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## EFFECTIVE FUNCTIONING OF THE COLLECTIVE INVESTMENT INSTITUTES AND THEIR INFLUENCE ON FORMATION OF INVESTMENT-INNOVATION ECONOMY IN UKRAINE

**Abstract. Introduction.** Conditions of the economy of investment-innovation type formation in Ukraine demands complex approach to the problem of investment resources search and investment activity coming into effect. One of the most important investment resources according to the experience of economically developed countries are collective investment institutions (CII). **Purpose.** To research CII functioning in Ukraine, founding out their place and role in the formation of investment-innovation the economy; to propose improving of the investment resources involvement mechanism for the innovation development of the economy with the help of CII.

**Results.** Basing on the complex analysis of the CII activity in Ukraine over the last five years, positive tendencies of their development have been researched that came out to the increasing of the quantity of the investment funds, the cost of their assets, the share of the venture funds among all CII assets, participation of the legal entities in the investment fund formation. Positive dynamic of CII formation proves the necessity of this collective investment form under the conditions of the investment-innovation economy formation. Negative tendencies of CII functioning are also found out, which came out in the low level of the participation of the legal entities in the investment funds, non-fulfillment by the venture funds their main task – financial attraction for the innovation development.

Improvement of the investment resources mechanism for the innovation development and implementation is proposed in the following directions: creation of the congenial investment climate, raising of the motivation of the venture fund financial investments into the innovation projects of small and medium-sized firms, raising of the level of the legal entities' activity on the market of collective investment, increasing of the CII function effectiveness basing on the implementation of the international standards, minimization of the risks of CII activity under the conditions of unstable economical and political situation in Ukraine.

**Conclusion.** Despite the positive dynamic of CII activity in Ukraine, they have not already become full investment instrument of the real economy development on the innovational basis. The realization of the investment implementation mechanism with the help of CII will contribute to the further development of the innovation implementation to different branches of the Ukrainian economy and providing its system modernization.

**Keywords:** collective investment institutions; venture funds; collective investment market; investments; innovations; investment-innovation economy; stock market.

**JEL Classification:** G20, G23, G24

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#### ЕФЕКТИВНЕ ФУНКЦІОНУВАННЯ ІНСТИТУТІВ СПІЛЬНОГО ІНВЕСТИВАННЯ ТА ЇХ ВПЛИВ НА ФОРМУВАННЯ ЕКОНОМІКИ ІНВЕСТИЦІЙНО-ІННОВАЦІЙНОГО ТИПУ В УКРАЇНІ

**Анотація.** У статті здійснено аналіз функціонування інститутів спільного інвестування в Україні, виявлено позитивні й негативні тенденції їх розвитку. Досліджено зовнішні та внутрішні чинники, які не сприяють залученню інвестицій на інноваційний розвиток економіки за допомогою інвестиційних фондів. Запропоновано шляхи вдосконалення механізму залучення інвестиційних ресурсів для інвестиційно-інноваційного розвитку економіки на основі підвищення ефективності функціонування інститутів спільного інвестування.

**Ключові слова:** інститути спільного інвестування; венчурні фонди; невенчурні фонди; ринок спільного інвестування; інвестиції; інновації, інвестиційно-інноваційна економіка; фондовий ринок.

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#### ЭФЕКТИВНОЕ ФУНКЦИОНИРОВАНИЕ ИНСТИТУТОВ СОВМЕСТНОГО ИНВЕСТИРОВАНИЯ И ИХ ВЛИЯНИЕ НА ФОРМИРОВАНИЕ ЭКОНОМИКИ ИНВЕСТИЦИОННО-ИННОВАЦИОННОГО ТИПА В УКРАИНЕ

**Аннотация.** В статье осуществлен анализ функционирования институтов совместного инвестирования в Украине, выявлены положительные и отрицательные тенденции их развития. Исследованы внешние и внутренние факторы, которые не способствуют привлечению инвестиций на инновационное развитие экономики с помощью инвестиционных фондов. Предложены пути совершенствования механизма привлечения инвестиционных ресурсов для инвестиционно-инновационного развития экономики на основе повышения эффективности функционирования институтов совместного инвестирования.

**Ключевые слова:** институты совместного инвестирования; венчурные фонды; невенчурные фонды; рынок совместного инвестирования; инвестиции; инновации; инвестиционно-инновационная экономика; фондовый рынок.

**Introduction.** One of the most urgent problems existing in the Ukrainian economy is transition to the innovation way of development. Solving of this problem is closely connected with the investment researching, necessary for innovation inventions and their implementation into the real economy. The significant

inside resource of the investments in any country are savings of the small investors and companies, and the most widespread and attractive mechanism of their attraction to different economical branches are the collective investment institutions (hereinafter – CII). The world experience proves that they play

an important role in the inter-branch redistribution of capital, stimulate investment process by means of the domestic and outward investments, and contribute to the effective development of stock market. For example, the biggest amount of net assets among the world countries for the 1st quarter of 2014 could be seen in the investment funds of the USA – 12.2 trillion EUR. The amount of net assets of all European investment funds contains 7.12 trillion EUR, Australia – 12.5 trillion EUR, Brasilia – 1.17 trillion EUR, Canada – 0.88 trillion EUR, Japan – 0.76 trillion EUR [1, p. 34].

**Brief Literature Review.** Theoretical and applied aspects of the CII functioning are researched in the scientific works of native and foreign scholars. Among foreign scientists, one should pay great attention to the works of G. Alexander, J. Bailey, and U. Sharp (2001) [2], P. Samuelson (1995), F. Fabozzi (2000) [3], F. Fisher (2003) [4], J. Schumpeter (1982). The works of Ukrainian scientists are devoted to the problems of the functioning and development perspectives of CII, among which we can name O. Dybi, A. Kaminskyi (2011) [5], V. Korneyeva, O. Kolesnyk (2010) [6], T. Kosova (2008) [7], V. Kravchenko, I. Lyutyi, A. Mertens, S. Moshenskiy, S. Naumenkova, G. Slomina, G. Tereshchenko (2012) [8], S. Cherkasova (2013) [9], V. Sheludko, V. Shvets and others.

Regarding to the best practices of the native and foreign researchers, created in the sphere of theory and practice of the CII functioning, one should mention that the present problem is getting more relevant under the conditions of investment-innovation economy formation, and new conditions for the functioning of these institutes appear which makes their further research being in demand.

**Purpose.** To research CII functioning in Ukraine, to find out their place and role in the investment-innovation type of economy formation; to reveal outer and inner factors that does not promote investment attraction for innovation development of the economy; to propose improvements of the investment resources involvement mechanism for the innovation economical development with the help of CII.

**Results.** Analysis of CII functioning in Ukraine for the last five years testifies the dynamic development of the collective investment market that emerges both in quantity and quality parameters. During the mentioned period, one can observe the tendency of grade increasing of CII quantity that had reached the minimum amount of assets normative (Figure 1).

The data analysis, represented in the Figure 1, shows that the quantity of CII for 2013 had increased in comparison with 2009 year by 1.3 times and ran at 1250 units, having exceeded the quantity of 2012 by 28 units. The biggest accession rate of the CII quantity was in 2010 in comparison with 2009 and ran at 11.2%. So, every year the positive dynamic of the increasing of CII quantity for account period proves that this collective investment form is in demand under the conditions of investment-innovation type economy formation.

The important feature characterizing the fund activity is the cost of the CII assets. According to their condition, one can determine the capacity of the fund and evaluate its dynamic. That is why the research devoted to the cost of the assets is one of the most important branches of the CII activity analysis in Ukraine. They characterize the quality side of these institutes functioning. The Table represents information about the cost of CII assets for 2009-2013.

The table data shows the growth of the cost of CII assets for 2009-2013. In 2013, it had increased by 2.1 times in comparison with 2009, including the increasing of the venture funds by 2.2 times, non-venture – by 1.4 times. This is a positive tendency, because it characterizes the process of the investors' finance amount increasing, who are involved into the economy through the collective investment mechanism.

At the same time, one should mention that within 2009-2013 years the specific gravity of the venture funds in Ukraine among all CII assets had increased from

92.1% to 94.7%, and the specific gravity of the venture funds for the period being analyzed had decreased from 7.9 to 5.3%. Consequently, the analysis of the activity markers of CII proves that the venture funds are the most perspective branch of the CII.

Studying and analyzing the experience of the economically developed countries testifies that the main task of the functioning of the venture funds is financial investment to the innovation projects. As for Ukraine, the increasing of the capitalization of the venture funds is not yet accompanied by the adequate increase of the investment flow to the innovation sectors of economy. An important problem lies in the fact that Ukrainian venture funds do not perform their main intention – the finance attraction for the innovation development. The venture funds are usually used in the native realias with the aim of the legal optimization of tax imposition. Moreover, specialization of the venture funds on the investments to the new-created innovation companies in Ukraine can be seen very rarely. The main receivers of the venture fund investments remain the companies from the spheres of real estate and building, trading, hotel and tourism business, agriculture product processing, insurance, informational support etc.

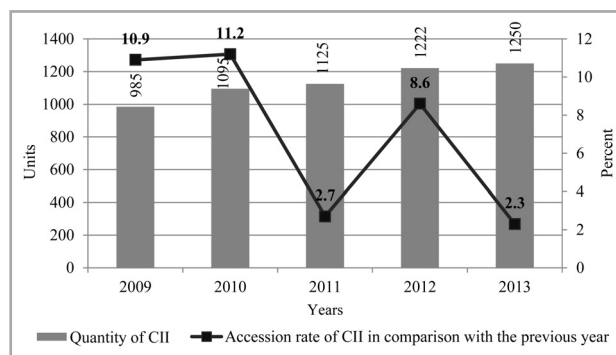


Fig. 1: The dynamic of CII quantity that had reached the minimum amount of assets normative for 2009-2013  
Source: Charted and calculated by the author using the data [10]

Thus, according to the research, as opposed to the classical venture funds, the Ukrainian venture capital is not oriented to innovations. For it more attractive thing is realization of the investment of the middle level risk projects with the usage of financial assets and real estate operations [11, p. 103].

In the highly developed market economies the investment funds together with the insurance companies and non-state pension funds are considered to be one of the most powerful investors that accumulate finance of the individual investors, transforming them to investment resources, directed to the development of innovation enterprises. The practice of CII functioning in Ukraine shows extremely low level of the legal entities' participation in the investment funds (Figure 2).

Analysis of the presented data shows that 94.8% of the net assets, funnel into all CII in Ukraine, belong to the legal entities, including 77.4% – to the residents. The mentioned tendency had been observed in the previous years of CII functioning too. So, the main CII investors are Ukrainian enterprises, which invest-

Index	Year				
	2009	2010	2011	2012	2013
The cost of CII assets, million UAH	82540.9	105866.6	126789.6	157201.1	177522.9
The cost of the assets of the venture funds, million UAH	76028.2	96976.2	116901.4	145912.3	168183.4
The specific gravity of the venture funds, %	92.1	91.6	92.2	92.8	94.7
The cost of the assets of the non-venture funds, million UAH	6 512.7	8 890.4	9888.2	11288.8	9339.6
The specific gravity of the non-venture funds, %	7.9	8.4	7.8	7.2	5.3

Source: Charted and calculated by the author using the data [10]

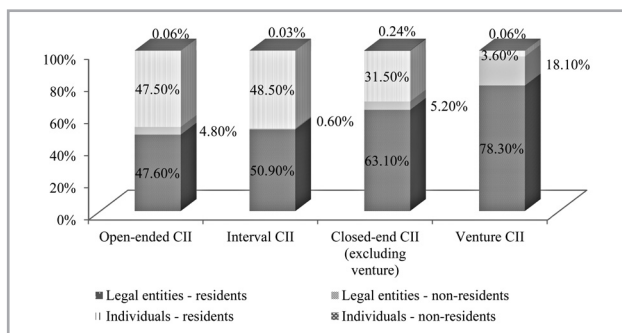


Fig. 2: Division of the CII net asset value by the categories of investors in 2013, %

Source: Charted and calculated by the author under the data [10]

ments are derived to the real sector of the economy through the instruments of the stock market. Respectively, the individuals fall within only approximately 5.17% of the net assets, including 5.1% – to the residents. In the segment of the venture CII, among the investors the legal entities also dominate – 78.3% of the residents and 18.1% of non-residents. The individuals own approximately 3.7% of the net assets of the venture CII. In the segment of the non-venture CII, among the investors also legal entities dominate, though their share is a bit smaller. The individuals own approximately 3.2% of the net assets of the non-venture CII. The main reason of such situation, according to our opinion, is the low level of the financial literacy and mistrust, typical for the separate investors (especially small ones) to CII, and also the absence of the acting protection mechanisms of the customers' rights concerning collective investment.

We consider that the main reason of the breakdown of the financial amount growth speed, located in CII, is a serious fall of the stock indexes in 2012-2013. So, for instance, FSTS index fall in 2012 from 534.4 to 328.7 points, and in 2013 – to 300.5 points [10]. This in turn caused the loss of the investors' trust – the individuals as a powerful source of the attraction of the investment finances because of high native fund market volatility and the risk concerned big loses.

In the research of the CII functioning, it is important to determine the priority directions of these institutes financial investment. The structure of CII assets according to the investment objects is represented in the Figure 3.

The data analysis in the Figure 3 shows that the investment strategy of different types of funds varies due to the various investment aims choosing by them. The main component of the open-ended, interval, closed-end (excluding venture) CII assets is security papers. The key types of security papers, through which CII made their investments, were stocks (22.69% – open-ended, 63.96% – interval, 34.61% – closed-end).

On the contrary to the other types of CII, for the venture funds the investing to the fund security papers is not the priority direction. In 2013, among the security papers, the mentioned funds invested in stocks only 11.49%, the second place belonged to bills of exchange – 10.5%. Investment to the other assets increased the most (receivable, corporate rights, and also the loans to the companies, the capital share of which belongs to CII) – 66.57%.

Consequently, despite the positive dynamic in CII activity of Ukraine, they have not become yet a full investment mechanism of the development of real economy on the innovation basis.

The abovementioned needs analysis of the outer and inner factors that do not promote performance by CII of their important task – capital procuring and its directing to the branches which determine the innovation development of the economy.

Both scholars and practitioners consider the unstable stage of the country economies and crisis phenomena, accompanying the world economic

processes, to be the main ones among the outer factors. Only within the last fifteen years two world financial-economic crisis have happened (1997-1998 and 2007-2008). From 2012, the processes of economic depression have started again in the European countries, which harmed Ukraine too. It was accompanied by the GDP lowering, decreasing of manufacturing, devaluation of the national currency etc. All these, as the research shows, influenced negatively the functioning of the stock market and its component – the market of collective investment.

The scientific analysis of CII activity in Ukraine for the last period, made by us, shows that among the inner factors preventing their effective functioning are the following: the absence of the congenial investment climate, poor orientation of the venture funds to the investment to the development of small innovation enterprises; imperfection of the fund market functioning; low level of the individuals' participation on the market of collective investment etc.

Solving of the abovementioned problems and increasing of CII functioning effectiveness lies in improving of the investment attraction mechanism for the innovation projects implementation on the basis of:

- creation of the congenial investment climate through providing of the general stable macro-economical and political conditions, complete juridical legislation, scientifically motivated tax imposition, effective stock market functioning in the country;
- finance investment motivation of the venture funds increasing to the innovation projects, started by small and moderate-sized firms, through creation of the venture investment state insurance and guarantee institute;
- increasing of the individuals' activity level on the collective investment market through popularization of the rating agencies services that will help to make the idea of CII potential and competitive position popular;
- effectiveness growth of CII functioning, based on the implementation of the international standards, connected with assessment of financial results and CII activity;
- minimization of CII activity risks, provided by unstable economic and political situation in Ukraine, through the financial investment of these institutes to the Eurobonds, precious metals, and also domestic governmental loan obligations.

**Conclusion.** Despite some advances in CII development that emerge in the increasing of the amount of the investment

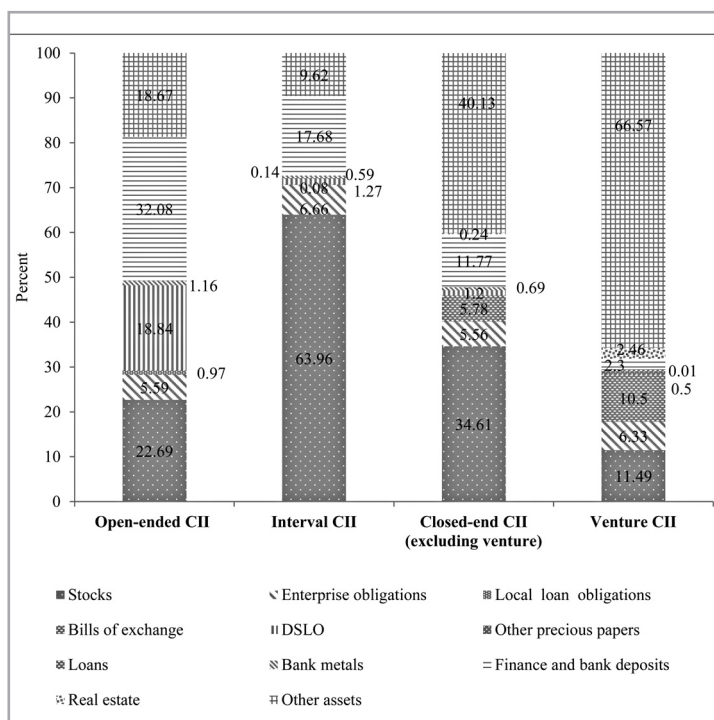


Fig. 3: The structure of the CII assets according to the fund types in 2013, %  
Source: The data [10] has been charted by the author

funds, the value of their assets, the specific gravity of the venture funds among all CII assets, the participation of the legal entities in the investment funds, yet with their help not enough capital is attracted for investment-innovation development of the economy. Both outer and inner factors prevent this. We consider that the further development and effective functioning of the CII is possible only through improving the mechanism of attraction of investments for development and innovation in different sectors of the Ukrainian economy.

The further scientific research will be directed to the conditions of the congenial investment climate creation determining and its influence on the activity of the collective investment institutions.

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