

Changing Ownership in Latvia through Agrarian Reform

Roberts Zile

Baltic Report 92-BR 5
September 1992

Latvian State Institute of Agrarian Economics
Riga, Latvia

Center for Agricultural and Rural Development
Iowa State University
Ames, Iowa 50011 USA

Changing Ownership in Latvia through Agrarian Reform

Roberts Zile

Baltic Report 92-BR 5
September 1992

**Center for Agricultural and Rural Development
Iowa State University
Ames, Iowa 50011 USA**

Roberts Zile is head of the Privatization Department, Latvian State Institute of Agrarian Economics in Riga. This report is based upon work completed while Mr. Zile was a visiting scholar at the Center for Agricultural and Rural Development at Iowa State University in January and February 1992. The Latvian State Institute of Agrarian Economics is conducting research with CARD. This paper is a result of that collaboration.

Production and distribution of the Baltic Report series is funded by the Midwest Agribusiness Trade Research and Information Center (MATRIC), Iowa State University. MATRIC is supported by the Cooperative State Research Service, U.S. Department of Agriculture, under Agreement No. 92-34285-7145. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect the view of the U.S. Department of Agriculture.

The contents of this report may be cited with proper credit to the author, the Latvian State Institute of Agrarian Economics, and to CARD and MATRIC at Iowa State University.

CONTENTS

Figures	v
Tables	vi
Changing Ownership in Latvia through Agrarian Reform	1
Land Reform: History, New Legislation, Land Requests, and Predictions	7
History of Latvian Land Ownership and Use	7
New Legislation and the First Step of Land Reform	15
Privatization of Nonland Assets of Collective Farms	20
Reform and Scientific Research on Collective Farms	28
Conclusions and Proposals	30
An Invitation	31
Appendix A. Economic and Property Indices of a Collective Farm for Calculation of the Shares	34
Appendix B. Individual Card for Calculation of Shares	37
Appendix C. Excerpts from Law Governing Allocation of Company's Shares and Property	38
Appendix D. Property Inventory Lists and the First Prices of Property	42
Data Sources	45

FIGURES

1. Dynamics of land resources	3
2. Land resource distribution among users	3
3. Farm operators in 1935	4
4. Annual per capita production of basic agricultural products in Latvia	4
5. Annual per capita food consumption in Latvia	5
6. Distribution of basic funds on an average collective farm	5
7. Power machinery available as of January 1, 1991	6
8. Cartogram of land request analysis in Latvia	17
9. Changes in individual farm ownership, Finland	18
10. Changes in individual farm ownership, Sweden	19
11. Changes in individual farm ownership, Denmark	19
12. Schematic of proposed ownership changes for a typical Latvian farm	20
13. Method of calculating asset entitlement under the Latvian plan for privatization of agriculture	22
14. How shares are calculated for a collective (state) farm	23
15. Opportunities for shareholders to manage their shares	24
16. Entrepreneurial forms used in privatizing Latvian agriculture	25
17. Principal distribution of collective (state) farm assets, first, second, and third phases	26
18. The steps in privatization of collective farms as stipulated in Latvian law	27
19. Categories of information collection for state farm asset changes	29
20. Local level data collection	29
21. Area level data collection	30

TABLES

1. Number and average resources of collective, state, and individual Latvian farms as of January 1, 1991	6
2. Dynamics of peasant farmstead purchasing in the Vidzeme district	7
3. Largest estates in Latvia, 1912-20	8
4. Distribution of the State Land Fund	10
5. Number of Latvian farms and their sizes, 1935	10
6. Total number and area of Latvian farms as of November 1, 1955	12
7. Number of Latvian farms and their areas as of January 1, 1981 and November 1, 1990	14
8. Dynamics of peasant farm formation and their sizes	14

CHANGING OWNERSHIP IN LATVIA THROUGH AGRARIAN REFORM

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 characterized by a decrease in gross national product, by deterioration of living standards, by essential structural changes, by hyperinflation caused by monetary emission by an alien country, among other factors. The economic reforms should be based on acquisition of strategic targets, although this would prolong the crisis for a certain period of time. The economic reforms in Latvia are more closely linked with legal, political and demographic problems than they are in any other postsocialist country in Eastern and Central Europe.

In accordance with the Hague convention and other international agreements, the rebirth of the Latvian Republic as an independent state claims to observe the principle of inviolability of property rights during the Soviet occupation. It means that in Latvia one should respect the property rights of Latvian citizens and others whose property was nationalized or illegally expropriated after June 17, 1940.

A decree, "On Land Nationalization," issued on June 22, 1940, in the Latvian SSR followed by other acts of nationalization and illegal confiscation had a major impact on property rights. But a distinctive feature of processes that took place in Latvian agriculture was forced collectivization, under which people's property rights were taken over not by the state, but by a limited rural commune, thus depriving the owner of the right to act freely. It was presented as if carried out on a "voluntary" basis. As a result, socialist management has decreased agricultural acreage by one million hectares, destroyed the traditional rural environment, and in recent years, has dropped production. Between 1990 and 1991, gross agricultural production dropped by 15 percent. It might be interesting to note that before 1940 agriculture was the most important branch of the national economy. According to many indices, Latvia was one of the leading agricultural producers.

Because property in Latvia was expropriated through collectivization and nationalization, property should be converted in two way.

1. **Restore nationalized property to its owners.** Having restored the rights to land use, land tenure can be restored in accordance with the decree "On Land Reform in the

Countryside.” Property rights can be restored if the formerly owned property is given back or if compensation is paid. This compensation may include property of equal value to the expropriated property. All property preserved in agriculture as well as nationalized or illegally expropriated property is subject to conversion only after the term of feasible demands for the property has expired.

2. **Personalize collective property.** The collectivization process in 1949-50 was not judicially based. Collectivized property may be considered as one of the elements of farming property (since only the methods of collectivization are acknowledged to be illegal). Hence, it is unnecessary to carry out property restoration, but property rights for part of the fixed assets of an enterprise must be recognized and compensated.

These concepts should form the basis for the ownership component of agrarian reform. The Supreme Council has passed the following laws related to implementing agrarian reform in Latvia:

1. Law of Land Reform in Rural Areas, passed on July 10, 1990;
2. Law of Privatization of Agricultural Enterprises and Collective Fisheries, passed June 21, 1991; and
3. Law of Land Use, also passed in June 1991.

Several acts, including those of the Presidium of the Supreme Council, deal with separate issues related to the first phase of agrarian reform (the period until 1996). The law “On Compensations for Land Property” has already been passed on the first reading.

Without judicial and political preconditions, necessary to carry out agrarian reform, privatization is the worst economic dilemma for Latvia. Every available estimate shows that, in the first years of reform, the situation in agriculture will continue to decline and in time, when the agricultural level reaches its lowest point, it will be the worst in 50 years. This situation is inevitable. However, an improved economic situation is possible if Latvia adopts ownership reform.

A few basic tendencies in Latvian agriculture are shown in Figures 1 through 7 and in Table 1. The figures show how many resources an average collective (state) farm has and what the resources are.

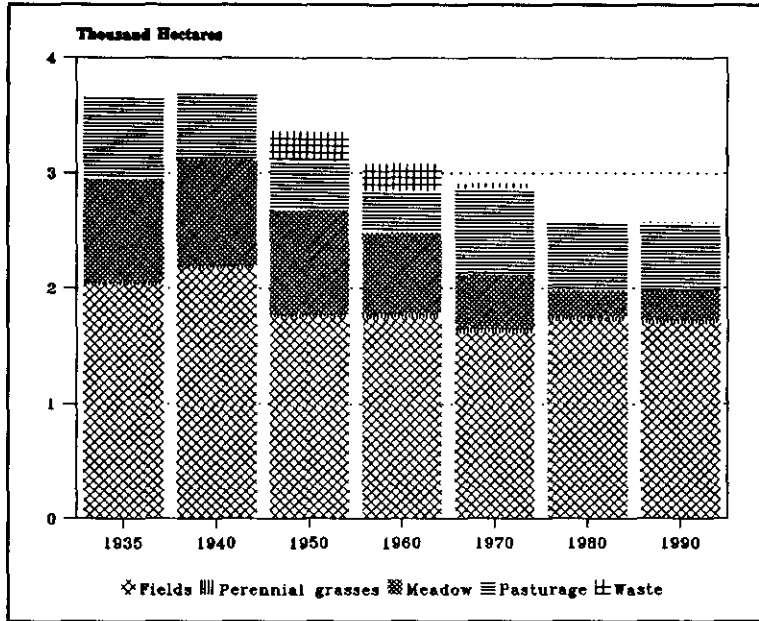


Figure 1. Dynamics of land resources

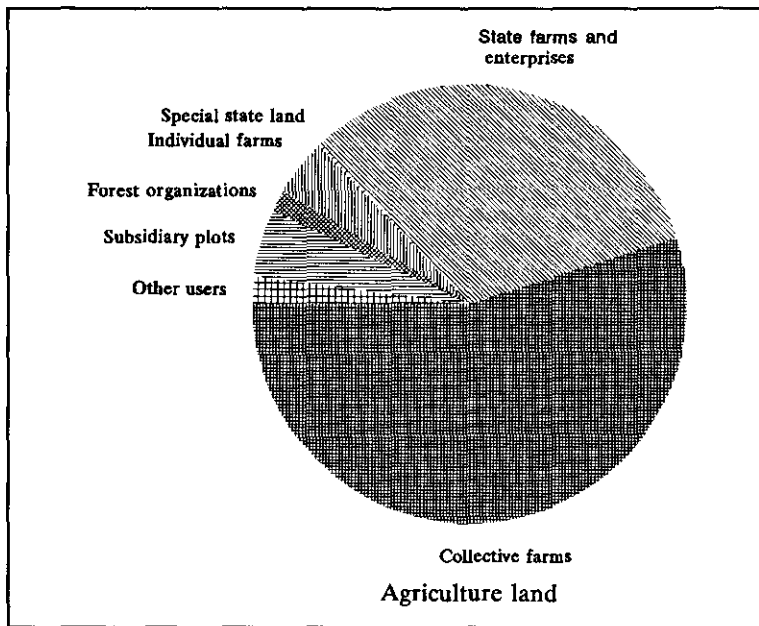


Figure 2. Land resource distribution among users

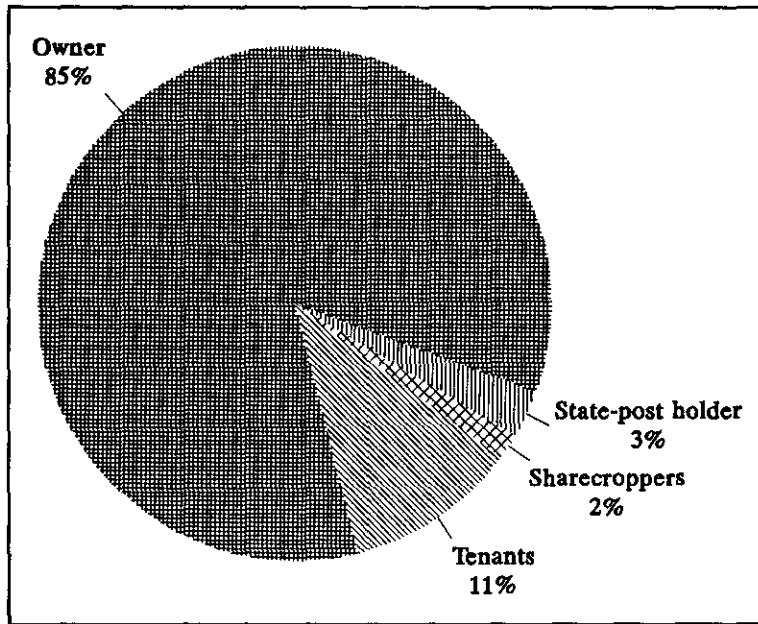


Figure 3. Farm operators in 1935

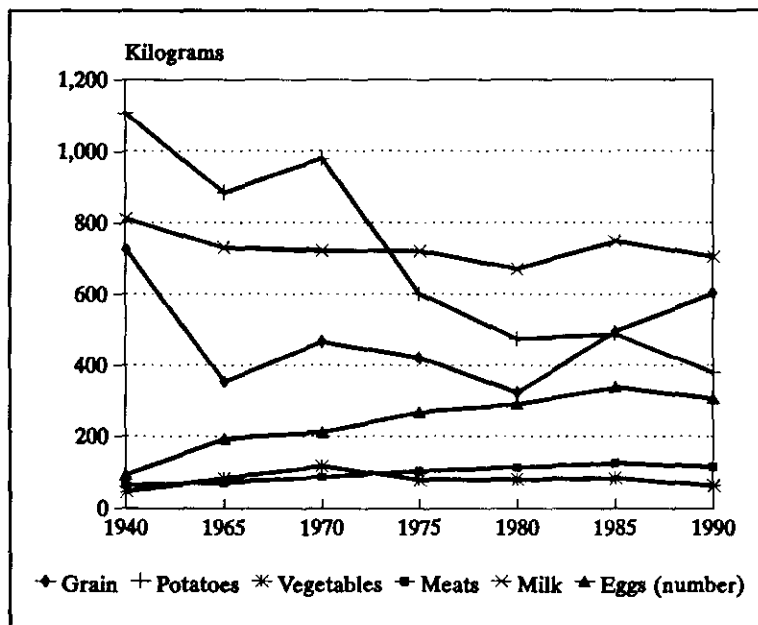


Figure 4. Annual per capita production of basic agricultural products in Latvia

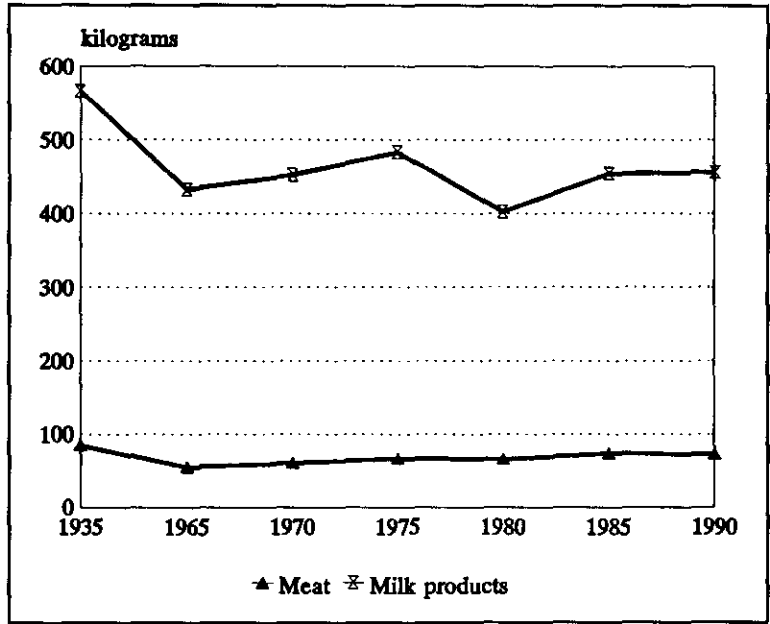


Figure 5. Annual per capita food consumption in Latvia

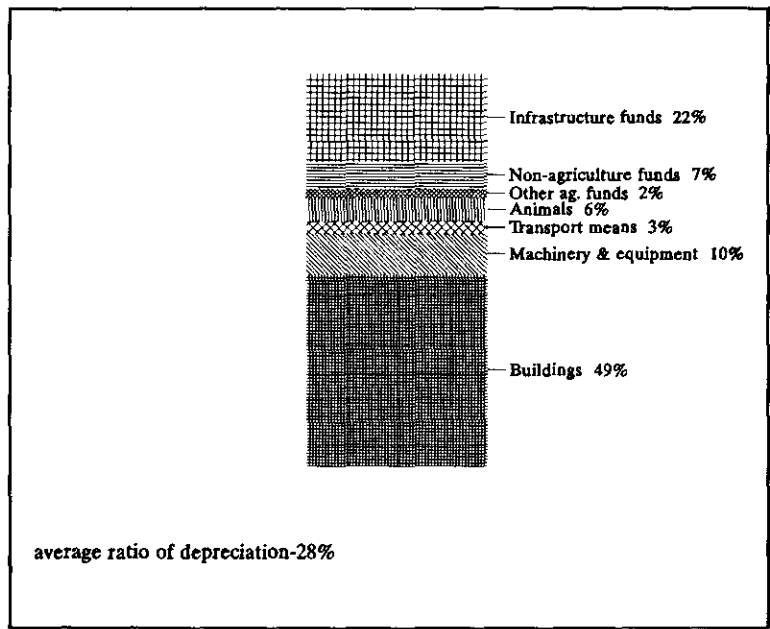


Figure 6. Distribution of basic funds on an average collective farm

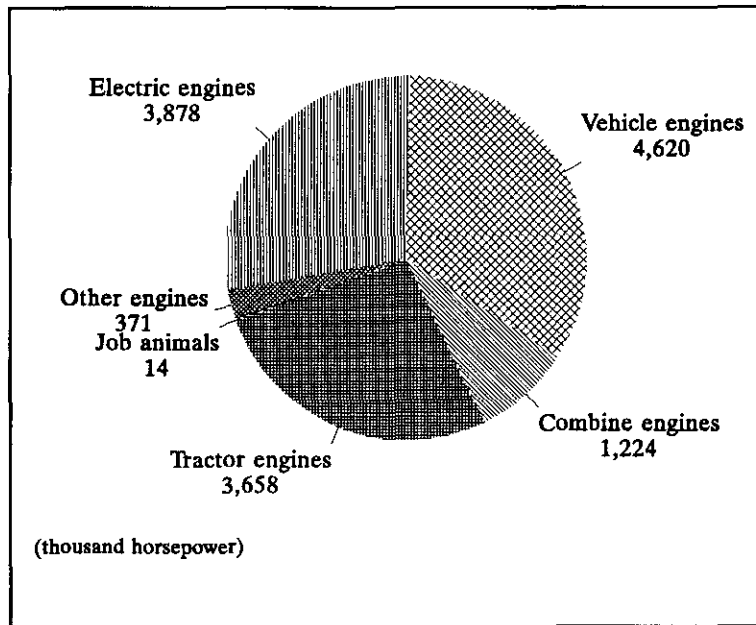


Figure 7. Power machinery available as of January 1, 1991

Table 1. Number and average resources of collective, state, and individual Latvian farms as of January 1, 1991

Indices	Resources	Collective Farms	State Farms	Individual Farms (11/1/90)
1.	Number of farms	413	210	7,518
2.	Number of employees	314	300	--- ^a
3.	Agricultural land	3,400	3,800	14.9
3.1	Field (hectares)			
4.	Livestock	2,300	2,500	7.8
4.1	Cattle	1,772	1,819	5.1
4.1.1	Cows	593	600	2.1
4.2	Pigs	1,767	2,115	2.8
4.3	Sheep	46	46	2.3
5.	Tractors	54	58	0.72
6.	Grain combines	10	11	--- ^a
7.	Trucks	34	36	0.20

^a Not enough information

Land Reform: History, New Legislation, Land Requests, and Predictions

History of Latvian Land Ownership and Use

Documents prove that the first landowner of Latvian nationality was Yukums Rocis, who, in November 1806, bought from the owner of the Volery Estate, Count Fermor, a farmstead "Rochi" in which there was an orchard and kitchen garden, a good plowed field, hayfields, and pastures. He also acquired fishing rights in Lake Kishu.

From the start, farmstead purchasing was slow because of the peasants' distrust and a comparatively high cost of land; in the center of Russia it was one-fifth or one-sixth as expensive as it was in Latvia. Before 1861, only 209 owners had bought farmsteads in Vidzeme. The rates of this process are shown in Table 2.

Table 2. Dynamics of peasant farmstead purchasing in the Vidzeme district

Years	Size of Purchased Land (dessiatinas)
1823 - 1851	2,631
1852 - 1856 1857 - 1861	9,090 11,131
1862 - 1866 1867 - 1871	123,849 226,679
1872 - 1876 1877 - 1881	289,011 141,782
1882 - 1886 1887 - 1891	128,283 35,985
1892 - 1896 1897 - 1901	52,651 42,816
1902 - 1906 1907 - 1911	31,351 33,798

Note: One dessiatina = 1.0925 hectares

The sharp rise in purchasing of peasant farmsteads began in 1861 and was most intensive from 1866 to 1876, when 12,000 farmsteads were purchased. Before 1912, 90 percent of the farmsteads belonging to the landlords had been purchased.

In Kurzeme (western Latvia) the rate of farmstead purchasing was even slower, but later it became more intense than in Vidzeme (northern and central Latvia) and before 1910, 97 percent of the farmsteads had been sold.

The average farmstead area in Vidzeme and Kurzeme was relatively high, 47.0 and 41.5 hectares, respectively.

Before World War I, 39.3 percent of the farmsteads on land that became Latvia belonged to peasants, 48.1 percent to landlords' estates, 10.1 percent to the state, 1.4 percent to cities and other legal persons, and 1.1 percent to clergy estates. During this period there were 1,299 estates having an average area of 2,433 hectares. The largest ones are listed in Table 3.

Table 3. Largest estates in Latvia, 1912-20

Estate	Area (hectares)	Estate	Area (hectares)
Dundaga	69,920	Lubana	28,596
Pope	50,910	Yaungulbene	20,829
Vilyaka	49,193	Edvale	16,824
Balvi	34,960	Liel-Iecava	16,606
Alexandropol	33,867	Vecgulbene	14,530

After Latvia became independent on September 16, 1920, the first part of the law on agrarian reform was approved. Under this law, the state's land fund was created to promote the formation of new farms and to extend small existing ones in order to satisfy the requirements of various industrial, social, and cultural enterprises, and to develop cities and settlements. State lands and lands belonging to the estates of landlords and clergymen were included in the fund.

About 50 hectares of land was left to a landowner, with a size variation of about 10 percent; in exceptional cases, the area might reach 100 hectares. Cemeteries and lands on which monasteries and churches were built were not included in the fund, as well as land belonging to charity and scientific institutions used exactly for those purposes, and land belonging to cities, settlements, districts, and villages.

On December 21, 1920, at the meeting of the Constituent Assembly, the second part of the law on agrarian reform was approved. This part provided regulations for use of the state land fund. The law stipulated that the agricultural land area of newly created farmsteads should not exceed 22

hectares, but it was possible to get up to 5 hectares of additional land not suited for agricultural production, including 3 hectares of forest. On land with conditions favorable for gardening and vegetable growing, the area of farmsteads could not exceed 10 hectares. The extension of small farmsteads joining the fund was provided.

Citizens for whom agriculture was not their main occupation could receive about 1 hectare of land in the suburbs, and up to 2 hectares in the country. In order to improve the outline of peasant farmstead boundaries, it was permitted to add to an individual farm up to 1 hectare of land from the land fund. Land areas were reserved around the cities and settlements to allow for their future growth, as well as for providing conveniences and creating various enterprises. Allocation of fishing farms depended on local possibilities, but the size was not more than 22 hectares.

The right to buy land belonging to the fund was granted to every Latvian citizen between the ages of 18 and 65 who did not possess any land or who had less than 22 hectares (27 hectares) and who was ready to cultivate it. Applications for land were handled according to the order of their submission and were classified into seven groups, with the latter group divided into five categories. One citizen could receive only one already existing or newly created farm.

The prospects for a potential owner to be successful in agriculture were considered when determining the order of priority for giving land. For example, the next to last category included all the claimants of other districts who had the necessary agricultural implements to begin operations. Those from other districts not having agricultural implements were included in the last category.

On May 3, 1922, the Constituent Assembly approved the third part of the law, which defined strengthening the agrarian system. This law also prohibited merging by right of succession more than 50 hectares into the hands of one owner. For farms merging an area between 22 hectares and 50 hectares it was necessary to obtain permission from the government for every merger.

It was also prohibited to divide the existing or newly created farms with an area of 10 hectares. Only with the government's permission could strip farming be liquidated and only in cases when separated areas were not used for agriculture.

On May 31, 1937, a joint ceremonial meeting was held to recognize the dissolution of the Central Committee for Land Utilization and of the Supreme Committee on the Estimation of Land Quality. The work, which lasted 16 years, 7 months, and 20 days, was appraised at the meeting.

Results of the state land fund distribution are given in Table 4.

Table 4. Distribution of the State Land Fund

Type of Use	Farms		Common Area	
	Number	Percent	Thousand Hectares	Percent
New farm creation	54,128	33.8	928.8	58.5
Owned by former lease holders	9,754	6.1	321.0	20.2
Extension of existing farms	50,539	31.5	144.7	9.1
Creation of handicraftsmen farms	10,854	6.8	19.5	1.2
Garden farms	1,501	0.9	10.2	0.6
Fishing farms	2,972	1.9	14.1	0.9
Industrial needs	1,584	1.0	15.0	0.9
State needs	3,754	2.3	40.0	2.5
Public and cultural needs	6,505	4.1	37.3	2.4
Other needs	11,290	7.0	40.7	2.6
Servitude liquidation	7,347	4.6	17.2	1.1
Totals	160,228	100.0	1,588.5	100.0

One result of agrarian reform was a significant increase in the number of farms in Latvia. Their number and size groupings are shown in Table 5.

Table 5. Number of Latvian farms and their sizes, 1935

Number of Hectares	Farms		Common Area	
	Number	Percent	Thousand Hectares	Percent
Up to 1	44,078	16.0	13.7	0.3
1 - 2	11,611	4.2	17.7	0.4
3 - 5	22,878	8.3	79.4	1.8
5 - 10	44,089	16.0	336.2	7.5
11 - 15	39,689	14.4	495.4	11.0
16 - 20	38,167	13.8	667.1	14.9
21 - 30	35,448	12.9	844.4	18.8
31 - 50	24,302	8.8	948.5	21.1
51 -100	14,365	5.2	936.8	20.9
More than 100	1,071	0.4	147.8	3.3
Totals	275,698	100.0	4,487.0	100.0

The majority of the farms were between 5 and 10 hectares; and together with the next three sizes they constituted more than one-half (57.1 percent) of the total number. The largest group was farms with areas between 30 and 50 hectares. About two-thirds of the land (64.1 percent) belonged to farms with more than 20 hectares, but were only 27.3 percent of the total number of farms.

The average area per farm reached 16.3 hectares and, excluding the group of farms with areas less than 1 hectare, even 19.3 hectares.

The data show that Latvian agriculture satisfied the needs of the republic population and that a portion of agricultural products were exported. In 1938, agricultural products constituted 46.7 percent of total exports; the main exports were butter, pigs, porklings, different kinds of pork (mainly bacon), seeds of clover and timothy-grass, and hides. Nowadays it is hard to believe that the cost of exported fruits and berries had reached 1.6 million lats, and that at one time Latvia exported grain and even seeds of vetch. In order to increase sugar sales, the Latvian president asked the population to put into each cup of coffee and tea three teaspoons of sugar—one teaspoon for each sugarbeet processing plant.

In June 1940, Soviet troops invaded Latvia. A new order was established. Nationalization of land was declared on July 22, 1940. Owners of small- and medium-sized farms lost land ownership, so up until the extensive collectivization they continued to cultivate their former land. Large farms were reduced to 30 hectares; the rest of the area was used to create new farms and to extend small ones.

In the summer of 1941, Latvia was occupied by German troops and the previous order of land ownership was restored. This order was in force in most of Latvia until 1944, and in the Kurzeme region until May 1945. When the war was over, large farms were divided again and new farmers with the right to only use land managed to harvest on their land only a few times.

The collectivization began.

The first collective farm was created in 1946. But in spite of broad propaganda, there were only 49 collective farms in Latvia by January 1948, and in one year only 893. Large-scale collectivization started in 1949, especially after March 25 when thousands of peasant families were deported to Siberia.

The first collective farms were rather small. There were several in each district, but in May 1950 the decision was made to extend them, and so by the end of the year the number of collective farms fell from 4,118 to 1,776. This process continued and the number of collective farms grew smaller. The number of state farms during this period was small (see Table 6).

Table 6. Total number and area of Latvian farms as of November 1, 1955

Type of Farm	Number	Total Area	Agricultural Area	Plowed Field	Average Area
		(thousand hectares)			
Collective	1,934	3,494.3	2,565.6	1,669.4	2.510
State	37	230.6	158.2	115.2	6.232
Other	484	121.8	86.3	53.1	0.252
Totals	1,915	3,851.6	2,669.0	1,837.7	2.018

After 1955, the economic situation of collective farms changed. Some of them were profitable, but the overwhelming majority experienced economic difficulties. This occurred primarily on the farms where the managers unconditionally followed directions from the Communist party. Many of these directives were economically ignorant. Implementing these directions increased production costs and resulted in losses for the farms, but the executive bodies claimed they were not responsible.

The economic breakdown of the state farm "Zante" started in the autumn of 1950, when the representatives from Riga arrived at the farm. Instead of speeding up mowing of grain crops and stocking them in sheds, they ordered the collective farmers to thresh grain crops that were already in the sheds and to transport grain to the remote reception center Zagotzerno in the town of Tukums. These irresponsible orders were carried out and the corresponding report was made, but grain crops left in the field were mowed by September winds and rains. The same process was repeated during subsequent years and after several years the collective farmers got practically nothing for a work day. They were in debt for a state loan, which was paid by the state farm.

The economic situation rapidly worsened in the districts where local authorities kept a vigilant watch to ensure the deportation of as many families of so-called kulaks (wealthy peasants) as possible in 1949. Districts of Zemgale (southern Latvia) especially suffered from this action. There were many large and profitable farmsteads. Instead of the people who could cultivate land and organize this work involving others, drunkards and fortune seekers appeared, most of whom were unable and unwilling to work on the fertile, but hard to cultivate, Zemgale clay soil.

Ruined, unprofitable collective farms were joined to those that somehow managed to survive. Huge, hard to manage farms were created and their economic situation began to deteriorate sharply. In the districts where the situation was especially critical, state farms, sometimes very large, were organized.

In some places the economic situation of the collective farms grew worse because local schools were closed and young people capable of working and those who had children of school age left.

There were cases when, because of the popular move toward more giant enterprises, economically strong collective farms with relatively small land areas were merged with other farms. The number of collective farms became still smaller as a result of this policy, but the number of state farms increased. The average area of collective farms and state farms also increased significantly (see Table 7).

Table 7. Number of Latvian farms and their areas as of January 1, 1981 by November 1, 1990

Type of Farm	Number		Total Areas		Agricultural Areas		Plowed Fields		Average Areas	
	1981	1990	1981	1990	1981	1990	1981	1990	1981	1990
	(thousand hectares)									
Collective	320	411	2,059.1	2,332.0	1,297.2	1,462.6	894.3	993.2	6,437.0	5,674.0
State, of district subordination	211	171	1,657.5	1,213.0	1,051.4	757.0	721.7	513.8	7,856.0	7,094.0
Others	161	291	155.5	184.9	96.8	104.0	67.2	71.7	966.0	767.0
Totals	692	823	3,872.2	3,729.9	2,455.4	2,323.9	1,683.3	1,578.7	5,597.0	4,532.0
Peasant	---	7,296	---	151.3	---	108.7	---	79.7	---	21.0

Table 8. Dynamics of peasant farm formation and their sizes

Dates	Number of Farms	Total Area	Hectares						Average
			Up to 10	10-19.9	20-29.9	30-39.9	40-49.9	50 and More	
4/07/90	7,065	1,460,000	1,276	2,466	1,992	809	314	208	20.7
2/10/90	7,227	1,487,000	1,340	2,506	2,033	823	315	210	20.6
2/01/90	7,518	1,547,000	1,444	2,596	2,079	854	328	218	20.6
1/04/91	7,908	1,615,000	1,536	2,765	2,135	895	337	214	20.4
1/07/91	8,912	1,779,000	1,820	3,218	2,281	958	366	269	19.9
1/10/91	9,162	1,827,000	1,900	3,318	2,330	970	367	277	19.9

In comparing 1981 to 1990, the number of collective farms and kopsaimniecibas in the first column increased significantly, but their average area decreased. The number and average area of the state farms also decreased. It was due, to a great extent, to the restoration of the individual farms category—peasant farms. The law regulating peasant farms was introduced in 1988; and the law instituting land reform especially boosted the growth of the peasant movement in Latvia. Dynamics of peasant farm formation and their size are shown in Table 8.

Table 8 demonstrates that farm area in comparison to the year of 1935 when the main instrument used to cultivate land was horses, is very small and tends to decline. The number of the smallest farms (up to 10 hectares) increased from 18.1 percent to 20.7 percent. The number of farms in the next group (10 to 19.9 hectares) also increased, from 34.9 percent to 36.2 percent; this is the largest group of farms. At the same time the number of larger farms had a tendency to decrease. An exception is the largest group (more than 50 hectares), which increased by 0.1 percent and constituted 3.0 percent of the total number. Currently, peasant farms occupy only 4.7 percent of the total area of agricultural farms. This shows that the process of their creation is just beginning.

New Legislation and the First Step of Land Reform

The basic law governing land reform is “On Land Reform in Rural Areas” (see Appendix A). It was highly disputed because it was the first law about ownership conversion in Latvia. Next, the Supreme Council accepted the law “On Land Use” and then began to consider “On Compensation for Land Property.”

What is the substance of land reform legislation? Latvian land reform is divided in two overlapping phases: the first takes place between 1990 and 1996, and the second covers a period of 10 to 15 years, starting on January 1, 1993.

In the first phase all land petitioners, including legal 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 land use projects had to be developed and ratified, and the land had to be assigned by January 31, 1992.

In the second phase, land users can obtain or renew (legal owners) their land ownership rights. Both the most important and the most disputed item was listed as point 1 of paragraph 12, where the priorities for satisfying land petitions were determined.

Priority number 1 is assigned to the legal owner, except when on his previous land holding or a part there are:

- Developed 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 farms 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 on the plot and if he has none;
- To construct individual homes;
- To meet the needs of inhabitants;
- To legal entities; or
- The present users of the land.

The following situations developed after this law was applied (see Figure 8).

- The total acreage subject to land reform is 6.3 million hectares, including 3.9 million hectares of agricultural land.
- 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 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, (mostly in the United States, Canada, Sweden, and Germany) with 1.400 or 2 percent living abroad.

The total acreage of requested land is 8 million hectares, which is 1.27 times more than the acreage submitted to land reform. The amount of land in rural areas that has not been requested by anyone is insignificant. If the person who has been allocated the land by the land commission does not till the land for a year, it can be reassigned.

The draft law "On Compensation for Land Property" proposes compensating former landowners for the unclaimed or unallocated land plots. Evidently, compensation will take the form of securities that may be used later in the privatizing process of other branches. At present, it is impossible to predict the amount of compensation, but the main idea is to compare it to rye yield from the particular plot of land and its price at the moment when the compensation process begins.

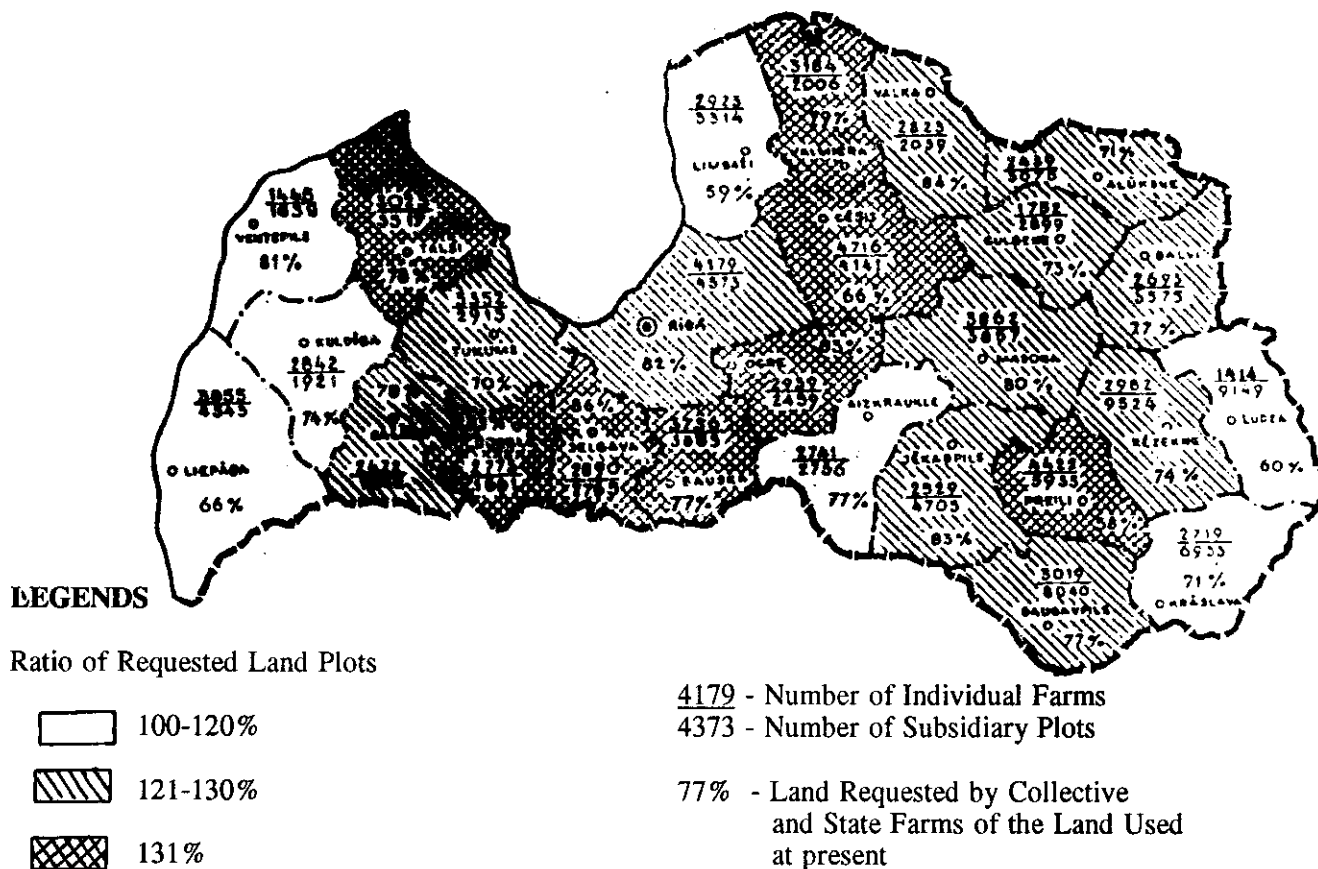


Figure 8. Cartogram of land requests analysis in Latvia

What is the prognosis for Latvia’s land reform?

Currently, no one knows how many of the requests will be satisfied and how the land will be distributed among the groups of requestors. However, the experts forecast that the average size of private farms and plots will be approximately 12 to 15 hectares, but the former collective (state) farms will have an average size of approximately 1,500 hectares. When the former collective farms (new company) distribute their assets in the future, this 1,500 hectares will be distributed among individuals who purchase inputs such as cattle sheds or cow farms, and the acreage for each of these private farms will range from 50 to 500 hectares.

The basic problem in the future will be small plots whose total acreage will be 15 to 17 percent of agricultural land. Requestors for small plots have a number of economic interests including:

- To get small plots for family food and the “black” market;
- To keep the former collective farm because this is a place from which these requestors can obtain cheap resources for home “workshops”;
- To keep food prices high because they produce work intensive and expensive food.

The perspectives of these plot owners can be seen from the analysis of changes in the number of peasant farms in neighboring Finland, Sweden, and Denmark (Figures 9 through 11).

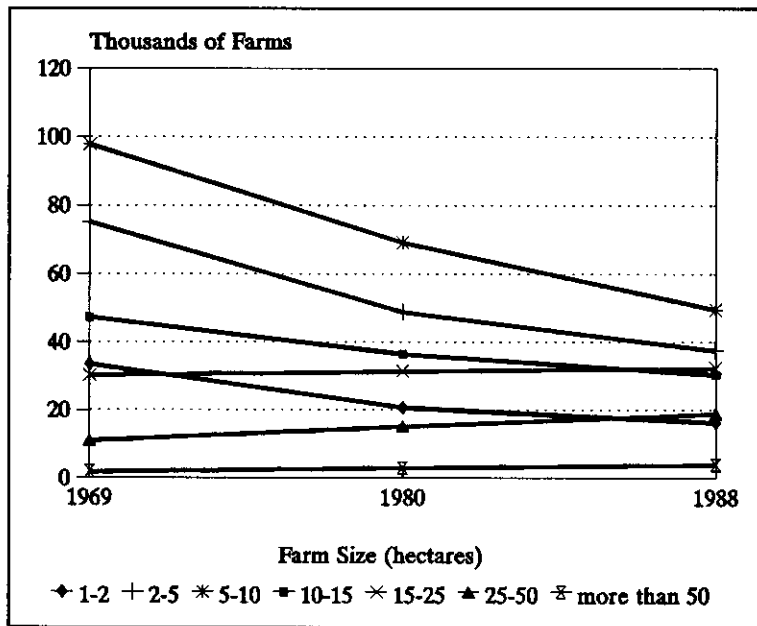


Figure 9. Changes in individual farm ownership, Finland

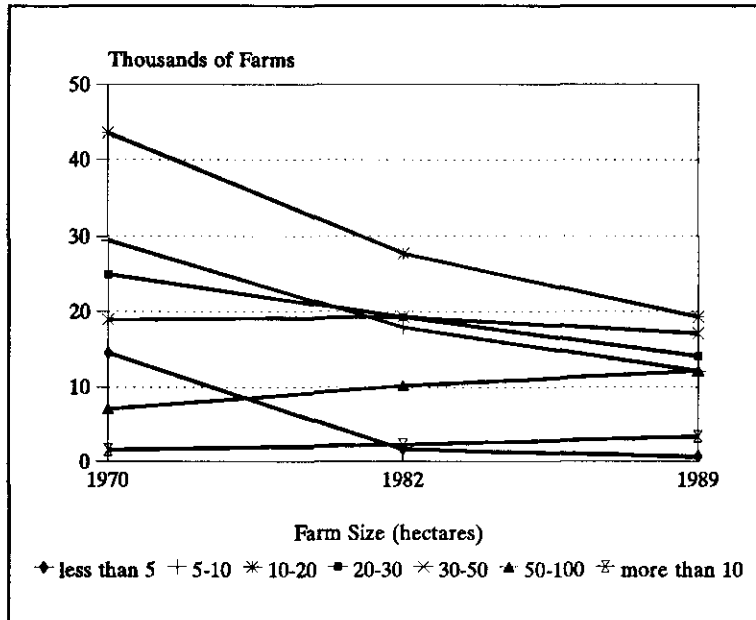


Figure 10. Changes in individual farm ownership, Sweden

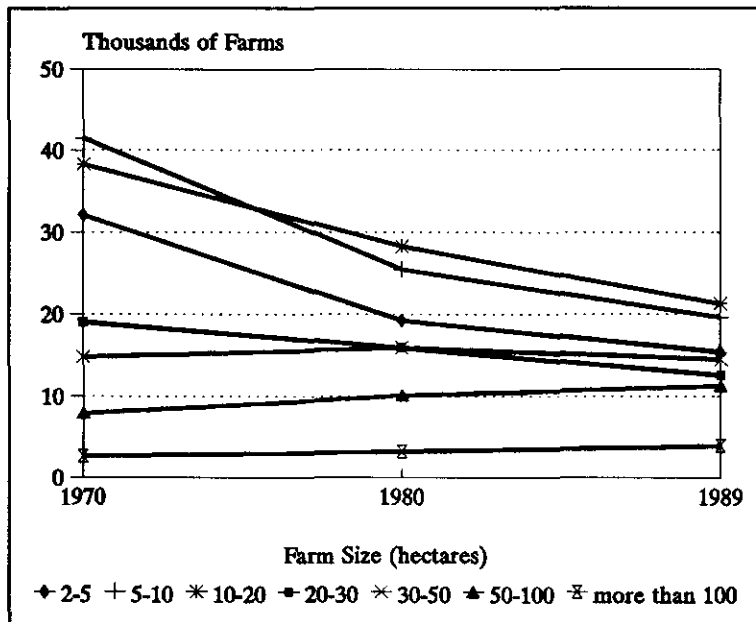


Figure 11. Changes in individual farm ownership, Denmark

Privatization of the Nonland Assets of Collective (State) Farms

Legislation in the Republic of Latvia has been, and continues to be, formed by defining how the ownership of each farm will change. Figure 12 is a representation of these changes.

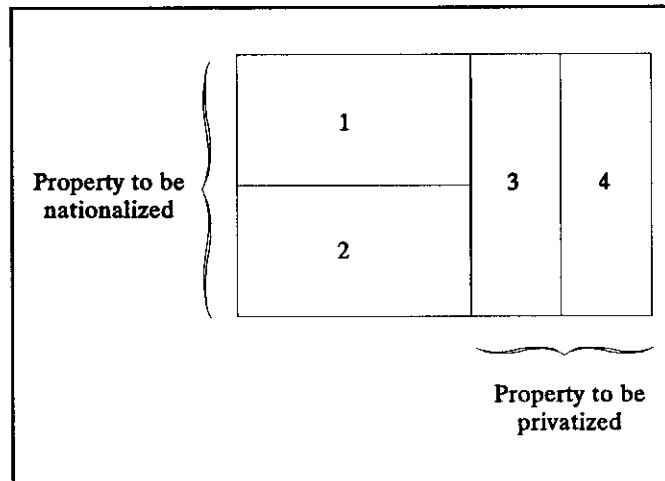


Figure 12. Schematic of proposed ownership changes for a typical Latvian farm

In this case, the preserved nationalized property is to be directly returned, the nationalized property that was demolished during the postwar years is to be compensated by the state, property collectivized in 1949-50 (according to archives date) is to be distributed on the certificate principle, and property of collective farms and state enterprises is to be distributed on a certificate principle.

Thus, the conversion of nationalized and illegally expropriated property in rural areas will be regulated by the law "On Land Reform in Rural Areas," the legislation On Conversion of State Property and on Denationalization of Real Estate, sections of legal acts on nationalized property, and the norms of judicial acts on denationalization. The Law "On Privatization of Agricultural Enterprises and Collective Fisheries" will be used to regulate the process of privatizing movable property and any real estate that was not nationalized. This law governs collective farms and state agricultural enterprises that have been set up on the basis of peasants' expropriated property.

While converting property, the Latvian government cannot afford to ignore the political aspect of this issue, and must deal with a wide range of related issues.

Land can belong only to citizens of Latvia, but the total number of Latvian citizens is not yet defined. Many problems that arise in connection with inconsistent recognition of property rights are

politically generalized. More Latvians live in the countryside than in urban areas, thus permitting privatization by means of certificates in the countryside while forbidding it in cities (for factories or plants). This policy may lead to mounting tension between regions.

Taking into account this contradictory legal status of present day Latvia and the political, socioeconomic, and demographic situation, the law "On the Privatization of the Agricultural Enterprises and Collective Fisheries" contains the mechanisms to regulate the privatization process so that it can respond to various aspects of the problem. There are seven economic principles of this law:

1. While changing the character of entrepreneurship and ownership in agriculture, it is necessary to maintain existing production capacities.
2. The principle of publicity should be observed when the property of an enterprise is being privatized.
3. The transition from collective (with limited liberty) business activities to private businesses (farms and service enterprises) must be gradual.
4. Because collectivization is illegal, it is admissible to buy out the property of agricultural enterprises on calculated parts of the capital, called certificates, with the current currency and other means of payment.
5. Specific items of collective farm property (tractors, cattle, and buildings) can be obtained through private ownership if the holder of the certificate becomes an entrepreneur (in any form of private initiative). However, movable property has to be divided in the way necessary to manage the real estate.
6. A certificate is a means to get, free of charge, property to start entrepreneurship, and not a way to make consumer payments. It is possible that, in the process of privatization, the certificates of those who do not want to start private business activities can lose their initial face value.
7. 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 problem of estimating privatizable capital exists for all East European countries. Great attention is being paid to this problem in the Baltic Republics, resulting in too much wasted time and money. It is a well-known principle that privatizable property will be priced according to how profitable it is for the state to privatize the enterprise; in other words, the willingness of both sides to sell and buy sets the price. For Latvia this problem is intensified by the lack of its own money. The capital of agricultural enterprises will be estimated according to laws from the Latvian SSR, which

declare that the property of a collective farm belongs to its members. Therefore, assets of the privatizable collective farm and those of the state enterprises that are of equal value will be estimated in a specific order:

1. Fixed assets are assessed according to the remaining value of the balance (that is, without the sum of amortization); and
2. Other assets are assessed according to bookkeeping data (see Appendix A).

The total sum of these assets must equal the sum of the privatization certificates in the enterprises, since all assets are the property of the members of the collective according to laws currently in force. Therefore, the fixed assets can be reevaluated according to their real value in case the previously determined balance is being observed. The total capital is equal to the sum of the certificates.

The distribution of shares is shown schematically in Figures 13 and 14.

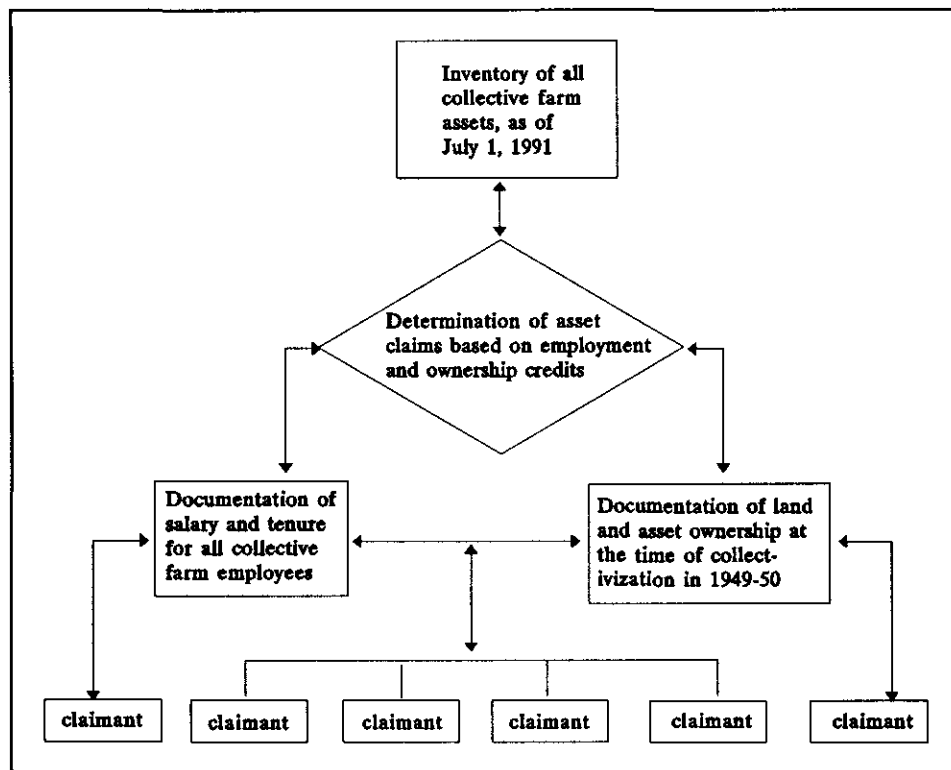


Figure 13. Method of calculating asset entitlement under the Latvian plan for privatization of agriculture

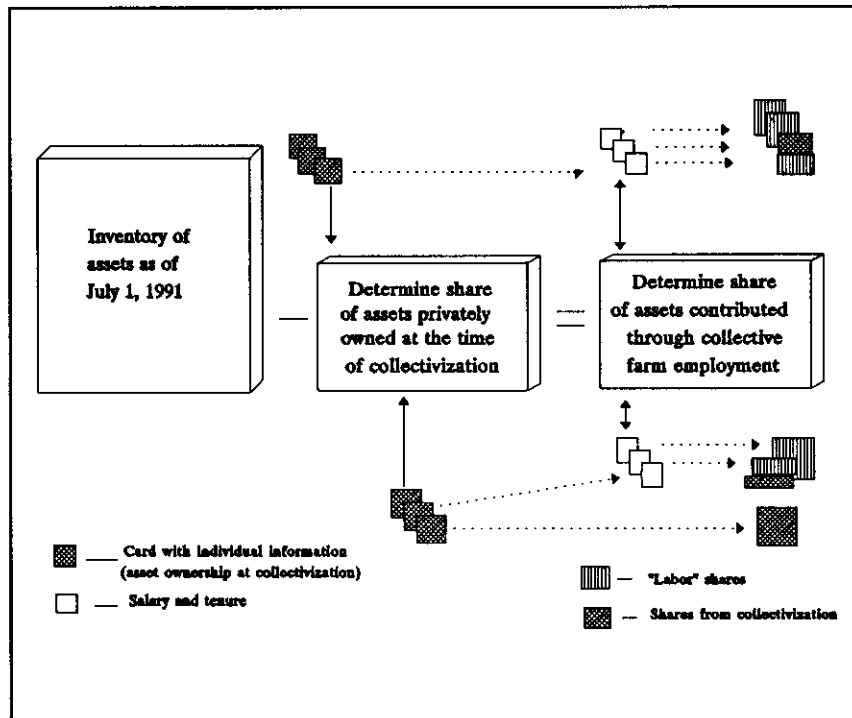


Figure 14. How shares are calculated for a collective (state) farm

The form of input and output information can be found in Appendixes A and B.

In the draft law "On the Privatization of Agricultural Enterprises and Collective Fisheries" it is envisioned that if the property of an agricultural enterprise is privatized by the entrepreneurs, the certificate holders, market relationships, including prices, will be used. Figure 15 and Appendix C illustrate examples of charters from two statutes of a former collective farm in the Valmieros district.

The following is a summary of the important points from this charter:

- The shareholding company is based on the collective farm according to the law, and its articles offer to participants the property included in the fixed assets.
- The initial price offered for concrete property is the price that is based on inventory and is included in calculation of the certificates.
- If the farmer or any other entrepreneur tells the executive body of the shareholding company that he wants to acquire a tractor, a farm, or any other commodity, and if after a month following the public announcement there are no other competitors, then this item becomes his property. He pays for it initially with a certificate or with any other approved means of payment.

- If there are other potential buyers, then the executive body arranges an auction, receiving certificates or any other means of payment, including those in the form of a loan from the shareholding company. These payments are for auction prices, which are above the initial prices.
- If the shareholding company considers it necessary to privatize an unprofitable enterprise, it can announce the sale at a price that is lower than the initial price.

As the sociological rating (by the end of 1991) of the collective farmers shows in the majority of cases, for total privatization of a shareholding company property, the executive body receives a lower price than the assessed value determined during the inventory (the real value of an agricultural input is lower than its initial price). Therefore, the executive body should recalculate the nominal value of the unsettled certificates (see Figure 15).

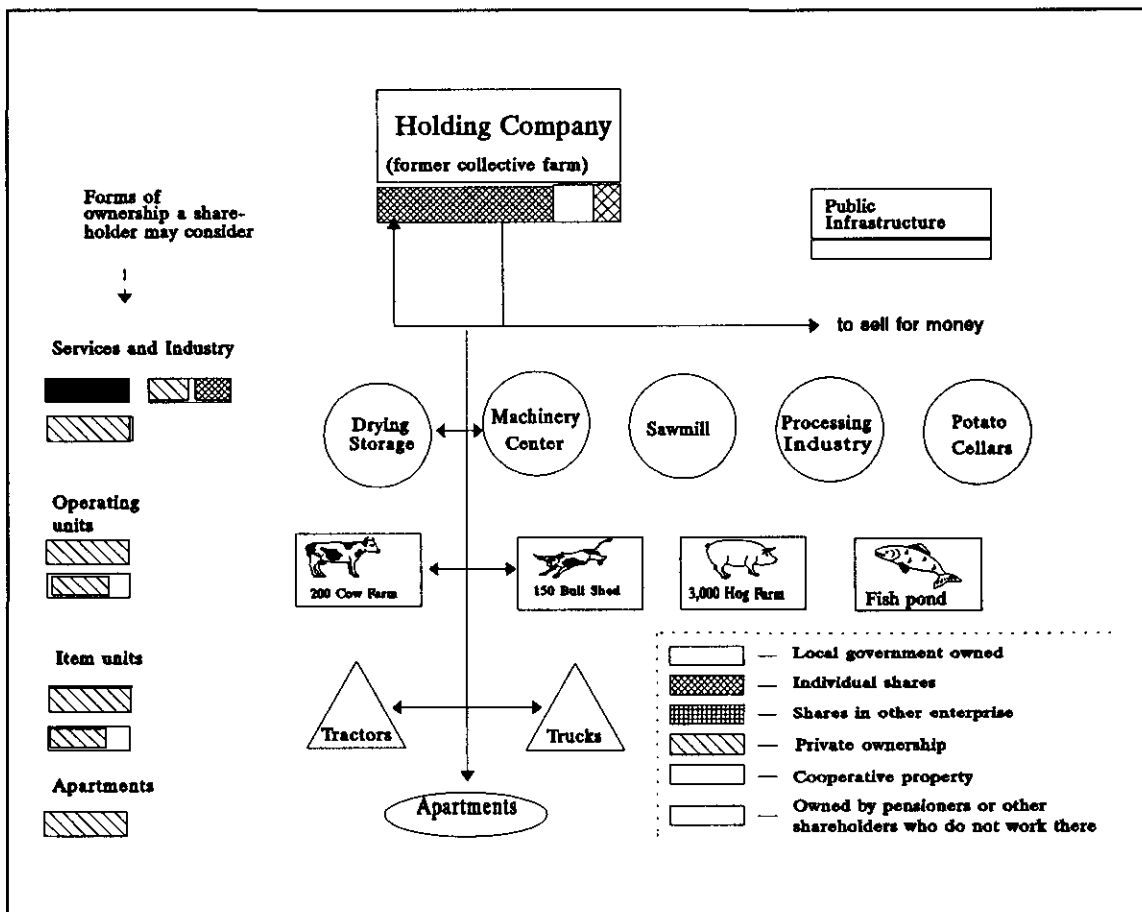


Figure 15. Opportunities for shareholders to manage their shares

However, considering the hyperinflation of the ruble at the end of 1991 and the beginning of 1992, this process will reverse itself and might be a tremendous stimulus for privatization and for speeding up this process in the countryside. If the basic means as well as the sum of the shares (certificates) of a company are recalculated according to the inflation rate, it is impossible to predict the actual speed of privatization of agricultural enterprises. The specific methods refer to the service and processing enterprises of the collective farm, such as mechanic shops, dry houses, and meat processing shops.

It must be guaranteed that, in the course of privatization, the entrepreneurs who are engaged in basic agricultural production (cultivation of plants and animal husbandry) are given the right to obtain control. The mechanism of their guarantees can be diverse: proportional to the managed area of land, proportional to the clients, or to the value of the certificates. While there are no mortgage-solvent institutions in Latvia, when finishing the activity of the enterprise both in the case of bankruptcy and according to the decision of the owner the liquidators have to observe the agricultural specificity prescribed by law, including the fact that the certificates (shares) in this particular case serve to determine the liquidation quotas.

This specificity shows itself also in the following way: after the demands of third persons are observed, the property is auctioned so that management of prospective real estate is preserved as much as possible.

Schematically, the privatization of collective and state farm property in its various entrepreneurial forms is shown in Figures 16 and 17.

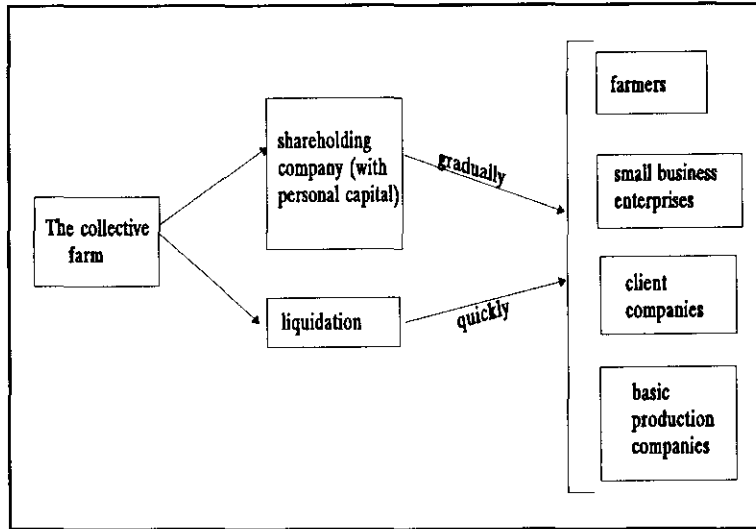


Figure 16. Entrepreneurial forms used in privatizing Latvian agriculture

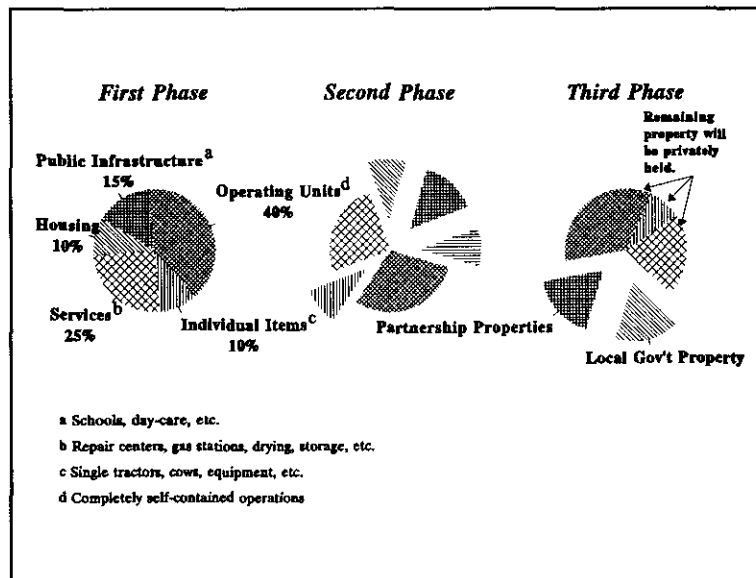


Figure 17. Principal distribution of collective (state) farm assets, first, second, and third phases

What are the general steps involved in the privatization of agricultural enterprises? What is provided in the law to obligate collective (state) farms to follow these steps? This process is presented graphically in Figure 18.

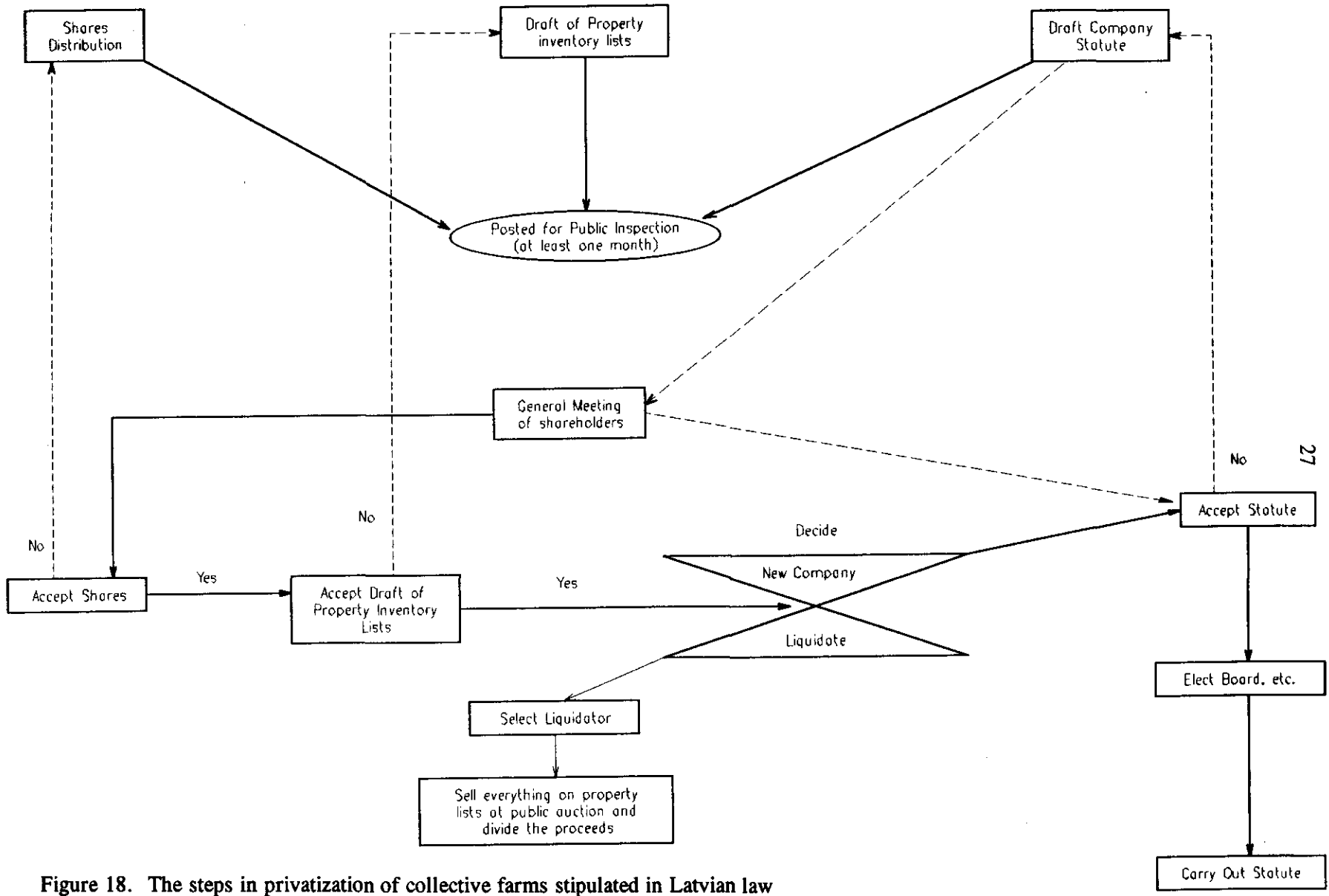


Figure 18. The steps in privatization of collective farms stipulated in Latvian law

Reform and Scientific Research on Collective Farms

All data will be collected in three phases: before, during, and after land reform and privatizing of collective farms. The data will be collected at six or seven different farms in the program, but data availability and collection throughout Latvia will depend upon the situation of the state statistical collection system.

Data will be organized into three general categories. The first category is the dynamics of agricultural resources and changes in efficiency from system and procedural changes.

Land ownership and use will be examined from the perspective of the changes between the collective farm and new company. Other specific information will be gathered about individual farmers, subsidiary plots, local government involvement and the effect of changing policies, and the effects of these changes on the new owners.

The next data category is a breakdown according to resources for each hectare or acre of farmland. Data about livestock will be categorized into cows, cattle, pigs, chickens, and other. Energy capacities will be examined in relationship to mechanical farming implements, animals used to pull plows, as well as the energy expended by each person involved in the farm. Other farm implements and labor division and employment levels will also be evaluated.

Because of the continuing problems related to currency inflation, data related to efficiency will be quantified according to other units of measure, namely kilograms, grams, and calories. It will be subdivided according to production per hectare and one person or farmer family for products such as milk, meat, grain, potatoes, and wool. Resources expended per ton of basic production will be evaluated as expenditure of labor, power, fuel, and other related inputs. Profits, income, expenditures, and value ratios will be compared. We also intend to evaluate investments of each laborer and for each hectare or acre that is included within the farm.

Changes in collective farm asset ownership will be divided into three categories: operating units, machinery, and services (Figure 19). Public infrastructure, including schools, and housing will also be part of this component. The final area of data collection will be at both the local and area level to determine how the new owner structure of agriculture will affect communities and services (Figures 20 and 21).

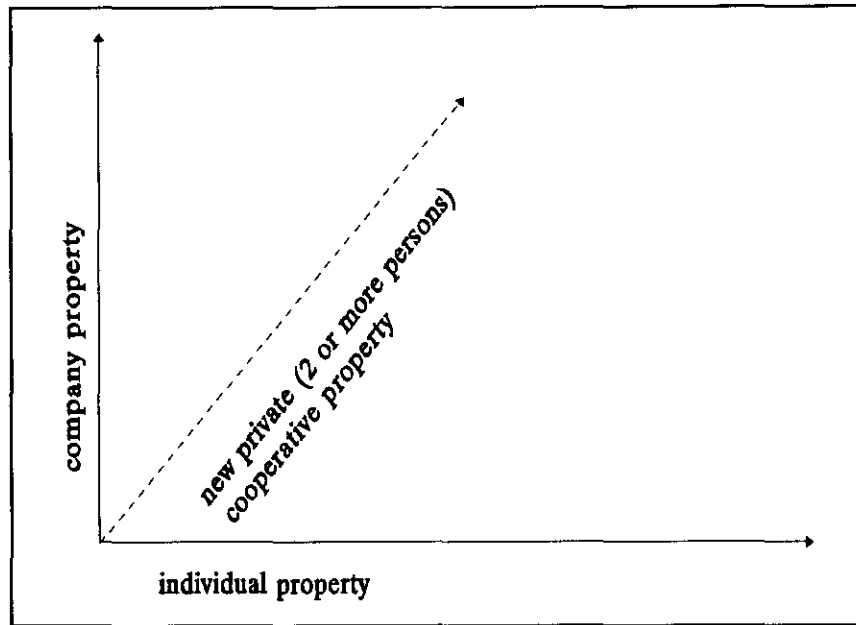


Figure 19. Categories of information collection for state farm asset changes

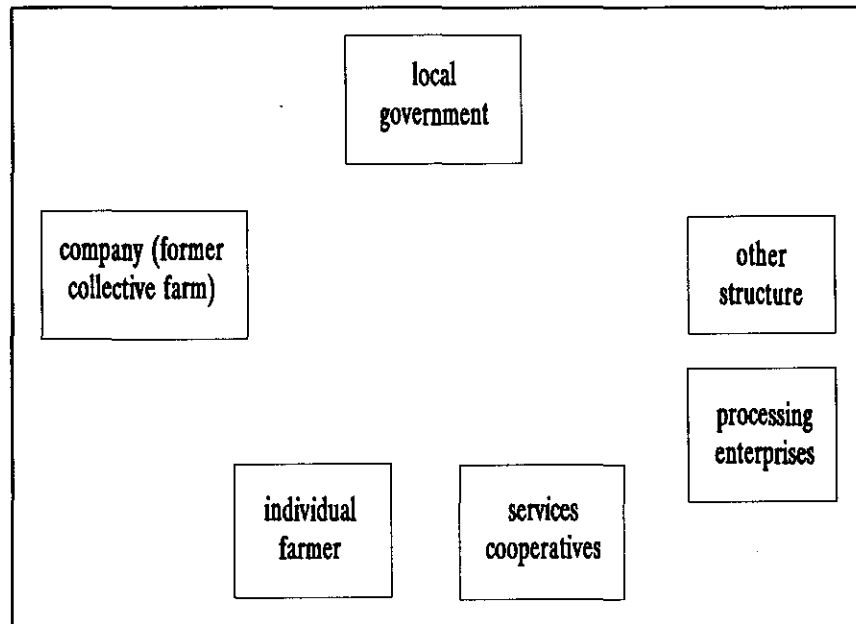


Figure 20. Local level data collection

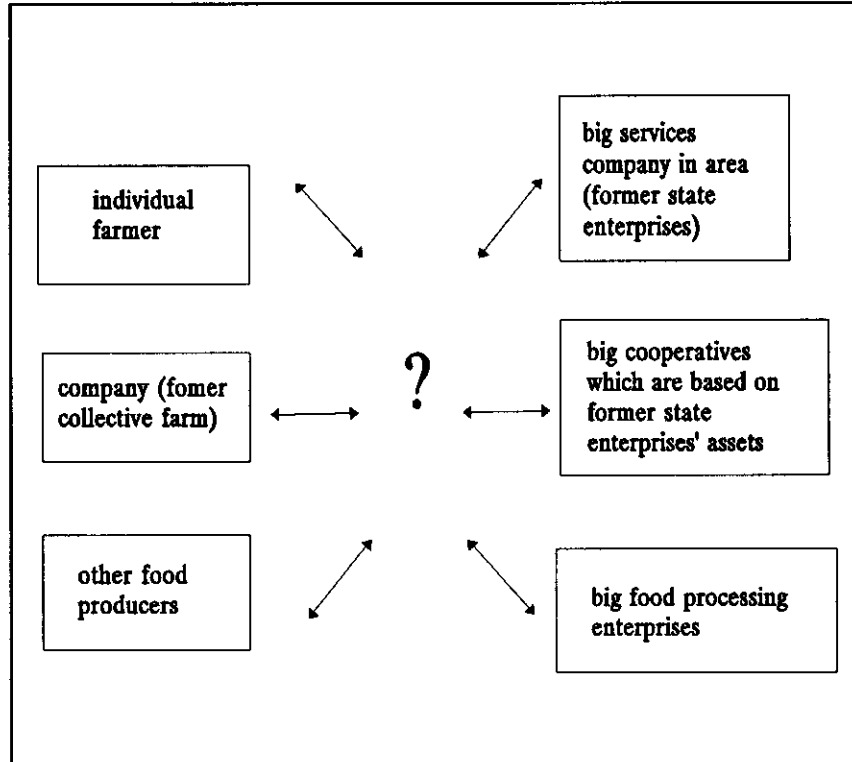


Figure 21. Area level data collection

Conclusions and Proposals

Converting ownership rights of farmland to private farmers will be different from the privatizing of other agricultural assets. Land reform will be more administrative than other reforms involving agricultural inputs and equipment.

The first step in land reform will be to allot land to all those requesting it for their own *use*, but not their *ownership*. The second step will give these land users who have tilled their land well the opportunity to assume actual ownership. Those who owned or inherited land before it was nationalized in 1940 and who are granted land use rights on a trial basis as described here, do not have to pay again for the land. But new land users must buy the land if they have no such prior claim to it. The Latvian Supreme Council must set these land prices.

Other agricultural assets, including both those socialized during collectivization and those developed or acquired afterward, such as new buildings and machinery, will be distributed among

claimants. The law defines *claimants* precisely as primarily employees or those whose property was collectivized (or their heirs). The law does not set a deadline for reclaiming this farm land. Every claimant is guaranteed that he or she can obtain the property from the collective farm when it is personally convenient.

Because these rules are not so precise, it is certain that there will be disagreements between land owners and owners of other rural assets, such as buildings, which are not included in this reclamation process. Latvian agrarian reform is absolutely necessary, as well as being legal and politically correct. The biggest task, however, is to not permit food production to decline while land ownership is evolving.

The Latvian government must work to help farmers and potential farmers adjust to the concept of private ownership. People are not accustomed to risk taking or assuming responsibility for initiatives and change, but they envy those who are beginning private business by requesting property from the share companies. The government needs to train its citizens to become private entrepreneurs who are responsible for their own businesses.

After price controls on food were lifted on December 10, 1991, prices were influenced only by the producer and processing enterprises, but consumption declined sharply due to high prices. This system does not encourage privatization among food producers. The driving force behind privatization is the hyperinflation of the ruble. A claimant's shares are established in rubles and the prices of items listed in the property inventories are in "share rubles," which are considerably lower than the prices of machinery, livestock, and other inputs on the "black" market.

An initial analysis of land requests indicates that, following reform, many rural residents hope to manage successfully a small subsidiary plot. If these land requests are granted, there will be a level and distribution of agriculture similar to that of 70 years ago.

An Invitation

We would like to encourage proposals from Iowa State University researchers to assist us in managing privatization. We are primarily interested in the following topics or areas of expertise:

1. Organization of an entity to manage all ownership rights and owner responsibilities in a free market economy, including legislation governing supervision of institutions and mortgage systems.
2. Antimonopoly legislation and the supervisory system to enforce the legislation.
3. Organization of rural cooperatives.

4. Process of educating the rural population to make them entrepreneurs rather than employees, teaching them to lead rather than to follow. What methods would be effective in retraining people and changing their attitudes toward work?
5. Elaborating rules for organization of auctions both for privatizing farm assets and selling farm outputs.
6. Elaborating mechanisms for transmission of collective (state) farm owned public service objects (kindergartens, heating systems, water-supply systems) from farms to local governments.
7. Developing rules for privatization of processing, agro-service, and trade enterprises.
8. Elaborating methods for estimation of agricultural production efficiency before and after privatization.

These are only a few of the major problems that Latvia needs to solve. We at the Latvian Research Institute of Agrarian Economics look forward to receiving proposals suggesting solutions to these problems.

APPENDIXES

**Appendix A. Economic and Property Indices of a
Collective Farm for Calculation of the Shares**

Total divisible capital of the enterprise (1.-2.), in thousand rubles	_____
1.0 Assets-total, in thousand rubles	_____
1.1 Basic means on the balance, the value of capital repairs included, the wear subtracted	_____
1.2 Circulating capital in actual purchasing prices	_____
1.3 The value of the unfinished production process and building under construction	_____
1.4 Monetary resources	_____
1.5 The sum owed by debtors	_____
1.6 Value of the property lent and sum of money lent	_____
1.7 Means invested in joint farm enterprises and other enterprises and companies	_____
2.0 Reduction in rubles, including	_____
2.1 Value of the property, the ownership to which is doubtful at the moment of reorganization	_____
2.2 Value of the drainage work and amelioration done at the expense of the state budget	_____
2.3 Money that should be repaid to the creditors, except long- and short-term bank credits	_____
2.4 Other means that are not included into total divisible capital of the enterprise under reorganization (according to the regulations on collective farms)	_____
3.0 The share of state and legal entities in the divisible capital	_____
4. Unrepaid long- and short-term bank credits	_____

Appendix A (continued)

Sum of payment for work and workdays in years

Years	Work days	Man days	Years	Work days	Man days
1949			1971		
1950			1972		
1951			1973		
1952			1974		
1953			1975		
1954			1976		
1955			1977		
1956			1978		
1957			1979		
1958			1980		
1959			1981		
1960			1982		
1961			1983		
1962			1984		
1963			1985		
1964			1986		
1965			1987		
1966			1988		
1967			1989		
1968			1990		
1969			1991		

Appendix B. Individual Card for Calculation of Shares

Shareholder's
No. in the list _____

SURNAME

NAME, PATRONYMIC

PROPERTY, IN RUBLES

COLLECTIVIZED BUILDINGS	_____	Relationship to
LIVESTOCK	_____	<u>the shareholder</u>
IMPLEMENTS	_____	<u>Nr. %</u>
IN SHARES	_____	_____
IN INDIVISIBLE FUNDS	_____	_____
PAID OUT	_____	_____

LABOR INVESTMENTS (in work-day units or in payment for work)

Years	0	1	2	3	4	5	6	7		
195—										
196—										
197—										
198—										
199—			2	3	4	5	6	7	8	9

The shareholder (please draw a circle around the corresponding answer):

1. is a member of the collective farm;
2. has died;
3. has been elected to or transferred to some other work;
4. has retired from the collective farm or has been disabled while working in the collective farm;
5. has established a family farm;
6. has withdrawn on his own or has been excluded from the collective farm.

**Appendix C. Excerpts from Laws Governing Allocation
of Company's Shares and Property**

- 7.1 The company's shareholders are free to buy, sell, and allocate among themselves the shares at prices mutually agreed upon. The transfer of ownership must be registered by the executive body and corresponding alterations should be made in the share certificates. The holders of the employer's may alienate¹ their shares only to the company or to other holders of employees shares.
- 7.2 It is within the company's obligations to accept a written application and share certificates of the participant, if he expresses a wish to alienate them.
- 7.2.1 If the participant wishes to alienate his shares and to receive payment in cash, the executive body should offer them to other participants. If there are several claimants for shares to be alienated, the shares are sold in proportion to the value of shares they are already holding. If there are no claimants for the shares from the participants, the executive body is competent to sell them at the price calculated in accordance with the statute. If the executive body has not sold the share certificates within a month, they should be returned to their holder, who is free to alienate them; or the executive body may sell the share certificates, with the consent of the holder, below their face value. In these instances the company should reregister in three days time the alienated share certificates together with the participants announcement and documents that prove a legitimate transfer of shares from one holder to the other.
- The company has the right to obtain its own shares, correspondingly reducing its fixed assets (statutory fund) and destroying the certificates. In these instances the company is competent, after the decision is carried out by general meeting, to pay out the alienated part in cash. If the company does not reduce its fixed assets (statutory fund), but obtains the participants shares, the company is obliged to sell them within a year from the moment of acquisition. During this period the share has no voting rights.
- 7.2.2 If the alienator wishes to obtain the property included in the fixed assets (statutory fund) and listed in the inventory as subject to privatization for his shares at their face value or above), the relations between the company and the participant are regulated by chapter B of the present statute.

¹The term *alienation* refers to relinquishing property as part of the process of privatization.

Appendix C (continued)

**Property Inventory of a Company and
the Procedure for Company's Property Allocation**

- 8.1 The foundation meeting of a company, but during its action the regular general meeting ratifies the property inventory. It shall include technologically and organizationally indivisible fixed assets, current assets, and uncompleted capital construction, wherein the movable property (asset part and working part of fixed assets) is separated from the fixed property only in case when such a division does not preclude business operations with fixed property. The value of these property subjects should be the least possible. The value of the objects in the inventory should coincide with the total of capital shares of a company.
- 8.2 Procedure for Company's Property Allocation.
- 8.2.1 Allocation of the company's property to the company's individual participants or groups of participants (capital shareholders) shall be carried out only in accordance with the property inventory.
- 8.2.2 If the company's participants wish to use in their independent entrepreneurial activity any property included in the fixed assets of a company (statutory fund) and listed in the inventory to be privatized by appropriating this subject at its value in the property inventory, they shall notify the company's executive body in written form to this effect. The company's body in turn shall notify all the company's participants to this effect in two weeks' time.
- 8.2.3 If within a month after the notice there are no claimants for the property to be allocated, the company allocates the item to the claimant for a certain consideration, including a sale and purchase treaty.

If within a month there appear to be other claimants—participants of the company—for the property to be allocated, the executive body shall set up an auction for this property. The company itself may not take part at such auction.

If the property inventory lists buildings that have been joined as a result of collectivization, priority to obtain these buildings is given to the persons who joined them or their heirs; the accounts are settled according to the value in the property inventory.

Appendix C (continued)

If the property inventory lists cattle to be sold by piece, the purchasing priority is given to those participants of the company or their heirs who have joined corresponding cattle (according to type and number) in the process of collectivization.

8.2.4 Settlements in connection with acquisition of this property may be carried out:

1. with own capital shares;
2. by taking over the company's long and short credits subject to redemption;
3. with circulating money and other payment tools;
4. payment obligations to the company with the consent of the company.

If the property to be allocated is claimed by only a single participant, the settlement means should be chosen through an agreement with the company. If a participant wishes so and if the face value of his shares is sufficient, he is entitled to the right to settle his accounts only with his capital shares.

If the property to be allocated is claimed by several participants of the company, an auction shall be held; only capital shares of the company shall be used as a means of payment. Other settlement or payment means may be used at such an auction provided there is unanimous consent of the company's participants claiming a given item of property.

In instances when the property to be allocated has a monopoly status in the company's service and production, the executive body and the acquirer of the item shall conclude an agreement of economic relations for the term of at least one year, under the condition that for at least one year the new entrepreneur should preserve the production or service specialization of the object.

8.2.5 Auxiliary facilities providing services are separated as independent enterprises, provided that the entrepreneurs of the pagasts (farmers and others) involved in basic production are granted the rights to acquire at least 51 percent of the capital shares. The capital shares of these enterprises can be obtained in proportion to land areas and to shares calculated by the company. If the farmers and other entrepreneurs of the pagasts have not claimed their rights to the property subject to be allocated with a month after the notice, the executive body is to act according to paragraphs 8.2.2 - 8.2.4 of the statute.

8.2.6 If the executive body deems it expedient to allocate (privatize) any of the property from the inventory list, it can conduct an auction. In this case the initial price can be set lower than the one listed in the inventory. If within a month nobody has claimed the property the executive

Appendix C (continued)

body is allowed to lower the price. If the price of the property has sunk by 50 percent compared to that listed in the inventory, the executive board may conduct an open auction (other persons than shareholders may also participate). If a participant of the company takes part in the auction, he has priority for the property when the bids are equal.

- 8.3 If by mutual agreement with the self-government a part of assets not included in the division of shares are a part of the fixed assets of the company, then, irrespective of when the share has been alienated, the face value of each share is increased.

**Appendix D. Property Inventory Lists and the First Prices of Property
Example from the Collective Farm Skanaiskalus**

Number	Unit Group and Name	Value	Selling Price
			(rubles)
1.0	Operating Units		
1.1	Cows-shed "Fannate" (72 cows)	103,662	
1.1.1	72 cows	82,800	
1.1.2	Barn	4,392	
1.1.3	Granary	1,689	
1.1.3	Milk cooler	1,207	
1.1.4	Three tractors	1,830	
1.1.5	Equipment for tractors	2,564	
1.1.6	Grain combine	3,470	
1.1.7	Other		
1.2	Pig farms	440,485	
2.0	Services		
2.1	Repair center	673,418	
2.2	Drying storage	353,585	
3.0	Public infrastructure and municipal services (owned by collective farm)		
3.1	Club	500,000	
3.2	Heating system	140,000	
3.3	Other		
4.0	Apartments		
4.1	Twenty-one unit apartment house (Bereu str. 13)		
4.1	Apartments 1 (55 m ²)	24,679	
4.2	Additional apartment		

Appendix D (continued)

5.0	Machinery		
5.1	Tractor T-150K	13,033	
5.2	Car GAZ-52-1	11,166	
5.3	Combine CK-5	1,438	
5.4	Other		
	Total (.1-.5)	7,926,150	

Notes: Total shares are 7,926, 150 rubles also. When shareholder buys shares or something from property inventory lists, board will make these units new inventory and change prices for change value. If there is more than one claimant for one unit from the property inventory list, the board will organize an auction. The first price of the item in this auction will be the price from the property inventory list.

DATA SOURCES

Agrarian Reform in Latvia. 1938. Riga: Latvian Ministry of Husbandry.

Agriculture in Latvia. 1991. A Collection of Statistical Data. Riga.

Agrifacts about Latvia. 1992. Riga: Agroinformacija Publishing House (available in English).

Land, Peasants and Their Labor in Latvia. 1940. Riga: Agricultural Board.

The Latvian Government's Policy on the Development of National Economy, 1991-1992. Riga.

Pirksts, V. 1991. "The Size of Latvian Farmsteads—the Way It Used to Be, the Way It Is, and the Way It Will Be." *Lauku Avize* December 6 and 12, 1991.

Zile, R., A. Miglavs, I. Sudraba, and J. Meijubers. 1992. "Privatization of Agricultural Enterprises." *Eko-la* 2:3-95.

Note: Sources are only available in Latvian, unless noted otherwise.