

STRATEGIES FOR IMPROVING THE COMPETITIVENESS OF FRONTIER CAPITAL MARKETS

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Abstract

Capital markets of the Western Balkan countries have been predominantly classified as frontier capital markets. Above all, these markets are characterized by a low level of liquidity, small trading volumes, and a low value of market capitalization. Also, there are high transaction costs involved, inefficiency in terms of the efficient market hypothesis, problem of determining the right market prices of securities, lost credibility of the stock market, and the marginalization of the influence of investment funds. Due to these features, frontier capital markets have a low level of their competitive ability. Competitive ability of the frontier capital markets has only recently become interesting to the academic community, which has seen the importance of strengthening competitiveness in less developed capital markets. The connection between the overall economic development and the level of development of the capital market points to the importance of strengthening the competitiveness of the frontier capital markets in order to empower the economy in general. Improving the competitiveness of frontier capital markets implies improvement of the key determinants of these markets, bearing in mind the complexity and two-dimensionality of the competitiveness of the capital market itself.

The conducted empirical research focused on the frontier markets of the countries of the Western Balkans (Bosnia and Herzegovina, Serbia, Montenegro, and Macedonia). The research analyzed liquidity as the most important determinant of competitiveness of the selected frontier markets. Also, the research included potential investors as well as issuers on these markets. Based on the identification and analysis of the aspects critical to assessing the competitive ability of frontier capital markets, concrete strategies for improving the competitiveness of frontier capital markets have been created, which was the main goal of the research.

Keywords: frontier capital markets, competitiveness of frontier capital markets, strategies for improving competitiveness.

1. INTRODUCTION

Development of capital market in Bosnia and Herzegovina (BiH) and other countries of the Western Balkans started as a segment of privatization and transformation of public (state-owned) property into private. That is why such capital markets were mainly linked to stocks. Capital markets in the Western Balkan countries are characterized by the following: low value of market capitalization, trade illiquidity, appearance of hidden risks such as illiquidity, etc. (Bećirović, Kozarević, 2018). High transaction costs, lost credibility of the stock market, marginalization of the influence of investment funds, lack of more complex financial instruments as well as the lack of promotion of specific advantages of investment and finance through capital markets. According to their characteristics, capital markets in the Western Balkan countries are characterized as frontier capital markets, while certain classifications do not consider these markets as frontier capital markets. Capital markets are usually classified as: developed capital markets, emerging capital

markets, and frontier capital markets. The term “frontier capital markets” was introduced so as to classify capital markets that could not be categorized as emerging.

The subject of this research is the competitive ability of frontier capital markets in the context of identification of its key determinants, aimed at generating appropriate strategies for improvement of their competitiveness. The aim of the research is to create the appropriate strategies for the improvement of competitive ability of frontier capital markets, based on the theoretical identification of determinants crucial for assessing competitive ability of these markets and the empirical research conducted. The research included the frontier capital markets of the Western Balkan countries (BiH, Serbia, Montenegro, and Macedonia). The secondary empirical research was used for the analysis of aggregate statistical data for the selected frontier capital markets, while the primary research included potential individual investors as well as issuers from frontier capital markets.

2. COMPETITIVE ABILITY OF CAPITAL MARKETS

Capital market is a part of the total financial market and stands as the organized market area where supply and demand for long-term financial instruments meet (most often stocks and bonds). Capital market as well as the entire financial system has the role of intermediary between the subjects with the excess (surplus) of financial resources and the subjects that need such resources (deficit subjects). The main function of such market is to improve the efficiency of money transfer in such a way that every single subject does not have to conduct search and analysis. Consequently, participants on capital market are: issuers (companies and public sector), investors (individual and institutional), stockbrokers (brokers and dealers), and state regulatory bodies.

Competitiveness as the term we usually and traditionally link to companies can be observed in the context of competitiveness of individual economic sectors but also of the economy of a state or region in general. Competitiveness can be defined as a relative capacity of a country, sector or micro subject to manufacture products or provide services better than other participants on domestic and/or international market (Škuflić, Kovačević, Sentigar, 2011, p. 2). Competitiveness can be seen as a set of characteristics of a subject (national economy, sector or individual economic subject) in relation to comparable subjects (benchmarks) on the market (Siudek, Zawajska, 2014, p. 94). The competitiveness of capital market needs to be observed in the same way as any other industrial or service sector or any other market. While doing so, account should be taken of the fact that financial institutions have specific responsibilities regulated by law. While analyzing competitive ability of capital market, one needs to take into consideration the outflow of capital on the side of demand for capital and inflow of capital on the side of capital supply (Lo, 2013, p. 501). One of the dimensions of capital market competitiveness is related to the opportunity for the subjects with money surplus to invest into various securities on capital market. Naturally, such subjects also have the alternative to invest into instruments on other markets such as real-estate, precious metals, currency, cryptocurrency, etc. Another dimension of competitiveness is related to the role of capital markets in financing the subjects with the lack of financial resources, whereby

other financial institutions such as banks provide options to finance such subjects. With all this said, competitive ability of capital markets may be observed as the potential for capital markets to provide access to financial resources for the subjects (companies and/or public sector) that need to secure them in efficient, effective and legally regulated way. At the same time, it enables the subjects with surplus financial resources to invest into capital market instruments and make the expected return on investment.

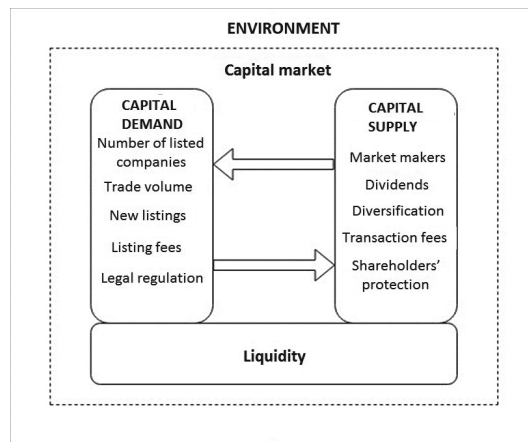


Figure 1. Model of capital market competitiveness

Source: Adapted from (Lo, 2013, pp. 501-509)

Figure 1 shows the criteria for the analysis of capital market competitiveness from the perspective of participants on financial market with the capital deficit (capital demand) and the perspective of participants on financial market with excess capital (capital supply). This is a complex model in which certain criteria cannot be observed uniformly. Capital market unites both dimensions. The subjects that need financial resources provide them by issuing securities thus increasing the potential for investment to the subjects with surplus financial resources. Competitive ability of capital markets depends on a series of factor and Urbšiene, Monkevičiūtė, and Navikaite (2014, p. 122) reviewed the research dealing with market competitiveness and designated market size, liquidity, legal regulation, and cross listing as the most important factors.

Apart from these, capital market competitiveness can be perceived as the ability to successfully compete in the world while securing the most beneficial opportunities for investors and issuers (Urbšiene, Monkevičiūtė, Navikaite, 2014, p. 116). Capital market attractiveness depends on profit potential or capital demand and supply. In light of these changes, companies and stock markets increasingly use cross listing meaning that they list its equity shares on their primary stock market as well as on other stock markets. Cross listing marks the number of foreign companies listed on domestic stock market as well as the number of domestic companies on foreign stock markets and is a significant factor of the assessment of capital market competitiveness. Pagano, Randl, Röell, and Zechner (2001, p. 780) analyzed the

listing of European companies on foreign stock markets, especially in the USA. Their results show that European companies are more listed on larger and more liquid markets, on the markets where the companies in the same industry are already listed, and on the markets with better investor protection, more efficient courts, and lower accountancy standards. The research points to the increased number of companies listed on stock markets outside their national market (Pocius, Stungurienė, Paškevičius, 2014, p. 1052). Urbšiene, Monkevičiūtė, and Navikaite (2014, p. 118) believe that market attractiveness is closely linked to its competitive ability. The decision whether companies or investors would enter a certain capital market depends on a series of factors. Important information on markets are available based on the classifications of national capital markets by reputable international credit rating agencies such as Standard and Poor's (S&P), Morgan Stanley Capital International (MSCI), and the Financial Times Stock Exchange (FTSE). More developed markets are more competitive and the criteria of their classification indicate what makes competitive ability of these markets, which conditions different approach of investors when it comes to investment into securities on individual capital markets. Different criteria applied for capital market classification enable a clear distinction among various categories of capital market. At the same time, the analysis of those categories provides a large number of information on general characteristics of various capital markets and the level of their competitiveness.

Starting from the classification criteria (FTSE Country Classification Process; MSCI Market Classification Framework; S&P Dow Jones Country Classification Methodology), and the research conducted by Claessens, Djankov, and Klingebiel (2000, pp. 1-26), we can tentatively categorize criteria of capital market competitiveness into

- macroeconomic criteria of economic development,
- criteria related to regulatory and market environment, and
- criteria of business environment.

Apart from these criteria, the criteria of infrastructure development, technological in particular, is also an important criterion for capital market competitiveness. Hence, Boisvert and Gaa (2001, p. 28) conclude that the improvement of information and communication infrastructure had a positive effect on the improvement of competitive ability of capital markets in Canada.

Improvement of competitive ability of capital markets requires the implementation of strategies aimed at the provision of the fulfillment of the mentioned macroeconomic and microeconomic criteria. The fulfillment of macroeconomic criteria also means the increase in the level of economic development, which shows that these two processes are linked; capital market development needs to follow the development of the entire country's economy, and vice versa.

Competitive ability is impossible to achieve without a clearly defined strategy adjusted to the goals of the very strategy. Competitive strategy may be defined as the search for favorable competitive position within a certain basic environment where competition appears. Competitive strategy is aimed at establishment of a profitable and sustainable position within this environment (Porter, 2008, p. 21). The strategy

for the improvement of competitive ability of capital markets needs to be aimed at the expansion of the role of capital markets in financing business activities, whereby the market needs to be made more attractive for potential investors.⁸

The analysis of capital market development strategy for the countries with frontier capital markets shows that these strategies mainly imply the implementation of measures and activities aimed at market participants (such as financial mediators, infrastructure, regulators, etc.). Four key aspects can be sorted out, which are emphasized in these strategies⁹:

- a) increasing supply and diversity of financial instruments;
- b) attracting investors and internationalizing capital markets;
- c) increasing capacities and information infrastructure, and
- d) educating investors and improving financial literacy.

3. RESEARCH RESULTS AND DISCUSSION

The conducted empirical research consisted of two parts. In the first part, based on using the secondary aggregate data, liquidity was analyzed as a key determinant of competitiveness of the selected frontier capital markets in the Western Balkan countries. The second part of the research was based on the primary data and it covered the evaluation of obstacles to issuers' more active access to frontier capital markets and the evaluation of attitudes of potential individual investors regarding investment on capital markets in BiH as frontier capital markets.

3.1. Evaluation of the selected frontier capital markets liquidity

Within the evaluation of the selected frontier capital market liquidity, the following indicators were observed:

- overall annual exchange turnover;
- turnover of the volume, and
- the Amihud illiquidity measure (ILLIQ).

The research was conducted on the basis of the secondary data collected through official web sites of stock exchanges in the selected countries (Sarajevo and Banja Luka Stock Exchange, Belgrade Stock Exchange, Montenegro Stock Exchange, and Macedonian Stock Exchange). The ILLIQ was calculated for the sample that included the stocks in the benchmark of the Sarajevo Stock Exchange (SASX-10). This means that the Sarajevo Stock Exchange was taken to represent the frontier capital markets for the calculation of the ILLIQ.

Figures 2 and 3 show the annual turnover in the observed period and the turnover of the volume for every stock exchange selected. When compared to the same type of indicators for developed capital markets, the analyzed liquidity indicators for the selected capital markets of the Western Balkan countries point to extremely low liquidity. At the same time, the turnover on the Wiener Börse AG (The

⁸ A previous survey regarding institutional investors' preferences, in the light of the global financial crisis, was conducted in: (Bećirović, Kozarević, Balić, 2017).

⁹ The analysis included "Capital Market Masterplan", published in 2011 by the Securities Commission Malaysia, "Strategy for Development of the Capital Market in Bulgaria", adopted in 2016 by the Council for the Development of the Bulgarian Capital Market, and "Slovene Capital Market Development Strategy" from 2010 published by the Ljubljana Stock Exchange.

Vienna Stock Exchange) in 2017 was EUR 63.95 billion.¹⁰ The turnover of the volume on the Wiener Börse was 57%, which is way above the value of this indicator for the selected capital markets in the Western Balkan countries.

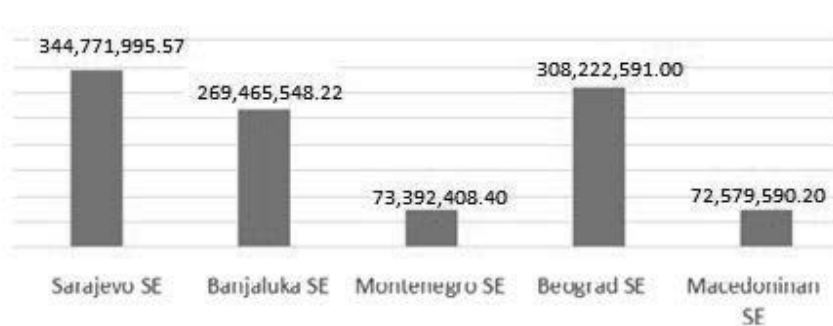


Figure 2. Annual stock exchange turnover on the selected frontier markets in the period 2013-2017 (in EUR)

Source: Authors' creation based on the stock exchanges' statistical data

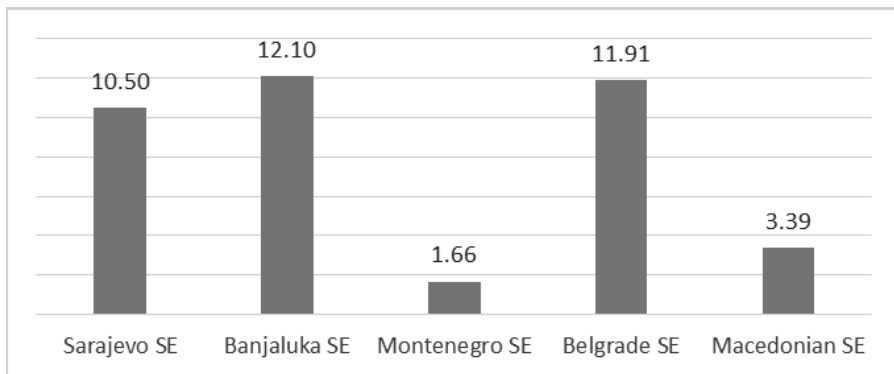


Figure 3. Turnover of the volume on the selected capital markets in 2017 (in %)

Source: Authors' creation based on the stock exchanges' statistical data

Table 1 shows average monthly values of the ILLIQ for every stock of the issuers within the SASX-10 Index.

The ILLIQ for the stock within the SASX-10 Index shows extremely high values that suggest rather high illiquidity of all the SASX-10 stocks.

¹⁰ <https://www.wienerborse.at/>, Accessed: September 22, 2018

Table 1. The ILLIQ for companies with stocks involved in the SASX-10

Month	BH Telecom	Bosnalijek	Energoinvest	FDS	Elektroprivreda BiH	RMU Banovići	Solana Tuzla	Sarajevsko osiguranje	Unioninvestplastika	GP ŽGP
VIII 2017	33.47	147.09	880.33	0.00	39.53	2,399.36	0.00	66.78	1.99	2,256.05
IX 2017	28.85	49.93	837.70	107.34	122.20	8,254.39	195.82		16.62	3,023.18
X 2017	11.97	66.38	126.65	0.11	14.46		6.62	40.09	0.00	5,473.38
XI 2017	135.82	36.71	5,415.19	3.26	7.22		24.91	37.15	0.00	5.91
XII 2017	36.87	323.28	4,412.50	0.34	282.74	493.44	40.41	2,559.63	1.16	34.25
I 2018	26.77	115.28	2,226.36	3.79	402.88	2,759.36	8.74	811.81	1.14	192.41
II 2018	69.52	106.10	165.57	9.23	2,027.67	2,911.64	164.31	381.36		22.53
III 2018	647.31	17.75	26,428.77	120.86	162.32	40.54	22.86	1,271.97	5.51	4.07
IV 2018	17.86	5.59	6,871.79	0.00	131.14	332.06		5,245.12	45.03	3,598.70
V 2018	57.72	21.21		0.01	242.53	12.17		1,643.12	20.16	0.00
VI 2018	17.75	55.91	9,107.47	3.33	976.20	54.41	0.43	259.34	0.24	28,937.50
VII 2018	10.87	65.73	14,430.01	17.66	166.11	1,017.25		102.40	0.25	57.59
VIII 2018	262.82	4.73		2.95	1.39	1,194.74	64.28	9.50	1.92	174.11
No. of months	13	13	11	13	13	11	10	12	12	13
Max.	647.31	323.28	26,428.77	107.34	2,027.67	2,911.64	195.82	5,245.12	45.03	28,937.5
Min.	10.87	4.73	126.65	0	1.39	12.17	0	9.50	0	4.07
Mean	104.43	78.13	6,445.67	20.68	352.03	1,769.94	52.84	1,035.69	7.84	3,367.67
Standard deviation	177.45	85.56	7,969.51	41.84	565.86	2,415.46	70.28	1,549.15	13.53	7,890.68

Source: Authors' development based on SASE official data

The monthly values of this index for the German capital market (Benić, Franić, 2008, p. 493) are in the range from 3×10^{-4} to 7×10^{-4} .

3.2. Evaluation of obstacles to more active access to the frontier capital markets from issuers' perspective

The evaluation of obstacles to more active access to capital markets on the side of issuers was performed using a problem-directed in-depth interview which is a qualitative research method. The research instrument was a semi-structured open-question interview. The representatives of the selected frontier capital markets were business subjects from BiH, which previously used the public issuance of debt securities (bonds) as the source of external finance.

The research was conducted on a sample that included four economic subjects (two subjects with the limited liability company organization, one shareholding company, and one local government unit).

Based on the research conducted, we were able to sort out certain common attitudes of the respondents which are given in Table 2, whereby the attitudes of the respondents were systematized for every category discussed. Most common attitudes could be extracted in relation to the difficulties in the process of securities issuance. On the other hand, terms of issuance (including interest rate specification, maturity, and other conditions) were identical for all the respondents.

Table 2. Research results represented through the mutual attitudes of the respondents

Category	Respondents' attitudes
Motivation	<ul style="list-style-type: none"> - Financing of investment in the business or infrastructural venture that should result in revenues which are enough for timely servicing of debt - Promotion
Difficulties in the process	<ul style="list-style-type: none"> - Continuance of process - High costs - Discouraging work of the Securities Commission - Passive attitude of the stock exchange - Legal regulation that protects state-owned capital in relation to private capital - Regulations that discourage company to change their organization form from PLC to joint-stock company (which brings them on stock exchange)
Advantages	<ul style="list-style-type: none"> - This type of financing does not require binding property through mortgage - Makes easier liquidity management of the company by defining different ways of payments and interest rates in case of debt securities
Conditions	<ul style="list-style-type: none"> - Terms of issuance (interest rate, maturity, method of payments, etc.) are determined by the conditions under which similar securities were issued and by the price and conditions regarding commercial loans
Sale	<ul style="list-style-type: none"> - Through investors with whom there is a long-term cooperation - Through brokers - Direct sale to business partners

Source: Authors' own research

3.3. Evaluation of individual investors' attitudes towards investing in frontier capital markets

A survey method was used to study the attitudes of individual investors related to investment on capital market. The instrument used in the empirical research was the original questionnaire with a 5-point Likert scale. The research included the owners and managers of companies in BiH, which was taken as a representative for frontier capital markets.

The overview of the categories and indicators used in analyzing the attitudes of individual investors towards investing in frontier capital markets in BiH (Sarajevo and Banja Luka Stock Exchange) is given in Table 3.

Table 3. Categories and indicators in the analysis of the individual investors' attitudes towards investing in the BiH capital markets

Category	Indicators
Financial potential assessment	Questionnaire attitudes of respondents
Assessment of knowledge regarding the capital market functioning	Questionnaire attitudes of respondents
<i>Perception of capital market</i>	
Legal-regulatory framework of the capital market	Questionnaire attitudes of respondents
Capital market functioning	Questionnaire attitudes of respondents
Liquidity and information efficiency of the market	Questionnaire attitudes of respondents
<i>Investment process, goals, motives, and factors of investment decision making</i>	
Investing in other forms of assets different from the capital market	Questionnaire attitudes of respondents
Investment motives and goals	Questionnaire attitudes of respondents
Factors of investment decision making	Questionnaire attitudes of respondents
Intention regarding future investing	Questionnaire attitudes of respondents
<i>Obstacles to investment and capital market improvement activities</i>	
Obstacles to investment on capital market	Questionnaire attitudes of respondents
Capital market improvement activities	Questionnaire attitudes of respondents

Source: Authors' own research

The measurement of the measurement scale internal consistency was made by the calculation of Cronbach's alpha (α) coefficient. Cronbach's alpha for the entire measurement scale, the assessment of knowledge regarding the capital market functioning, is 0.922. As this value is higher than 0.7, it points to the reliability of this measuring instrument. The average values of assessment of the respondents' knowledge regarding the capital market functioning are given in Table 4.

Table 4. Assessment of knowledge regarding the capital market functioning

Evaluation of the respondents' knowledge	Mean	Std. deviation
General economic knowledge	3.76	0.75
Knowledge regarding the capital market functioning	3.30	0.97
Knowledge regarding investing in securities	3.04	1.10
Knowledge regarding legal-regulatory framework of the capital market	3.02	1.08
Knowledge regarding the stock exchange functioning	2.91	1.06
Knowledge regarding technical and fundamental analysis	2.89	1.01

Source: Authors' own research

Table 5 shows the average assessment values for the respondents' perception of the selected indicators related to the analysis of capital markets in BiH.

Table 5. Perception of BiH capital markets

Statement	Mean	Std. deviation
Securities commissions on entity-level work well	2.90	0.62
Investors have good judicial protection	2.60	0.76
The rights of private shareholders are well protected	2.71	0.71
BiH stock markets work well	2.69	0.86
Government measures to attract investors are good	2.20	0.81
There are no significant obstacles to access to the capital market	2.66	0.75
I think that the capital market is liquid	2.48	0.78
The supply of securities is diverse	2.57	0.81
The financial statements of issuers are credible	2.83	0.80
The price of securities reflects all available information	2.65	0.67
The information about issuers is available to citizens	2.47	0.82
Legal framework of the capital market is good	2.72	0.72

Source: Authors' own research

Table 6 brings the average values of the respondents' perception of the indicators related to investment process, goals, motives and factors of investment decision making as well as the activities for improvement of capital markets.

Figure 4 illustrates relative frequencies of the obstacles to more prominent investment activity of individual investors on capital markets in BiH.

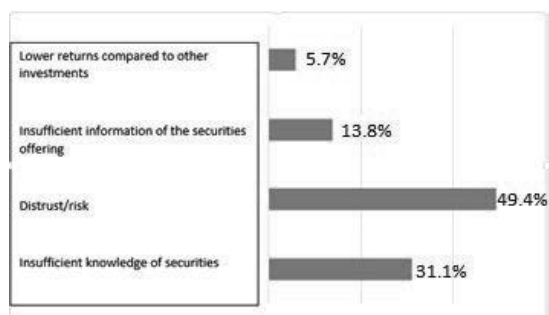


Figure 4. Relative frequencies of the obstacles to investing on capital market

Source: Authors' own research

Table 6. Preferences, goals, motives, and factors of individual investors' investment decision making as well as the activities for improvement of the capital markets

<i>Preference for other forms of investment different from capital markets</i>		
Type of assets	Mean	Std. deviation
Time savings in banks	2.96	1.14
Real estates	3.83	0.75
Noble (precious) metals	3.34	0.87
Life insurance	3.04	1.09
<i>Importance of investment decision making factors</i>		
Factors	Mean	Std. deviation
Overall business experience	3.69	0.73
Experience in investing in the subject asset form	3.57	0.86
Knowledge of investment	3.61	0.86
Using available information	3.65	0.82
Analysis of financial and statistical reports	3.48	1.00
Intuition	3.25	0.98
<i>Motives for investing</i>		
Motives	Mean	Std. deviation
Affirmation	2.28	1.14
Feeling of importance	2.18	1.04
Challenge	3.06	1.11
Following trends	2.53	1.02
Profit	3.98	0.79
Financial safety	4.08	0.72
<i>Investment goals</i>		
Goals	Mean	Std. deviation
Regular and stable revenues	4.05	0.80
Providing revenues for "third age"	4.05	0.84
Profit in short-run	2.91	1.03
<i>Willingness of individual investors to invest in the capital market</i>		
Statement	Mean	Std. deviation
I intend to invest in the capital market in the future	2.98	1.04
I rather invest in securities than other forms of investment	2.48	1.06
<i>Activities to improve the capital market</i>		
Statement	Mean	Std. deviation
Incentives from environment	2.65	0.93
Intensive (aggressive) promotion of investment on the capital market	3.85	0.74
Education of citizens regarding investment on the capital market	4.02	0.76

Source: Authors' own research

Almost half of the respondents see distrust or risk of such investment (49.9% realization) as the most significant obstacle to investment on capital markets. Although the level of general economic knowledge is valued somewhat above average, the knowledge related to individual segments of capital market functioning and investment into securities are valued relatively low. This is certainly an important limiting factor for potential individual investors to build a more active approach to investment on capital markets in BiH. The assessment of the indicators related to capital market perception are below average but a large portion of the respondents without any attitude regarding the statements indicate that they probably lack sufficient knowledge on capital market functioning. When it comes to the preference for other forms of investment compared to capital market instruments, the respondents expressed absolute preferences to real estate investment. Apart from real estates, the investors surveyed also prefer investment into precious metals although a large portion of responses without the attitude provide may suggest the lack of investment into underlying assets. Recent low interest rates on term depositing in banks are most likely the reason why this type of investment was given the least preference when compared to other types of assets. Overall business experience, knowledge of investment, and available information are marked as the most important factors affecting investors while they make decisions on investment into some type of assets. This points to the fact that, when it comes to investment on capital markets, it is important to provide investors with as much information and knowledge as possible on the types of investment and capital market functioning in general.

As expected, financial safety and opportunity to make profit are marked as the most important motives that guide investors when making decisions to invest financial resources. Subjective motives such as affirmation, feeling of importance, and following trends are marked as irrelevant motivational factors while making decisions to invest financial resources. The respondents mainly did not show clear intention to invest into securities in the future. The highest number of the respondents did not have an opinion on their future participation on the capital market. Apart from the assumed lack of understanding the market, this may also suggest the lack of interest of potential individual investors. Distrust into this type of investment or its risk was marked as the most significant obstacle to stronger involvement of individual investors on capital market. The respondents absolutely agreed with the statement that education of citizens on capital market investment is the activity that would improve capital markets in BiH. In addition, more intensive promotion of trading of securities and supply of these instruments on the market were also marked as the activities that might positively affect investment and development of capital markets.

4. CONCLUSION

A very important implication of the results of the research refers to the creation of the appropriate strategy for the improvement of competitive ability of frontier capital markets. In addition, bearing in mind the theoretical framework of the research, measures and activities were specified that are supposed to contribute to the

improvement of competitiveness of frontier capital markets on both, the capital demand side and the capital supply side. The very foundation of the improvement of competitive ability is the increase in supply and demand for securities on capital market, which directly affects the improvement of market liquidity as the most important determinant of its competitiveness.

Based on the theoretical and empirical research conducted, recommendations for the improvement of competitiveness of frontier capital markets involve the following activities:

- Issuers' experiences show that the attitude of stock markets is passive, which points that stock markets need to be more active in the promotion of trading of securities, not only on the secondary market but also on the primary market of securities, be they state or corporate.
- Introduction of simpler derivative financial instruments on the market, bearing in mind the level of development of frontier capital markets.
- Introduction on the market of corporate bonds of the companies with the majority state ownership. The bonds would have the additional option by which the government, as the majority owner, guarantees coupon payment and soft bullet.
- Introduction of market segment for small and medium sized enterprises.
- Change of legal regulations as a means for achieving incentives for the transformation of large and medium sized private enterprises from the organizational form of limited liability companies to shareholding companies.
- Listing on the stock market large state companies where this has not been done.
- Educating local authorities on the possibilities to finance infrastructural projects by issuing municipal bonds.
- Educating wider population on corporate management, capital market functioning, and financing by the issuance of securities. The bearers of these activities would be higher education institutions through the adjustment of the existing curricula, professional organizations, business organizations, stock markets, etc.
- Promotion of financing investment by issuing securities, promotion of good practices of the companies that issued debt securities, equities, etc.
- Promotion of good investment practices aimed at reducing distrust of individual investors, which was mentioned in the research as the main obstacle to more significant participation of individual investors on capital markets.
- Improvement of the existing legal regulations in terms of investor protection, which was recognized in the research as an important factor that limits the competitiveness of frontier capital markets.
- In order to strengthen the trust of investors, companies need to build their own systems of voluntary reporting so that investors would have at their disposal reliable and relevant information that would serve as the basis for making decision on investing into securities of these companies.
- Attracting foreign investors through the integration of regional capital frontier markets. Such integration includes strategic partnership with foreign regional stock markets, strategic partnership of the agencies in charge of the registers of securities,

development of common IT infrastructure, adjustment of legal regulations, monitoring, and taxes.

- Active and intensive promotion of domestic capital market abroad, whereby the government would have the leading role through participation at international economic conferences and forums and gatherings of business people, at the level of ministers and through the network of diplomatic and consular missions abroad.

- Establishment of a unique web portal for the provision of integrated services and information to domestic and foreign institutional investors.

- Elimination of legal obstacles (where they exist) to the entrance of foreign investors on capital market and rationalization of administrative procedures for entering the market.

- Bearing in mind the bank centricity of financial systems in the selected countries of the Western Balkans and the investment potential of banks, regulation of capital market, banks and insurance companies needs to be integrated (where this has not been done).

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