Understanding the Process of Decollectivization and Agricultural Privatisation in Transition Economies: The Distribution of Collective and State Farm Assets in Latvia and Lithuania

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Understanding the Process of Decollectivization and Agricultural Privatisation in Transition Economies: The Distribution of Collective and State Farm Assets in Latvia and Lithuania

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Abstract

This paper aims to address two key issues in the agricultural economics of transition economies: (i) what do we understand about the process of agricultural transformation in transition economies with respect to the distribution of collective and state farm assets and why is this process so important; and (ii) why the Joint Stock Company model of agricultural privatisation in transition economies, should be considered a "transitional" enterprise form, and not as an end in itself.

JEL Classification: L33, Q15, Q18

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1. Introduction

In the transition economies[1] of the former Soviet Union (FSU) the term "agricultural privatisation" refers mainly to the allocation of both legal ownership rights and effective property rights to individuals and, or private institutions. Restitution refers to the type of privatisation policy pursued to return property rights to "legitimate" owners. Often the restitution of assets may be limited by the fact that these assets no longer exist. However, this paper is primarily concerned with the transformation, namely the restructuring and conversion of state (*sovkhoz*), collective (*kolkhoz*) farms and agro- processing units (*agro-industrial complexes*) into market-oriented private enterprises. This transformation requires both a clear legislative framework within which the process may take place, but also often significant structural and organisational change. The viability of the eventual enterprises that emerge from the formerly Soviet style farms, will be crucial to a firm's long term survival and more generally the future prospects of the agricultural sector. A useful extension of the term transformation, to include what Pryor (1992) defines as

> *"the break-up of large scale farms, organised either as co-operatives or state enterprises into individually operated farms and their creation as autonomous production units independent of the government. A change of ownership of these farms, e.g., a conversion into a cooperation in which the workers or others hold stock but the essential farming operations remain roughly the same, is quite a different matter and can occur with much greater ease,"*

is decollectivization; the creation of individually owned firms.

Throughout Central and Eastern Europe (CEE) and the FSU, farms have tended to reorganise as relatively large units, with some downsizing. In many transition economies, the former *sovkhoz* or *kolkhoz* often remains intact, functioning in its traditional way but simply under a new name, usually as a joint stock company (JSC) or a limited liability partnership. Two additional forms of agricultural organisation have emerged out of the process of transformation in the FSU: (i) the separation of a multi-village enterprise into

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[1] The term transition economies is used to describe the new political geography of Central and South Eastern Europe (Albania, Bulgaria, the Czech Republic, Hungary, Poland, Slovakia, Romania), the former Yugoslavia and the republics of the former Soviet Union (Russia, Ukraine, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan), Mongolia, and the Baltic States.

several village based enterprises, whilst retaining the control and management of collectively owned assets and land; and (ii) as is increasingly popular in the Baltic States, the complete dismantling of the former *kolkhoz* or *sovkhozes* into small family farms, where all physical assets and land are distributed between members. In some instances, producer based Agricultural Associations formed between private farmers are emerging out of the large-scale farms. Indeed, large-scale farming still plays an important role in the agricultural economies of the Baltic States at this stage of transition.

So why is this paper discussing the institutional and legal aspects of the process of agricultural privatisation in the Baltic States, as distinct from the privatisation techniques pursued in the industrial and manufacturing sectors? In the latter sectors, the establishment of property rights usually plays a comparatively minor role in the eventual transfer of ownership, and assumes that the new owners will manage the restructuring to protect their assets. Typically, privatisation in the industrial and manufacturing sectors is characterised by the separation of ownership and control, often taking the form in transition economies of a transfer of shares from the state to new owners in the form of a shareholding enterprise. Peev and Hare (1995) show that although questions concerning the “efficiency” of discretionary boardroom or managerial behaviour in transition economies have been raised, industrial privatisation has tended to create firms technically and organisationally equipped to react to a changing and often volatile competitive market environment.

This however, is not necessarily true of “privatised” *kolkhoz* or *sovkhoz* farms, which are difficult to transform according to the model of an industrial shareholding firm. Indeed, given this model of the corporatisation of collective or state farms, a shareholder farm comprising e.g. 3,000 ha and 400 owner-employees has no obvious market economy counterpart [Brooks and Lerman, 1995]. As this organisational form does not exist in any mature market economy, it is reasonable to suggest that it is a model not suited to a competitive environment. Thus, it could be argued that the straightforward transfer of ownership to *kolkhoz* and *sovkhoz* farm employees would (even in the medium term) not necessarily create economically viable or competitive enterprises. On the contrary, in many cases this process has encouraged increased lobbying and rent-seeking activities to subsidise these enterprises. This is why a study of agricultural privatisation, namely the process of re-distributing of *kolkhoz* and *sovkhoz* farm assets is distinct from that pursued in industrial privatisation, and of interest.

Often the process of decollectivization, has not led to the development of appropriate incentive structures as often no “true” sense of ownership is developed, because the previous *kolkhoz* management has retained control. However, Abrahams et.al., (1996) show that in some CEE countries, shareholding within large-scale farms has undergone radical restructuring, where a clear separation of ownership and control is beginning to emerge, and often these new enterprises do not guarantee employment for their membership. Despite the fluid political and social dynamics underlying the process of decollectivization in the Baltic States, the inadequate regulation of the process and the social tensions (many remain unresolved) reflected by often intense political debate between parties and particular interest groups that transformation policies arouse, there is a gradual movement away from the traditional model of a “labour managed firm” in the CEFTA[2] countries.

This paper posits an alternative “model” of privatisation, against which two case studies of the Latvian and Lithuanian experience, progress and pitfalls on the transformation of their agricultural sectors will be compared. The paper will analyse the process of decollectivization, the privatisation of non-land assets, agro-enterprise reform and the legislative environment within which these changes are taking place. It is argued that in transition economies, the Joint Stock Company (JSC) model of agricultural privatisation although initially useful, should be considered a “transitional” enterprise form, and not as an end in itself.

In Latvia and Lithuania a mixture of restitution and the equal distribution of formerly collectivised property has resulted in the excessive fragmentation of agricultural land. The resulting farms as units of production, are usually too small to be commercially viable (especially as productivity levels per person and per ha are very low by western standards),

[2] The Central European Free Trade Area (CEFTA) countries include: Hungary, Poland, Czech Republic and Slovakia.

even if *ceteris paribus* the economic environment was more positive. However, this mainly reflects a change in ownership rather than of operation, as unofficial lease arrangements are quite common, due to the inadequacy of the existing land markets. This paper will also consider the specific legislation applied to different subsectors of agriculture, whilst examining the process of decollectivization and privatisation, providing insights into typical procedures.

2. A framework for agricultural privatisation

The privatisation of agro-industrial enterprises is central to the overall reform of the sector in transition economies. The economic justification of privatisation is that the transfer of productive assets to those who have an active interest in using them most efficiently, and the improvement of these assets through new investment, is ensured. Privatisation is often seen as the most fundamental prerequisite for restructuring, economic reform and the development of business relationships which encourage commercial competition and improve productivity. However, the success of the agricultural privatisation process will depend to some extent upon the "enabling environment,[3]" the political climate, and appropriate and adequately implemented laws which encourage private enterprise, and calculated "risk-taking" activities.

Throughout CEE agricultural privatisation programmes have taken various forms: (i) for small scale enterprises such as shops and other retail outlets public auctions have generally been preferred. These sales have mainly been conducted by local and regional authorities under the supervision of a national privatisation agency. In many transition economies, food enterprises have often formed a significant portion of the initial tranches of privatisation; (ii) the leasing of state-owned assets, often to the existing management and staff of an enterprise, is a widely used approach in agro-industrial privatisation; (iii) for larger scale enterprises, mass privatisation schemes have included the distribution and/ or sale of privatisation vouchers to all citizens, as in Russia and the former Czechoslovakia, or investment fund shares as in Poland. However there are a number of specific impediments

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[3] In transition economies, international lending agencies have encouraged governments to address the so-called "enabling environment" for agriculture. Thus, the chief role of government is to ensure that potential investors meet as few barriers as possible, and that problems in marketing, distribution and production are overcome through private enterprise and investment, rather than direct government intervention. In agriculture, this direct intervention usually takes the form of producer price supports, consumer price subsidies, and subsidised inputs. However, recently, there has been emphasis placed on non-interventionist policies, such as direct income support, which do not significantly affect the incentive structure. Governments should not only aim to create an enabling environment, but also to be policy neutral in its treatment of economic sectors. Policy neutrality involves the degree to which a policy affects incentives. Common inter-sectoral distortions i.e., a non-neutral schedule of tariffs and different taxation treatment amongst different sectors may be expressed both vertically and horizontally (a vertical view includes different industry stages: a horizontal view examines all firms at the same stage).

to agricultural privatisation in transition economies: labour specialisation, poor infrastructure, a lack of market economy support institutions, and conflicts between retired and active members of farm and agro-industrial units.

If the main result of privatisation was simply the substitution of private monopolies in place of state monopolies, the process would have both failed and been counter productive (unless market entry is allowed). Therefore, it is essential that the transfer of ownership in agro-industry is accompanied by the break-up of monopolistic structures into a number of independent potentially competitive enterprises. This paper shows that demonopolisation is not a simple process. However, the model that is proposed here would operate on three levels: (i) creating a suitable "enabling environment"; (ii) restructuring at a sub-sectoral and individual enterprise level; and (iii) specific institutional changes during the "initial" and "later" phases of privatisation. With regard to the creation of a suitable "enabling

- *free trade and industrial demonopolisation must be introduced*. To improve agro-industrial productivity and reduce the unit cost of processing, inter-enterprise competition must be effectively fostered. Most transition economies remain at a substantial disadvantage vis-à-vis western Europe in this area. This means that the dismantling of larger plants into smaller self-contained units (where possible) and the entrance of new plants to compete alongside existing facilities is important. Poor transportation and marketing infrastructure may inhibit an agro-enterprise from competing in another firm's traditional market or locality. In a minority of cases, the economies of scale in processing will require rationalisation along natural regional monopoly lines, rather than unconstrained competition. For example, in the sugar processing industry the benefit from increases in the capacity of individual units is usually so great that the economic imperative is to reduce the number of processing plants and subsequently to rationalise them, rather than to increase them. We would also expect that restructuring would have an important industry-wide transition impact on other domestic sugar firms through competition promotion, and competitive advantage (by squeezing out smaller domestic producers), by “bidding-up” industry quality standards.

- as previously noted, privatisation is a necessary but not sufficient condition for improving competitiveness and productivity in industry. Regarding the agro-processing sector, *privatisation will need to move beyond the relatively limited model of the joint stock company into a widening of share ownership*. This should be accomplished in such a way as to attract external investors, undeterred by the potential control of the enterprise by vested interests. Thus, these firms should eventually be run by competent managers accountable to independent shareholders, whose main interest is a return on capital.

- *improved management performance and investment in new equipment and facilities*, are essential if technical performance and productivity in the agro-processing sector is to improve.

At the level of sub-sectoral and individual enterprise restructuring the following will be important:

- during the initial transition period of stabilisation, due to rapidly changing price relationships, a significant part of agricultural and agro-enterprise production will need to be relocated to areas with a greater comparative advantage; and such units will need to be broken-up. The physical relocation of agricultural production to areas of comparative advantage should enable the correction of structural problems most often related to the original (centrally planned) decisions about the location, size, personnel, and technology of the enterprise; and often limited raw material availability due to reduced farm output and the early fragmentation of farming to be overcome.

Regarding specific institutional changes during the “initial” and “later” phases of privatisation, it could be argued that the ideal agricultural enterprise structure would comprise a multiplicity of independent, privately owned competing enterprises incorporated as limited companies in the case of larger operating units or as partnerships (including family firms) in the case of smaller ones. For agro-industrial companies, as previously noted professional managers answerable to a board of directors or shareholders would be a desirable development. However it is important to note that in larger businesses, management and ownership are quite separate functions, with different responsibilities. Although this form of agricultural structure is emerging, particularly in the Polish farming sector and some agro-processing sub-sectors in Hungary, it is by no means the dominant form of enterprise ownership and management in the agricultural sector of most transition economies. The most dominant form of enterprise ownership and management in the agricultural sector is the joint stock company (JSC).

Throughout CEE and the FSU, most collectively or co-operatively owned farms and agro-enterprises have been transformed into JSCs under privatisation programmes, as a logical first step in the privatisation process. This acknowledges the right of the former collective (management, staff and pensioners) to acquire its own workplace. However the present structure, usually with shareholding limited to a number of distinct interest groups, is not necessarily conducive to achieving greater management efficiency, productivity or additional resource mobilisation. Thus, it could be argued that JSCs should be considered as a transitional (though initially inevitable and essential) form of corporate structure. This is of particular importance for *kolkhozes* and *sovkhozes*, which should be gradually dismantled into smaller operational units more suitable for individual, family, partnership ownership or for public "flotation" as limited companies, possibly with their original assets intact[4]. Therefore, we would argue that the main problem with JSCs is that most shares are held by insiders.

Clearly, the political significance of a JSC is great, as it provides a visible mechanism for transferring state-owned assets into private or co-operative hands. In the Baltic States the

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[4] This model can also be applied to co-operatives. The co-operative sector of some CEECs needs to be: (i) independent of government control, therefore externally re-organised; and (ii) the commercial rights and obligations of members, managers and staff often need to be internally re-organised with a greater emphasis being placed on profit generation. Moreover, as individual co-operative members share in its returns in the form of patronage funds that depend on the volume of business rather than the amount of equity held, it would be economically rational for individual memebers to maximise their share in the benefits (e.g. goods), but leave the cost of providing them to other members or the public at large, thus engendering a free rider problem.

political importance of this could never be overstated. However, its impact on managerial behaviour and operational performance has been largely minimal. Whilst the contributions of the factors of production (labour, management and capital) are not separately distinguished, operational performance will remain poor. When considering the role of JSCs, co-operatives and private companies, a distinction should be made between the initial and later phases of restructuring and privatisation.

2.1. The initial phases of privatisation

As previously noted, JSCs are a widely preferred form of privatisation because they are relatively easy to establish. However, there are several drawbacks to JSCs: (i) there is the problem of the non-productive (social) components of the former state owned enterprise (SOE), *kolkhoz*, or *sovkhoz*. In some large agro-processing firms these may represent significant elements of local rural infrastructure and services. Although the formation of JSCs may specifically exclude the transfer of these social assets to private or co-operative ownership (as in Russia), local authorities are often ill-equipped to assume responsibility for maintaining and operating these assets, whilst facing serious financing problems. During the early phase of transition, often the JSCs continue to bear these responsibilities, until the rural municipalities are in a position to do so. This will initially divert part of a JSCs management resources from the commercial functions of the enterprise.

A further point of consideration, concerns the control of the JSC by vested interests. The ownership and voting structure of a JSC may take various forms, but the most prevalent of these in the agricultural sector is for the management and staff of the enterprise to have the major shareholding. This may lead to greater emphasis being placed on maximising staff benefits rather than on ensuring adequate returns on capital. In the long term, this may deter potential external investors. For example, in the privatisation of agro-processing industries (e.g., dairies, vegetable oil mills etc.) throughout CEE, there has been a tendency for the raw material suppliers (which may also be JSCs) to acquire a substantial shareholding in the firm which will process their produce. Although in principle, this should not cause a problem, in practice it does often lead to a conflict of interest where growers may prefer to secure the bulk of their reward through the price paid for the raw material (since this diminishes their exposure to risk from inefficient processing), while agro-processing shareholders will be interested in maximising dividends.

As some JSCs operate as labour-managed firms, they may continue the pareto- inefficient allocation of resources of the former *kolkhozes* and *sovkhozes*, if in the short-run profits are positive. In the short-run, the single-input, single output labour managed JSC, will tend to employ fewer people and produce a smaller amount of output if its shareholders can earn rents above opportunity wages. As in many transition countries for food policy reasons, governments provide subsidies in favour of certain sectors, for example cereal production for bread, this has a significant effect on the sector’s long term profitability. Thus the development of an enabling environment is crucial to the future privatisation of the sector.

2.2. The later phases of privatisation

External investors will usually prefer to acquire shares in an existing enterprise rather than form a joint venture with it. However, the JSCs which are being established typically lack disposable equity available for outsiders. For example, in Russia and Latvia agro-processing enterprises tend to have the following stock ownership structure:

	Russia	Latvia
former collective members	40-51%	10-20%
raw material suppliers (collective farms)	25-30%	60-70%
private farms	10%	
State	10%	up to 20%

In Latvia, the states share would subsequently be sold to interested investors. Nonetheless, this structure is very similar to that prevailing in Russia which offers little scope for reciprocal share swaps and structured trade deals between the JSC and other companies. To attract external capital, the ownership of the JSC would have to broaden considerably. A wider distribution of the stock with much more being held by private investors, whose sole interest in the company was the dividend issued and the value of the assets, would reassure potential investors about control. Furthermore, potential investors would require additional shares implying a dilution of the shareholdings of all other parties in return for their capital injection. Initially these firms will be reluctant to lose some of their independence, however, the new managers will already be aware that survival and development will require new investment and improved management. Eventually, they will have to accept a lower share holding in return for higher dividends per share, which is what an external investor with a direct interest in management is offering. This is particularly important in transition economies, where JSCs need to appreciate that equity financing is a risky form of investment and this should be reflected in the share price of the stock sold.

However, why else should the management of agricultural JSCs accept a dilution of control ? The experience of the CEFTA states has demonstrated that to some extent, JSCs will be forced to consider these measures because of the increased competitive pressures which will emerge within the sector as the "enabling environment" improves[5]. As previously noted, increased competitiveness will require restructuring, which will also require domestic or foreign investment. The essential issue here is whether the JSC management and membership will accept a low risk, low return enterprise (risking future uncompetitiveness), rather than engaging in a potentially high risk full privatisation strategy, implying some dilution of ownership and a clear division of ownership and control, but also potential competitive gains. It could be argued, that once mangers recognise some of the inherent problems with agricultural (particularly raw material producing) JSCs, they will adopt some of the privatisation strategies suggested above[6].

Development finance institutions could also encourage JSCs to become more receptive entities for private investment by acquiring additional stock in these companies themselves in parallel with the private external investor. After an agreed period, these shares could be offered to the general public. These institutions would be seen as providing a valuable "buffering" role, limiting the extent of control by either side, in addition to mobilising

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[5] In most of the CEFTA countries, many agro-processing firms have already been bought or adopted JSC and joint venture partnerships with foreign companies. This sub-sector is often the first in which foreign investors express a keen interest. Major investors include western confectionary, brewing, dairy product and meat processing concerns.

[6] These agricultural JSC problems include: the difficulty of monitoring effort in agricultural production which would result in high transaction costs for the firm; motivational advantages of privately owned firms or family farms, as JSCs provide implicit and or explicit insurance; and the compatively higher efficiency of family farms rather than JSCs, due to their flexibility in allocating labour between on-farm, off-farm and household production [Schmitt, 1993].

additional capital. This form of inter-mediation is particularly valuable in the privatisation of agro-processing firms, where the factory and farms together control a large portion of the stock. A further positive inducement to encourage JSCs to move towards a later (second) stage of JSC privatisation (outsider involvement, share dilution and capital injection) might include making access to credits conditional on a development to the later stage. Finally, as previously noted the process of land reform should support the development of commercial farming by establishing a legal framework for land ownership (property rights), and developing land and lease markets. This will enable land use to reflect commercial decisions supported by land as collateral for loans. Whatever the mechanism of initial privatisation adopted, the creation of viable, freely functioning land markets is essential in providing a flexible mechanism for reorganisation, preventing resources being "trapped in aspic", in forms created during the early years of transition.

We maintain that the only available alternatives for the existing agricultural JSCs are to compete with the newly emerging domestic and foreign competitors, or to face bankruptcy. During the initial and often later stages of privatisation, agricultural processing JSCs may still be characterised as being: undercapitalised; lacking marketing expertise; utilising outmoded technology and packaging; and still subject to limited raw material availability due to reduced farm output, resulting from the initial impact of farm fragmentation during the privatisation process. Table 1 outlines an idealised description of the main features of agricultural privatisation.

Table 1. A Framework for Agricultural Privatisation in Transition Economies

Elements	**Initial Privatisation "things to develop"**	**Later Privatisation "things to encourage"**	**Positive outcome**	**Negative outcome**
Enabling environment	extend free trade, remove administrative barriers, macroeconomic stabilisation, demonopolisation, policy neutrality, *equitable privatisation policy* with transparent procedures, tackle inter-enterprise arrears,	credit & tax policy, currency convertibility, market transparency, state non-intervention, develop viable stock exchange, capital and financial markets;	political stability with general public consensus on economic policy	political instability
Restructuring	cease vertical integration, improve management, sell shares/ stock of SOE, separation of ownership & control	physical transformation of former SOEs into smaller units/ enterprises, improve technological base and management resources	wide share ownership, competitive private firms	agro-enterprises over 49% state-owned
Institutional change	land reform, titling, rapid restitution, land market, bankruptcy laws, rural financial & credit markets, wholesale & retail markets	complete land market, develop viable commodity exchanges, wholesale & retail markets;		
Spatial	private & family farms, agricultural associations, co-operatives, Joint stock companies, agricultural partnerships	JSCs transitional form, widen share ownership, float shares of firm, encourage equity financing, accountable management, move towards a private firm	larger private enterprises, viable family farm, family associations, companies	small farms, JSCs
Social	retain public confidence in change, recognise rights of SOE staff, isolate vested interests, mixed "transitional" forms of SOE ownership, rural development	private ownership, improve rural infrastructure, compensate initial shareholders for dilution of stock with higher dividends per share, acceptance of foreign ownership of capital & land	private ownership, private profit motive morally acceptable	vested interests, SOEs
Economic	"get the prices right", improve price parity in the agricultural sector, cease incentive distorting policies, encourage production of competitive products	competitive markets for input & outputs, access to credit, information & technology.	parity of prices between sectors	over production or deficits, "price scissors"

Each of the elements of privatisation have been defined elsewhere in the text, with the exception of the: spatial, social and economic aspects of the process. These elements essentially concern the emerging agrarian structures within the sector where: (i) the spatial element concerns the size and structure of the emerging enterprises, and the formation of new production forms; (ii) the social element relates to cultural and rural development concerns resulting from decollectivization (e.g. the preservation of rural settlements with weak infrastructure); and (iii) the economic element which concerns the production capacity potential, productivity and agricultural policy orientation of the sector.

As an initial stage of privatisation, the development of JSCs are an acceptable transitional solution to the divestiture of the state's assets, providing there is some demonopolisation first. However, for these firms to succeed in a market economy environment, they will have to be persuaded to move onto a later (second) stage of JSC privatisation (outsider involvement, share dilution and capital injection).

These issues comprise the main areas of discussion in this paper, as in many transition economies (e.g. Romania), a large number of firms have not progressed beyond the initial phase of privatisation. In each of the Baltic States on independence, there was an explicit intention to either eliminate or radically reorganise the existing administrative structures, such as communist party committees and the Ministry of Agriculture, which had directed the command agriculture system. The Baltic governments specified the general policy targets in this way, and sought to include everything necessary to dismantle the Soviet system of command agriculture, and to create a market-oriented one.

The resolution to accomplish this clearly indicated that the end result of these processes was the complete break-up of the existing *sovkhoz* and *kolkhoz* farms structure, and their replacement by a re-creation of the traditional individual farmstead system existing in the Baltic States prior to 1940. All of these measures taken together, were intended to stimulate entrepreneurship, and to allow for the sector's long-term modernisation and profitability. However, the process of the agricultural transformation has been slow, and subject to strong political constraints.

The main mechanism adopted in the Baltic States to allow for the development of new farming structures, is based on the distribution of shares. In all three countries re-privatisation has either been carried out through restitution, compensation or, in the case of land, replacement. They have also all offered compensation for injustices to "politically

The main features of land reform and restitution in the Baltic States is similar to the policies introduced by most Central and Eastern European countries (CEECs) (see Davis, 1996; and Swinnen, 1996).

In the Baltic States ownership reform has involved: re-privatisation (restitution and/ or compensation); (ii) clarification of the state's ownership rights to property; (iii) the privatisation of state-owned assets (including land, enterprises and dwellings); and (iv) municipalization. Each of these processes are to some extent inter-related. In all three countries re-privatisation has either been carried out through restitution, compensation or, in the case of land, replacement. The re-privatisation may be characterised by:

- in many cases the wide range of potential owners and property available for restitution;
- the homogeneity of the principles underlying the implementation of restitution;
- the provision of vouchers rather than cash, as the main form of compensation;
- in all three countries conflicts of interest and tension have occurred between former owners, heirs and the existing tenants (present users) of the property; and
- the pace of ownership reform and privatisation has been relatively slow, due mainly to the logistical, legal and financial aspects of restitution. However, in all three countries, political interference has also been a factor.

The processes of restitution and agricultural privatisation in Latvia and Lithuania are analysed in turn, and their respective performances vis-à-vis the presented framework is discussed.

3. Restructuring large-scale farms in Latvia

During the Gorbachev period, Soviet agricultural economists, as well as farm managers, had begun to accept the *kolkhoz* farm system as inefficient and costly. As a result, in the mid-1980s, as a complement to *kolkhoz* and *sovkhoz* farms, the central Soviet authorities allowed the limited development of individual farms. The Latvian Supreme Soviet used this opportunity to permit the creation of truly independent farms, adopting a "Law on Individual Farms" in 1989. The Latvian law, going far beyond many of the provisions in the central Soviet legislation, began to lay the legal basis for the restoration of private production in agriculture. By 1990, there were more than 7,000 registered family farms operating more than 120,000 ha of land. However, in that year, Latvian policy shifted from a marginal change complementing the command agricultural system, towards an effort to eliminate the latter.

The institutional transformation of agricultural production in Latvia started in 1990, and comprised two components: (i) a change in land ownership; and (ii) the distribution of large Soviet-era farms' non-land production assets. From the beginning, the mechanisms established, envisioned the complete dismantling of *kolkhoz* and *sovkhoz* farms into family farms. Both processes included restitution or compensation for land and assets seized from private owners under Soviet rule.

The rapid privatisation of *sovkhoz* (state) farm assets and production units caused considerable structural changes in Latvia's rural service sector. There are differences among the dairy and meat and other industries in such factors as historical tradition, technology, the respective farmers point of view, and the processing enterprise structure. As a result of these differences, approaches to the privatisation of state owned processing enterprises in these industries developed somewhat differently.

3.1. Institutional and legislative foundations of large-scale farm reform

In the summer of 1990, the Latvian Supreme Council resolution "On Agrarian Reform" outlined reforms for the whole Latvian agro-food sector. The resolution required that procedures be developed, and legislated for three principal tasks: Land reform to create a new structure of rural land tenure based on private property rights; transition to a market-oriented agro-food sector to replace administered relationships; freeing prices throughout the sector.

Property rights in non-land assets (buildings, machinery, livestock, supplies and incomplete production) were to be clarified and individualised through a distribution of *kolkhoz* and *sovkhoz* farm property, including compensation to former owners and their heirs for non-land assets taken from them during collectivisation. Upstream and downstream industries were to be privatised and their monopolies ended.

Existing administrative structures, such as communist party committees and the Ministry of Agriculture, that had directed the command agriculture system were to be eliminated or thoroughly reorganised. By specifying the general policy targets in this way, the Supreme Council sought to include everything necessary to dismantle the Soviet system of command agriculture, and to create a market-oriented one. The resolution also clearly indicated that the end result of these processes was the complete break-up of the existing *sovkhoz* and *kolkhoz* farms structure, and their replacement by a re-creation of the individual farmstead system existing in Latvia prior to 1940. As previously noted, all of these measures together, were intended to stimulate entrepreneurship, and to allow for the sector's long-term modernisation and profitability. During the period 1991-1993, the Latvian parliament passed at least a dozen major laws, to implement separate parts of this programme. In 1993 the privatisation of food processing and agricultural service enterprises commenced in Latvia. The respective legislation was passed in order to create a legal basis for the transition.

- The law "On Privatisation of Dairy Processing Enterprises" - January 19th 1993;
- The law "On Privatisation of Assets of Agri-service Enterprises" - March 30th 1993;
- The law "On Sugar" - May 11th 1993;
- The law "On Privatisation of Meat Processing Enterprises" - June 18th 1993; and
- The law "On Privatisation of State Bakeries" - July 1st 1993.

Based on provisions of the above laws, privatisation proposals for specific enterprises were developed. Each of the proposals was individually reviewed and approved by special resolution by the Ministry of Agriculture, or by a privatisation commission authorised by the Ministry.

While specific legislation applied to different subsectors, a brief examination of the process in the dairy industry provides an insight into typical procedures. In January 1993, the law "On Privatisation of Dairy Processing Enterprises" was passed. This legislation decreed the privatisation 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 dairy producers' associations; not more than 10% for the employees; up to 20% for the state, which is subsequently to be sold to investors, and redeemed against vouchers. Since July 1992 about 170 dairy farmers' co-operative associations have been formed in Latvia. These were formed on the basis of 1940 territories. Model by-laws of dairy farmers' co-operative associations, based on historical principles, approved by the Cabinet of Ministers in 1937, serve as the statutory foundation for these co-operatives. By the end of February 1994, 10 of the 11 central milk processing enterprises had been privatised. The main difficulties in these privatisation's arose from the general downturn in economic conditions and the inability of farmers to purchase shares due to a lack of money[7].

[7] In 1994 GDP rose by 0.6%, with most growth originating in the services, construction and forestry sectors. Whilst output has declined in agriculture and industry, services now account for 60% of GDP, which is up from 39% in 1991. Despite consumption and investment growth during the first quarter of 1995, following the April/ May 1995 banking crisis demand contracted sharply during the latter half of the year. Real GDP declined 1.6% in 1995, making Latvia the only Central and Eastern European country with negative economic growth in 1995. Despite the monetary contraction which followed the banking crisis, further progress in controlling inflation has been limited [Davis, 1997].

3.2. Development of the Process: distribution of collective farms' non-land assets in Latvia

The distribution of *sovkhoz* and *kolkhoz* farm non-land assets has been regulated by the Latvian law "On Privatisation of Agricultural Enterprises and Collective Fisheries", which came into effect on the 1st July 1991[8]. This was the first Latvian law which explicitly mentioned "privatisation". It provided that "all" *kolkhoz* and *sovkhoz* farms in the country were to be privatised by transferring all their non-land assets to individual owners. The two main laws dealing with privatisation, the law "On the Privatisation of Agricultural Enterprises and Collective Fisheries" (which regulated the 2nd stage of land reform), and the law "On Land Privatisation in Rural Areas" (which regulated the privatisation of non-land assets), were often in conflict. For example, there have been instances where Land Commissions allocated land to previous (pre-soviet era) owners or to new users (mainly for the creation of new individual farms), and the production units envisaged to emerge from the privatisation of *kolkhoz* and *sovkhoz* farms (mainly livestock farms) were left without land. Thus, the future operation of these units was placed in jeopardy.

The property distribution was designed both to compensate owners and their heirs for non-land assets forcibly contributed to the *kolkhoz* during collectivisation, and to compensate workers for their efforts on behalf of *kolkhoz* farms during the Soviet era. The legislation also sought to maximise the transparency of the distribution process, and to minimise disruption of production. At the end of the process the former *kolkhoz* and *sovkhoz* organisations were to be legally liquidated as an entrepreneurial form. The legislation provides that the privatisation of non-land assets of *kolkhoz* and *sovkhoz* farms be undertaken in two stages: (i) changing the legal status of *kolkhoz* and *sovkhoz* farms; and (ii) the allocation of all non-land assets to farmers and the subsequent liquidation of former *kolkhoz* (and state) farms (see Appendix 1, Tables A1 and A2).

Stage one. The law provided that a general meeting of each farm's workers was to elect a farm privatisation commission to begin the process of non-land asset distribution. The

[8] As of January 1st 1991 there were 623 *kolkhoz* and *sovkhoz* farms with an average of 3,550 hectares of agricultural land, 310 workers, 2,350 head of livestock, and 55 tractors each.

Privatisation Commission was to draft corporate by-laws for a transitional corporate farm, a list of shareholders, and their initial share holdings, and an inventory of property for the reorganised farm. These documents were then to be adopted at a subsequent general meeting, where its participants had a number of votes according to the share value calculated for them. The by-laws usually included appropriate rules concerning shareholder rights to privatise any piece from the inventory list.

All of the non-land assets were valued at the initial cost of acquisition or construction. This amount was then used as the total declared capital of the new corporate farm, as well as the total nominal value of all the shares to be issued in the company. These shares represented entitlements to receive, free of charge, physical property from the dissolving corporate farm. They were not legal tender or exchangeable outside the group originally entitled to them. In addition, each shareholder had the right to retain the shares for future dividends; to sell or freely give shares to other shareholders; to use the shares to pay for property from the inventory list; to invest the shares in the fixed capital of new co-operatives or other business entities created by the corporate farm's shareholders on the basis of existing operating units.

It is important to note that shares were only given to farm members. Other people living and working on farm territory, such as social workers, were not eligible for property shares. Two criteria determined the proportion of the total share value of the corporate farm to which each recipient was entitled. Some shares were given as compensation for non-land assets seized during collectivisation. If the recipient was an heir of, or a person who had non-land assets expropriated during collectivisation, then they could receive shares representing the present value of the expropriated property. Other shares were given in proportion to the recipients' contribution to the farm during its operation, calculated as the ratio of total earnings to all wages paid by the farm. Farms could determine the proportion of their shares to be issued according to each criteria, but no more than half of the total shares could be issued as compensation for all property taken at the time of collectivisation.

In practice, most farms assigned about one-third of their total share value as compensation for collectivised property. As some shares were given as compensation, individuals who had suffered from the collectivisation of their property, or their heirs, could receive share entitlements to the farm's property even if they were no longer members of the farm, nor resident on its territory.

The property inventory listed all the corporate farm's non-land assets as of a certain date (usually 1st January 1992). The inventory lists contained property to be privatised. A single piece of machinery or animal might be listed separately, or an entire production facility with all equipment and stock could be listed together. Once the assets had been inventoried and the lots determined, their composition could only be changed with the approval of a subsequent general meeting.

After the general meeting had approved the by-laws, share list and property inventory, the *kolkhoz* or *sovkhoz* farm was legally reorganised into a new entity as either a joint-stock, shareholding, or limited liability company - a "corporate farm". The law also allowed a *kolkhoz* farm general meeting to choose rapid liquidation without establishing a temporary company, but this only occurred in 3 out of 623 cases.

Once the new corporation was established, the *kolkhoz* or *sovkhoz* farm privatisation commission was dissolved, and the newly-elected corporate board took over the management of the distribution process, subject to votes of the shareholders at general meetings. The law provided that all former *sovkhoz* and *kolkhoz* farms were to be reorganised into corporate farms by March 15th 1992. Although the legislation anticipated that all these new legal entities were to exist only during the time required to distribute all non-land assets, the corporate farms were allowed to file claims for the land they needed to continue operating during that period.

Stage two. Once legally organised, the new corporate farm could begin to distribute non-land assets. Any shareholder could petition for any lot from the inventory list, at the set price, paying for it with cash or shares. The corporate farm's board was required to make this petition public immediately. If no one else offered to purchase the same lot within one month after the purchase offer was made public, the original bidder was awarded the lot. If other requests to buy the lot were received, then the item was sold at a closed auction to the highest bidder from those persons who had made purchase offers on the item. In such an auction, either bidder could require that payment be made only through shares. Regardless of whether the purchase was unopposed or contested at auction, the successful bidder had to pay for the lot within two weeks. If they could not, the item reverted to the corporate farm and was subject to further petition.

All shareholders had an unconditional right to make an offer on any lot from the inventory list. The corporate farm could not withhold any item from sale even if it deemed it necessary for its continued operation, nor could it refuse to sell if the petitioner possessed enough shares to pay the inventory price. The total capital of the corporate farm and the number of its shareholders progressively decreased during the privatisation process, although the nominal value of a single share might actually increase. A shareholder who redeemed all of their shares for property, lost their rights as a shareholder. In addition, when a successful auction resulted in the nominal value of the shares successfully bid higher than the inventory value of the item, this left fewer shares to be bid on remaining lots. In order to preserve the balance between the nominal value of outstanding entitlements and the nominal value of remaining non-land assets to be distributed, shares were to be revalued at least once a year at a general meeting of the shareholders. Despite this revaluation process, the new, higher nominal value of the entitlement shares did not necessarily make it advantageous to hold one's entitlements unused and remain a member of the corporate farm. The most desirable lots were likely to be bid on first. They were also the ones most likely to be contested, and therefore sold for more than their inventory value. Thus, the remaining items were likely to be less desirable and to go for a lower price. Indeed, the board could, with the general meeting's consent, reduce the asking price of lots which did not sell in order to dispose of them. So in the process of privatisation, unredeemed shares could even lose their initial face value.

Once all the lots from the inventory list were purchased in this way, the law required the farm's shareholders to decide formally to liquidate the corporation. Any remaining property was to be sold at auction for cash. The lot's inventory value was its starting price at this final auction. The price was then to be progressively reduced until the lot was sold or the price was reduced to nothing. The cash received in this auction was to be used first to extinguish any remaining farm debt, then apportioned to any remaining shares. Holders of remaining shares were to receive a cash payment, or liquidation dividend for them. At that point the corporate farm was formally dissolved.

In many cases, corporate farms which disposed of all their non-land assets still had outstanding debts, often to the state utilities. In this event, the corporation had to go through a court proceeding, involving a three-month waiting period, in order to expedite liquidation. The time-consuming procedure to put a formal end to these indebted shell farms may explain why so many former *kolkhoz* and *sovkhoz* farms had passed liquidation resolutions but had not been formally dissolved in 1994 and 1995, although they had long ceased operating (see Table 2).

Table 2. Collective and State Farm Transformation 1991-1995

	Total number	Liquidated and deleted from the Company Register	Passed liquidation resolution	Operating
01.01.91	616	0	0	623
01.01.94	613	18	330	265
01.01.95	613	120	301	192
01.06.95	613	133	303	177

Source: Latvian State Committee on Statistics, 1995.

In an attempt to stop the division of large farms, the law was changed in May 1995 to allow farms to retain non-land assets required for further production, but by then the process had gone too far to stop reform. By the end of 1994, land reform had achieved the desired results: 69% of all agricultural land was either used or managed privately. Prior to February 1994, the privatisation of large industrial enterprises was based on a decentralised system, where the government, based on proposals by ministries and their accountable enterprises, approved a schedule of *sovkhoz* companies to be privatised, as well as those to be exempt from privatisation. Once an enterprise had been placed on the schedule to be privatised, anyone could submit a privatisation proposal, outlining the method, and form of payment, as well as projected ownership.[9]

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[9] During 1996, there have been continued demands from almost all the Saeima parties that the boards of some of the largest state owned enterprises and corporations (in the main dominated by appointees of the previous government of the "Latvian Way" Party), be re-appointed to reflect the current make-up of parliament. This has threatened the governments stability, as the situation has

The process of restitution is slow, and the performance of the agro-processing sector is sluggish, due to inadequate investment capital and a lack of modern machinery. Nonetheless for most food industry products output has risen steadily since 1995 (see Table 3). Moreover, as the food industry is Latvia's largest industrial sector (the Dairy industry alone accounts for 8.7%, and the fishing industry 7.2% of Latvia's industrial sector), the government has in general been policy neutral. Food industry exports grew by 47% in January to September 1996.

Table 3. The Development and Structure of the Latvian Food Industry, 1995 - 1996

Sectors	9 months of 1995		9 months of 1996		+ Changes of output 9 mths 1996 to 1995 %
	Output, 1000 LVL *	Share (%)	Output, 1000 LVL *	Share (%)	
Total food industry	246.2	100.0	317.0	100.0	107.7
Meat processing	40.3	16.4	38.0	12.0	83.7
Fish processing	28.3	11.5	51.6	16.3	151.8
Fruit & Vegetable processing	7.1	2.9	14.2	4.5	130.1
Milk & dairy products	50.0	20.3	62.2	19.6	112.0
Ground grain products	18.1	7.4	27.1	8.5	110.5
Bread production	32.6	13.2	38.2	12.1	98.0
Sugar production	3.1	1.3	6.0	1.9	122.9
Chocolate prodts	13.5	5.5	19.1	6.0	135.5

Source: Ministry of Economy (1996), Economic Development of Latvia: Report, Republic of Latvia.

Key: * Current prices
+ Constant prices, 1996 compared to 1995 (9 months).

The process of decollectivization in Latvia was a cumbersome process at best, because individual ministries were responsible for the privatisation of enterprises under their control. The process was also chaotic and uncoordinated. The banking crisis of 1995 also affected public confidence in Latvia's financial markets both at home and abroad, which further

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ignited rivalries between its coalition parties which may disrupt and further politicise the supervision and privatisation of these enterprises.

served to slow down the process of privatisation [Davis, 1997]. The completion of agricultural privatisation should improve the sectors performance during 1997, although with the economy still fragile, there is little scope for government aid to farmers.

4. Restructuring of large-scale farms in Lithuania

Lithuania was the first of the Baltic States to launch a privatisation programme (September 1991). It also pursued a far more extensive voucher privatisation programme according to the "Initial Privatisation Law" adopted in 1991, than any other Baltic State. In Lithuania the following forms of privatisation were utilised: public share subscription (for large and medium sized enterprises); auctions (for small enterprises or parts of enterprises); tenders for foreign currency; and business plan tenders [Maldeikis, 1996]. The Lithuanian government planned to privatise 70% of all state property with vouchers. As of April 1994 70% of the Lithuanian population had opened investment voucher accounts. By April 1995, 90% of these vouchers had been used for privatisation, with 10% of the vouchers still being held by the residents. The Ministry of Economy (1995) has estimated that 15% of the investment vouchers have been used to privatise agricultural enterprises and land.

4.1. Institutional and legislative foundations of large-scale farm reform in Lithuania

In Lithuania, land reform and decollectivization was also based on three laws: the "Peasant Law" adopted in 1989; the "Law on Restoration of Property", and the law on the "Privatisation of State and Agricultural Enterprises" which were both adopted in 1991. The [10] gave farm workers the opportunity to manage their own family farms, without granting them a legal title to the land.[11] Although the right to the farm could be inherited, it could not be rented or sold. As in Estonia, these farms were relatively successful (growing from 25 ha to between 50 and 80 ha on average by 1995), especially as they had access to subsidised inputs and credit on discretionary terms. As a result of the "Peasant Law" of 1989, 6,500 "private" farmers were created; the so-called "89-ers".

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[10] The "Peasant Law" of 1989, increased the size and number of household plots and peasant farms, the claims for restitution exceeded the amount of land available on the market, and offered no compensation. There were 308,000 family farms prior to 1940. By 1993 560,000 applications were made for land to be restituted. Thus, applicants require 158% of the available land

[11] This is similar to the Soviet era legislation ("Law on Peasant Farming," 1989) passed in Estonia.

Attempts to introduce full-scale land reform did not begin until after independence when the "Law on Restoration of Property" and the law on the "Privatisation of State and Agricultural Enterprises" were both adopted in mid-1991. The "Law on Restoration of Property" allowed former landowners or their heirs the right to receive land expropriated during the Soviet-era. The resident citizens of Lithuania, were able to claim up to 80 ha of land, 50 ha of which could be arable. The "Law on Restoration of Property" was again based on the 1940 land register. Consequently, the size of the emerging farms was severely limited, leading to increased land fragmentation. This was exacerbated by the division of additional parcels of land between numerous heirs [Davis, 1996]. The resulting Lithuanian farm structure is comprised of: (i) Joint Stock Companies (JSCs), Agricultural Companies (ACs) or partnerships (2,600 farms of an average size of 270 ha); (ii) householders (approximately 378,000 farms of 2-3 ha) and (iii) private family farms (since January 1996 166,000 private farms of an average size of 6-8 ha); however, the family farm size is still declining at a rate of around 8.5% per annum, thus increasing land fragmentation (see Table 4).

Table 4. Lithuanian agricultural land use and average farm size as of January 1st 1991-1996

	1991	1992	1993	1994	1995	1996
State and collective	1212	1219				
Average size, ha.	2535	2040				
JSCs and Agricultural Companies, thou.			4.3	3.5	2.9	2.6
Average size, ha.			398.5	385.2	334	270
Family farms, thou.	2.3	5.1	71.5	111.5	135	166
Average size, ha.	15.4	14.2	8.2	7.5	7.1	6.6
Household Plots, thou.	466	479	413	404	397	378
Average size, ha.	0.7	1.9	2.1	2.1	2.1	2.2

Source: Lithuanian Department of Statistics, Statistical Yearbooks of Lithuania, 1991 - 1996.

The “Privatisation of State and Agricultural Enterprises” law enabled the privatisation of the non-land assets of *kolkhoz* and *sovkhoz* farms, e.g. livestock, machinery and farm equipment. These were valued and then divided into *rodopa* type “functioning units” which comprised e.g., a machinery storage and workshop. All the agro-processing industries and enterprises were privatised according to the “Law on Initial Privatisation of State Property”, adopted in February 1991. On the treatment of service and trade companies, the law stated that all of their property should be privatised within 18 months. By mid-1993 most of this property was privatised.

4.2. The distribution of collective and state farm assets in Lithuania

Prior to land reform the government maintained that all agricultural assets were state assets. Lithuania began issuing investment vouchers in 1991. Every citizen had the right to receive them regardless of their age at December 1990. Thus, the whole population received vouchers and were able to buy shares in any assets, irrespective of where they lived. The value of a voucher only varied in terms of age. For example, the programme specified that citizens over 35 years old received vouchers for 5,000 roubles (in 1990 1,000 roubles = USD 57); those aged 30 years received 4,000 roubles; if 25 years old 3,000 roubles; and 18 years old 2,000 roubles. Children under 18 also received investment vouchers worth 2,000 roubles which were placed in the accounts of their parents. This was the main criterion on which the voucher distribution was based.

There were also important social and rural aspects to this process. All citizens began on the same level, as everyone had the right to buy something. However, farm workers had two types of vouchers: (i) the same as the rest of the population; and (ii) farmers also had preferential access to vouchers in rural enterprises. The special agricultural dispensation was granted because of the sizeable average wage differential between farm workers and non-agricultural workers during the Soviet-era. Moreover, as previously noted, existing farm working tenants were still involved in agriculture and had a right to compensation (the so-called “green vouchers” or agrarian cheques). Compensation was determined according to the length of their employment in agriculture and as a percentage of the investment vouchers already issued: (i) 5 to 10 years = 10%; (ii) 10 to 15 years = 20%; and (iii) over

15 years = 30%. The purchasing power of the voucher depended upon on the price of the property being privatised. Naturally, the stronger the financial position of the enterprise the higher its voucher value.

Farm workers could pass their vouchers on to their children. But where additional rural property was concerned, they could only purchase assets in their own farm. If a person did not do so, they would lose their assets. Due to the prevailing economic situation and uncertainty, in rural areas where people often pooled their vouchers to purchase assets; such assets (as in Estonia) were divided according to length of service in the co-operative. However, the politically “populist” ideal of 1991, that everyone would become part-owners of an enterprise was not put into practice, because people sold shares and vouchers to each other. Perhaps it would have been better to sell the assets for cash, rather than trading vouchers. However, at the time it was strictly forbidden and the capital to do this did not exist.

One of the few exceptions to this rule, was allowing the former employees of the *kolkhoz* and *sovkhoz* farms to acquire assets (farm equipment, buildings, glass-houses, livestock etc.) where 5% of the value of the asset being bought could be paid for in cash. According to the size of property (ha) of a farm worker and the value of vouchers held, they could acquire assets in a former *kolkhoz*. As previously noted, this property was divided along technological lines called functioning units (comprising a barn, machinery workshop etc.). Initially, these were to be retained as single technological units and not broken-up. However, the Countryside Agrarian Reform Boards (CARBs)[12] took control of this before farmers and co-operative shareholders became aware that the technological units were being divided and privatised. The Ministry of Agriculture privatised these arguing that if more of these units were created, then more private farmers would be created. Some of these units were illogically organised e.g. breeding heifers was banned, so heifers when produced were not moved to other farms; but instead to meat processing factories. The

[12] The Lithuanian Countryside Agrarian Reform Boards (CARBs) were located at the cadastral level and charged with implementing and managing the process of land restitution, while the Ministry of Agriculture’s Department of Agriculture supervised the divestiture of large agro-processing units.

same was true of the farm machinery situation. When the machinery stations were broken-up into smaller units, farmers had to borrow machinery from the nearest stations, which were often inadequately stocked with operational machinery and spare parts.

Prior to land reform the government maintained that all agricultural assets were state assets. However, it was later argued that collective farms were not state farms and that the property did not belong to the state. Initially, state run administrative bodies were set up to run these processes but were unable to manage all the issues concerning privatisation. Therefore, privatisation was handed over to the CARBs which were created in every district. In areas where this was quite active, access to buying assets was quite possible. Some people opted to retain "collective ownership" e.g. JSCs or Agricultural Companies (ACs) numbering around 2,600 (averaging 270 ha) operating 31% of the total land area. The JSCs cultivate land which was previously a *kolkhoz* in addition to the personal small plots included by shareholders, which cultivate around 60% of their agricultural land. *Sovkhozes* have retained around 1% of the total agricultural land area[13]. Although the shareholders own the enterprise, with share allocation usually based on seniority, the management and *status quo* on many of these JSCs, is similar to that existing during the Soviet-era. Thus, everyone has a share in the JSC but it is run in a fairly collectivised way. The development of JSCs is in many ways a rational response by land-owning households to inefficient or informal land, input and product markets. Moreover, due to the low value of the vouchers people could only buy a small part of the *kolkhoz* therefore they tended to group their assets together. This is also a perfectly logical response to the prevailing economic situation. For example, Table 5 shows that most private farms in Lithuania remained financially unviable.

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[13] The *sovkhoz* land is mainly utilized for agricultural research and extension purposes. It should also be noted that around 400,000 ha of land remains in state hands as part of the "state fund". Most of this land is leased to ACs and private farmers [Lithuanian Department of Statistics, 1994].

*__Table 5. Income and expenditure of private Lithuanian farms 1992 - 1994*__*

Income	1992**	1993***	1994***
Total	480104	29680.2	10377.2
In an average farm	240	7.5	7.9
from (%):			
plant production	52	45.5	33.7
livestock production	48	54.5	66.3
Expenditure			
Total	417441	31364	35861.5
In an average farm	208	7.9	8.4
comprised of (%):			
animal purchases	7.6	4.1	3.7
feeds	5.8	2.9	2.4
fertilisers and chemicals	11.8	9.6	10.5
seeds	7.8	2.5	3.1
fuel and electricity	30.6	27.0	29.6
hired labour	2.4	3.1	3.9
interest, social insurance & taxes	5.3	6.3	5.4
building and machinery repairs	9.7	4.6	5.9
machinery purchases	na	18.4	15.5
building purchases	na	9.3	8.0
leaseholds (building & machinery)	4.4	2.8	2.2
other	14.6	9.4	9.8

Source: Family Farms Activities in 1992, 1993, 1994, Lithuanian Department of Statistics, Vilnius 1993, 1994, 1995.

* Key:
** in thousands of talonas (a temporary monetary unit before the national currency 'Litas' introduction 1 Litas = 100 talonas).
*** in thousands of Litas.
n.a. not available.

After privatisation, around 20% of Lithuania's agricultural enterprises remained largely unchanged; they were now ACs or JSCs but in terms of corporate governance were little changed. Certainly agricultural structures and relations did not change much. In the process of privatisation and land reform 6,000 new enterprises were registered in rural areas. These technological lines did not separate, but rather they joined together, mainly because they could not survive alone. Therefore, although the municipal and local government authorities were against this, of those 6,000 new enterprises, around 4,500 were JSCs and 1,500 were another type of enterprise or agricultural partnership. This process developed in two ways:

(i) according to the people themselves through purchasing shares and deciding to work together; and

(ii) through auctions (NB. successful bidders had to pay 5% in cash).

As previously noted, if a person could not pay cash they could give a part of their property to the state as compensation. This property did not concern assets of production, but rather of social infrastructure. During the Soviet-era farm workers had built their own schools, roads, shops and leisure amenities. It was now possible to pass this property onto the Municipal Authority, rather than pay the 5% cash deposit. Many farmers were unhappy about this as the buildings were financed with their money and often built with their labour. Monetary compensation would now be impossible.

In terms of Lithuania's JSC law, if a former *kolkhoz* worker wishes to establish their own farm, they can reclaim their property from the JSC. This process is still continuing in Lithuania particularly in terms of livestock and machinery assets. However, the arrangements to do so must be agreed by both the JSC and the prospective private farmer. However, because most breeding, tractor and machinery stations were located in central areas, farmers in remote areas could not easily secure the return of their assets or suitable compensation. On the other hand, as previously noted, more people are becoming private farmers and this is causing the further fragmentation of fewer assets in Lithuania (see Appendix 1, Tables A1, A2 and A3). At the time of writing, a new law is being prepared to enable people to reclaim a share by selling it onto another for cash or in exchange for shares in another enterprise.

According to the Lithuanian constitution, land may be either individually (private) or state-owned. Therefore, JSCs and ACs are not allowed to own land. JSCs hire land from either its private owners or the state.[14] If the legal constraints concerning JSC and AC land ownership continues, their access to credit and investment incentives will be restricted. The development of a fully functional land market remains central to the future prospects of

[14] As of January 1st 1995, JSCs and ACs owned no land, leased 935, 400 ha, operated all of that land in units with an average size of 399.7 ha [Lithuanian Department of Statistics, 1995].

Lithuanian agriculture. The agricultural privatisation legislation also required that if a person owned a breeding station, it was a condition to leave adequate pasture around it for forage. For example, following restitution, if a person owned a farm with 100 cows, around 60-80 ha was not returned to the former owners, but allotted to the breeding centre. Thus, so long as the breeding centre exists this land is not usually returned to former owners. However, it may be returned if the new owner promises to rent this land to the breeding centre for as long as it exists. Nowadays there is much more land available for rent, and thus 60-80 ha no longer provides much of a constraint.

4.3. Development of the process: agricultural processing industries in Lithuania

All of the agro-processing enterprises were initially privatised according to the "Initial Privatisation Law" adopted in 1991. Initially, shares for these enterprises could only be purchased with agricultural vouchers and a small cash payment; subsequently, vouchers became tradable. Despite favourable terms and incentives to encourage the take-up of shares, employee participation has been low. Suppliers (farmers) were later allowed via an auction system to purchase shares at a 2.5% discount of the value of the issue. However, in practice employees and farmers could not afford to purchase shares because they had spent their vouchers on joining the JSCs. So, although initially the share acquisition was restricted to employees, and later suppliers (farmers), eventually outside investors were entitled to acquire ownership of a proportion that the two other groups had not previously subscribed to.[15]

Agro-processing firms' employees were entitled to purchase a maximum share interest of 30%, with a ceiling limit of 30% of voting control. Whilst farmers were entitled to purchase a maximum share interest of 50%, with a ceiling limit of 50% of voting control (although this may not be possible where more than 20% of the shares have already been sold, as in

[15] The government has also excluded enterprises from this process which it felt could be sold at local auctions or attract foreign investors for "hard currency" privatization. However, the number of these enterprises is gradually being reduced. The actual capital inflow from abroad to Lithuania, despite a growth in joint ventures has been fairly limited in comparison to its neighbours [World Bank, 1995].

the case of the most popular industries, e.g. brewing and bakeries). In areas where farmers' unions were strongest, this process was at its most active; in others not so. However, the people who bought these shares were not always unionised or members of organised labour. Not every farmer was eligible for shares in an agro-processing industry. For example, in the milk processing sector, enterprise shares could only be purchased by those farmers who: (i) supplied it with milk; and (ii) were dependent upon the volume of milk they supplied to the processing enterprise. However, special share incentives to farmers may have adverse consequences, as cash-starved farmers may worsen the already fragmented ownership structure and crowd-out additional investors. At the time of writing, the government is proposing legislation to rectify this situation, whilst continuing to subsidise the sector as a whole.[16]

The progress and results of the privatisation of agro-processing enterprises have been mixed. Progress is mixed because depending upon how success is measured, the result may also be considered a failure. For example, in terms of the percentage of assets under private control, (between 15 to 20% of the total value of state agro-processing enterprise assets have been sold) the privatisation of agro-processing enterprises may be judged a relative failure. However, if the progress of small agro-processing enterprises and subsectors (particularly the poultry and dairy sectors) are considered, then the process may be considered a relative success.

There is some competition (or rivalry) between JSCs in the agro-processing sector. Prior to land reform the JSCs were only allowed to purchase (raw) products in an assigned zone. These days the enterprises may purchase the raw material from anywhere, so there is greater competition for this. There are around 300 small meat processing companies and JSCs. All seven of the major poultry operations have been transferred to private ownership.

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[16] Total government budgetary expenditure according to the National Agricultural Programme of Lithuania (NAPL) during 1994 to 1995 increased from Litas 186 million to Litas 278 million. The largest item in the budget was due to agricultural price support which increased from Litas 1.6 million in 1994 to Litas 137.5 million in 1995. Other items of agricultural support in the NAPL for 1995 include: preferential agricultural credit (Litas 38.5 million); agricultural production subsidies (Litas 7.5 million); Livestock development program (Litas 9.8 million); and support for enterprises located on marginal land (Litas 20.5 million). Data for 1996 was not available at the time of writing.

In the dairy sector although large enterprises still dominate, 33% of dairy assets have been transferred to private ownership. Originally, there were only 9 regional dairies which were linked to a number of smaller local plants. Currently, 17 of 44 major dairy processing firms have private ownership in excess of 51%. They still manage regional dairies, collect and process milk in many districts. Some of the most notable successes in the privatisation of agro-processing industries include the soft-drink and brewery enterprises (and 70% of the state's bakery assets) which have been completely transferred to private hands. There is slow progress in the privatisation of sugar, alcohol, edible oil and fruit processing industries. Different types of agro-processing corporation are being developed in the areas of marketing services and distribution. Prior to 1940 such corporations were common (much as in Denmark, Sweden and Norway), 100 of these bodies are currently in existence.

More specifically, in Lithuania there was widespread support for the privatisation of farming and land ownership reform. Political parties advanced arguments which emphasised the need for a speedy (distributional) privatisation on the grounds of social equity, justice, whilst allowing the creation of an capitalist class and the reduction of social tension. The distributional (voucher) based scheme which was introduced, was also defended on the political basis that it would reduce the influence of Russian capital, by excluding it. The privatisation of farming and land ownership reform in Lithuania was aimed at dismantling the vestiges and management structures of the Soviet-era. However, neither the government nor policy-makers had considered the unintended consequences of the legislation (excessive land fragmentation).

Moreover, the Lithuanian government failed to recognise that: (i) during the Soviet-era, the agricultural land area of Lithuania had diminished by around 0.8 million ha, whilst the land quality had improved significantly (due to technological change, investment and other factors) to twice the average yield levels recorded in 1940; and (ii) that the restitution principle proved disadvantageous and harmful to those rural workers who did not own land, but probably deserved the right to it as compensation for many years of under-paid work at the *kolkhoz* or *sovkhoz*. They were only allowed to purchase the residual land following restitution to former owners.

5. Conclusions

The emerging farm structures of Latvia and Lithuania in some ways resemble those prevalent during the Soviet-era, namely; large corporatised agricultural enterprises almost “trapped in aspic”, uncompetitive and retaining many of the inefficiencies of traditional large scale farms. The shift out of this situation will be very difficult unless the governments of the Baltic States allow the entry and exit of individual shareholding enterprises, and improve market transparency. There have been subtle differences in the approach of the respective Baltic States’ governments’ to these issues. However, in general terms the agricultural privatisation and decollectivization laws are based on the same premise. Namely, the initiation of a process of *kolhkoz* and *sovkhoz* farm asset disbursement along socially equitable and politically acceptable lines. In Latvia and Lithuania these assets are typically privatised through voucher distribution which may be transformed into capital shares in the new co-operative farms or used for purchasing non-land assets for private use.

It is difficult to empirically assess the economic consequences, or outcomes of agricultural privatisation in Latvia and Lithuania. However, it is possible to ascertain two main outcomes: (i) production and productivity effects; and (ii) agricultural policy effects (coefficients of protection).

During the period 1990-1992, the Baltic states found themselves in another production “scissors crisis”. The collective farm structure of agricultural production in the Baltic States, traditionally acted as a mechanism to secure procurement, rather than to increase production. Thus, as in Russia during 1929 a significant decline in the terms of trade for the agricultural sector led to the cessation of production. With the collapse of the CMEA and traditional export markets, the cessation of price controls and direct state subsidies to agricultural enterprises, hyper-inflation and the emasculation of domestic savings farmers simply ceased to produce for the market. The economic uncertainty concerning land reform, and privatisation of non-land assets further precluded investment in the sector, which has further retarded development. Agricultural production and productivity in each of the Baltic States has declined (see Appendix 1, Table A4). This is the result of the dislocation caused by the restructuring of agricultural enterprises, land reform and the collapse in traditional CMEA markets.

The sharp escalation of input prices in 1991-1992 (especially fuel, artificial fodder and feed most of which was imported from Russia and the Ukraine) as agricultural production was very dependent upon mechanisation, had a significant impact on output. Indeed, during this period although food prices rose quickly increasing the impoverishment of most sections of the population, this was not enough to cover the faster rise in input and production costs. Moreover, the largely unreformed, state agro-processing and procurement industries exercised significant sectoral power; many of these becoming private monopolies through spontaneous privatisation, almost overnight. These firms were few in number and in a strong position to both squeeze farmgate prices and charge high retail prices to consumers. Many of these firms simply refused to honour their debts with suppliers, and in Estonia many faced bankruptcy as urban consumers could not afford higher retail prices. Indeed, a recent survey of the investment behaviour of individual private farmers in Latvia found that dairy processing plants still retain the largest proportion of prevailing milk price margins, which were due to monopoly power [Zilcken, 1995].[17] Nonetheless, there have been several significant changes in relative prices confronting both farmers and agro-industrial processors in the Baltic States. These may be summarised as follows:

- agricultural output prices have risen by considerably less than prices of variable inputs (fertilisers, plant protection, energy and feed);
- farm prices have increased by less than retail food prices; and
- the costs of variable inputs and credit have risen by more than wages.

This is consistent with the prevalence of political economy considerations concerning the "domestic food demand barrier" during the transition period, where food price increases were generally slower and lower than the rate of inflation, to preserve the food

[17] The following milk price levels were recorded in Latvia (1995): (i) farmgate price: 0.06-0.09 Lats per litre full cream milk depending on quality; (ii) dairy plant price: 0.165 including 18% VAT in the countryside, 0.18-0.19 in Riga in a one litre tetra pack (2.5% fat content); and (iii) retail price: 0.24 lats per litre low-fat pasteurised milk in shops.

consumption (or reduce the food insecurity) of the population during the early years of transition. This “price scissors” structure entails margin rates on downstream activities that are usually far lower than those prevalent in the EU. For the Baltic agro-food industries this has been aggravated by a tendency to increase food margins where the price index of the food industry’s sales tends to be lower than that of food retail prices (this is also common in Poland). The latter is also consistent with the slow progress of agro-enterprise privatisation, restructuring and the financial difficulties mentioned previously. This is particularly the case in so-called first processing industries (former state dairy factories, abattoirs, grain silos etc.), where the actual margins of these industries often do not cover the costs or generate profits that would be required to allow a competitive expansion on either domestic or international markets. However, those second stage agricultural processing industries which produce a large number of finished products (e.g. baby food, jams etc.) and have thus attracted foreign investment have benefited from increased demand for higher quality finished goods (i.e. capturing greater value-added, without quantitatively increasing agricultural outlets), and foreign investment.

The “price scissors” effect on the basic food industries has encouraged the state to perpetuate subsidies, which despite some adjustment and progress in other areas is still characterised by pre-reform systems and structures, for example: (i) inefficient agrarian structures and relatively high agricultural prices; and (ii) relatively low or “normal” level of basic food prices due to low incomes and popular consumption habits. This price structure has very negative agro-food industry effects because it may retard a rapid increase in agricultural production, as this would require efficient and dynamic procurement and first processing industries, hence higher margins. Furthermore, it may retard agricultural sector developments in a market responsive direction (quality, regularity, flexibility of supplies etc.), which tends to stimulate food imports for the second stage processing industries or at the consumer level, as confirmed by recent OECD trade developments, despite higher rates of border protection.

This is clearly illustrated in Figure 1 which shows the average annual food, producer, consumer price indices (compared to previous year); and food industry production in Lithuania. In Lithuania, food industry output has continued to fall due to the prevailing “price scissors” effect. In Lithuania, output began to recover when input prices (PPIMP) began to fall below the general rate of inflation in 1994. This situation also reflects the serious negative value added situation prevailing in the agro-industrial sector, which has been exacerbated by a decline in food demand generally, and for domestic produce in particular[18]. In Lithuania, the net effect of these changes has been a decline in the profitability of agriculture which quite rationally led to changes in factor intensity (a decline in capital intensity) and a decline in output. They also reflect both the distortions embedded in the centrally planned economy, and the uneven pace of liberalisation and privatisation. Although, agricultural and food prices have remained stubbornly below the CPI in both countries, the gap between the two indices is much narrower in Latvia, where food industry output has recently improved (see Table 3). Furthermore, Table 1 is used as a template against which the progress of Latvia and Lithuania in agricultural privatisation may be evaluated; the results of which are presented below in Table 6.

[18] During the early stages of transition food demand was relatively price inelastic in Lithuania [Shafer, 1993]. In Latvia as total expenditure rose, the share of grain consumption fell as meat increased [Hossain and Jensen, 1994]. Substitution within major groups will probably continue, although demand is shifting towards the increased consumption of foreign foods of higher quality: (i) consumers and retailers are moving from a position of price competition towards quality competition; and (ii) part of the higher demand for foreign foods is due to fashion and Baltic States consumers exposure to new forms of advertising. This shift in demand will lead to greater differentiation in markets, and consumer tastes according to income and price elasticities.

Table 6. Evaluating Progress in Agricultural Privatisation

Elements	**TI**	**Description of Transition Indicator**	Lat	Lit
Enabling environment	1	Widespread, price, import & export controls by the government. Limited legitimate access to forex. No demonopolisation.		
	2	Price controls on certain important foodstuffs & inputs, some trade liberalisation, currency convertibility but with a forex regime that is not fully transparent. Some demonopolisation.	X	X
	3	Substantial price & trade liberalisation, standards typical of an advanced industrialised market economy.		
Restructuring	1	Substantial vertical integration, extensive soft budget constraints (lax credit & subsidy policies).		
	2	Moderately tight credit & subsidy policies though weakly enforced, limited JSC share dilution, outside ownership or action to strengthen corporate governance & competition.		X
	3	Standards & corporate governance typical of an industrialised market economy. Wider JSC share ownership (e.g. substantial share dilution & outside ownership).	X	
Institutional change	1	Limited or no land reform, no land markets or reformed rural finance market institutions. No commodity exchanges.		
	2	Limited progress with land reform, < 60% of legitimate land titles issued (processed), some land lease & rental schemes in operation, nascent land market, rural finance market & commodity exchange.	X	X
	3	Substantial land reform, > 60% of legitimate land titles issued, fully functioning land markets, commodity exchanges, wholesale, retail & rural finance markets with standards typical of an advanced industrial market economy.		
Spatial	1	Unreformed collective, state & agro-industrial complex structures.		
	2	As an initial phase of privatisation, mixed transitional forms (e.g. JSCs, ACs), emergent private, family farms &/ or associations. Equitable privatisation policy.	X	X
	3	Larger private agro-enterprises, viable family farms, farm associations & companies. Agricultural enterprises typical of an advanced industrial market economy.		
Social	1	Limited public confidence in reforms, predominance of vested interests in privatisation policies, rural resistance to change, no rural development.		
	2	Some rural development, growing acceptance of private ownership, compensation for former landowners, rural dwellers & wider society through privatisation.		
	3	Extensive rural development schemes (rural infrastructure & local industry development), private ownership & the profit motive morally acceptable.	X	X
Economic	1	Largely unreformed agricultural economy with support through explicit & implicit subsidies; low levels of efficiency & productivity. Producer "price scissors" & high levels of protection.		
	2	Improved price parity in the agricultural sector, limited subsidies.	X	X
	3	Competitive input & output markets, comprehensive price liberalisation, parity of prices between sectors, adequate rural finance markets, extension & market information services. Transparent marketing & distribution chain in the sector.		

In terms of agricultural policy, it is interesting to compare the outcomes of reform in terms of producer subsidy equivalent (PSE) estimates.[19] During the Soviet era the average degree of agricultural support in the Baltic States was substantially higher than in the OECD (between 1989-1990 a net percentage PSE of 70-80%). Since 1990, this has declined sharply such that by 1994 it was below the OECD average of 42%, and lower than the prevalent rates in the other CEE countries. Table A6 shows the OECD PSE estimates for 1994. It could be argued, that the largely negative market element of the Baltic PSEs outweighs the "beneficial" effects of direct or indirect support measures available to farmers. Although with price liberalisation, food input and producer prices have increased, they are still, on average below world market prices (see Appendix 1, Table A5). Compared to the EU-12, producers in the Baltic States (particularly Lithuania) are significantly taxed. Ranking the commodities in terms of the aggregate level of taxation, the highest was milk in Lithuania (-65), beef and veal in each of the Baltic States (see Appendix 1, Table A6). The livestock situation in each of the republics has strongly influenced the total PSE estimate, as the feed adjustment data is an important component of the PSE. Indeed for all the Baltic States the effect of price liberalisation, currency depreciation and decreases in government budgetary transfers was negative, and this has had an important effect on the PSEs as a whole. Since 1995, with a more stable macroeconomic environment (despite Latvia's banking crisis of 1995), the implicit taxation of farmers has declined to around zero rates. However, in Lithuania a combination of further price support, storage and export subsidies have been introduced since 1994, resulting in a rise in the net PSE to 13%.

From the perspective of consumers, the privatisation of farming and land ownership reform in the Baltic States has resulted in better quality food, the elimination of queues and access

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[19] The PSE is a measure of the overall level of support to producers of a given commodity. Thus, it measures the value of transfers from domestic consumers or tax payers to the farming sector at a given point in time, to evaluate the effects of changes in support policies. If as a result of domestic agricultural policies and border measures the domestic producer price is greater than the equivalent price on the world market, then producers are being protected, or subsidized. On the other hand, if the domestic price interventions and border controls have the opposite effect (depressing domestic prices below the corresponding world market levels), then the market element of the PSE is negative, implying farmers are taxed. The percentage PSE is an indicator of the value of transfers as a % of gross farm revenues.

to a wider variety of food products. The increased demand for foreign food and improved quality, has encouraged a number of competitive responses from Baltic food producers and processors (encouraging further product differentiation), which have arisen out of agricultural privatisation. The extensive privatisation of the Lithuanian brewery industry has encouraged foreign investment opportunities which have both improved both domestic and regional competitiveness.

To summarise, the following observations on the process of agricultural privatisation and decollectivization in Latvia and Lithuania are offered. First, that although the use of privatisation vouchers in the Baltic States has been widespread, and in general alleviates the shortage of capital required for the distribution of property to the private sector, it has not yet produced the resources necessary for sustained growth. With the exception of Estonia, it is questionable whether the speed and extension of privatisation vouchers in agriculture was very successful. For example, in Lithuania special share incentives to former *kolkhoz* cash-starved farmers probably worsened the already fragmented ownership structure and "crowded-out" additional investors. Vouchers were used to a far greater extent in Lithuania, than Latvia. Whilst voucher privatisation is almost complete in Lithuania, it is still ongoing in Latvia.

Secondly, Latvian and Lithuanian farmers now have the options of continuing to participate in the local *kolkhoz*, withdrawing their land and cultivating it as a private farm, or withdrawing it and joining with other farmers in a new organisation (e.g., a joint stock company), although this often only reflects a change in name and not function. They may also choose to lease their land to a *kolkhoz* or to another farmer. There are two main reasons for the process of de-collectivisation to have advanced through transformed *kolkhozes,* mainly in the form of JSCs or ACs: (i) in the early stages of transition, the restitution or renewal of property rights of often large scale collective farms, was not (legally or logistically) suitable for the market economy; and (ii) the process of restitution requires continuity and time to allow the new or original owners of property to decide whether and how to run their own farms. On the other hand, the privatisation of state farms in the Baltic States had a severe effect on the survival and financial viability of collectivised farming. With privatisation, land, and capital assets were steadily removed from state farms, which eroded the means for its operation and resulted in deep debt. The main lessons to emerge out of this study are summarised as follows:

- the high risk avoidance strategies of the shareholding membership of the large-scale farms has retarded developments in the effective restructuring of former state farms and the development of a larger independent private farming sector. The lack of macroeconomic stability since 1993 in both Latvia and Lithuania, has created a risky economic environment for private farming. The agricultural reforms introduced have left much of the decision making in the sector to government officials and at the enterprise level, the former managers of the reconstituted *kolkhoz.* There remain inadequate mechanisms for enterprise restructuring, entry and exit (e.g. liquidation in Latvia).

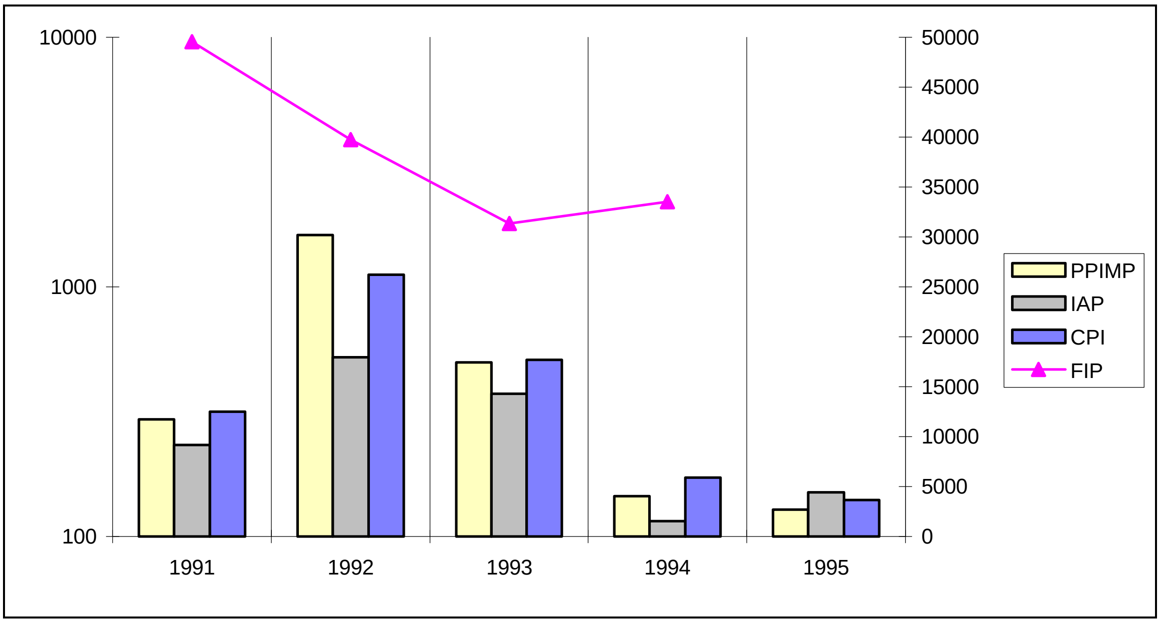
- Inadequate farm input, product, land and capital, markets as the key elements of a suitably supportive rural economic environment have also served to constrain the development of the independent private farming sector. The banking sector is still not geared up to financing private farms. The development of a functioning land market and effective property rights is essential, and will enable land use to reflect commercial decisions supported by land as collateral for loans. Property rights with these characteristics should induce higher labour productivity, better management and greater investment to enhance land productivity and output.

- In view of the difficulties of restructuring and re-orienting the agro-food industries encountered during transition, Latvia and Lithuania have made some progress. The "enabling environment" has significantly improved since 1990, the JSC model of agricultural privatisation although still prevalent in the Baltic States, is in the process of being reformed, especially in Latvia. However, the special preferences given to agricultural producers as part of the privatisation agro-food industries has tended to slow down the restructuring process. As part of the progress from the initial to later stages of privatisation, the development of human capital, managerial and marketing expertise within the sector will be very important.

The process of decollectivization in Latvia has been slow, and the emerging farm structures are still changing. Some of the new agricultural enterprises, JSCs and ACs emerging from the former *sovkhozes* and *kolkhozes* have proved unviable under the current Latvian economic recession and are in the process of being liquidated. Although the number of private farms is increasing, the average size of these units is declining. Given the high levels of unemployment and the relatively high level of food expenditure as a proportion of average incomes in both Latvia and Lithuania (approximately 40% of total expenditure), it may be anticipated that the small household plots will continue to play a major role in agricultural production. In Latvia, the large scale farms which currently farm around 20% of agricultural land, will probably retain this share in the short term given the prevailing levels of economic insecurity, although many of these enterprises are still subject to liquidation and division into smaller units. It may be expected that around 30% of the agricultural land will be managed by corporate or individual farms of between 100 and 500 ha [EU, 1995]. In both Latvia and Lithuania, the lack of an effective land market, and low land values, has retarded the development of the restructuring process.

The private farms emerging in Latvia and Lithuania are essentially family farms relying on the labour of one or a few families (see Appendix 1, Table A3). These farms are typically under capitalised and reflect the traditional production of household plots. The majority of independent private farmers are former *sovkhoz* and *kolkhoz* members or employees that left the larger unit with land or expanded their household plots. The typical independent private farm unit is (on average) slightly larger than in most CEE countries, but these units are declining in size rapidly (see Appendix 1). This also raises a number of political economy issues. For example, in Lithuania farm equipment may be purchased with investment vouchers (which the whole population received), cash, or “green vouchers” which were only distributed among agricultural workers and based on the number of years employed in the collective farm. As a consequence of this, rural pensioners have obtained a disproportionate share of the non-land agricultural assets in Lithuania. Moreover, perhaps the most important political economy factor underlying the process of decollectivization in Latvia and Lithuania is the effect of the pre-collectivisation land distribution which has increased opposition from existing collective farm employees and rural dwellers to land restitution. Land distribution based solely on the pre-collectivised model of agriculture throughout CEE has led to rural opposition. The pre-collectivisation asset distribution may to a large extent, determine the potential conflict between "historical justice" and "social equity" [Swinnen, 1996; Davis, 1997]. Finally, this paper has shown that as an initial stage of privatisation, the development of JSCs are an acceptable transitional solution to the divestiture of the state's assets, providing there is some demonopolisation first. However, for these firms to succeed in a market economy environment, they will have to be persuaded to move onto a later (second) stage of JSC privatisation (outsider involvement, share dilution and capital injection), and that governments should not only aim to create an enabling environment, but also to be policy neutral in its treatment of economic sectors.

Figure 1. Lithuania: Average annual food, producer, consumer price indices (compared to previous year); and food industry production



Source: Lithuanian Department of Statistics, Lithuanian Statistical Yearbook, 1995

Key:

PPIMP: producer price index for manufactured products.

IAP: index of agricultural prices

CPI: consumer price index

FIP: food industry production

Appendix 1

Farm structure in the Baltic's and Central and Eastern Europe (1994/95)

Table A1. Share in total agricultural land, %

	Collective farms*		State farms**		Private farms***	
	pre-1990	current	pre-1990	current	pre-1990	current
Estonia	45+	33	50+	NA	5+	#
Latvia	57+	17	38+	2	5+	81#
Lithuania	62+	33	30+	NA	8+	67#
Albania	75+	0++	23+	12++	3+	88++
Bulgaria	--	41	90	40	10	19
Czech Rep.	61	48	38	3	1	49
Slovakia	68	63	26	16	6	13
Hungary	80	55	14	7	6	38
Poland	4	4	19	18	77	78
Romania	61	35	14	14	25	51

Table A2. Average Size (ha)

	Collective farms*		State farms**		Private farms***	
	pre-1990	current	pre-1990	current	pre-1990	current
Estonia	3689+	567	3816+	NA	0.5	2.1#
Latvia	3900+	706	4200+	547	0.5	5.8#
Lithuania	3000+	567	3300+	NA	0.5	3.1#
Albania	300+	0++	2000+	400++	NA	1.4++
Bulgaria	--	750	13000	1100	0.4	0.6
Czech Rep	2561	1430	6261	498	4.0	16.0
Slovakia	2654	1665	5162	2455	0.3	1.0
Hungary	4179	1702	7138	1976	0.3	1.9
Poland	335	400	3140	2000	6.6	6.7
Romania	2374	170	5001	2002	1.5	1.8

* Collective farms and co-operatives pre-1990, private producer co-operatives and associations currently.

** State managed or controlled farms pre-1990, remaining state farms and state held farm enterprises currently.

*** Household plots and small individual farms pre-1990, individual (including part-time) farms and other business entities (limited-liability partnerships, joint stock companies, etc.) currently.

\+ Based on pre-1990 statistical abstracts of the respective countries.

++ World Bank data.

\# Includes subsidiary household plots.

Source: Csaki, C., and Lerman, Z. (1996) Agricultural Transition Revisited: Issues of land reform and farm restructuring in East Central Europe and the former USSR, EAAE Conference, Edinburgh September 1996, mimeo.

Table A3. Private farming in the Baltic States and the FSU

	Number of private farms		Average farm size, ha	Share of private farms in % of agricultural land
	End 1991	End 1993		
Estonia		9,000	25	16
Latvia		57,000	17	38
Lithuania		115,000	9	30
Russia	49,000	269,900	42	5
Ukraine	2,100	27,700	20	1.5

Source: Csaki, C., and Lerman, Z. (1996) Agricultural Transition Revisited: Issues of land reform and farm restructuring in East Central Europe and the former USSR, EAAE Conference, Edinburgh September 1996, mimeo.

Note well, Baltic states data is based on World Bank estimates and contrary to Table A1, this excludes the very small subsidiary household plot data.

Table A4. Agricultural Productivity Comparisons, 1989, 1994 and 2,000

	Cereals tonnes/ha			Oilseeds tonnes/ha			Sugar Beet tonnes/ha			Milk kg/cow		
	1989	1994	2000	1989	1994	2000	1989	1994	2000	1989	1994	2000
Estonia	2.4	1.6	2.1	1.0	0.7					4252	3401	3823
Latvia	2.4	1.8	2.0	1.4	1.0		2.4	1.3	1.4	3637	3003	3382
Lithuania	3.0	2.0	2.5	1.7	1.3		2.8	2.4	2.5	3808	2448	3010
Baltic's	2.7	1.9	2.3	1.6	1.1	1.2	2.7	2.0	2.2	3832	2768	3252
CEFTA[1]	4.0	3.2	3.8	2.4	1.8	2.2	4.2	3.6	5.3	3595	3275	3785
Balkans[2]	3.4	2.9	3.3	1.2	1.2	1.4	2.9	2.6	2.6	2363	2155	2445
EU-15	4.6	4.9	5.5	2.4	2.0	2.1	7.2	7.6	7.8	4562	5156	5905

Source: EC Commission (1995) Agricultural Situation and Prospects in the Central and Eastern European Countries: Summary Report. DGVI. Working Document VI/1120/95. Pages 23-25.

Table A5. Selected Commodity Prices in the Baltic States, the EU and the World Market, 1994

	Wheat			Milk		Beef		Pork	
	ECU/t	% EU	% world	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU
Estonia	75	56	80	83	26	360	12	550	43
Latvia	121	90	129	83	26	560	18	980	77
Lithuania	60	45	64	66	21	680	22	1040	81
EU	134		143	316		3130		1280	
World	94	70							

Source: EC Commission (1995) Agricultural Situation and Prospects in the Central and Eastern European Countries: Summary Report. DGVI. Working Document VI/1120/95. Page 16.

Table A6. Support to Domestic Producers in Percentage Producer Subsidy Equivalents, 1994

	EU-12	Estonia	Latvia	Lithuania
Wheat	57	7	-6	-18
Coarse Grain	62	-5	-5	-7
Oilseeds	57	7	17	43
Sugar	59	44	52	38
Crops	58	-20	-34	-3
Milk	63	-6	-2	-65
Beef & Veal	60	-36	-51	-42
Pigmeat	10	36	71	50
Poultry	23	33	55	57
Eggs	5	-13	34	9
Livestock	46	-2	18	-10
All Products	50	-8	1	-7

Source: OECD (1995) Agricultural Policies, Markets and Trade in OECD Countries: Monitoring and Outlook 1995.

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