

SWOT ANALYSIS OF THE EMISSION OF MUNICIPAL BONDS IN THE REPUBLIC OF MACEDONIA (COMPARATIVE WITH THE REPUBLIC OF CROATIA)

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Abstract: Municipalities in the countries like the Republic of Macedonia are faced the needs of additional funding for the implementation of activities and projects. Those activities will allow independent economic revival of the municipalities, not just central development, which is usually in the capital cities. The concentration of all units in the capital causes uneven distribution of industries, uneven distribution of population, income and so on. Therefore this paper aims to consider the possibilities and weaknesses of issuing municipal bonds in Republic of Macedonia in comparison with the experience of the Republic of Croatia. The goal is municipal bonds, to be accepted as an alternative way of financing municipalities in the transitional countries. During research are used theoretical and applicative analyses for drawing conclusions on the given title.

Keywords: Municipal bonds, government securities, alternative financing, SWOT analysis.

1. INTRODUCTION

Municipal bonds are issued for different purposes: funds mobilized by selling long-term bonds used to build a long-term capital investments and to finance long-term budget deficits.

That is how emission of municipal bonds is one way to cover budget deficits and ensuring those needs. Demand for these bonds derives mostly from three groups of investors: retail investors, commercial banks and insurance companies.

Experience shows that in some former Yugoslav countries, municipal bonds are taboo such as in the Republic of Macedonia. In the Republic of Macedonia in the period since independence until now are observed only two attempts of emissions of municipal bonds. That is the case with the Municipality of Aerodrom in Skopje and Municipality of Strumica. The both attempts end without realizing. According to the statistics from the stock market in Zagreb, the situation in Croatia is different.

Table1: Local government bonds from 1995 to 2005

Issuer	Issued	Mature	Currency (millions)			Interest, (%)	Interest repayment	Principal repayment
			kuna	euro	DEM			
Istarska County	1995	2.5 years			2.0	11		
Istarska County	1996	1998	4.3		4.0			
Istarska County	1996	1999	5.7			7		
City of Opatija	1998	2002	14.0			8.5		
City of Koprivnica	2004	2011	60			6.5	Semi annual	Semi annual
City of Zadar	2004	2011	18.5			5.5	Semi annual	At maturity
City of Rijeka	2006	2016	24.6			4.125	Semi annual	Amort.
City of Split	2006	2013		8		4.5625	Semi annual	2 instalments
City of Split	2007	2015		8.1		4.75	Semi annual	2 instalments
City of Osijek	2007	2017	25			5.5	Semi annual	Amort.
City of Vinkovci	2007	2017	42			5.5	Semi annual	Amort.
City of Split	2008	2017		8.2		6.0	Semi annual	2 instalments

Here it can be seen an alarming fact, which is that there is no repetition of emissions. The Municipality of Istarska has three consecutive emissions in 1995 and 1996, and the Municipality of Split in 2006, 2007 and 2008. It must be noted that this situation is not due to the interest of the announcement of various bonds, but it is a consistent emissions which should provide a certain amount of funds. That amount in a single declaration is not legally allowed. From here starts overall analysis of this paper. Should municipal bonds be used by countries in transition, how they are justified, which are the interest behind them, if there are any? Legislations in these countries have the regulatory processes for managing government securities. In particular, in the Republic of Macedonia in 2003, officially is composed Development Strategy of the government securities. Unfortunately municipal bonds found no realization in the period since then. These bonds would be implemented under the regulations of the Central Securities Depository, SEC, Macedonian Stock Exchange, municipalities,

according to the Regulation on the manner and procedure for issuance and payment of government securities, last revised in 2009. In these Regulations strictly are defined participants, the process of emission, auctions, results, distribution, registration, payment and listing of government securities. This paper is precisely focused on the reason why the Macedonian financial market has not yet realized emission of municipal bonds and how that will reflect aspects that need to be taken. Each security has its own characteristics, each process of issuing securities has its way, any use of the securities has its risks. Processing of SWOT analysis enables understanding of the advantages, disadvantages, opportunities and limitations for issuing municipal bonds that will benefit the municipalities in the transitional countries.

2. COMPARISON OF EMISSIONS OF MUNICIPAL BONDS IN SPLIT WITH THE SITUATION IN THE REPUBLIC OF MACEDONIA

2.1. Analysis of the emissions of municipal bonds in Split, Croatia

According to studies made in the Municipality of Split, it was found that at the time of first publication of the emission of municipal bonds, the Municipality of Split was liquidity. However, the political interests and the desire to revive the economy further realized this emission, and that was in three occasions. The first emission was in 2006 with maturities in 2013; the second in 2007 with payment deadlines in 2015 and third in 2008, with maturities in 2017. Billing for all three emissions is 2 instalments. Each of emissions follows the average amount of 8.1 million euros. With Croatian legislation, the maximum amount is limited and therefore implemented three programs that will provide the necessary amount of funds. These emissions was supposed to cover 8 provided projects.

Table2: Purpose of the funds generated from the emission of the municipal bonds in Split

Num.	Project	Funding From Bonds 2006	Total Value Project	The Period Of Implementation (Funding) Project	Source Of Funding
Capital investments in municipal infrastructure					
1	Centar Debn	5.000.000,00	217.000.000,00	2006. -2009.	Own funds of the City (sales revenues offices and apartments), and means generated by issuing bonds
2	Mandrova ulica	12.000.000,00	23.000.000,00	2006. -2006.	Own funds of the City, and the funds generated issuing bonds
3	Vukovanska ulica	14.000.000,00	60.000.000,00	2006. -2009.	Own funds of the City, and the funds generated issuing bonds
4	Ulica Kralja Tomislava	5.000.000,00	10.000.000,00	2006. -2007.	Own funds of the City, and the funds generated issuing bonds
5	Riva	5.000.000,00	62.600.000,00	2006. -2007.	Own funds of the City, and the funds generated issuing bonds
6	Nahodnik ul. Matije Hrvatske i ul. Rudine Boskovic	3.000.000,00	5.000.000,00	2006. -2007.	Own funds of the City, and the funds generated issuing bonds
Capital investments in sport					
7	Spentake dvorane	14.000.000,00	48.000.000,00	2006. -2008.	Public-private partnership; the own funds of the City in the amount of HRK 25,000,000.00 and private partners in the amount of HRK 23,000,000.00, and the funds generated by issuing bonds
Capital investments in culture					
8	Dom mladosti	2.000.000,00	8.500.000,00	2006. -2006.	Own funds of the City, and the funds generated issuing bonds
	Total	60.000.000,00	434.100.000,00		

These projects fall under the decisions of the Town Hall. It is for capital projects, divided into three categories: capital investments in utility infrastructure, capital investments in sports and capital investment in culture. From the eight projects realized are only three projects. The payments of the principal and interest shall be made through debit or through loans. This suggests that the projects are not directly revenue generating. The interest rate to an average is 5.1041 and is market determined. Individually speaking, the tendency of the rate is growth (4.75, 4.5625; 6), and is determined by current market conditions. The interest on these securities in the highest percentage was seen in banks. They occur as the biggest buyers of municipal bonds Split. The same picture emerges across all emissions of municipal bonds in the Republic of Croatia. Only 10 percent belong to the purchase by the general public. Zagrebacka Bank is the institution that takes the process of placing the instrument (in Split). The structure of the creditors of Croatian general level is displayed in Figure1, according to the Croatian Ministry of

Finance.

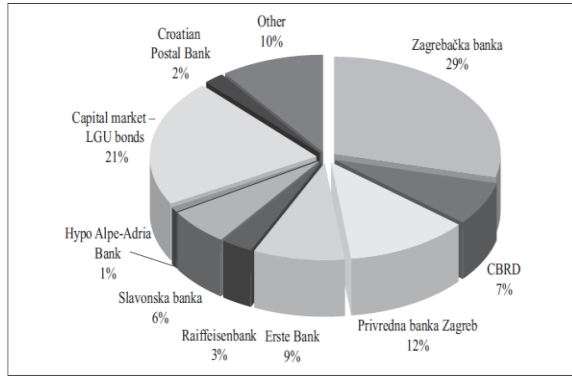


Fig1: Structure of local government units' creditors in % (June 2009)

2.2. Analysis of emission of municipal bonds in Republic of Macedonia

Emission of municipal bonds in Macedonia during this period is not recorded. Furthest with trying to achieve emission had the Municipality of Aerodrom in Skopje and Municipality of Strumica. Yet realizing these attempts have not experienced. Representatives from other municipalities registered, attended a training, seminars and practices that would be rushed to the professional development of the process for emission municipal bond and its realization. Within the central government since 2005 emission of government bonds in the Republic Makedonija is a common practice. But to date, there is no interest among municipalities to emission municipal bonds, there is even a fear of further borrowing. This fear can be taken as justified if one accepts that the burden of payment will naturally fall to the municipality, and the burden of potential difficulties for payment will fall to the person (s) responsible for its implementation (according to the mentality of the former Yugoslavia). Therefore the process of emission of municipal bonds in Macedonia should be thoroughly studied, analyzed and linked to revenue-generating projects. Municipal bond should serve as an alternative, cheaper way of financing municipalities. To avoid credit risk in the emission of municipal bonds, funds need to be used efficiently and effectiveness come from the placement and management of the same. This process can significantly contribute to the development of the municipality, especially if realized with cheaper prices. The situation in the Republic of Macedonia is such that it is inevitable and necessary decentralized revival. Aspirations for such a revival is observed in the central government. But it all, should not be left to the central government, especially if we consider the industrial development of this country. Republic of Macedonia has not developed the capacity of tourism as it has the Republic of Croatia. And, the need for dispersion of activities outside Skopje is certainly welcome.

3. SWOT ANALYSIS FOR EMISSION OF MUNICIPAL BONDS IN REPUBLIC OF MACEDONIA

3.1. SWOT analysis of the current condition of emission of municipal bonds in the Republic of Macedonia

Using array management tools is possible to visualize whether and why it is good to emission of municipal bonds in the Republic of Macedonia and whether it is justified. For this purpose, we use SWOT analysis, which is shown below. The purpose of the analysis is to show that emissions of municipal bonds is justified and how it is justified in the Republic of Macedonia.

At the moment, the bond as an instrument would quote well on the markets because of the level of interest rates. The interest of municipalities to issue such an instrument should be positive, because this is a process which the municipality can orchestrate appropriate to their needs. The loans are constituted by banks; the emission of municipal bonds can be assembled according to the needs of the municipality (deadlines, interest, etc.). The financial markets in the countries in transition are not observed range of instruments, as is the case in developed countries. This market suppose to be in front of a developent and municipal bonds should be set as interesting novelty, which should be set competitively to achieve good positions. However, due to the development of the municipalities and the current conditions in the countries in transition in mind must have the fact that these instruments must be associated with revenue-generating project. This connection will provide certainty payments, and thus gain the trust of the public interest in buying. As with all instruments and of municipal bonds must be noted the existence of risk. The credit, interest and maturity risks are aspects which follow all securities. That is the reason why care should be taken during the emission of municipal bond, these kinds of risks to not prevail above interest for profit.

All the above mentioned facts are aspects that the emission of municipal bonds carry them with it self. This in itself means that it is internal factors of the instrument.

Table3: SWOT analysis for the emission of municipal bonds in the Republic of Macedonia



Unlike internal factors, there are external factors that can make an impact on the performance of emission of municipal bonds.

An opportunity that would be in favor of the issue can be taken the interest of the municipalities and the public. The current market situation and the municipalities can be promoted to the public as an advantage for placement of funds in this type of securities. On the other hand the legislation allows implementation of such securities.

However, distrust of municipalities and their solvency, underdevelopment of financial market, distrust in the system as a whole, contributes to a higher barrier to receptiveness of such emissions.

There are ways to reduce barriers. Therefore makes SWOT analysis. With knowledge of the complete picture of the instrument with its internal strengths and weaknesses, and external opportunities and constraints it is possible giving answers to many questions that track potential investors. Everyone wants professionalism, reliability, profit.

Potential investors in municipal bonds may have many questions when considering the purchase of a municipal security. The following information can serve as a starting point for an investor's discussion with a financial professional about investing in municipal securities.

First of all is important to know what information is available about a municipal bond? Before investing in a municipal bond, an investor should carefully review the information available about the bond. On the markets exists organization which can calculate and offer information about official statements, continuing disclosures, and trade data.

Second important answer should be given to the question: What should investor know about credit quality? Investors should ask financial professionals to help them understand a bond's credit quality. Credit quality is an important factor that financial professionals must consider in determining whether a bond is suitable for an investor's strategy and risk appetite. Investors should discuss the following with their financial professional: Source of Repayment, General Obligation, Revenue Bond, Tax-Backed, Priority of Payment, and Credit Rating.

Third: What should they know about yield? And so on: Is the price being offered fair? How is financial professional compensated? Is the investment appropriate for tax status? Is the bond callable? (A bond is "callable" when an issuer reserves the ability to redeem a bond before the bond's stated maturity. Bonds are most commonly called because the bond is paying a higher interest rate than current market rates. Under such conditions, issuers may find it advantageous to call a bond and reissue identical bonds paying a reduced interest rate in a process known as refunding. When a bond is called, investors in the bond generally receive only the principal and interest accrued so far – with the addition of a small premium in some cases – and will not receive the full interest due over the stated term of the bond. This is an important consideration for investors who plan to rely on the interest generated over the full life of a bond. If prevailing interest rates are lower when a bond is called, investors will find it difficult to replace the bond with an equivalent investment paying a similar interest rate to the called bond).

When the answer to all these variables is known, public safety is higher. So, bonds can be found as acceptable for the economies in transition.

CONCLUSIONS

Municipal bonds can serve as an alternative way to finance municipalities. Managing the collected funds can contribute to the realization of public capital investment and to improve the welfare of people who invested in this type of securities. The conclusions of this paper can be summarized:

1. Municipal bonds are an alternative way of financing the municipalities and in the transitioning economies their application is not active;
2. Usually the goals of the emissions of municipal bonds are populist which is not justified at all. The purpose of emission such instruments must be economic, capital and worthwhile;
3. The emission of bonds in developing countries must be based on previous market research;

4. Municipal bonds under current interest rates in the Republic of Macedonia may experience a good realization;
5. There are externalities that affect the rejection of this instrument, but those same factors are not irreparable.

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The benefits of this work can be used by municipalities in countries like the Republic of Macedonia. This paper provides a good basis for understanding the current situation with regard to the emission of municipal bonds. SWOT analysis can be used to detect weak links, which in transition economies act as gaps. Thus makes it easier for municipalities to know how municipal bonds may be used as an alternative way of funding accepted from the general public.

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