

TRANSFORMATION OF INVESTMENT FUNDS IN THE REPUBLIC OF SRPSKA

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Abstract: In the process of transformation of the socialist system, the need was imposed for the development of a market way of doing business following the example of the economies of market developed countries. In this context, the Republic of Srpska is pursuing an economic transition to enable the establishment of a market-organized economy. Privatization of state capital in companies is an indispensable precondition for the implementation of this goal. This would enable the establishment of a market economy and an open and liquid capital market. To achieve this, the key task is to establish an efficient financial system that is the most important part of the overall economic system. This imposes the need for the presence of well-trained financial institutions to operate in the newly emerging market conditions. Therefore, in the Republic of Srpska, attention is paid to the transformation of already existing financial institutions and the formation and transformation of new ones, such as investment funds. The formation and transformation of investment funds is of great importance in supporting the market economy. Consequently, the research in this article is focused on the chronological presentation of the transformation of investment funds in the Republic of Srpska and their operations in order to see to what extent they have influenced or not the development of corporate management and capital markets.

Keywords: transformation, Republic of Srpska, capital market, investment funds, corporate management.

Introduction

The formation of investment funds in the Republic of Srpska was inevitable in order to support the development of corporate management and the capital market. Therefore, in the Republic of Srpska, the process of privatization of state capital is being implemented, and the newly formed investment funds, i.e., then privatization investment funds focus their operations on collecting vouchers from citizens and exchanging them for shares. Developing their business, they further focused on making a profit for investors, which imposed the need to collect and consolidate the roles of interested investors. Then comes their transformation, that is, the law defines the establishment of closed-end and open-end investment funds. But it is known that investors did not achieve the expected returns, because they failed investment fund management companies while at the same time providing themselves with high management fees. This has affected the legal transformation of closed-end investment funds from closed to open. This legal transformation of investment funds has indeed created a desire to stop the outflow of capital from the fund's shareholders. It is clear that this is the basic precondition for improving the development of the capital market in the Republic

of Srpska. In this regard, investment funds should be professionally empowered to trade in quality securities as well as other propulsive investments. This is the only way to support the development of quality companies and corporate governance in them. Quality companies could certainly offer a large number of quality securities without which there is no development of the capital market. This would improve the operations of investment funds and justify their formation. Therefore, the article follows a chronological presentation of the formation and transformation of investment funds, and also accompanied by their business activities in the capital market of Republic of Srpska.

1. Legislation on the establishment of investment funds in the Republic of Srpska

The forerunner of the introduction of an appropriate legislative and legal framework on the establishment of investment funds in the Republic of Srpska is the privatization of state capital in companies and the establishment of capital markets. From the moment of its establishment until today, investment funds, adapting their business activities according to the principles of market economy, have been transformed several times

under the auspices of the adopted laws on investment funds.

The very moment of its establishment is related to the Law on Privatization Investment Funds and Privatization Fund Management Companies, adopted in 2000. [Official Gazette of Republic of Srpska, No. 24/98, 63/02, 67/05] With this law, as it has already been pointed out, privatization investment funds are established in order to collect vouchers from citizens and exchange them for shares. Privatization investment funds invest the collected vouchers in the purchase of company shares that are privatized in the transition process. Privatization funds are managed by professional management companies, which are established for the purpose of establishing and managing funds [Bodroža & Šljivar, 2000] The management company operates as a joint stock company and it can establish and manage only one fund.

After five years in 2005, the Law on Amendments to the Law on Privatization Investment Funds and Privatization Fund Management Companies was adopted. [Official Gazette of Republic of Srpska, No. 67/05] Unlike the previous law, this law brings certain changes. The management company can now manage several funds, and this law

also determines the bodies of the fund.

The following year, 2006, the Law on Investment Funds was adopted (Official Gazette of the Republic of Srpska, No. 92/06), according to which the prefix privatization was omitted, and the transformation of privatization investment funds into closed and open investment funds was clearly defined. They are defined by law as funds with public and private supply.

Finally, in 2015, the Law on Amendments to the Law on Investment Funds [Official Gazette of the Republic of Srpska No. 82/15] was adopted, which defines the mandatory transformation of closed-end investment funds into open-end investment funds with an envisaged period of three years. The goal of investment funds now is to invest money in a variety of assets in order to generate as much income as possible with minimal investment risk.

2. Types of investment funds in the Republic of Srpska

Only the chronological transformation of investment funds in the period from 2005 to 2015 with the adoption of the Law on Investment Funds indicates the types of investment funds present in the Republic of Srpska. From the moment of their establishment in 2005 until

the adoption of the Law on Investment Funds in 2006, there is one type of funds in the Republic of Srpska, i.e., privatization investment funds. The idea was to transform these funds into general investment funds in this period and to act as a special type of financial intermediaries following the example of investment funds in developed market economies. Due to mass voucher privatization, a problem arose (a large number of small shareholders own shares in privatized companies) which prevented quality work of management in companies, and all this reflected on the adequate operation of privatization investment funds and taking over their role as important financial intermediaries.

Therefore, with the adoption of the Law on Investment Funds in 2006, privatization investment funds are transformed into two types of funds. Closed and open investment funds have been formed, and as already emphasized by law, they are

defined as funds with public and private supply. Until the re-transformation that began with the adoption of the Law on Amendments to the Law on Investment Funds in 2015, 13 closed-end and 2 open-end investment funds operated in the Republic of Srpska. The following is a tabular overview of all 13 closed-end investment funds that were active until their transformation into open-end investment funds since 2015 (Table 1).

Closed-end investment funds raise a fixed amount of assets (capital) that remain constant (unchanged), which is the opposite of open-end investment funds where funds are freely invested and withdrawn. Therefore, with the adoption of the Law on Amendments to the Law on Investment Funds in 2015, there was a transformation of investment funds, so that today in the Republic of Srpska there are two types of investment funds, 17 open and 2 closed.

Table 1. *Overview of closed-end investment funds in Republika Srpska before their transformation into open-end investment funds since 2015*

No.	Closed-end investment fund	CEF label
1.	ZIF BLB-profit a.d. Banja Luka	BLBP-R-A
2.	ZIF Bors invest fond a.d. Banja Luka	BRSP-R-A
3.	ZIF Balkan Investment fond a.d. Banja Luka	BLKP-R-A
4.	ZIF VB fond a.d. Banja Luka	VBIP-R-A
5.	ZIF Aktiva invest fond a.d. Banja Luka	EKVP-R-A
6.	ZIF VIB a.d. Banja Luka	VIBP-R-A
7.	ZIF Kristal invest fond a.d. Banja Luka	KRIP-R-A
8.	ZIF Zepter fond a.d. Banja Luka	ZPTP-R-A
9.	ZIF Polara invest fond a.d. Banja Luka	PLRP-R-A
10.	ZIF Jahorina konseko invest a.d. Pale	JHKP-R-A
11.	ZIF Privrednik invest a.d. Banja Luka	PRVP-R-A
12.	ZIF Invest nova fond a.d. Bijeljina	INVP-R-A
13.	ZIF Euroinvestment fond a.d. Banja Luka	EINP-R-A

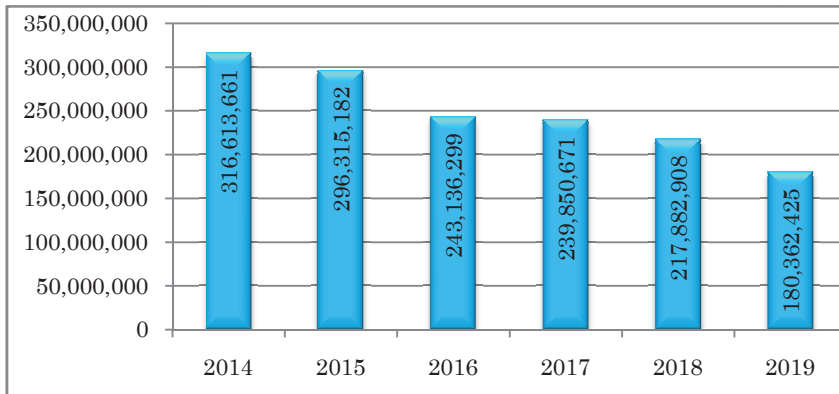
Source: Republic of Srpska Securities Commission

3. Transformation of closed-end investment funds into open-end investment funds in Republic of Srpska

The transformation of closed-end investment funds into open ones enables a change in the approach to their promotion and attraction of new investors, which have not been many so far, both due to the poor development of this group of institutional investors and insufficient education of the investment public. [Krčmar, 2019] Based on the above, in order to see why there was a real

transformation of closed-end investment funds into open-ended, the following is a presentation of key parameters that reflect their business in the selected years. In this case, the parameters used are: net assets of investment funds, investment of investment funds on the capital market of the Republic of Srpska and fees for managing CEFs. For the observation period, the time for which relevant data are available is used. Graph 1. shows the net assets of investment funds for the period from 2014 to 2019.

Graph 1. Net assets of investment funds



Source: Republic of Srpska Securities Commission

Based on the data shown in Graph 1, there is a continuous decline in the net asset value of investment funds in the Republic of Srpska for the observed period of six years. The reason for the decline in the net asset value of investment funds is not only related to their transformation from closed to open. It is generally known that the capital market in the Republic of Srpska is insufficiently developed, that is, the determinants that affect its development have not been implemented at an enviable level, thus creating the condition for the presence of a large number of various and quality securities for trading, which significantly affected the decline in the net asset value of investment funds in the observed period. Also, in the observed period, the activity

of investment funds on the Banja Luka Stock Exchange weakened from the aspect of trading in shares of closed-end investment funds and shares of open-end investment funds, and on that basis the net asset value fell, which is confirmed by the Table 2. With this in mind, it was necessary to transform investment funds from closed to open as it creates the possibility to eliminate the lack of trust between investors and shareholders which would improve investment and prevent further decline in the value of assets.

In addition to the decline in the net asset value of investment funds in the observed period, there is also a downward trend in their investment, which is shown in Table 2.

Table 2. *Investment fund investment structure*

Description	31.12.2014.	31.12.2015.	31.12.2016.	31.12.2017.	31.12.2018.	31.12.2019.
Shares	240.780.808	233.542.066	177.408.327	155.643.118	127.807.073	129.036.606
Securities	21.836.304	25.856.269	26.786.466	24.962.365	14.832.072	13.261.966
Deposits and placements	20.695.000	21.425.316	28.996.484	37.264.125	44.080.129	26.091.540
Cash and cash equivalents	3.656.223	4.717.908	6.985.423	13.396.407	15.173.197	11.932.541
Other securities	1.750.926	1.822.920	3.656.092	8.873.792	7.280.745	1.840.607
Other assets	4.884.023	0	3.498.410	4.299.886	2.987.538	1.321.246

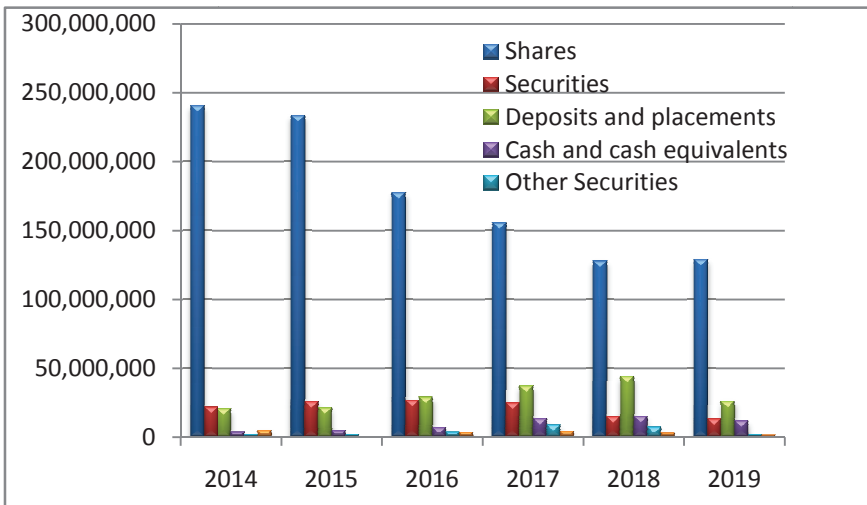
Source: Republic of Srpska Securities Commission

Table 2 shows the structure of investment funds in the Republic of Srpska in the observed period of six years. It is not difficult to see that the investment of investment funds was not at an enviable level. In the structure of investments, there was a significant decline in investments in shares, in contrast to investments in bonds belonging to debt securities and deposits and placements, and cash and cash equivalents. Therefore, the investment structure of investment funds in the observed period is unfavorable. Investment funds should be professionally empowered to invest in shares as a priority, and then in other quality securities as well as

other propulsive investments. Thus, investment funds would contribute to the development of corporate management and capital markets. The improvement of the investment structure of investment funds can be expected by their transformation from closed to open, where the need for portfolio diversification will be imposed, which will also condition more efficient investment.

For the sake of clarity of the investment structure of investment funds on the capital market of the Republic of Srpska in the observed period of six years, the data from the previous table are illustrated in Graph 2.

Graph 2. Investment of investment funds in shares, securities, deposits and placements, cash and cash equivalents, other securities and other assets on the capital market of the Republic of Srpska



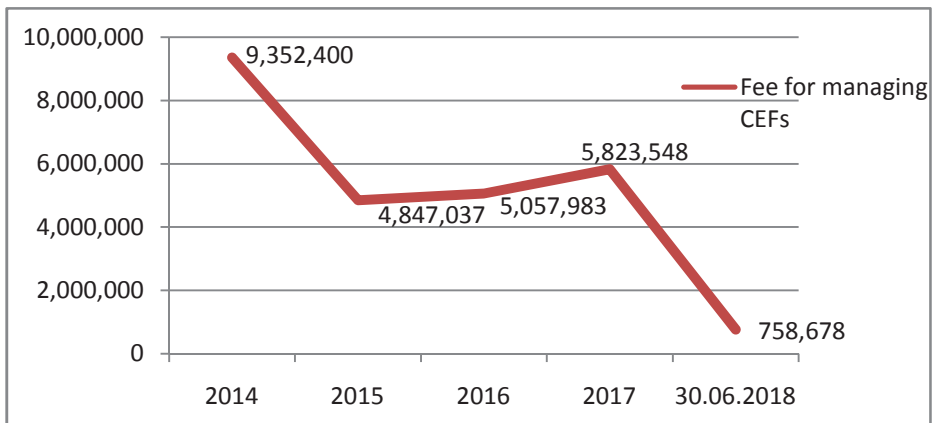
Source: Republic of Srpska Securities Commission

In addition to the above, the transformation of investment funds from closed to open has brought a significant change in the method of calculating compensation to management companies for their activities performed with closed-end investment funds. Management companies calculated their fee by applying a percentage of 3.5% to the average annual values of the assets of the funds they manage. The law from 2015, when the transformation of investment funds began, also regulates the method of calculating the fee charged by management companies. According to the new method of calculating the fee, it is calculated as a percentage of the weighted average annual market value of the fund's shares.

These changes related to the method of calculating the fee charged by management companies

were due to their negligence to perform their function properly for which they were established. The main function of management companies is to establish and manage the fund and provide the necessary logistics in professional and technical terms. Although they did not perform the function entrusted to them, they did not fail to charge a high management fee. Companies often charged such a high fee that it was higher than the fund's profit. The collection of the fee for the management of CEFs by the management companies is shown in Graph 3 for the selected period with valid data. It should be emphasized that the Securities Commission of the Republic of Srpska stopped publishing data on fees of management companies after the first half of 2018.

Graph 3. *Fee for managing CEFs*



Source: Republic of Srpska Securities Commission

Based on the data presented in Graph 3, the previously stated facts about the calculation of the amount of the fee for the management of CEFs by the management companies can be confirmed. It is obvious that before the adoption of the law in 2015, management companies charged high fees without performing the function for which they were established.

This is confirmed by the calculated fee in 2014, which amounts to 9,352,400 BAM. Changes in the calculation of fees to management companies and the transformation of closed-end investment funds into open ones by the law adopted in 2015 and the collection of fees by companies in 2015, 2016 and 2017 is significantly lower compared to 2014 as shown in chart 3.

This significantly lower amount of fees collected in these years arose due to the fact that now the amount of compensation to companies depends on the price of shares on the stock exchange, because the fee is no longer calculated as a percentage of the average annual net asset value of the fund. In order to have a good compensation, the management company should provide more attractive shares for in-

vestors compared to the previous ones, so that the value of the shares would be as high as possible. From the comprehensively stated facts about investment funds and their operations, as well as about the companies that managed the operations of investment funds until 2015, it is not difficult to understand why investment funds lost activity on the financial market in Republic of Srpska.

Because of inadequate business, the law was passed in 2015, which requires the transformation of closed-end investment funds into open-end ones, because open-end investment funds are a more convenient form because their way of working and character can dynamize the securities market and gain the trust of shareholders. The transformation of closed - end investment funds into open - end ones is shown in Table 3.

Open-end investment funds are more characteristic than closed-end ones, because they enable: daily buyout of shares by management companies, enabling shareholders to sell their shares on the stock exchange, finding quality investors to invest and better education of the investment public.

Table 3. *Overview of open-end investment funds created by the mandatory transformation of closed-end investment funds*

No.	Closed-end investment fund	CEF label	Open-end investment fund	OEF label
1.	ZIF BLB-profit a.d. Banja Luka	BLBP-R-A	OAIF Profit Plus	PPLP-U-A
2.	ZIF Bors invest fond a.d. Banja Luka	BRSP-R-A	OAIF Bors invest fond	BOSP-U-A
3.	ZIF Balkan Investment fond a.d. Banja Luka	BLKP-R-A	OMIF Balkan Invest	BAIP-U-A
4.	ZIF VB fond a.d. Banja Luka	VBIP-R-A	OMIF VB fond	VEBP-U-A
5.	ZIF Aktiva invest fond a.d. Banja Luka	EKVP-R-A	OAIF Aktiva invest fond	AIVP-U-A
6.	ZIF VIB a.d. Banja Luka	VIBP-R-A	OAIF VIB fond	VBOP-U-A
7.	ZIF Kristal invest fond a.d. Banja Luka	KRIP-R-A	OAIF Opportunity Fund	OPTP-U-A
			ONIF Cash Fund	CSHP-U-A
			OMIF Future Fund	FTRP-U-A
8.	ZIF Zepter fond a.d. Banja Luka	ZPTP-R-A	OMIF Maximus Fund	MMSP-U-A
			ONIF Kristal Cash Plus Fund	KCPP-U-A
			OAIF Adriatic Balanced	ADBP-U-A
9.	ZIF Polara invest fond a.d. Banja Luka	PLRP-R-A	OAIF Polara Adriatic Fond	PADP-U-A
10.	ZIF Jahorina konseko invest a.d. Pale	JHKP-R-A	OAIF Jahorina Koin	JKIP-U-A
11.	ZIF Privrednik invest a.d. Banja Luka	PRVP-R-A	OMIF Privrednik invest	PRIP-U-A
12.	ZIF Invest nova fond a.d. Bijeljina	INVP-R-A	OMIF Invest nova	INOP-U-A
13.	ZIF Euroinvestment fond a.d. Banja Luka	EINP-R-A	OAIF Euroinvestment fond	EIOP-U-A

Source: Republic of Srpska Securities Commission

Therefore, the previously presented problems that accompany investment funds in their work indicate the fact that they did not meet expectations, because they did not contribute enough to the development of corporate management and capital markets in the Republic of Srpska, which is confirmed in practice.

Conclusion

For the development of corporate management and the establishment of an open and liquid capital market, as well as for its development and efficient functioning, the Republic of Srpska has continuously worked on training existing financial institutions as well as newly formed ones. Among the newly formed financial institutions,

the most important place belongs to investment funds whose task is to be able to operate in the newly created market conditions. Their training is related to the expectation that their business will take the lead in developing corporate management and capital markets. However, that did not happen. The explanation of this statement is based on the analysis of investment fund operations, where it was concluded that investment funds continuously lost the net asset value, had an inadequate investment structure and at the same time allocated large fees to management companies. Due to the stagnation of movements in the capital market itself, investment funds have invested less and less in shares, which is one of the biggest short-

comings in the development of the capital market. Then there is a noticeable stagnation in investments in securities, where municipal and corporate securities predominate. Therefore, the business results of investment funds and the loss of their activity on the Banja Luka Stock Exchange have determined significant trends in this segment, and they relate to the transformation of closed-end investment funds

into open-end investment funds. The importance of this transformation is based on the expectation that open-end investment funds after opening will contribute to the development of the capital market by increasing demand for it and contribute to the development of corporate governance by investing collected free investment funds in those securities issued by corporations.

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TRANSFORMACIJA INVESTICIONIH FONDOVA U REPUBLICI SRPSKOJ

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Rezime: U procesu transformacije socijalističkog sistema nametnuta je potreba za razvojem tržišnog načina poslovanja po uzoru na ekonomije tržišno razvijenih zemalja. U tom kontekstu Republika Srpska pristupa provođenju ekonomske tranzicije kako bi omogućila uspostavljanje tržišno organizovane ekonomije. Za provođenje tog cilja privatizacija državnog kapitala u preduzećima je neizostavan preduslov. Time bi se omogućilo uspostavljanje tržišne privrede i otvorenog i likvidnog tržišta kapitala. Da bi se to uspjelo ključni zadatak je uspostavljanje efikasnog finansijskog sistema koji je najbitniji dio ukupnog privrednog sistema. To nameće potrebu prisustva dobro osposobljenih finansijskih institucija za poslovanje u novonastalim tržišnim uslovima privređivanja. Stoga u Republici Srpskoj je posvećena pažnja transformisanju već postojećih finansijskih institucija i formiranju i transformisanju novih kao što su investicioni fondovi. Formiranje i transformisanje investicionih fondova je od velike važnosti u podršci tržišnom načinu privređivanja. Zato istraživanje u radu je fokusirano na hronološko predstavljanje transformacije investicionih fondova u Republici Srpskoj i njihovog poslovanja kako bi se sagledalo u kojoj mjeri su uticali ili ne na razvijanje korporativnog upravljanja i tržišta kapitala.

Ključne riječi: transformacija, Republika Srpska, tržište kapitala, investicioni fondovi, korporativno upravljanje.