



Financial and Banking Services Market

Mykola HAPONIUK

**CO-INVESTING INSTITUTES
IN THE SYSTEM
OF SAVING ACTIVITY FACTORS
OF UKRAINIAN PEOPLE**

Abstract

The paper is concerned with the issues of Co-investing Institutes' securities popularization among the Ukrainian people. The main factors are determined conditioning the individuals' investment choice of different investment directions in the financial market of Ukraine, also the measures are substantiated aimed at investment attractiveness increase of national Co-investing Institutes' securities.

Key words:

Co-investing Institutes, investment certificate, share of corporate investment fund, household, individual investor, investment fund, risk, income, investment.

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Modern financial market is an environment for interaction of many economic agents differing in their functions, including organizational and legal one. Alongside with that, because of various reasons many scientists admit the dominant role of households as a single sector where net-savings are formed within the economic system. That is why numerous programs and concepts both, in Ukraine and overseas are aimed at promoting the investment activity of people, promotion of this sector to invest into various instruments of financial market.

A specific role in attraction of household savings belongs to the institutional investors, in particular, to the investment funds. The indicated group of financial institutions offers the instruments and services in the market meeting the best the parameters of savings which are formed by small investors. It is worth noting, that significant deformations are observed both, in the household investment activity and in the functioning of Co-investing Institutes. First of all, low income level of the majority of Ukrainians is implied, which is preventing the formation of savings. Moreover, the investment funds are primarily oriented at servicing the juridical persons and individual investors with over average incomes. The ways for overcoming the indicated disparities need the scientific substantiation, which determines the relevance of this paper.

The Co-investing Institutes functioning is the key issue of the researches of many known scientists. In particular, the researches of the following foreign scientists are worth marking: A. Pigou, H. Shredder, J. Tobin and H. Markowitz, W. Sharp, J. Litner and J. Mosin, B. Friedman, J. Hurley, and E. Shaw. The national financial science started researching that area not so long ago, actually only since the 90-s of the last century.

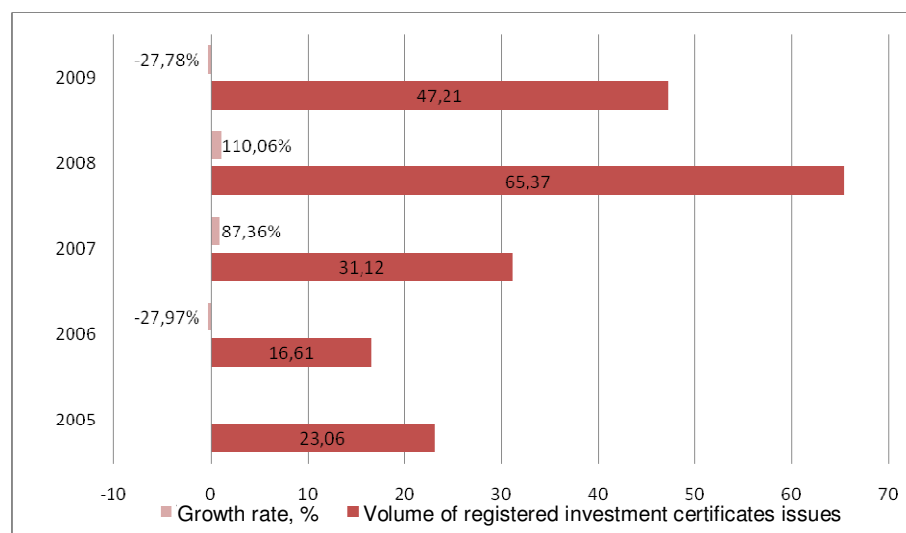
Nevertheless, even for such a short period of time significant results have been achieved. Specifically, A. Peresada and Yu. Kovalenko, D. Leonov, D. Kazymyr, V. Sutormina, B. Radziievska, B. Stetsenko, V. Fedosov, O. Mendrul, I. Pavlenko, V. Sheludko, V. Khodakivska, V. Beliaieva and others were concerned with the topics of Co-investing Institutes.

However, a series of theoretical and pragmatic problems haven't still been met, specifically these concerning substantiation of mechanisms stimulation for interaction of the Co-investing Institutes and population in Ukraine. Proceeding from the above, the subject of this paper can be defined as the determination of optimal mechanisms of interrelation between the investment funds and individual investors in the national market of financial services.

First of all, it is worth noting, that the analysis of trends in the securities markets of investment funds in Ukraine should define pre-crisis period and very keen response of that sector to the global financial crisis which is manifested in the production volumes in primary market (see fig. 1 and fig. 2).

Figure 1

Dynamics of the primary market investment certificates of Mutual Funds in Ukraine

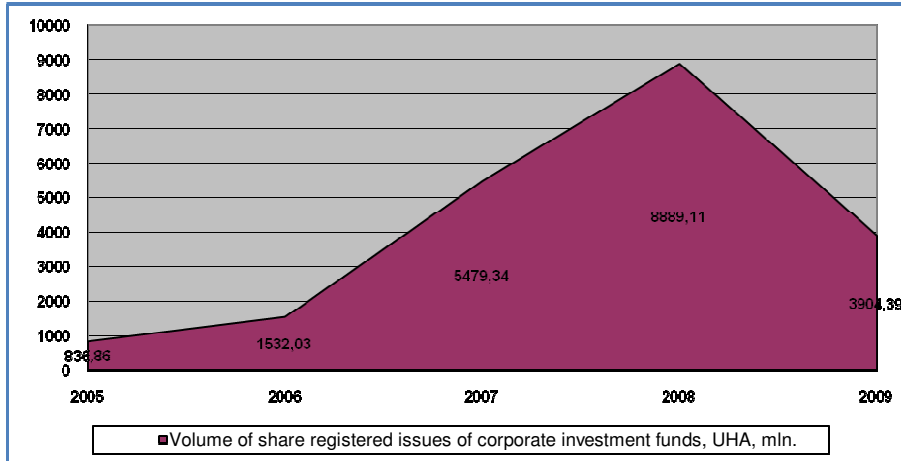


The volume of registered investment certificates issues of mutual funds as for their growth rate in ratio of the current year to the previous one was tended to grow till 2009, and in 2009 it reduced by 27.78 % as against 2008. In a qualitative dimension the volume of registered issues of corporate investment funds shares for the period from 2005 to 2009 grew from UHA 836.86 mln. to UHA 3904.36 mln., but in a relative dimension it tended to be negative, since in 2009 its growth rate made -56.08% . In addition, 2008 was characterized by high development with UHA 8889.11 mln. While comparing these two segments, we will see that the enormous difference between the volumes could be explained by dominating of mutual over corporate funds.

In our opinion, deep reduction of production volumes in 2009 could be explained not only with the manifestations of global economic crisis but also with weak effectiveness of anti-crisis measures aimed primarily at support of banking system though on account of other financial institutions. For example, abolishment of early withdrawal of deposits in commercial banks badly affected the Corporate Co-investing Institutes who greatly lost in liquidity as a result of that decision implementation.

Figure 2

Dynamics of primary market of shares of corporate investment funds in Ukraine



The effective functioning of the system of institutional investors greatly depends on their assets management which is performed by the respective companies under the national law. At that, the law has established the forced character of that financial service for the Co-investing Institutes in order to reduce risks for potential investors.

With this aim in view, in the advanced countries the responsible for managing the funds of institutional investors should adhere to so called «rules of reasonable behavior» at taking the investment decisions, i.e. managers should act selectively and informatively in order to get profit and preserve capital (though in this case the missions of investing are considered rather narrow).

In Ukraine this sector has also undergone changes during the crisis. Thus, many asset management companies have disappeared; others have left that segment which brought about reduction of their total amount in 2010 making 380 units (fig. 3).

Moreover, the structure of Co-investing Institutes is specific with domination of venture funds and rather low rate of corporate Co-investing Institutes primarily oriented at individual servicing, and which are the most acceptable for that group of investors (see fig. 4).

Figure 3

Dynamics of asset management companies growth in Ukraine for 2006–2010

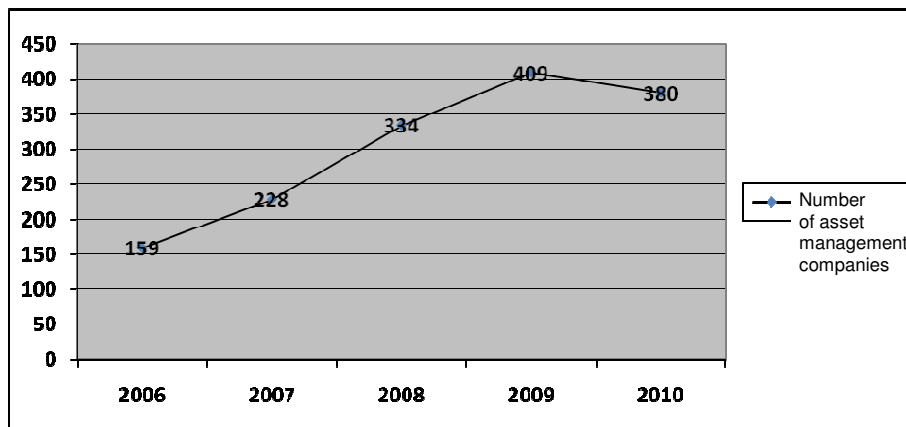
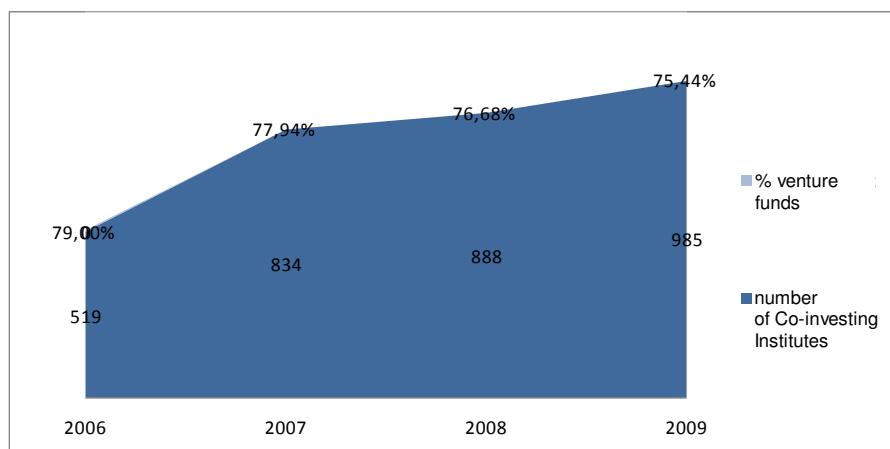


Figure 4

Dynamics of Co-investing Institutes in Ukraine for 2006–2009



Source: developed by the author after the figures of Ukrainian Association of Investment Business.

In particular, it is worth noting that according to the figures of Ukrainian Association of Investment Business as for the end of the third quarter of 2010 there functioned 1069 Co-investing Institutes in Ukraine, 35 of which were incorporated (making 3.3 % of total number). Similar situation clearly demonstrates the priorities in providing financial services created in national Co-investing Institutes and Asset Management Companies to legal entities and natural persons having significant incomes. Moreover, the domination of venture funds actually prevented investing natural persons because of certain prohibitions which have been abolished recently.

It is worth noting that the described strategy of the Co-investing Institutes' functioning is objectively justified with other reasons, specifically with these referring the income level of Ukrainian people. Naturally, we should mention the following available trends:

- for 2005–2009 there was observed the income growth of population, but at that, in 2009 the growth rates evidently slowed down which was conditioned by the crisis. First, a series of social programs were cut down under poor budgeting; second, most of private enterprises lowered the wages; third, even certain components of income, specifically «profit and mixed income» decreased;
- in spite of the growth of nominal incomes, a population rate with substandard incomes was significant, ranging in 2007–2009 within 18–30 %, which naturally greatly decreased opportunities of this group of people to make savings;
- the structure of household incomes looks symptomatic where a significant percentage the incomes make which are not connected with the natural persons' ownership of the production factors (but labor force). In particular, in 2009 41.9 % of total income made wages; 14.6 % – incomes and mixed incomes, 39.5 % – social aids and other current transfers (at that, in 2003 a ratio of the named incomes was somewhat lower making 36.1 % (fig. 5).

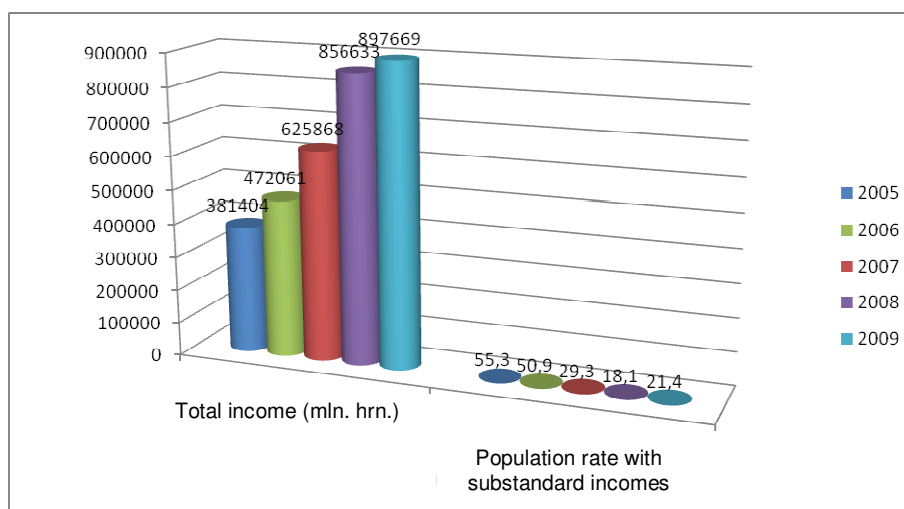
All together, the effects of the indicated factors brought about the domination of legal entities on the market of services of Co-investing Institutes concerning the net asset value (see table 1). Natural persons including residents and non-residents together owe only 3.4 % out of total value of net assets of Co-investing Institutes in Ukraine. The differentiation of that index with respect to certain types of funds is absolutely imbalanced. Thus, if the net asset value of natural persons makes a little more than 64 % in corporate funds, it constitutes only 0.9 % in venture funds.

As can be seen from the above, one of the determining factors of poor investment activity of natural persons in the market of co-investing is domination of venture funds which according to the majority of parameters are unattractive

(primarily, from the view of terms of existence, opportunities for yielding income, and liquidity of issued financial instruments) for that group of investors.

Figure 5

Dynamics of personal income certain indices in Ukraine for 2005–2009



Source: developed by the author after the figures of Ukraine State Statistics Committee

Table 1

Distribution of Co-investing Institutes' NAV under the types of investors as for 30.09.2010, % of NAV

Funds	Legal entities		Natural persons	
	residents	nonresidents	residents	nonresidents
Open	15,14 %	20,63 %	63,53 %	0,708 %
Interval	40,01 %	4,89 %	55,01 %	0,090 %
Closed (non-venture)	62,36 %	9,15 %	28,19 %	0,300 %
Total (non-venture)	60,14 %	9,38 %	30,17 %	0,307 %
Venture	82,78 %	16,32 %	0,89 %	0,009 %
Total (including venture)	80,90 %	15,75 %	3,33 %	0,034 %

Source: developed by the author after the figures of Ukraine State Statistics Committee

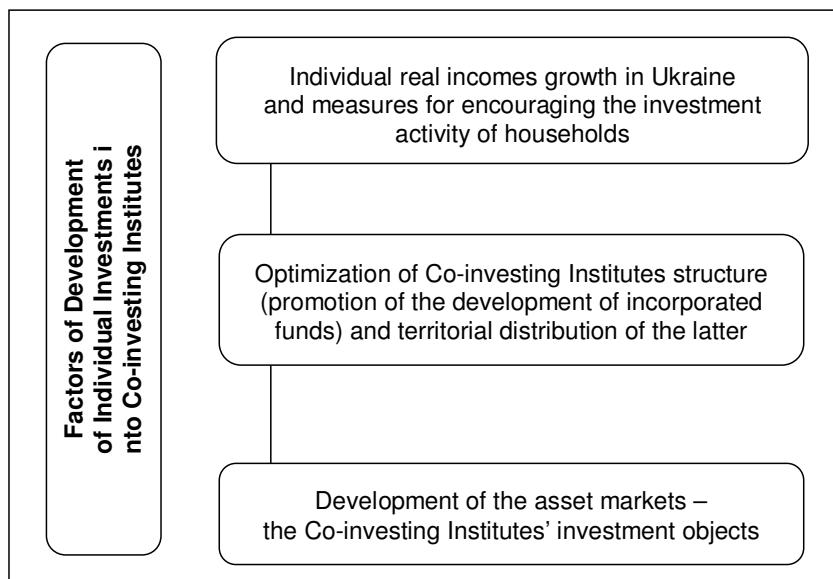
Proceeding from the results of the above analysis, we can point out the following groups of obstacles on the way of individual investment development within the sector of Co-investing Institutes' services:

- low income rate of the prevailing majority of population, and the dramatic differentiation of the incomes;
- structure of Co-investing Institutes with domination of venture funds and poor open type funds, which are oriented first of all at individuals;
- ineffective state regulatory policy in the area of institutional and territorial structure of financial services market with prevailed banking institutions;
- low interest of Co-investing Institutes in attraction of resources of people with low incomes.

Proceeding from the available problems, the optimization directions for mechanisms of interactions between national Co-investing Institutes and individuals could be broken into the following brackets and indicated as in fig. 6.

Figure 6

Ways of encouraging individual investments into the Co-investing Institutes' instruments in Ukraine



Consequently, to promote the household investments into the instruments issued by national Co-investing Institutes by the participants of financial services market, first of all by the government, there should be in short- and medium-term perspective implemented a series of the following measures:

1. To ensure the growth of real income of people alongside with its reduced «shadow» ratio. Naturally, that task is far beyond the pure financial policy, nevertheless, its meeting will provide an impetus to the participation of the financial services market to activate their efforts in other areas throughout Ukraine.

2. To develop the incorporated Co-investing Institutes and lower the concentration of these institutions in leading economically developed regions. Actually, the residents of certain Ukrainian regions have no access to the Co-investing Institutes' services because of the absence of the latter, and the development of the incorporated Co-investing Institutes depends on the liquidity of stock exchange market and the protection system for the consumers of Co-investing Institutes' financial services.

3. A paramount task is the development of asset markets invested by the Co-investing Institutes, primarily by the market of corporate securities. Only under condition of meeting the above mentioned tasks we can expect the growth of mutual interesting of the Co-investing Institutes and people of Ukraine.

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