

## **Economics and policy issues in agricultural reforms in Latvia**

Andris Miglavs, Roberts Zīle, Rota Šņuka

Latvian State Institute of Agrarian Economics

### **Background**

The economic life of Latvia entered a new phase after the disintegration of the USSR and restoration of independence in August 1991. This period is characterised by a decrease in gross national product, by deterioration of living standards, by essential structural changes, by hyper inflation caused by monetary emission by an alien country, among another factor. The economic reforms should be based on acquisition of strategic targets, although this would prologue the crisis for certain period of time. The economic reforms in Latvia are closely linked with legal, political and demographic problems.

Officially agrarian reform in Latvia was begun in 1990, when decision of Supreme Soviet "On Agrarian reform" was approved. According to this decision agrarian reform is being carried out in three directions:

- land reform;
- economic relations reform;
- the reform of the state administration structures.

### **STARTING OF REFORMS IN AGRICULTURE**

The first initiatives in this field could be observed since 1988, when according to decision of Government, the first private farms were established in addition to existing collective and atate farms. Till 1990 there were more than 8000 registered family farms in agriculture, which operated more than 120 thousand ha of land.

But officially agrarian reform in Latvia was begun in 1990, when decision of Supreme Soviet "On Agrarian reform" was approved. According to this decision agrarian reform is being carried out in three directions:

- land reform;
- economic relations reform;
- the reform of the state administration structures.

In some extent the process of development of theses reforms is illustrated on fig.1.

The key issues in agricultural reform are privatization and restructuring of agriculture. This is the reason, why so much attention was paid to privatisation legislation during working period of previous Latvian parliament. The following laws were passed in 1991-1993:

<b>1. Land reform:</b>	<b>Data passed</b>
"On Land Reform in Rural Areas"	June, 1990
"On Land Privatisation in Rural Areas"	September, 1992
"On State Land Survey"	November, 1992
"On Land Title Register"	December, 1992

"On Land Compensation in Rural Areas"	June, 1991
"On Land Use"	July, 1990
2. Privatisation of agricultural production, service and processing enterprises:	
"On Privatisation of Agricultural Enterprises and Collective Fisheries"	June, 1991
On Privatisation of State Dairy Processing Enterprises"	December, 1992
"On Privatisation of State Agroservice Enterprises"	October, 1992
"On Privatisation of Meat Processing Enterprises"	May, 1993

## I LAND REFORM

The main idea of land reform is the creation of a new structure of rural land tenancy, based on private property rights. The land reform provides for the restitution of land titles to former owners (with a few exceptions) and the allocation of free land plots for other people. These reforms will not create large scale farming, (the average size of land title will be less than 20 ha.), and, of course, after farms are amalgamated via the market process, the number of farmers and landowners will decrease, and the size of farms increase (such processes occurred over the last 20 years in neighbouring countries - Sweden, Finland and Denmark).

Before the 1990 land reform (all the land was nationalised) the main land users were collective and state farms. The peculiarity that before occupation the landowner in the majority of cases coincided with the land user, which also carried a political connotation, determined the procedure of land reform.

Latvian land reform is divided into two overlapping phases: the first takes place between 1990 and 1996, and the second covers a period of 10 - 15 years, starting on January, 1993.

In the first phase all land petitioners, including former owners who possessed the land before Latvia was occupied in 1940, the present users, and the new land petitioners, submitted their requests for land allocations before June 20, 1991. All the district use land projects had to be developed and ratified in 1992.

In the second phase, which started after passage of the law "On Land Privatisation in Rural Areas" (1.01.93), land users can obtain or renew (former owners) their land ownership rights. Both the most important and the most disputed item was listed as point 1 of 12 in the Law "On Land Reform in Rural Areas", where the priorities for satisfying land petitions were determined:

*Priority number 1* is assignment of land to the former owner or his inheritor, *except* when on the former holding or part there are:

- Developed individual farms or subsidiary plots;
- Obtained or built residential homes;
- Situated environmentally protected objects, or historical, cultural, and archaeological monuments appointed by the Republic;
- Autonomously requested land;
- Land needed for test plots; or

- Situated construction, buildings, or orchards with production of social significance belonging to other owners (collective and state farms inclusive) with acreage defined by the regulations. Those who benefit from this priority must compensate the owner for his real estate value through mutual agreement.

*Priority number 2* has been established in the following sequence:

- To expand existing individual farms and subsidiary plots if the petitioner has a residential home ;
- To construct individual homes;
- To meet the needs of inhabitants;
- To legal entities (legal person); or
- The present users of land ( usually collective or state farm)

The total balance of land claims was as follows (see also map 3):

- collective farms and state farms have petitioned for 2.7 million hectares. This includes 74 percent of the acreage these farms are using at present or 43 percent of the land subject to reform;
- seventy-seven thousand individual farms have reserved land for 1996, with a total acreage of 1.8 million hectares. Thirty-five thousand individual farms have requested land for 1992 in order to establish medium-sized (24-hectare) farms, with total acreage as high as 607,000 hectares;
- one hundred thousand subsidiary plots have been requested, with total acreage of 616,000 hectares. The average size of a subsidiary plot is 6 hectares.
- one hundred thousand plots for home workshop needs have been requested, with total acreage of 240,000 hectares, the average size is 2.4 hectares;
- the former landowners, or their heirs, number 101,000 or 36 percent of all land petitioners.

City dwellers number 29,000 or 29 percent of petitioners, with 1,400 or 2 percent living abroad (mostly in the United States, Canada, Sweden, and Germany). The total acreage of requested land is 8 million hectares, which is 1.27 times more than the acreage submitted to land reform.

In the second stage, which started on January 1, 1993, ownership to land is established, based on the land survey documents; and a land market should begin. The guideline for the land reform was to create a framework of land ownership where, in most cases, the land user is the same person as the landowner.

On July 9, 1992 the Law "On Land Privatisation in Rural Areas" was passed. It was a logical sequence to the Law "On Land Reform", adopted on November 21, 1990. The latter contained regulations for a gradual restructuring of legal, social and economic relations in the countryside regarding land use and ownership. It established the procedure for carrying out the land reform, defining the provisions for submission of land claims and complying with them, as well as regulations for restitution of landowners' rights.

The Law "On Land Privatisation in Rural Areas" stated the former landowners' rights to their landed estate provided they had submitted their applications before June 20, 1991. However, there were some exceptions if the land had been allocated for a permanent use during the first stage of land reform.

The reason privatisation in rural areas is being carried out in two parallel and closely linked, yet independent, directions is rooted in the establishment of collective farms in 1940 and 1949-1950. All land became state-owned with nationalisation (without any compensation) in 1940. Collectivisation happened in 1949-1950 when farmers were compelled to collect all non-land assets (machinery, livestock, buildings) into collective ownership. Formally each farmer was a part owner of all collective property. This is a background to the political decisions to reconstitute rights of landowners

and to give rights to privatised non-land assets according to shares in the value in these collective farms.

The Law "On Land Privatisation in Rural Areas" regulated the second stage of the land reform. Subsequently the law "On Privatisation of the Agricultural Enterprises and Collective Fisheries" was passed; this law regulated the privatisation of non-land assets. These two laws dealing with privatisation are often in conflict. There were instances when Land Commissions had allocated land to the former owners or to new users (mainly for establishment of new individual farms), and the production units envisaged to emerge from former collective farms under privatisation (most often livestock-farms) were left with no land. This means the operation of these units in future is impossible.

The Supreme Council has adopted several amendments to the laws with the goal of rectifying the errors. However, there have been several occasions when the aprinkis or pagasts authorities have disobeyed the court decision, thus violating the law, with no legal consequences.

The Law "On Land Privatisation" stipulates that the joint-stock or limited liability companies (the former collective farms) have the right to use the state-owned land on which they farm for 5 years. However, when a shareholder of a company wants to buy an asset such as a cattle-shed, he may lose the land on which it stands immediately, because in most cases former landowners' rights are restituted for this land immediately

Due to objective and subjective reasons (symbolic land and property taxes etc.) there is not yet an effective land and rental market in Latvia. So it may often happen that a farmer full of entrepreneurial spirit, who buys, for example, a cow shed with 200 cows, has no real possibility for raising feed.

The structure of land users has changed:

- at the end of 1992 there were about 49 000 farmers in Latvia, with average acreage of 16.5 ha. (the land used by these farmers constitutes 19 % of agricultural land);
- 20% of agricultural land is being used by companies;
- according to the data of the Local Land Commission, there will be 103,500 titles, established for subsidiary plots.

There is also a technical problem that hampers the establishment of ownership rights in the proper sense of the word. Though formally the Law "On Land Privatisation" provides for the formalities connected with land ownership, only in December of 1992, a law on the establishment of the State Land Service was passed (it is under the command of Government and will have to deal with confirmation of ownership rights for people who are already given the land use rights according to the rule). At the same time the Law "On Land Title Register" was revived - it is under the command of the Supreme Court, and its task is to register changes in ownership. In fact the offices of the Land Title Register were set up only after April 1, 1993, and the first land title was registered on May 31, 1993. It is envisaged that this registration process might take a lengthy time.

## **II. Economic relations reform.**

This reform is based on the coming of private ownership instead of common socialist type of ownership. But in different branches of agrarian sector this process proceeds specifically. Two main types of privatization methods may be emphasised.

1. Reorganization of existing state and collective enterprises into companies with subsequent privatization through using internal vouchers (shares), distributed among employees and former owners of assets. (Case of agricultural enterprises- non - land assets.)

2. Reorganization of existing state enterprises into companies and their privatization through selling of shares. (This method is being used in privatization of agroindustries <sup>1</sup>.)

There are several approaches in the privatization of enterprises in different branches.

## 1. REFORM IN AGRICULTURAL ENTERPRISES.

### 1.1. Approach and methodology

The law "On Privatization of the Agricultural Enterprises and Collective Fisheries" came into effect on July 1, 1991. As this was the very first privatization law, not only in agriculture, but in the national economy in general, we can already feel the results: in the Latvian national economy the private sector is proportionately highest in agriculture .

This law on privatization of non-land assets of agricultural enterprises (collective and state farms) contains the mechanisms to regulate the privatization process so that it can respond to various aspects of the problem. There were several economic principles of this law:

- While changing the character of entrepreneurship and ownership in agriculture, it is necessary to maintain existing production capacities;
- The principle of publicity should be observed when the property of an enterprise is being privatized;
- The transition from collective (with limited liability) business activities to individual businesses (farms and service enterprises) must be gradual;
- Because collectivization methods were illegal, it is admissible to buy out the property of agricultural enterprises on calculated parts of the capital, called shares, with the current currency and other means of payment;
- Specific items of collective farm property (tractors, cattle, and buildings) can be obtained for private ownership if the shareholders of the former collective farm become entrepreneurs (in any form of private initiative). However, movable property has to be divided in a way necessary to manage the real estate;
- A share is a mean to get, free of any other charge, property to start entrepreneurship, and not a way to make consumer payments. It is possible that, in the process of privatization, the shares of those who do not want to start private business activities can lose their initial face value;
- Guaranteed rights are given to all shareholders to obtain or to participate in a closed auction (if there are other applicants) when a technically or technologically integral item is being privatized.

*The legislation provides that the privatization of non-land assets of collective and state farms be undertaken in **two stages**:*

- 1) changing the legal status of collective and state farms;
- 2) allocation of all non-land assets to farmers and other entrepreneurs, and liquidation of former collective (state) farms.

**The first stage.** It provided that all collective and state farms (in January, 1991 in Latvia there were 623 such farms with average acreage 3550 ha agricultural land, number of employees- 310, livestock heads - 2350 and 55 tractors) must change their legal status from a collective or state farm to a company. The Privatization Commission of each collective or state farm was required to prepare drafts of:

---

- here and further in this text- farm business input and output services

- the Shares list,
- Property inventory list, and
- By-laws,

which could be adopted at the general meeting of each share holding company (former collective farm).

Preparation of *the Shares list* required calculation of the shares for every member of a collective (state) farm and for other persons who, according to the Law, must be included in the shares list (for example, an owner of "collectivized" property who at the moment of privatization was not a member of the collective farm). As the basis (criteria) for calculating of shares were only:

- value of collectivized assets and
- input of labour during existing of socialistic farms.

The total value of shares was set as the fixed capital of the share holding company. The results of shares calculation were: each shareholder got individual shares in the company (former collective farm) with rights according the Law and By-laws of the company.

*The Property inventory list* consists of farm and non-farm production operating units and single units or items which in total value were equal with the value of fixed capital. The main idea of the Property inventory list was that these operating units and single items in the list were like goods in shop, they are available for purchase by shareholders who want them as items of private property.

*By-laws* usually were based on some corporation legislation, but with obligate rules about warranted shareholders rights to privatize any unit or item from the Property inventory list. The Law allowed a collective farm general meeting to choose rapid liquidation without establishing a temporary company, but that happened only in 3 cases out of 623.

**Second stage of privatization.** After March 1992, which was the deadline for all the collective and state farms to change their legal form and become registered as a company of some type, these enterprises entered the second stage of privatization.

During this stage a shareholder of a company could alienate, by paying with his shares, any single or combined item from the inventory list he wished to acquire. The notification on this topic must be published by the board within company immediately. Within a month's time after this notification other shareholders could also apply for the same objects, and often the new owner was determined in the auction. The company had no rights whatsoever to alienate the object for actual privatization.

If the board of the company considers it necessary to privatize rapidly an unprofitable unit or item from the Property inventory list, it can announce the sale at a price that is lower than the initial price.

Each shareholder of a company has certain rights in managing his shares:

- to keep the shares for future dividends;
- to sell or give shares to other shareholders (only) freely;
- to use the shares to pay for units or items from the Property inventory list;
- to invest the shares in the fixed capital of new business entities or co-operatives, which have been created by shareholders of the company on the basis of some operation units from the Property inventory list.

When a shareholder makes a transaction with a company - for example, uses shares to buy machinery - it reduces the fixed capital of the company, because shares which the board of the company gets from selling property must be eliminated.

When items on the Property inventory list are of interest to two or more shareholders, the allocation of the items is determined by auction. If most operating units or single items from the

Property inventory list are sold in auctions, a consequence is that the balance between the total value of the Property inventory list and fixed capital is distorted. This distortion mean that on the data of the annual meeting, the nominal value of each share will be higher.

At the same time, the higher new value of shares does not mean that it is better for a shareholder who keeps his shares and still is a member of the company. Usually the rest of the units and items (not yet privatized) in the Property inventory list had a higher bookkeeping value than the real price somebody would pay to buy these units or items.

When the company gets into the process of liquidation, then all property will be able to be sold only for money in a public auction, called a dutch auction. After the end of these auctions, liquidation dividends will be calculated as following:

$$\boxed{\begin{array}{l} \text{total cash after} \\ \text{selling all} \\ \text{property} \end{array}} \quad / \quad \boxed{\begin{array}{l} \text{total value of} \\ \text{shares at time of} \\ \text{liquidation} \end{array}} \quad = \quad \boxed{\begin{array}{l} \text{liquidation} \\ \text{dividend per one} \\ \text{share} \end{array}}$$

This means that when the company sells all property from the Property inventory list, the real liquidation dividend (LD) may be :

- 1) LD > nominal value of share;
- 2) LD = nominal value of share;
- 3) LD < nominal value of share;
- 4) LD = 0.

## 1.2. Dynamics of the privatization process;

Analyses of privatization dynamics of collective (state) farms from statistics data is possible in 4 groups of assets:

- 1) **farm productions units** - include integrated units like animals husbandry, plant cultivation units (include machinery, fertilizer storage), services units (like mechanical workshop);
- 2) **non-farm production units** - sawmills, processing or other industrial objects;
- 3) **non-production units** - kindergartens, cultural objects, apartments;
- 4) single units **or items** - tractors, lorries, cars, combine harvesters, cows, calves, pigs.

It has been found that single units or items from Inventory lists have been privatized more rapidly than operational units such as cattle sheds (see Figure 2).

To achieve good progress on privatization shareholders of companies must choose - at the general meeting - two options. They can divide large farm operation units to smaller units (or into single items), or they can decrease the price of the large scale farm operation units.

Data from the Latvian Agriculture Districts departments in July, 1993 showed that in 247 companies which were in the process of elimination nobody wants to privatize at 'bookkeeping prices' 97 animal husbandry units, 15 grain drying storage's, and 7 mechanical service stations and other objects.

Comparison of the structure of auction prices among types of integrated units and single items suggests certain conclusions.

The first year of privatization looked for many shareholders like a good time to "buy cheap" machinery, livestock and operating units from companies, because auction prices were much higher than balance sheet values. In many cases the buyer later sold the machinery or livestock on the market

for money and got a good profit. In the one year - from January 1993 to January 1994 (see Figures 3-4) the excess of auction prices over book values disappeared for all kinds of operating units and single items (except cars and lorries). The main reason for this was that farmers did not have a profitable market for their output.

By January, 1994 about 69 % of companies assets were privatized (see Figure 1), and about 330 companies had undergone liquidation, and the large enterprises had ceased to exist as legal entities.

There have been some instances when from the large livestock-farms empty buildings remain and livestock is sold separately, but this can be explained by the decrease in purchasing power of the population; and it is difficult to sell agricultural products at the price that would cover production costs.

## **2. PRIVATIZATION OF STATE OWNED AGROINDUSTRIES**

The rapid privatization of collective (state) farm assets and production units causes considerable structural changes in the service sector in rural areas. Different aspects in the processing sectors are considered here. There are differences among the dairy and meat and other industries such factors as historical tradition, technology, point of view of farmers and processing enterprise structure. Because of these differences, approaches to privatization of state owned processing enterprises in these industries have been developed quite differently.

### **2.1. Reform in Dairy Farming.**

Since World War II in Latvia, as well as in other former Soviet republics, there was a strictly centralized system of selling and processing milk produced by agricultural enterprises. The total area of the country, from the of dairy processing point of view, could be divided into ten dairy processing regions with dairy processing enterprises at the center (see Map). They were the main dairy product manufacturers, including condensed milk and cheese.

The second link in the system is dairies which also produce dairy products and supply milk to dairy enterprises for further processing. These are mainly engaged in supplying the local district with dairy products, in addition, they make butter and certain sorts of cheese.

Both dairy enterprises and dairies mainly process the milk collected from the agricultural enterprises (especially from individual farmers and other small producers) via the milk collecting stations and dairies.

All the above mentioned enterprises, till recently, were exclusively state-owned, and their network embraced the whole territory of the republic. Thus, peasants and other small producers had only one particular milk collection and processing enterprise to take their milk. The price for milk was fixed by the state and the same price was paid by all dairies: it was the state which purchased milk, processed it and sold it later.

Beginning with 1991 the situation has been undergoing essential changes. Milk is no longer purchased by the state, but by dairy processing enterprises as economically independent entrepreneurs, yet still being state-owned. Consequently, there appears a price difference among buyers of dairy products, and dairy processing enterprises are beginning to face a competition to find markets for their products, the dairy product export potential being substantially reduced.

1992 is noted for a sweeping privatization of the dairy processing branch. In order to change the previously existing centralized system of dairy processing, the process of privatization is being effected in two stages.



1. Since 1992 the dairy collection and processing enterprises (up to the dairy-plant level) are transferred without payment under the ownership of dairy-farmers' co-operative associations according to claims. Thus, dairy producers are given an opportunity to choose the level of their co-operation system.
2. In 1993 large scale dairy processing enterprises are being privatized mainly by forming joint-stock companies where the main stockholders will be dairy farmers' co-operative associations. Most investments in dairy processing during recent years were made just in these enterprises and as these plants can process the largest part of the milk produced, it can be predicted that in the future, too, the bulk of dairy products will be produced in these dairy enterprises or their subsidiaries.

The privatization of dairy processing enterprises brought about changes in milk marketing and the system of settling payments. Milk producers, in fact, do not sell unprocessed milk, but the milk is processed in their privately owned enterprises; profits are therefore directly dependent on the results of dairy processing and product marketing.

The existing stage of economic development offers the farmers the following choice of opportunities to market and process the milk produced:

1. Participation or non-participation in the rural district dairy farmers' co-operatives. Participation provides certain additional opportunities not only in milk marketing but also in improving the milk-cow herd and in management of a dairy farm.
2. Marketing of milk to the state and co-operatively owned dairy processing plants, or processing it locally and marketing the finished product independently. The situation with the settlement of payments for the last year favours the latter. The dairy processing enterprises in most cases settle their accounts with the farmers for the milk supplied with a two or three month's delay when money, due to inflation, has lost 15-30% of its value.
3. Marketing of milk to the enterprise of their association or to other entrepreneurs (other associations or state enterprises), shopping around for a higher price. In the latter case the farmers must take into consideration the fact that they have to cover the transportation costs.
4. Being members of the rural district dairy farmers' co-operative, they participate in decision-making on whether to join a co-operative association at a higher level, and on expanding the system of dairy processing enterprises.

In January 1993 the law "On Privatization of Dairy Processing Enterprises" was passed concerning the privatization of the 10 largest dairy plants by transforming them into joint-stock companies, with certain quotas set for the purchasers of stock: not less than 70% for the dairy producers' associations; not more than 10% for the employees; up to 20% - the state owned share, which will subsequently be sold to the investors and for vouchers. As the deadline for this process is after 7 months, the producers are compelled to establish local dairy producers' associations in 2 to 5 months.

The legal background for the second stage is the law "On Privatization of Dairy Processing Enterprises", which regulates the division of enterprises share capital.

Since July 1992 about 170 dairy farmers' co-operative associations have been founded in Latvia. The revived dairy farmers' associations determined the geographical area for activities on the basis of 1940 territories. The exemplary by-laws of dairy farmers' co-operative associations have been worked out on the basis and convey the principles of the 1937 exemplary by-laws, approved by the Cabinet on December 17, 1937.

Process of privatization is finished in 10 from 11 central milk processing enterprises in the end of February 1994. The main part of difficulties in this field are coming from general economic preconditions in agriculture- inability of farmers to purchase shares due to lack of money.

According to the decision "On Privatization of Dairy Processing Enterprises", adopted by the Supreme Council of the Republic of Latvia on April 15, 1992, the Privatization is to be carried out in two stages. At the first stage part of the dairies (local level enterprises) were passed to the ownership of the revived and newly established Dairy Farmers' Associations, which were founded in compliance with the exemplary by-laws of Dairy Farmers' Associations, and the law "On Co-operative Associations" of the Republic of Latvia, passed on August 6, 1991.

## 2.2. Meat processing

Meat production, together with dairy production, has traditionally been one of the main branches of agriculture both in the pre-war Latvia and during the years of occupation. In independent Latvia (data of 1938) the structure of the livestock herd established naturally, i.e. proceeding from the quantity of domestic feed: there were 1224.4 thousand head of livestock, including 896.3 thousand dairy cows (there are no special varieties of beef cattle in Latvia, so beef production has always been a by-product of dairy farming), 813.5 thousand pigs, 1360 thousand sheep and 4391.2 thousand numbers poultry. During the Soviet centrally planned economy pork production was boosted through a large increase in the pig herd. The number of pigs was estimated to be 1703 thousand in 1986. The number of poultry was also increased and they were concentrated in the large poultry factories. The number of sheep decreased to 160 thousand (1988). The import of concentrated feeds for livestock from the former USSR constituted about 50% of feed consumed in Latvia.

Huge pig complexes were erected in Latvia: some held 30 000 pigs. Meat processing was concentrated in 14 plants, 2 of which, Riga and Valmiera, processed more than half of the meat produced. Annually about 100 thousand tons of meat were exported to the large cities in the USSR. The "influence" territories for the plants were strictly determined and they existed until 1992. The equipment in meat processing plants is obsolete both from the technological and efficient service life point of view: more than 60% of plant and machinery has been depreciated to less than half its cost. The packing lines for meat and sausage have been depreciated completely: seven of the plants do not have deep freezers.

In the initial stage all the main meat processing plants (excluding two, owned by the former collective farms, now- companies) were state enterprises.

In the second half of 1992 a real basis was formed for competition. The processing zones disappeared, because, even as state enterprises, the meat processing plants had to face competition - the one that offered the highest price to the producer and was the quickest in settling payments, was the winner and took the largest deliveries.

In 1992 essential changes have taken place to the structure of meat producers: while the total number of livestock decreased, in the private sector (small farmers and subsidiary farms) the number increased. Thus, more than half of dairy cows belong to private producers. During 1992, the number of cattle owned by farmers increased 2.3 times, including a 2 fold increase in the number of dairy cows; the number of pigs has increased 2 times and of poultry 2.8 times. These changes, when they increased the capacity of private meat producers, created conditions to start the privatization of large scale state owned meat processing enterprises.

In May 1993 the Supreme Council passed the law "On Privatization of State Meat Processing Enterprises". It is envisaged that the fixed capital should be privatized 100% in a comparatively short time period. In contrast to dairy plants, the potential buyers will not be farmers' co-operatives, but joint stock companies as competitive business.<sup>2</sup>

---

<sup>2</sup>If the Farmers Union or some other group of meat producers would like to buy stocks to form part of the "general entrepreneur", they can. In that case, probably, the enterprise will be privatized as a form of producers' co-operative.

The main problem during the creation of this Law was found to be political compromise between farmers association, employees of state meat processing enterprises and suggestions from researchers, who pointed out the necessity to build privately owned and market oriented, flexible business entities. The differences among these points of view were quite serious, not only the question of who might own a meat processing enterprise, but also the question of privatization price of enterprises.

Farmers associations wanted to get these enterprises without payment and build their meat producers' co-operatives. At the same time employees of the enterprises, following syndicalistic ideals, had proposed to get all the enterprises or a majority of stocks in joint stock companies, which would be created on the assets of the enterprise, for a low price.

Nevertheless, the law provides two steps in the process of privatization of each particular enterprise:

- 1) Reorganization of enterprises into state owned joint-stock companies;
  - 2) selling of shares to private persons according to special rules and quotas, set by privatization commission:
    - to employees- up to 10 % of shares;
    - to state pension fund- up to 10 % of shares;
    - to farmers- 25-35% of stocks must be distributed among meat producers, who want to buy stocks according to the size of owned or used land, moreover, those meat producers who have not received all of the money from concrete state meat processing enterprises for sold animals, can get stocks to that value without payment;
- to the main share holder ("general entrepreneur")- at least 51 %. There are no special limitations to the main share holder- it may be as separate person as well as another company.

The choosing of the main share holder is carried out through open tender, and each potential purchaser has to propose his business plan.

The Law provides that if there is more than one request from eventual "general entrepreneurs", the Privatization Commission will have to decide whose business plan is better, but regardless, it will be auctioned among potential buyers, only the owners of the other business plans have, in this auction, a 20% price handicap.<sup>3</sup>

In conditions of privatization it can be foreseen that all stockholders will have to pay in the first year only 20% of the stock's nominal value or, if no potential buyers exist, the stock's sales price can be decreased.

Estimated dead line of this process is the middle of 1994.

As the main problem in this process low level of usage of potential capacity and old technology are faced.

### **2.3. Privatization of bakeries.**

Privatization of bakeries was begun only in 1993 after passing the special law. This law provides similar rules as in the case of meat processing enterprises, excluding no providing selling of stocks to farmers as special group.

Estimated dead line of this process is the middle of 1994.

---

<sup>3</sup>This complicated and partly subjective approach was created to find a compromise between Latvian entrepreneur and, perhaps, "dirty" money influence from CIS countries.

As the main problem in this process low level of usage of potential capacity and old technology are faced.

## **2.4. Sugar production enterprises.**

The main features of the privatization of these enterprises are set by special decision of Latvian parliament in May 11th, 1993. Some priorities to farmers (in quotas and payments) were set by this decision. But almost nothing has been done in this field still now. Mainly it is so due to the follow obstacles:

- unformed legal sugar market;
- current payment inability of farmers and caused by it their inability to participate in the process of privatization of enterprises.

## **2.5. Agroservice enterprises**

Privatization in the agroservice enterprises is regulated by the law "On privatization of assets in Agroservice enterprises", passed on March 30, 1993. According to this law the agroservice enterprises are to be split in the smallest independent enterprises possible, which, in their turn, are to be privatized through establishing businesses. The law provides that capital shares in these businesses are to be sold on the basis of quotas. Initially, about 50 % of shares are planned to be offered to farmers co-operatives (which do not exist in a lot of cases). As the criteria to setting of quotas is business done with the enterprises undergoing privatization. The shares which have not been sold and the remaining 50 % will be offered to the employees of the enterprises, and, subsequently, to other individuals interested in purchasing.

However, this process does not proceed as rapidly as it was initially envisaged.

## **3. SOME CONCLUSIONS ON PRIVATIZATION IN AGRICULTURE**

So there are six special laws, regulating the process of privatization of non- land assets in agrarian sector.

Rather different goals are being set and the ways have been chosen to promote the process of privatization (see Figure 5).

There were two main fields, where these differences may be observed:

- scale of Reorganization of enterprises. It varied from complete Reorganization of enterprises (within agricultural production as itself) through partly splitting (in dairy) to keeping enterprises as whole units (in meat sector).
- new subjects of ownership relations. They varied from only producers and the employees at the same time (in agricultural enterprises) to dominant capital enterprises in bakery sector.

But the common main goal in all these enterprises was and is still now to find a new entrepreneur, able to manage by enterprise instead of state appointed managing officers.

At the same time the common problems are being observed in this field:

Private ownership of assets, including those in agricultural processing enterprises, is one of the main provisions for involving agricultural producers into self-administration system on voluntary basis. Technological production functions from state institutions are given over to producers, and agricultural processing enterprises are one of the first to be privatized.

### III. Reform of the state administration structures.

The main goals in this field are:

- non-participation of state institutions in direct management by production;
- joining of activities the both the state and producers self managing organizations in regulation of agrarian sector;
- establishing of economical environment to develop efficiency of agricultural production on the basis of market competition.

#### 1. CHANGING OF STATE'S ROLE IN AGRICULTURAL PRODUCTION

Some results in renunciation of state's rights to command production may be observed after four years of agrarian reform.

It is being reflected in:

- **price policy** - there are completely free price system without any state support at extremely low level of customs duties;
- **credit policy** - state doesn't influence on terribly high bank interest rate, which is 50- 120 % per year;
- **tax policy** - tax relieves set by legislation for farmers almost don't influence their income level due to deficit of any profit in agricultural production);
- **field of economical information** - there is lack of correct statistical information concerning reform process in agriculture, especially characterizing farm economics, income level etc.;
- **marketing policy** - Ministry of Agriculture don't fulfil role of distributor of agricultural products more, as it was in socialist period. There are lot of independent producers searching for marketing possibilities.

At the same time state institutions in their activities often ignore complete differences of present agriculture in terms of ownership and management, which don't allow administrative dictate more.

#### 2. AGRICULTURAL PRODUCERS' CO-OPERATION AND SELF-ADMINISTRATION, DEVELOPMENT PROSPECTS

Till the beginning of the agrarian reform self-administration of agricultural producers was effected by the state through state management institution, collective and state farms being actively involved in the process. The system included also individual agricultural producers. The bottom-level self-administration unit at that time used to be the collective or state farmers' general meeting.

The agrarian reform having changed the structure of the agriculture producers towards the establishment of individual farmers, presupposes the formation a principally different self-administration system of producers. It embraces different formations of agricultural producers - both public organizations, co-operatives and other enterprises. This system is only undergoing formation, yet today we can already speak about its possible structure and constituent elements.

General System of possible structures and formation principles of the agricultural producers' self-administration could include two main branches:

1. The system of agricultural association and branch co-operation, which is aimed at pooling the producers' interests, activities and capital to attain economic goals;
2. The system of public organizations which enables the representation of interests of an individual agricultural producer in the relations with the state without any capital investments on his part.

## **2.1. System of agricultural branch co-operation**

### 2.1.1. Local level co-operation

Branch co-operative associations which can be formed by the producers concerned with the development of one or the other agricultural branch. At present in most Latvian pagasts<sup>4</sup> there are local dairy co-operative associations, co-operative associations for joint use of machinery, as well as for other means of production and services are being established.

### 2.1.2. District and regional co-operative associations.

The formation of the branch co-operative associations can be usually limited only by the district or even lower level units, but these associations can also form regional associations. It is most widespread in the case of dairy farms when, as a result of privatization of dairies, district associations are forming regional associations to service the branch. So far this phenomenon has been typical only for this particular branch and not yet been observed in other branches.

### 2.1.3. Republican associations

Republican branch association could be formed to unite branch associations in order to co-ordinate the branch co-operation on the republican level, it being the top level of self-administration institution (hereinafter branch associations). At present there are already three such associations: the Republican Sugar Producers' Association, the Grain Producers', and the Dairy Farmers' Association. However, the former two will have to change the social basis of their activity significantly, as they both were formed in the times of collective farms and now the greater part of the founders have ceased to be existent.

## **2.2. The system of public organizations**

The tasks of the agricultural associations are:

- to be a catalyst for the formation of the local co-operation system, if necessary, establishing agricultural service or other formations (co-operative associations etc.);
- to represent the interests of the rural district agricultural producers in self-administration and raise questions to be discussed at the local government institutions.

This system may include the following formations:

- *rural district and pagast agricultural association* as the lowest chain, which should represent the basic element of agricultural producers' self-administration system uniting on voluntary basis a wide range of entrepreneurs.

In order to observe the principle of voluntary participation, rural district agricultural association should essentially be formed as public organizations without involving any capital investments. At present these associations can be formed both as public and co-operative organizations. In many rural districts these are farmers' unions instead of

---

<sup>4</sup> The smallest local administration unit

agricultural associations, however, they will have to change their legal status according to the legislation of the Republic of Latvia.

- *regional Agricultural Associations* could unite legal persons - the district agricultural associations, regional branch associations, regional agricultural public organizations, including trade unions which have chosen to participate in the regional associations. So far there are no such all-embracing regional agricultural associations in Latvia. In rural regions there are regional farmers' unions functioning as agricultural co-ordinating structures.
- *Latvian Agricultural Central Union* could be formed or the representatives from:
  - regional agricultural unions,
  - branch associations,
  - republican agricultural public organizations,
  - scientific and education establishments,
  - state government institutions.

The main task of the Latvian Agricultural Central Union could be the representation of Latvian agriculture on the international scale, as well as the representation of agricultural issues of public concern in relations with the Government, the Parliament, the State Government institutions of other branches of the national economy and the rest of the association.

### **2.3. Gradualness of the Formation of the Agricultural Producers' Co-operation and Self-Administration System.**

This process, of course, is continuous and gradual, it being closely connected with the general processes of the economic and agrarian reform, and the privatization of state enterprises and land. The formation of General Self-administration system distinguishes the following stages.

1. The formation of agricultural structures uniting separate agricultural producers within the rural district. Basically this stage could be finished by the end of 1995 (but it depends on state agrarian policy).
2. The formation of higher level organizational unions (regional and republican) on the basis of primary formations. Dairy farmers' structures could be established by the middle of 1994, in the other branches - by the late 1995.
3. On condition that the first two stages have been completed, the formation of the all-embracing agrarian branch producers' self-administration organization which represents the majority interests of these agricultural producers. The implementation of the tasks of this stage is a question of distant future, and it depends both on the socio-political situation in the country and need for agricultural organization and abilities to implement it, as well as on the state activities to effect the agrarian policy.

The legal basis for the creation of agricultural self-administration system and its functioning at present is constituted by:

- the law "On co-operatives";
- the exemplary by-laws of particular cooperative elaborated on the basis of this law;
- the law "On public organizations and their associations".

## Some conclusions and recommendations

1. As the result of the fulfilment of the agrarian reform the essential changes have taken place in aspects mentioned below.

1.1. The structure of agricultural production.

- in the structure of the enterprises,
- in the amounts and structure of the produced goods,
- in the use and owning of the land.

1.2. The interaction of the farmers, agricultural enterprises and state institutions in different forms and levels of its fulfilment:

- *on the level of separate enterprises and farmers.* In most cases every farmer that previously worked in a state farm starts working in his private farm, he becomes an owner and worker in one person;
- *on the level of an enterprise and the branch.* Agricultural enterprises are not subordinated to a centralized system of planing and distribution, but they become the subjects of independent market relations, actually taking part in the struggle of competition.
- *on the level of the whole national economy and the branch.* The agricultural production as a branch practically no longer gets support from the government.

2. During this period of time the tendency towards the development of the private production in the countryside and in the branches connected with the production and service has appeared.

3. In fact the state monopoly for the sale of the food products and resources used in the production is ruined.

4. At the present moment the privatization of the state agricultural production processing enterprises has entered into the final stage.

That all creates the basis of the rapid development of market economy relationship in the whole agrarian complex.

5. For the nearest future Government could to introduce new goals in agricultural policies:

- to recognize the fact that agriculture fulfils not only the function as a producer of food and raw materials, but also plays certain role in regional and environmental aspects;
- to improve a manifold combination of occupation and income between agriculture and other sectors of the economy;
- to orient the agrarian production, processing and marketing to market conditions;