

PRIVATE SOCIAL INVESTMENTS AS A SOLUTION FOR RURAL DEVELOPMENT

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One of the greatest challenges for rural areas competitiveness is lack of their investment attractiveness. Therefore, the research problem lays upon disclosing the importance of private social investments for rural development. The paper aims to develop measures to activate private social investments in Ukrainian rural areas. The study is performed through a comparative analysis of an appropriate Lithuanian and Polish experience and a case study of Monsanto Company that is one of the few social responsible rural businesses in Ukraine. The results section represents findings to determine the current experience of social investments and recommendations how to improve the situation in Ukrainian rural areas. In particular, the rural areas require changing the state role from the direct investor into rural development manager, implementing project approach benefits.

Keywords: investments, private social investments, rural business, rural development.

JEL Codes: L31, O13, O18, R00, R51.

1. Introduction

Rural regions have emerged as powerful platforms for human development throughout the world. Traditionally, more citizens lived in rural areas than in urban areas. However, this has been changing rapidly due to the urbanization tendencies. For instance, the United Nations estimates that the urban population is projected to be almost 66% of the world's population by 2050, compared with 30% in 1950 (World Urbanization..., 2014). The main reason is a measure of socio-economic problems, which many rural regions are facing, including: farming and agriculture specialization, unemployment, low income and quality of social services, lack of new innovative solutions (Socio-Economic challenges..., 2017). As a result, rural areas citizens have fewer choices in the social and economic terms that cause continuing rural-urban migration, destroying of socio-economic balance by depleting the population of young, well-educated and economically active people. For instance, in urban areas of Lithuania 32% of households was living without economic difficulties in comparison with 24% in rural areas (Lietuvos..., 2017). The rural areas changings call for investors, who are able to support social welfare projects in rural areas.

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There is a growing **body of literature that recognizes the essence of investments**. In general, to invest means to allocate money or other kinds of resource to achieve future benefits (Sharpe, 1998). According to the practical business approach, an investment means the purchase of goods or services that are not consumed and are used to create the future wealth (Graham, 2006). The representatives of the Austrian School of economics have found an association between investment and obligation. It has been noted that investments have no worth. The worth of investments is “obliged” them by their economic result (Wieser, 1985).

McConnell, Brue and Flynn (2009) have identified investments as costs for new factories, machines and equipment; costs for accumulation of production means, including increase of material stocks. Eklund and Braunerhjelm (2012) have demonstrated that investments are economic resources, which are aimed at increasing the real capital of society, on the expansion or modernization of the production. This is due to the purchase of new buildings and vehicles as well as bridges and other engineering structures construction.

In light of recent tendencies of social and economic development in Ukraine, it is becoming important to understand the nature of investments. The initiators of research into the phenomenon of investments in Ukraine are Blank (2001), who underlined their economic and noneconomic effects, Chuhno (2007), who researched into the ways of economic mechanism improving, Mayorova (2013), who analyzed the nature of investment process, Fedulova (2016), who paid attention to the investing practice worldwide. Those researches confirm the need of possible *social and economic effects* of investments deeper understanding, in particular for rural areas because of detailed research lack in the field.

The essence of investments according the adopted by the government in Ukraine Law “On investment activity” is based on all types of material and intellectual property, which are invested both in entrepreneurial and other activities that result in *profit (income) or social effect* (On investment..., 2017). This explanation also provides thought how to foster the investment process in different areas seeking for integrated result.

The scientific problem of this article lays upon the question of private social investments and their role in rural areas development, including tendencies of their development in rural areas of Ukraine, Poland and Lithuania. The particular attention is paid on possibility of effective involvement of investors in rural businesses.

The current paper aims to develop measures to activate private social investments in Ukrainian rural areas and to prove the possibility to improve situation in rural areas in terms of private social investments.

The *object* of the research is investment activity in rural areas of Ukraine, Poland and Lithuania. The *subject* is the private social investments in rural areas.

The *research methodology* is based on foreign and Ukrainian scientific literature analysis (within the last ten years), which are used for description the social investment essence. Statistical data and documents of the last five years are used to analyze the tendencies of private social investments in rural areas in Ukraine, Poland

and Lithuania. Qualitative and quantitative information from Polish and Lithuanian programs of rural areas financing and example of Monsanto Company programs in Ukraine are analyzed to interpret the potential of private social investment in rural areas.

The work is organized as follows:

- in further section, the main theoretical assumptions of rural areas private social investments are presented;
- then, the comparable analyze of social investments indicators for the rural areas in Ukraine, Poland and Lithuania is provided;
- the possible ways for private social investments in rural areas further improvement are provided in conclusions.

2. Main theoretical assumptions of the research

2.1. Rural development

There are different points of view in which rural and urban areas are classified. In particular, rural and urban areas are often recognized in the development literature as having a shared interdependence (Ratcliffe, 2012).

In recent years, there has been an increasing interest in rural development that is defined as the process of life quality and economic well-being of people living improving in rural areas. In light of recent events, it is becoming difficult to ignore the lack of rural development strategy on regional and national levels. In the latter conception, the attention is paid to the goal of „sustainability“ (Moseley, 2003; Stenbacka, 2018).

The sustainability highlights connections between economic well-being, place, people, and effective policies. The researches to date have tended to focus on regularly generating new insights about the importance of pillars of sustainability implementation in rural areas (O'Brien, 2016; Goetz, 2009; Kilkenny, 2010).

The issue has also grown in importance in light of recent EU rural development policy that deals with a wide range of economic, social and environmental challenges of rural communities in the 21st century (Rural development..., 2014). The EU rural development policy is deeply connected with common EU priorities in rural areas, including (Rural development..., 2014):

- promoting innovative activity, competitiveness and management of sustainable development;
- resource efficiency promoting and supporting;
- social inclusion, poverty reduction and economic development.

Although “rural” and “agriculture” are not considered as synonymous, a lot of rural communities worldwide still rely to a significant degree on the agricultural economy. The decision is to focus on health care, education, culture, entertainment and business development in rural areas, creating jobs and providing people with the

services and facilities (Agricultural policies..., 2017). Therefore, the attention is paid to private social investments that support the essential quality of life in rural areas.

2.2. Social investments

The opportunities for sustainable development in Ukraine are reduced, in particular, due to the problems in the areas of rural infrastructure, education and agricultural sector. At the same time, tendencies of sustainable development are connected with companies, which are interested in investments that deliver both financial and social goals (OECD, 2015). Social investments become an instrument for social and economic development. The social responsible companies are more sustainable and competitive by increasing their social impact (HM Government, 2016).

Social investments are considered as investments in human development, including investments in education, healthcare, culture development, training and job-search assistance. Social investments strengthen human skills and capacities, increasing employment and social life participation (Jenson, 2017; Social investment..., 2018; Vasilyeva, 2018).

In accordance with the European Commission's Social Investment Package: the EU countries budgets ensure sustainable development; social investments tend to strengthen human capacities; social investors devoted to the conscious creation of social impact through investment (Social investment..., 2018).

The OECD report found that social investments in rural areas created greater social and economic growth than such in urban regions, due to the rural areas potential (OECD, 2012).

3. Results of the research and discussion

3.1. Rural areas investments in Ukraine, Poland and Lithuania

Rural development is based on a great measure of factors related to economic, social and environmental activity. Mostly, rural areas have particular economic and social situation. On the one hand, rural business is based on agriculture and farming. On the other hand, rural business is financed with state resources in Ukraine. Although private rural investments have increased recently, a percentage of total rural investment is nearly 6.3% within the last years (Review of Agricultural..., 2016).

Private investors are among the most important actors in rural areas in the main part of European countries. One of the most successful rural models in the European Union is Polish model. The average private social investments are nearly 80% of total rural investments. Rural communities are supported by private programs and actions. In particular, the objective of the action “Active village of Warmia, Mazury and Powiśle” is to improve the living conditions of the rural population (Branch year-book, 2017).

Some innovative decisions are implemented in rural areas of Lithuania. A total of 328.7 million EUR were paid in 2017 under the Lithuanian Rural Development

Programme measures, which is almost 25 million EUR more than in 2016. Support was approved for almost 2 000 households (Rural development..., 2015).

The changing of private social investments in rural areas shows the prospects for national economy (Figure 1).

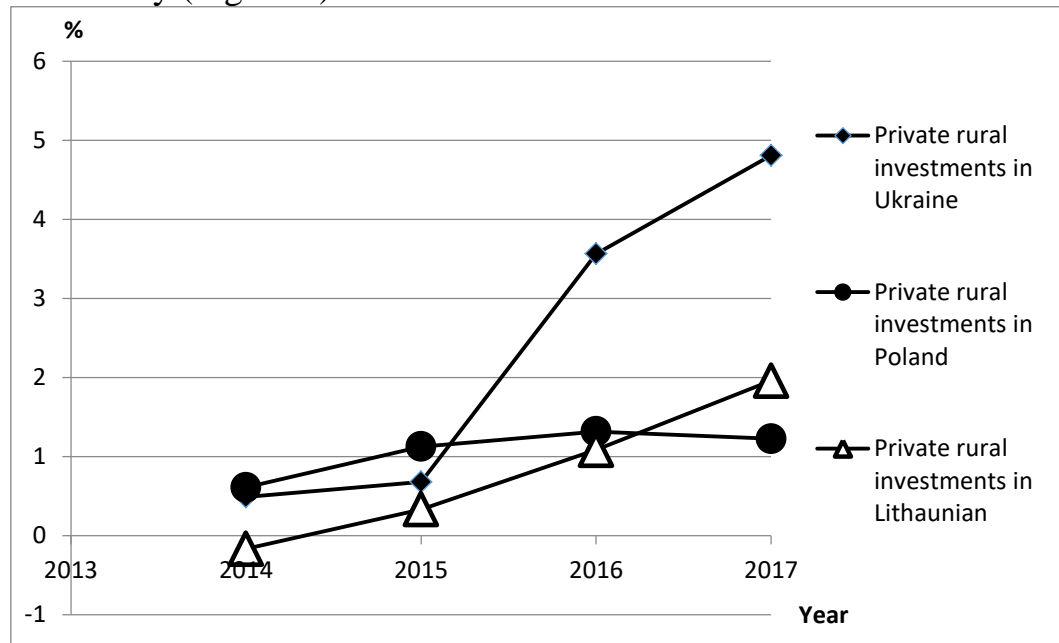


Fig. 1. – Private social investments in rural areas trends*

* The trends are calculated as the growth rate in comparison with the data in 2013

Data in the Figure reveal that the tendencies of private social investments changes in Poland and Lithuanian are rather stable. The growth of private social investments in rural areas in Ukraine is higher in comparison with these tendencies in Poland and Lithuanian.

3.2. Private social investments in rural business in Ukraine: experience of Monsanto Company

Monsanto is one of the leading international companies, which delivers agricultural products (CR Magazine, 2016; World Bank..., 2016). The Company is represented in Ukraine since 1991 and is an example of social responsible company that has adopted the Global Reporting Initiative (Monsanto, 2018).

The Company is committed to social responsibility through two levels of social investments programs for rural areas in Ukraine (Figure 2).

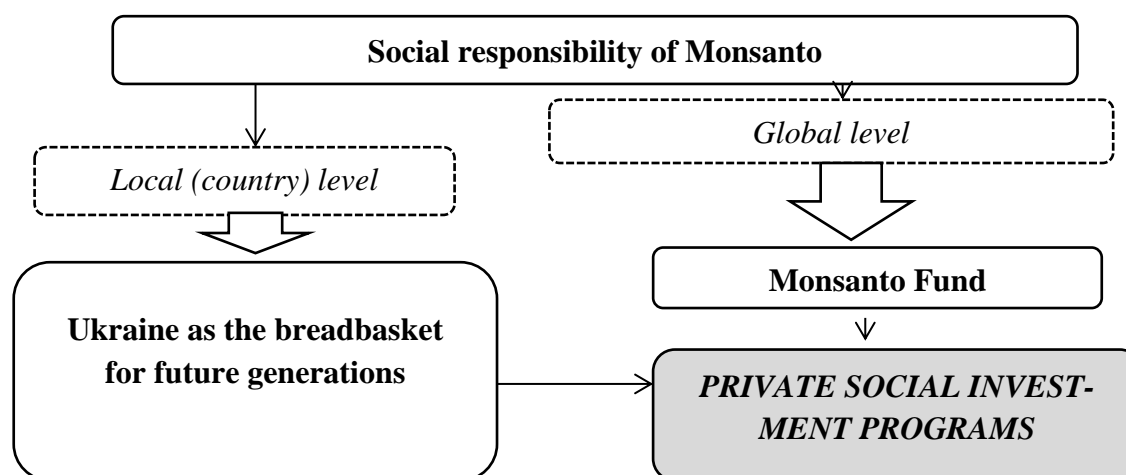


Fig. 2. Monsanto social investments in Ukraine

Monsanto Fund works in Ukraine for strengthening agricultural education, including libraries, schools and research centres support; rural communities support, including non-governmental organizations development, healthy nutrition. The supported social project timeframe is less than one year. The minimal project budget within “Ukraine as the breadbasket for future generations” is 25 000 USD.

In accordance with above mentioned conditions, the Monsanto Fund supported following projects in rural areas through Ukraine in 2016–2017. The investment are 400 000 UAH for each project (Table).

Table. Monsanto social investments in rural areas in Ukraine

Project subject	Social project essence
Public organization „We are friends“	The project is aimed to organize an inclusive space in the restored ancient rural building.
Public organization “Cooperation“	The project is aimed to create the beekeeping school for senior pupils and unemployed people.
Public organization „Welfare“	The project is aimed to provide comfortable conditions for sports activities within rural community.
Public organization „From heart to heart“	The project is aimed to develop an inclusive platform for children with disabilities and children from rural community.
Public organization „Victory-2015“	The project is aimed to create comfortable conditions for students of agricultural college.
Public organization „We are friends“	The project is aimed to create a special rope park for development and sensory integration of children with disabilities in rural areas.

Thus, the existing examples of private social investment in rural areas aren’t numerous in Ukraine. The potential private investors are lacking an appropriate international experience of social investments in rural areas.

4. Conclusions

1. Following the analysis of theoretical approaches to the essence of investments, the attention is paid both to their economic and social effects. Social investments represent an important background for rural areas development. Therefore, the current research topic can be inspirational for future scientific researches. A prospect for further scientific developments in this direction is definition of national social investments model in Ukrainian rural areas.

2. Rural economic development depends in a great measure on social background and requires regular financial support. The public funds are an important source of rural areas investments in Ukraine (more than 90% in compartment with 20% in Poland). For the purpose of involving private investors to rural areas, the state role should be changed from the direct investor into the manager of rural development.

3. Polish and Lithuanian experience shows that project approach is the way to improve attractiveness of rural areas for private investors. For instance, “Active village of Warmia, Mazury and Powiśle” in Poland and Lithuanian Rural Development Programme help to realize ideas of the rural communities.

4. Ukraine belongs to the countries, where project approach remains not very popular. However, Monsanto company experience shows the possibility to implement successful projects in rural areas. The decision is to reward private investors in case of their rural development projects success within the national rural area strategy.

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PRIVATAUS SOCIALINIAI INVESTICIJOS KAIP KAIMO VIETUVIŲ NAUJI SPRENDIMAI

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Santrauka

Vienas iš didžiausių iššūkių kaimo vietovių konkurencingumui yra jų patrauklumo privatiems investuotojams trūkumas. Todėl straipsnyje keliami tyrimo problema yra sietina su socialinių investicijų kaimo plėtroje svarba. Tyrimo tikslas – pateikti socialinių investicijų Ukrainos kaimo vietovėse aktyvizacijos rekomendacijas. Tyrimas atliekamas analizuojant Lietuvos, Lenkijos patirtį, taip pat įmonės "Monsanto" veiklą, kuri yra viena iš nedaugelio socialiai atsakingų žemės ūkio įmonių Ukrainoje. Pateikiamos išvados apie dabartinę socialinių investicijų patirtį kaimo vietovėse Ukrainoje ir pagerinimo rekomendacijos. Visų pirma, kaimo vietovėms reikia keisti valstybės vaidmenį iš tiesioginio investuotojo į privačius investuotojus, įgyvendinant projektinio metodo privalumus.

Raktiniai žodžiai: investicijos, privačios socialinės investicijos, kaimo verslas, kaimo plėtra.

JEL kodai: L31, O13, O18, R00, R51.