the passive interest rates are paid when the citizen or the company takes out a loan to settle its necessities. If we analyse the situation in Bosnia and Herzegovina in 2012, the difference between the active and the passive interest rates or the so-called interest spread was not less than 4%. Why is this important in our elaboration of municipal bonds? It is because this is the so-called "interest area" from where the municipalities (or other legal entities) may opt to borrow achieving significant savings on one side and motivating the population enough to buy the municipal bonds on the other.

*More flexible borrowing terms*

Looking from the aspect of flexibility and adaptability to the needs of the municipalities for the financing of infrastructural projects, the bank loans are very limited. The banks are not very willing to give long-term loans and their loans are very often placed under a floating interest rate. In bond issuing, the municipality has much more flexibility in terms of maturity which enables much longer maturity dates but also enables more precise definition of modalities and loan repayment schedule. If we add a standard fixed interest rate to this there are enough reasons to seriously start thinking about bond issuing instead of taking up loans. Of course, in setting out the terms and conditions, the municipality needs to take into account that the issuing terms are attractive enough for the investors to buy these securities.

*Fostering the municipal administration*

With bond issuing, the municipality needs to be more transparent and open in terms of their financial operations. The investors are unwilling to invest into a "black box" and the municipal administration must define clearly the channels and the action plan for their incurred investments. The more detailed and credible the action plan, the less possibility for undedicated asset spending and the bond issuing will be more successful.

Investing into municipal bonds also has advantages for the investors. To name the few:

*Higher return than with fixed-deposits*

The municipal bonds often incur higher interest than fixed deposits and much higher return than in case of a vista deposits. Moreover, investing into municipal (and other public sector bonds) has a very positive tax treatment. For example, very often the amount of money invested into such financial instruments is deduced from the investor's tax basis which, together with the higher interest rates in general makes the municipal bonds instruments with a relatively high rate of return in comparison with other (debt) instruments.

*Safety*

As with other public sector securities, the municipal bonds are also considered to be safe securities. The logic behind this claim is that if there is a problem in the repayment of the borrowed amount, the municipality may always introduce the final measure of local tax increase or introduce para-fiscal levies although such behaviour surely would not have a positive effect on the investors.

*Participation of local population in municipal development*

A fact which we cannot forget is the effect the municipal bonds have on "local patriotism." in view of the fact that the municipalities are places where people live it is in everyone's interest for the municipality to prosper and develop. This can be an additional motivational factor for the local businessmen or wealthier citizens in the municipality to buy this type of financial instrument. However, we must be aware that today's sole reliance on patriotism will not ensure bond issuing success.

The first municipal bonds were issued in 2008 in Bosnia and Herzegovina, accidentally or not in Municipality of Laktaši. The issued bonds valued at 10 million KM issued at a period of 6 years and at an interest rate of 5.75% were issued to build a sports centre. In Republika Srpska, several dozen municipalities have issued bonds and thus generated significant funds. The fact that the Investment-Development Bank of Republika Srpska ensured the success of most of the issuing and that this served as a political instrument of awarding credits to politically eligible municipalities does not diminish the importance of the mere issuing for the

development of their capital market. In the Federation of BiH, two municipalities have issued their bonds. The pioneer step was taken by Municipality Tešanj with the issuing of bonds valued at 500.000 KM for a period of 3 years and at an interest rate of 6%. Tešanj was soon followed by Cazin which issued bonds valued at 1 million KM, at an interest rate of 6% for a period of 5 years.

## Financing of Infrastructural Projects

The infrastructural projects are among other things a driver of development of the local community and the state/entity in general. In addition to being an incentive for economic growth, such (successful) projects raise the living standard of the whole population, provide support to business activities and finally increase the level of competition of the local community/region/state where the project is being implemented.

In addition to all the other factors in involved in the implementation of infrastructural projects, a very important segment is the model and means of project financing. In view of that there is a whole range of modalities and approaches to financing. In the previous section we saw some basic characteristics and advantages of project financing by means of bond issuing (in public and private sectors) and in the following section we will give a brief overview of the alternative models for financing infrastructural projects and a longer review of debt financing via bonds and financing through a mixed partnership of the public and private sector.

Financing of infrastructural projects can be categorized in several ways depending on the criteria of categorization. These are (Aralica et al., 2007):

- local and foreign financing depending on the asset source of origin, then
- public, private, mixed types of models/categories depending on the investor's sector of origin (public/private);, and
- personal or external financing (from the current budget revenues) depending on the techniques and instruments of financing.

Within the scope of the third category, the external financing may come from different sources and be implemented with different techniques and instruments. Thus we can differentiate the following types of financings:

- donation that include for example EU funds, local funds and local development banks and agencies (state, entity…), foreign development banks and other institutions, foreign development agencies and similar institutions…,
- DEBT FINANSING where we usually have the commercial bank loans from local development banks and agencies, foreign development banks (EBRD, WB, EIB...), borrowing through BOND issuing
- financing by means of "own capital" (financing which includes private equity, the so-called public-private-partnership) where we can talk about concessions, joint ventures and the so-called project financing.

In this paper we will not be able to give a more detailed overview of the aforementioned aspects, models and categories of financing but we will rather focus on the debt financing through bond issuing and financing which involves the profit/private sector or the public-private partnership. Recently, the public sector has been turning to the private sector more often than ever to support it in their development and provision of infrastructural services. The public administration which is faced with the ever growing service demand, significant institutional and operational deficiencies and limited financial assets, has recognized the private sector as the valuable source of new technologies, management expertise and source of investment capital. The global experiences have shown that if they are designed properly, the system of the public-private partnership can largely influence boost in quality, availability and cost efficiency of local infrastructural services.

Financing through bond issuing as a realistic alternative to investment loans and the whole spectrum of possible financing sources, certainly has its advantages for both the lender and the borrower (which we mentioned in the previous sections of this paper) and leaves a positive effect on the financial market as a whole. However, the reality has shown that this system of financing was chosen by a relatively small number of municipalities and other levels of authority in the recent period. We can look for the reasons to this in the low level of awareness on the advantages of such forms of financing as it is (nevertheless) easier and (faster) to get access to the bank loan. Moreover we can add the insufficient engagement of the local and other levels of authority in choosing projects and seeking (combining) different sources of

financing. Perhaps this situation is favourable at the moment as it leaves the local authorities (and other levels) with a lot of space to borrow, however such borrowing needs to be accompanies with a strategic approach, coordination, a clear plan and aims, good budget planning and discipline.

In analysing the characteristics of bonds for financing infrastructural projects we can make a clear distinction between the state- financed infrastructural projects or projects financed on the local level (Orsag, 2012).

In the first case, the state can be easily indebted by using various instruments and arrangements with a standard coupon bonds (bonds with one-off depreciation) being the principal option. In this case, such bonds have significant advantages since the only thing financed until their date of maturity is the interest - this is a very important characteristic at the moment. Moreover, we need to take into consideration that it is important to plan and manage the public debt carefully. We can say that it is realistic to expect that due to an upward economic cycle, at the time of maturity the budget flow will be sufficient to settle the principal without additional borrowing which leads us to conclude that the public debt in this context may significantly be decreased in the upcoming period with the issuing of bonds at the moment. This gives us the right to claim that the current economic situation in BiH is favourable for borrowings for the financing of infrastructural projects - namely the most advantageous being the bond issuing (Šimović, 2005).

We will mention here that (apart from all the other classifications and characteristics) the bonds issued by the public authorities may be general obligation bonds and revenue bonds (bonds of special purpose). The general obligation bonds are characterised by the general obligation of the issuer to repay the debt and the principal and interest may be settled from any authority source of revenue.

The revenue bonds are issued with the purpose in generating revenue from specific projects. The principal and the interest are paid from the revenue generated by the facility built from the previous borrowing. For example, pay toll collection may pay for the obligations incurred with the issued bonds.

In principal, the state does not issue revenue bonds unless it represents a guarantor of the issuing for the local community or a state-owned company and different state agencies.

The direct financing of state infrastructural projects should primarily take place with the issuing of general obligation bonds. This is also possible in case the state is using state-owned companies or legal entities established specifically for these purposes as project holders intended for infrastructural project implementation and management. These companies are engaged in one phase or throughout the project, either independently or in partnership with the private sector (Special Purpose Vehicle). here we can talk additionally about the public-private partnership where we can involve the private sector in the ownership structure of such companies and the combinations in that context (the contractual relations, the modalities of financing) are vast and require special attention as the adequate model may generate significant positive results both in the financial terms and other aspects of the infrastructural project (Kačer et al., 2008).

We have to understand that the possible combinations of the private and public sector partnership are vast in terms of financing, implementation, ownership, management, level of risk and its distribution. In the following section we will give a brief overview of these models. All models of the PPP may be grouped into several basic forms of implementing the public-private partnership:

- Management contracts and service contracts by which the private sector undertakes to provide services on behalf of the public sector.
- Lease agreements by which the public sector offers the private sector the use of its property. The private partner leases/rents the property and often develops it in both technological and functional context.
- Joint venture agreements by which the public and the private sector establish a joint business entity in order to implement a project where the amount and means of investing and sharing risk is defined by contract.
- Build-Operate-Transfer – concession agreements by which the public sector transfer part of its rights and tasks for conducting the relevant business activity onto the private sector partner for a specific period of time.
- Private finance initiative PFI– a form of PPP belonging to the Design-Build-Finance-Operate contract type. The other forms of partnership include BOOT (Build-Own-Operate-Transfer), DBFOOT (Design-Build-Finance-Own-Operate-Transfer) and other. As part of the PFI, the public sector leases or buys a specific type of public assets or public services rendered by the private sector partner.

- BOO (Build-Own-Operate) and BBO (Buy-Build-Operate) contracts- by which the private partner is buying, building, maintaining and operating the property in its sole ownership and by managing it, the private sector partner bears all the risks but also enjoys all the benefits of providing the contracted public service (Guidelines for Successful Public-Private Partnership, 2003).

In the following section we will present the different forms which appeared as models of PPP in practice (especially after the 1980's):

- FO - Finance Only: The private sector, notably banks and funds directly finance the building of public infrastructure.
- DBB: Design-Bid-Build: The public sector partner sets out project terms of reference, ensures financing and project design while the private bidder is responsible for the building. The public sector partner provides the service, maintains the facility and owns the constructed building.
- DBM: Design-Build-Maintain: The private sector designs, builds and maintains the infrastructure, undertakes cost, quality and maintenance risks of the building.
- OM: Operate-Maintain: By means of contract, the private sector partner provides the service using public assets or public property but the ownership is still in the hands of the public sector.
- DBO: Design-Build-Operate: The private sector designs and builds the public asset while the financing costs are borne by the public sector. Upon the building completion, the private partner take up a long-term lease over the facilities and uses them for service provision.
- BOT: Build-Operate-Transfer: The private sector builds the public asset and uses it for service provision. The public partner as the service provider (controlled by the public sector) collects the fees for the provided services from the public sector and/or the end users. After the expiry of the long-term lease, the public asset is returned to the public sector partner.
- DBFO: Design-Build-Finance-Operate: The private sector designs, builds and finances the implementation of the public asset and takes up a long-term lease. It manages the service provision and uses the public asset for a contracted number of years.
- (BOOT: Build-Own-Operate-Transfer): The private sector builds the public asset upon the design of the public sector, owns it for a contracted period of time and uses it for service provision. The public partner as the service

provider (controlled by the public sector) collects the fees for the provided services from the public sector and/or the end users. After the expiry of the long-term lease, the public asset is returned to the public sector partner without a fee.

- LDO: Lease-Develop-Operate: The private partner takes the public asset up for a lease, develops it in technical and functional terms and manages its use.
- BLOT: Build-Lease-Operate-Transfer: The private partner builds the public asset and takes it up for a lease. The ownership over the asset remains with the public sector while the private sector provides services using the leased public asset. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner.
- BUYOOT: Buy-Own-Operate-Transfer): The private sector buys the public asset, uses it for a contracted number of years and provides services. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner without a fee.
- DBFOOT: Design Build-Finance-Own-Operate-Transfer): The private sector designs, builds and finances the public project, manages the service provision and operates the public asset which is in his ownership for a contracted number of years. With the expiry of the contracted period, the ownership over the public asset is returned to the public partner without a fee.
- BOO: Build-Own-Operate: The private sector builds and manages the public asset in its ownership without the obligation of transferring the property to the public sector. The monitoring over the private sector service provision is most often performed and regulated by the public authorities.
- BBO: Buy-Build-Operate: The private sector buys the public asset, develops and manages it, provides services to the public sector or the end users. With the expiry of the contracted period, the private sector retains the ownership rights over the public asset (Robert, 2001).

## Conclusion

The debt as the source of financing has potentially significant benefits (if adequately managed and implemented) both in the private and the public sector. If analysed in the wider context, the capital market should provide its participants multiple means and instruments for debt collection and implementation namely the long-term debt which is to be used for investment projects (both public and private). In the current practice, the most common debt was the banking debt from traditional credit agreements implemented without incurring securities. Such an arrangement has its

advantages but also disadvantages as it does not have the option of debt implementation through the issuing of debt securities. The presence of a number of institutions representing the infrastructure of the modern capital market creates a basic precondition for the future segmentation of the capital market regarding the offer/generation of different forms of securities holding different characteristics (risks, maturity...etc) and it seems that at the moment there are realistic conditions for a more significant bond issuing on the local and other higher levels of authority in BiH.

The bonds take up their place both with private and public issuers although in the case of the private sector, this instrument is primarily reserved for the big joint stock companies. On the other hand, bond issuing as the means of financing development and infrastructural projects in municipalities, regions, entities and states represents a potentially very important segment of functioning and purpose of the capital market.

A very popular phrase in the last several decades has been the public-private partnership. There are reasons why there has been an "explosion" of this joint approach in the provision of public services/products. It is necessary to know the different models that have appeared in the current practice all with the aim of drawing on the positive experience and applying the suitable model responding to the specific project or need.

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