

Privatisation and restructuring of agricultural and rural sector in Latvia

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1. BACKGROUND

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

- 1) land reform;
- 2) economic relations reform;
- 3) the reform of the state administration structures.

2. LAND REFORM

Approaches

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

Latvian land reform is divided into two overlapping phases:

- 1) land use reform - takes place between 1990 and 1996, and
- 2) land privatisation - covers a period of 10 - 15 years, starting on January, 1993.

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

In the second phase, which started after passage of the law "On Land Privatisation in Rural Areas" (1.01.93), land users can obtain or renew (former owners) their land ownership rights.

Ownership to land is established, based on the land survey documents; and a land market should begin. The guideline for the land reform was to create a framework of land ownership where, in most cases, the land user is the same person as the landowner.

Results

The first stage of land reform is really finished now- all the agricultural land is redistributed according to the law and persons' claims. The first land titles are issued to restituted land owners already. Unfortunately, state land service has not capacities enough to provide necessary amount of work to issue land titles and the process of real privatisation is running too slowly. Due to objective and subjective reasons (symbolic land and property taxes etc.) there is not yet an effective land and rental market in Latvia. So it may often happen that a farmer full of entrepreneurial spirit, who buys, for example, a cow shed with 200 cows, has no real possibility for raising feed.

The structure of land users has changed. The present stage of land users (including land owners) is reflected in table 1.

Table 1.

Land Users and Land Distribution (01.01.94)

Land users	Number	Total area (Th. ha)	Average area (ha)	Agricultural land (Th. ha)	% of agricultural area	Average area (ha)
Peasant farms	57510	1108.4	19.3	676.4	33.7	11.8
Household plots	113103	542.4	4.8	383.6	19.1	3.4
Private subsidiary farms	115248	253.5	2.2	234.0	11.7	2.0
Private orchards	59199	6.6	0.1	5.4	0.3	0.1
<i>Total private</i>	<i>345060</i>	<i>1910.9</i>	<i>5.5</i>	<i>1299.4</i>	<i>64.8</i>	<i>3.8</i>
State farms	103	53.6	520.4	44.9	2.2	435.9
Statutory companies	812	920.6	1133.7	607.1	30.2	747.7
Others	2950	87.0	29.5	56.1	2.8	19.0
TOTAL		2972.5		2007.5	100	

It is too early to speak about structure of land ownership, but it would be similar.

3. ECONOMIC RELATIONS REFORM

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

- 1) Reorganization of existing state and collective enterprises into companies with subsequent privatization through using internal vouchers (shares), distributed among employees and former owners of assets. (Case of agricultural enterprises- non - land assets.)
- 2) Reorganization of existing state enterprises into companies and their privatization through selling of shares. (This method is being used in privatization of agroindustries ¹.)

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

Reform in agricultural enterprises.

1. Approach and methodology

The law *"On Privatization of the Agricultural Enterprises and Collective Fisheries"* came into effect on July 1, 1991. This was the very first privatization law, not only in agriculture, but in the national economy in general.

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

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

a) **changing the legal status of collective and state farms.**

It provided that all collective and state farms (in January, 1991 in Latvia there were 530 such farms with average acreage 3550 ha agricultural land, number of employees- 310, livestock heads - 2350 and 55 tractors) must change their legal status from a collective or state farm to a company. The basic documents for further privatization must be prepared during this stage:

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

b) **allocation of all non-land assets to farmers and other entrepreneurs, and liquidation of former collective (state) farms.**

During this stage a shareholder of a company could alienate, by paying with his shares, any single or combined item from the inventory list he wished to acquire. Other shareholders could also apply for the same objects, and often the new owner was determined in the auction, but the company had no rights whatsoever to alienate the object for actual privatization.

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

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

2. Dynamics of the privatization process;

All the 530 former collective and state farms passed the first stage of privatisation in the first half of 1992, when they were reorganised into private statutory companies.

After it the process of privatisation was continued and, according to the data from the Districts' agriculture departments, in January, 1994, 330 companies were either in the process of elimination or liquidated.

Analysis of privatization dynamics of collective (state) farms from statistics data is possible in following groups of non-land assets (see table 2). Totally 70 % of all non-land assets were really privatised (separated from initial statutory companies).

Table 2.

Stage of Privatization within group of non-land assets (01.01.94)

		% privatized
Technically and technologically combined units	Plant cultivation	82
	Animal husbandry	55
	Service units for main production	48
	Non-farm production units	76
	Non-production units	87
Single units	Agricultural machinery	99
	Livestock	91
	Others	33

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

Privatization of state owned agroindustries

The rapid privatization of collective (state) farm assets and production units causes considerable structural changes in the service sector in rural areas . Different aspects in the processing sectors are considered here.

There are differences among the dairy and meat and other industries set by such factors as historical tradition, technology, farmers' point of view and the structure of processing enterprise. Because of these differences, approaches to privatization of state owned processing enterprises in these industries have been developed quite differently.

1. Reform in Dairy Farming.

1992 is noted for a sweeping privatization of the dairy processing branch. In order to change the previously existing centralised system of dairy processing, according to the decision "*On Privatization of Dairy Processing Enterprises*", adopted by the Supreme Council of the Republic of Latvia on April 15, 1992, the Privatization is to be carried out in two stages.

a) Privatization of local level milk processing enterprises

At the first stage a part of dairies (local level enterprises) were passed to the ownership of the revived and newly established Dairy Farmers' Associations, which were founded in compliance with the exemplary by-laws of Dairy Farmers' Associations, and the law *"On Co-operative Associations"* of the Republic of Latvia, passed on August 6, 1991.

Since July 1992 about 170 dairy farmers' co-operative associations have been founded in Latvia. They have claimed and most of them received some local enterprises.

b) Privatization of central and non-claimed dairy enterprises

In January 18, 1993 the law *"On Privatization of Dairy Processing Enterprises"* was passed concerning the privatization of the 10 largest dairy plants by transforming them into joint-stock companies, with certain quotas set for the purchasers of stock: not less than 70% for the dairy producers' associations; not more than 10% for the employees; up to 20% - the state owned share, which will subsequently be sold to the investors and for vouchers. As the deadline for this process is after 7 months, the producers are compelled to establish local dairy producers' associations in 2 to 5 months.

It can be said that at the time being the process of the privatization of milk processing enterprises is ended.

2. Meat processing

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

At the same time essential changes have taken place in the structure of meat producers: while the total number of livestock decreased, in the private sector (small farmers and subsidiary farms) the number increased. Thus, more than half of dairy cows belong to private producers.

In May 1993 the Supreme Council passed the law *"On Privatization of State Meat Processing Enterprises"*. In contrast to dairy plants, the potential buyers will not be farmers' co-operatives, but joint stock companies as competitive business.²

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

- a) Reorganization of enterprises into state owned joint-stock companies;
- b) selling of shares to private persons according to the special rules and quotas, set by privatization commission:
 - (1) - to employees- up to 10 % of shares;
 - (2) - to state pension fund- up to 10 % of shares;
 - (3) - to farmers- 25-35% of stocks must be distributed among meat producers, who want to buy stocks according to the size of owned or used land, moreover, those meat producers who have not received all of the money from particular state meat processing enterprises for animals sold, can received stocks within that value without payment;

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

- (4) - to the main share holder ("general entrepreneur")- at least 51 %. There are no special limitations to the main share holder- it may be as separate person as well as another company.

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

At the time being 5 of 14 enterprises are really sold.

Estimated dead line of this process was the middle of 1994, but it seems, it will be finished only in the end of this year.

3. Privatization of bakeries and grain processing and storing enterprises.

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

Now the process of the privatization is finished in 7 of 12 bakeries. Estimated dead line of this process also is the end of 1994.

There are some specific features in grain processing and storing enterprises. Great advantages for farmers co-operatives are envisaged by the amendments of the law passed by the parliament in June, 1994. Only 2 of 14 grain processing enterprises are privatized now and this process is just in initial stage. Estimated deadline is April, 1995.

Agroservice enterprises

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

However, this process does not proceed as rapidly as it was initially envisaged. The half of way is accomplished and the estimated deadline here is the first half of 1995.

4. LITERATURE

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