

*The experience of Lithuanian agricultural transition
in 1990-2000: an assessment*

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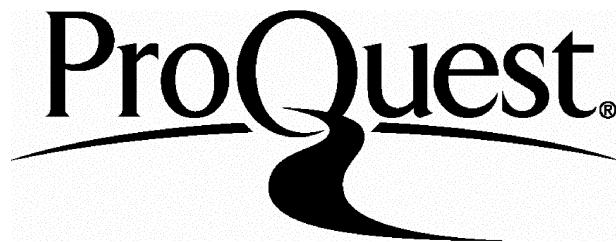
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Abstract

The aim of the dissertation is to provide an evaluation of the reforms undertaken in the Lithuanian agricultural sector in the decade following the restoration of independence in 1990 until the parliamentary elections held in October 2000. The demise of collective agriculture has not led to the establishment of a viable private sector- on the contrary, the policies undertaken in the past decade have resulted in an arrangement reproducing the inefficiencies of collectivism, as well as the earlier organisational dichotomy between subsistence farming and large agricultural entities. Searching for the roots of the ineffectiveness of reform strategies, we focus on the adopted modality of land restitution, which has prevented a clear delimitation of property rights to farming assets and provided the local administration with new channels to preserve the dependence of the agricultural sector from state authorities. At the same time, we highlight how fiscal policies have combined with the intricacies of the accounting system and the imperfections of the financial sector to establish a set of behavioural incentives resulting in a distorted allocation of resources.

Table of contents

<i>Chapter I</i>	
<i>Introduction</i>	11
1.1 <i>The ambit of research</i>	11
1.2 <i>The political economy of rural transition</i>	14
1.3 <i>The historical evolution of the rural sector in Eastern Europe</i>	19
1.3.1 <i>The inter-war experience (1918-1939)</i>	20
1.3.2 <i>The experience of collectivism (1948-1989)</i>	21
1.3.3 <i>The decade of reform (1990-2000)</i>	25
1.4 <i>An outline of the evolution of Lithuanian agriculture throughout the XX century</i>	30
1.4.1 <i>The pre-1945 period</i>	31
1.4.2 <i>The experience of collective agriculture</i>	41
1.4.3 <i>The decade of transition (1990-2000)</i>	51
1.5 <i>An outline of our hypothesis</i>	60
<i>Chapter II</i>	
<i>The interaction of agricultural organizations and state authorities in a context of transition</i>	65
2.1.1 <i>The emergence of agricultural organizations and their relationship with state authorities</i>	67
2.1.2 <i>Property rights transfer and structural change within rural organizations</i>	74
2.2 <i>Co-operation and the role of share-holding</i>	83
2.2.1 <i>Different patterns of development in European agriculture</i>	84
2.2.2 <i>Share-holding and property rights transfer</i>	88
2.3.1 <i>Different sources of credit and agricultural transition</i>	95
a) <i>The move away from traditional sources of credit</i>	96
b) <i>Banks, credit unions and organisational path dependence</i>	101
2.3.2 <i>Subsidies and income transfers in the context of agricultural transition</i>	107
2.4 <i>The roots of sectoral stagnation</i>	116

Chapter III

<i>Restitution, transformation and rural share-ownership in Lithuanian legislation, 1990-2000</i>	120
3.1 <i>Political change and reallocation of control</i>	120
3.2 <i>Restitution and guidelines on land usage</i>	123
a) <i>The initial phase- 1991-92</i>	123
b) <i>The early LDDP years- 1992-94</i>	128
c) <i>The Supreme Court and land reform- 1994-96</i>	134
d) <i>The Conservative legislature- 1996-2000</i>	138
3.3 <i>Legislation concerning tarūkiai, kolūkiai and the control exerted by state authorities</i>	142
a) <i>Vouchers and share-subscription: the initial phase</i>	143
b) <i>Structural transformation and state control</i>	149
3.4 <i>Agricultural co-operatives and share-holding</i>	153
a) <i>New co-operatives and the control exerted by savivaldybės</i>	154
b) <i>Share-holding and local authorities</i>	157
c) <i>Alternative forms of co-operatives' governance</i>	161
3.5 <i>Conclusion</i>	166

Chapter IV

<i>Evaluation of credit-worthiness and the structural dichotomy of Lithuanian agriculture</i>	168
4.1 <i>Lithuanian agriculture and the evolution of the financial sector</i>	168
4.2 <i>Accounting conventions and agricultural structures</i>	171
4.3 <i>Working capital, real capital and credit strategies</i>	177
a) <i>Working capital</i>	179
b) <i>Real capital</i>	182
4.4 <i>Disposable capital, borrowed capital and over-all financial stability</i>	186
4.5 <i>Sector-specific credit and structural stagnation</i>	192
4.6 <i>Credit unions and alternative standards for the evaluation of creditworthiness</i>	199
4.7 <i>Conclusion</i>	208

Chapter V	
<i>The role of fiscal policies and income transfers in agricultural transition</i>	212
5.1 <i>Taxation and transfers as instruments of agricultural policy</i>	212
5.2 <i>Agricultural structures and the taxation of physical persons</i>	216
5.3 <i>Taxation of agricultural entities endowed with legal personality</i>	222
5.4 <i>Tax application and control</i>	226
5.5 <i>Subsidies, arrears payments and agricultural structures</i>	233
a) <i>Prices and tariffs</i>	234
b) <i>Arrears payment</i>	245
5.6 <i>Conclusion</i>	249
Chapter VI	
<i>The experience of agricultural transition in Lithuania in 1990-2000-evaluation and perspectives</i>	252
6.1 <i>The role of national and local administrations in agricultural transition</i>	252
6.2 <i>Property rights and the patterns of land ownership</i>	258
6.3 <i>Ownership relations and the land market</i>	266
6.4 <i>Structural organization in the agricultural sector- predominance of successor farms and distorted asset distribution</i>	274
6.5 <i>Credit and fiscal policies as a vehicle of structural discrimination</i>	285
6.6 <i>Suggestions for structural reform</i>	294
Chapter VII	
<i>Structural hysteresis and state intervention in a "stagnating" transition</i>	299

Tables in the main body of the dissertation

Chapter I

Table I

Distribution of agricultural land according to the form
of land ownership in 1905 32

Table II

Size of agricultural units in Lithuania in 1914 33

Table III

Productivity of the main cultures in 1911-1912
(in 100 kg/ha.) 33

Table IV

Agricultural land distributed in 1919-1939
(thousands of hectares) 34

Table V

Agricultural workforce in the Baltic countries and
in Eastern Prussia in 1930 35

Table VI

Rye and wheat productivity in Lithuania and other
European countries in 1927-1930 35

Table VII

Size of agricultural units in Lithuania in 1930 38

Table VIII

Comparative size of *kolūkiai* and *tarūkiai* in Lithuania
in 1953-1987 42

Table IX

Monthly wages in Lithuanian and Soviet collectives (roubles) 44

Table X

Rye and corn productivity in Lithuania in 1970 compared to other
Soviet Republics and CEEC's (100 kg/ha.) 45

Table XI

Comparative investment in agriculture, 1960-1990
(million of roubles) 46

Table XII

Average *kolūkis* indebtedness to the state, 1960-1990 47

Table XIII

Private plots' contribution to over-all agricultural production
in the Soviet Union, % 48

Table XIV

Different forms of agricultural production, 1991-1997 52

Table XV	
Proportion of <i>naudmenos</i> used by different types of agricultural production (percentages, 1991-1997)	53
Table XVI	
Contribution of different types of farming to the total volume of agricultural production (percentages, 1990-1996)	55
Table XVII	
Proportion of agricultural production originating in different types of agricultural units (percentages, 1990-1996)	56
Total XVIII	
Farms' classification according to size (percentages, 1992-96)	58
 Chapter II	
Table I	
% Producer subsidy equivalent (<i>PSE</i>) in a number of CEEC's (1994-96)	111
 Chapter IV	
Table I	
Example of Anglo-Saxon <i>ataskaita</i> (1999, thousands of Litas)	174
Table II	
Example of continental <i>ataskaita</i> (1999, thousands of Litas)	175
Table III	
Composition of the capital of a middle-sized farming unit (Litas, 1996, month by month)	181
 Chapter V	
Table I	
Comparison of Lithuanian prices and world prices of agricultural produce, 1990-96, US\$/t	238
Table II	
Real procurement and retail prices of agricultural goods (December 1990=100)	239
Table III	
Comparison of procurement prices and retail prices of agricultural goods in the Baltic countries in 1996	240
Table IV	
Import duties on main agricultural goods in 1996 (percentage)	243

Chapter VI

Table I

Average price of agricultural land (1998-99) 267

Table II

Agricultural land plots sold in the Vilnius *apskritis* in 1998 268

Table III

Distribution of agricultural units by farms size (percentages, 1998) 278

Table IV

Agricultural budget and subsidies compared to the over-all state budget (1994-98) 286

Table V

Budgetary contribution to agriculture (percentages, 1997) 287

Table VI

Agricultural budget funds (1994-98, thousands of Litas) 288

Table VII

Budgetary contributions to support the prices of some agricultural products (1994-98, thousands of Litas) 289

Table VIII

Support to agricultural producers as percentage change over international PP (1993-96) 290-291

Annexes	304
Annex I Legislation regulating bankruptcy proceedings	304
Annex II Lithuania's economy: an overview	311
Table I	
Fundamental data	311
Table II	
National economy indicators (1991-1996)	312
Table III	
Agricultural indicators (1991-1996)	313
Table IV	
Areas taken up by basic crops (1991-96, thousands of ha.)	313
Table V	
Number of cattle at the end of the year (1991-96, thousand head)	314
Table VI	
Agricultural productivity dynamics (1991-96, thousands of tons)	314
Table VII	
Overall agricultural production (1989-96, 1989=100)	315
Table VIII	
Agricultural exports and imports (thousands of US\$)	316
Table IX	
Agricultural exports and imports (percentages of the total)	316
Table X	
1996 agricultural exports according to trade partners	317
Table XI	
1996 agricultural imports according to trade partners	317
Table XII	
1996 price of a number of agricultural goods in Lithuania and the USA compared with the corresponding OECD information price (1996 OECD information price= 100)	318
Table XIII	
Evolution of some economic indicators from 1994 to November 1999	319

Annex III Land reform and ownership relations as of 01/01/2000	325
Table I	
Distribution of agricultural land according to the land user group (01/01/2000)	325
Table II	
Citizens' applications submitted for restitution of property rights as a percentage of total land surface (01/01/2000)	326
Table III	
Approved citizens' applications for restitution of land property rights in original borders, including forested surfaces (01/01/2000)	
• Alytus <i>apskritis</i>	327
• Kaunas <i>apskritis</i>	328
• Klaipėda <i>apskritis</i>	329
• Marijampolė <i>apskritis</i>	330
• Panevėžys <i>apskritis</i>	331
• Šiauliai <i>apskritis</i>	332
• Tauragė <i>apskritis</i>	333
• Telšiai <i>apskritis</i>	334
• Utēna <i>apskritis</i>	335
• Vilnius <i>apskritis</i>	336
Table IV	
<i>Apskričiai's</i> general statistics (01/01/2000)	337
Bibliography	339
I. Articles and books	339
II. Legal texts	349
III. Articles and extracts from the Lithuanian press	353
Note on sources	358
Index of foreign terms	360
Index of acronyms	366

Chapter I **Introduction**

1.1 The ambit of research

In the decade following the demise of socialist regimes, the unprecedented nature and scale of the economic transition undertaken by Eastern European economies, as well as the variety of its outcomes in different countries, has led economists and politicians alike to revise earlier unquestioned convictions as to the possibility to devise universally adequate and applicable privatisation strategies, as well as the initial belief as to the inevitable convergence of institutional and organisational arrangements towards Western European models. While policies grounded in received theoretical analysis had rather successfully coached Latin American liberalisation in the 1980's (cfr. Spoor, 1997), it has by now become clear that the reform strategies devised in the aftermath of the political transition have been unable to overcome the legacy of collectivism and to lay the conditions for long-term economic development. Predictions by Western analysts as to the shape of specific sectors within individual economies proved to be flawed as a consequence of the failure to consider the local political and historical context (cfr. Brooks, 1991).

The attitude held by socialist regimes towards agriculture had been historically marred by a certain degree of ambivalence. Marx's chief preoccupation with urban proletariat as the main vehicle of social and economic emancipation combined with the perceived necessity to overcome the deep-seated technological backwardness of socialist countries to ensure a strong ideological bias in favour of heavy industry, even if this resulted in the shortage of consumer goods (cfr. *Tiesa*, Jan.-Feb. 1991). At the same time, the large proportion of the workforce involved in agriculture and the avowed desire to limit food imports to the minimum meant that in most countries agricultural collectives were consistently granted special financial

support and the ideological opposition to private property was relaxed to ensure alimentary self-sufficiency. In the aftermath of the political transition, legislators across Eastern Europe and the former Soviet Union faced a situation where an industrial sector failing to satisfy the population's basic needs struggled to survive along a highly subsidised and inefficient agriculture.

In a context of pervasive economic and political insecurity such as the one characterising the former socialist bloc in 1990-91, however, the necessity was widely perceived to ensure some continuity in agricultural production in order to preserve the measure of social consensus necessary to implement more radical reforms in the long run. As a result, in most cases (cfr. Lindemans, 1997; Mathijs, 1997) provisions as to agricultural de-collectivisation preceded corresponding guidelines about industrial conglomerates. While such provisions consciously reflected social rather than economic preoccupations, the overriding concern to rectify the perceived individual torts operated by collectivisation overshadowed long-term considerations as to the establishment of a new, viable agricultural sector. Politicians and rural work-force alike implicitly subscribed to the belief that, once the old infrastructure was dismantled, a new sector would replace the old one spontaneously (cfr. Kabat/Hagedorn on Slovakia, 1997). Ten years after de-collectivisation, the delusive nature of legislator's initial optimism is all too evident, as agriculture remains a problematic sector in most countries of the region and continues absorbing a disproportionate share of support from state authorities.

In the course of this study, we are going to assess the experience of Lithuanian agricultural reform in the period going from the restoration of independence in 1990 to the aftermath of the elections in October 2000, trying to understand the reason for its substantial failure to deliver the expected change. After a brief discussion on the principles underlying the political economy of agricultural transition, we shall present an overview of the experience of rural reform in a

number of Eastern European countries. The purpose is to show how the chosen reform policies, rather than pursuing an abstract notion of efficiency, have systematically reflected social and political pressures originating from the earlier history of the region, resisting demands for more radical change. We shall then outline in more detail the history of Lithuanian agriculture in the course of the past century, pointing out how the widely perceived inability of reform strategies to rescue the rural sector from stagnation does not reflect any inherent weakness on the part of the state, but rather the inability of state authorities and agricultural organisations to break out of a self-serving pattern of mutual support.

In the course of the following chapters, we shall show that within the agricultural sector an inadequate set of legislative instruments, complemented by an inappropriate fiscal and financial policy, have led to the establishment, as well as the progressive strengthening, of a set of incentives resulting in the reproduction of the earlier dichotomy between collectives and individual plots, implicitly favouring an unbalanced organisational arrangement and an inefficient usage of resources and infrastructure. More generally, we shall argue that the evaluation of agricultural transition needs to be integrated with an adequate understanding of the role played by the intervention of state authorities, as well as by an appraisal of the evolution of organisational arrangements and of their interaction with the constraints making up the local institutional context. The intent of this study, therefore, is not only to analyse the rural sector of post-Soviet Lithuania, but also to contribute to a better understanding of the formulation and the impact of rural policies in a context of transition.

1.2 The political economy of rural transition

In the early 1990's, the awareness of the long-term impact of agricultural reform on the overall economy of Central and Eastern European countries resulted in strategies being the object of an intense debate, in which ideological preoccupations with social and historical fairness vied with the perceived necessity to improve the economic performance of the sector by improving allocative efficiency. While in Russia ideological opposition to the notion of private ownership in the agricultural sector ensured that the first experiments with land privatisation could be carried out only in 1998 (cfr. Wegren, 1998), in Central and Eastern Europe, with the possible exception of Bulgaria and Romania, little resistance was posed to the dismantling of collective structures, while controversy rose around the form and the sequencing of the reform strategy. In particular, the main issues in these debates were a) the pattern of the new distribution of assets, and b) the nature of the organisational arrangements that would replace the three-tiered system of *sovchozy*, *kolkhozy* and private plots (cfr. Csaky/Lerman, 1994). The task of this section is to identify some important concepts for the debate on rural transition, in order to provide a framework for the following overview of the historical evolution of the agricultural sector in some of the region's countries.

The argument usually brought forward by the supporters of the restoration of property rights points to the fact that private ownership provides the context for market transactions, and thereby it is conducive to the maximisation of the assets' potential values. We shall see in more detail in *Chapter II* how decision-makers who are unable to control the income flow from a particular asset are unable to take decisions as to its efficient use. In case property rights are clearly defined, decision-makers have better incentives to control resources and are more likely to minimise inefficiency. *Privatisation* and *restitution* are two different reform strategies that can be deployed to restore the private allocation of agricultural assets. The former term

may be used for a full variety of technical options- free distribution of assets, vouchers' distribution, sale at auctions, etc.- which, reflecting the political orientation of the reformer, may target one particular group at the detriment of others. What these strategies have in common, however, is the priority given to the speedy restoration of effective property rights to private individuals or households, sometimes at the cost of delaying the allocation of legal ownership rights. From this perspective, it is important to regard any claim as to the "completion" of privatisation processes in CEEC's with caution, as in many cases new owners were only attributed a limited control over their asset (for instance, prohibiting its sale or lease for a certain period of time) or were expected to subject their development plans to the approval of the competent state authorities.

On the other hand, *restitution* returns property rights to their supposedly "legitimate" owners, inasmuch assets expropriated during collectivisation are still in existence. This reform strategy is bound to clash with the result of the profound changes in the quality of land and assets intervened over the previous decades- often, earlier assets no longer exist and state bodies overseeing the implementation of reform must either compensate former owners financially, or ensure that they receive equivalent assets in exchange. A further important element which influences the choice of restitution strategy was the extent and patterns of social evolution since the late 1940's- urbanisation and industrialisation meant that substantial proportion of the population which were earlier employed in agriculture would now no longer be interested in taking up farming. If original land distribution was very unequal or reflected profoundly changed ethnic composition, legislators, in order to avoid excessive disruption, would opt for a form of partial restitution or implement a mixed policy, which would allow to satisfy the demands of a proportion of previous owners while at the same time subjecting a number of areas to privatisation. As a strategy, restitution is considerably more costly and liable to controversy than privatisation, as it requires the constant direct involvement of local authorities, while

its provisions are often contested by the dissatisfied recipients of plots. It is also more time consuming, both as the choice of alternative assets for compensation is rarely an easy task, and in consideration of the average duration of legal challenges to decisions taken by the competent state authorities.

The second problematic issue- the nature of new agricultural co-operatives- is closely linked to the strategy adopted towards the collectives that in 1989 were the most common agricultural structure in CEEC's. *De-collectivisation* represented the more radical option, consisting in the systematic break-up of *sovchozy* and *kolkhozy* starting from the least efficient structures, in order to replace with independent units of production. *Transformation* refers instead to the conversion of collectives into structures based on some form of private ownership, in most cases share-holding companies. In the majority of CEEC's, the massive scale of previous collectives rendered them vulnerable to diseconomies of scale as well as of scope. As a result, the reform strategies implemented in the 1990's led to the dismantlement of the majority of state and collective farms across the region; the preservation of existent agricultural structures was possible only in contexts such as the Hungarian rural sector -where *kolkhozy* had attained a moderate degree of efficiency in the previous decades (cfr. Mathijs, 1997)- or in economically depressed areas, where the survival of collective farms was necessary to maintain social cohesion (cfr. Kontrimavičius in *Vartai*, 24/01/2000). Of course the laws laying the guidelines for transformation is going to play a crucial role in determining whether the newly established entities are going to be viable in the long-run.

It is clear that the choice of a policy as to the allocation of assets is bound to have an impact on the strategy adopted towards collectives. Privatisation is compatible with different structures of asset ownership and poses fewer restrictions on de-collectivisation. At the other extreme, restitution in original boundaries is virtually incompatible with transformation of existing collectives into structures

compatible with a market economy. In this sense, we can define restitution as a more radical policy (cfr. Rabinowicz and Swinnen, 1997), as it results in the complete overhaul of the existing organisational arrangements. We shall see in the course of this chapter that legislators in most cases have eschewed "pure" forms of either de-collectivisation or transformation, opting for intermediate policies which envisage the dismantling of the least viable structures coupled with the establishment of large-scale private production units. This approach is usually accompanied by moderate restitution policies, which result in the establishment of a substantial number of small-scale individual farms. In this way, the patterns of agricultural production which characterised the collective period are not erased and play a determinant role in the birth of the new agricultural sector.

We must not forget that, in many CEEC's, governments have been unable to exert a close control over the implementation of their reform strategy, having to resort to the services of intermediate agencies and confronting local administrations as well as rural populations substantially opposed to reform. The complexity of many guidelines has resulted in a situation where municipal administrations in charge of asset redistribution or organisational reform interpret state legislation making sure to defend their own interest rather than furthering the demands of fairness or efficiency. The problem is made more severe by the high degree of political instability characterising CEEC's- the shifts in the political allegiances of the region's electorate have resulted in a situation where the course of reforms is often interrupted or substantially modified. As a result, local administrations as well as other bodies overseeing reform implementation do not feel compelled to implement legislation which is not in their interest, knowing that a change of government could anyway modify the course of reform.

The economic and legislative environment that has been created by rural reform across Eastern Europe is so far characterised by a substantial degree of

instability, where many areas of activity are not covered by explicit guidelines (cfr. Ramanauskas, 1992; Penkaitis, 1994) and therefore farmers are unable to discern clearly what strategy is in their own best interest- whether to establish new productive units or remain within the transformed collective enterprises. In fact, in most CEEC's rural areas are largely supportive of post-communist or populist parties, as a large proportion of the younger population moves to urban areas and new co-operatives' workforce includes a disproportionate amount of old collective workers and party cadres who are concerned with the disruptive impact on their livelihood of more radical reform (cfr. *Sole 24-ore*, 26/11/1999). It is clear that radical de-collectivisation would result in the disappearance of the structures accounting for the strongest opposition to change- governments in the region, however, have proved to be more inclined to eschew policies directly hurting former collective workers, trading off efficiency for electoral support.

One must not forget that in the immediate phase of the transition, decisions as to agricultural reform were often taken with imperfect information as to the real functioning of existing rural structures, and with little consideration as to the impact of such reforms on other sectors of the economy. In addition, the determinant and persistent role of ideology in determining the content of reform strategies has resulted in a situation where the different political orientation of successive governments is discernible in the series of adjustments adopted in rural policies' formulation and implementation. As we shall see in the next section, ideological and historical considerations have been the main constraints acting on state authorities- the analysis of rural reform strategy would be inadequate if it did not take into account that the choice among alternative policies is not taken in a vacuum, but reflects a temporary equilibrium among the opposing demands of ideological considerations and interest groups.

1.3 The historical evolution of the rural sector in Eastern Europe

In the course of the XX century, Central and Eastern European countries experienced three major waves of land reform. The early 1920's saw a sustained effort to overcome the legacy of feudal structures- state authorities favoured the modernisation of infrastructure and the redistribution of land, hoping that the creation of a new land-owning middle class could bring prosperity to rural areas and reduce support for the communist ideology in the face of what at the time appeared to be the spectacular successes of collectivised agriculture in Russia. After 1945, the countries fallen under the sphere of influence of the Soviet Union initially implemented a systematic redistribution of land among the peasants, believing, on the force of Preobrazhenskii's notion of "primitive socialist accumulation", that the evident superiority of large-scale production would eventually convince individual farmers to enter into collectives. As events failed to match expectations, forced collectivisation led to massive expropriation and to the establishment of large mechanised farms.

It is important to remember that in Eastern Europe the Soviet model of collectivisation was never applied in its most orthodox form, as it was in Cuba or in China. Small private plots were tolerated in most areas, though their owners were subject to state regulation in terms of pricing and retail conditions. The last wave of land reforms was implemented in the early 1990's as CEEC's regained their full economic and political independence. The purpose of this section is to provide a term of comparison for the following historical survey of Lithuanian agriculture. The assessment of the experience of different countries indicates how, despite the elements in common, there is an idiosyncratic element of continuity in each country's development that invariably allows the external observer to detect the origin of particular policies and to predict future patterns of sectoral development.

1.3.1 The inter-war experience (1918-1939)

In 1918 the proportion of peasants in the total population was 80% in Bulgaria, 78% in Rumania, 63%, in Poland, 55% in Hungary, 34% in Czechoslovakia (cfr. Mathijs/Swinnen, 1996; Mathijs, 1997) and about 20% in the areas of Prussia which would later become the German Democratic Republic. With the exception of Bulgaria, land-ownership was highly unequal, while all countries except Rumania were torn apart from ethnic tensions resulting from the high proportion of land and agricultural assets owned by members of ethnic minorities-Turks in Bulgaria, German and Russian in Poland, German-speaking groups in Hungary and Czechoslovakia. Land reform took therefore a nationalistic, as well as an anti-Communist overtone, as the newly-established democracies attempted to limit the appeal of the Communist ideology. The concern with a fair distribution of land resulted however in a fragmentation of the agricultural surface that rendered farming inefficient, decreased productivity and made long-term planning virtually unfeasible.

As the 1930's witnessed the increasing popularity of authoritarian forms of government, there was a substantial increase in the involvement of state authorities in the running of the rural sector- in some cases, subsidies to newly-established agricultural co-operatives equalled 15% of GNP (cfr. *Bauern-Zeitung*, 1996). Co-operative development among producers and consumers as well as the birth of credit unions was one of the most promising features of rural sectors across the region before 1939- improved infrastructures and better equipment were however insufficient to fill the productivity gap which still separated Eastern European agriculture from its Western counterpart. The outbreak of the conflict in 1939 and the later imposition of collectivism put a stop on any project of closer commercial contacts with Western Europe, as well as on the further spontaneous development of co-operative arrangements.

1.3.2 The experience of collectivism (1948-1989)

The amount of land available for reform after WWII differed greatly from country to country, largely as a result of border changes and the exodus of ethnic minorities. For instance, almost 1/3 of the land redistributed in Poland and 1/4 of that redistributed in Czechoslovakia came from German ownership- Hungary and Romania were the only countries where property previously belonging to native aristocratic land-owners constituted the major source of land. The social and ethnic patterns of pre-war societies were reflected in the content of the redistributive policies implemented after the war, showing that the aim of agrarian policy was not only better economic performance, but also the achievement of socio-political control.

In Poland, the Polish Council of National Liberation disposed as early as 1944 that private households could not own more than 48 hectares of land. In 1945, a ceiling of 100 hectares was extended to the territories annexed from Germany (cfr. Lindemans, 1997). Between 1945 and 1947, 14 million hectares of agricultural land were redistributed among the peasantry, who could consolidate existing farms or establish new ones- the persistence however of a high degree of fragmentation (89% of agricultural entities tilled fewer than 10 hectares) prevented the elaboration of larger-scale plans. After the expropriation of private land in 1948, the state established 9,076 *sovchozy* and 243 *kolkhozy* along a network of machine tractor stations. State farms were mainly located in the former German territories; in this area it was easier to induce farmers to renounce their newly acquired land property rights, while collectives were situated in Central Poland. The strength of popular opposition to collectivisation was however so strong that in 1953-55 the regime reverted its policy and restored full property rights to *kolkhozy* farmers. As a result, the country developed a two-tiered agricultural system- ever larger state farms (their number was down to 965 in 1978) farmed the North-West of the country, while in

the South-East as low as 1.2% of agricultural surface was tilled by *kolkhozy*, and the bulk of farming was carried out in 800,000, largely commercially unviable, individual plots. The latter were subject to so-called "indirect socialisation" schemes, whereby they would buy subsidised input from the state selling back a part of their produce to local authorities. In 1990, 26% of the population was still employed in the agricultural sector.

In **Czechoslovakia**, collectivised agriculture came partially to resemble the Polish two-tiered system. In Bohemia and Moravia, 3 million hectares of agricultural land expropriated from ethnic Germans were initially redistributed to the peasantry and then turned into Soviet-style *sovchozy* as early as 1947- by 1959 state farms and collectives controlled 95% of the land. In Slovakia, popular opposition ensured that collectivisation was implemented more haphazardly and in some cases it was reversed- in some regions, private plots amounted to 40% of agricultural land (cfr. Kaser, 1968). As a result, Bohemia and Moravia grew increasingly dependent on Slovakia for the provision of agricultural produce.

In **Hungary**, pre-1945 agricultural production had retained many feudal features- 0,1% of the population controlled 30% of the land. Initial redistribution avoided excessive land fragmentation and permitted the establishment of viable private farms- as collectivisation was implemented more gradually than in neighbouring countries, private farms continued to be operational well into the 1960's. Their performance was consistently better than that of the 133 *sovchozy* which were established by 1954- this fact, as well as the desire to quell popular discontent following the 1956 uprising, encouraged the state to release collectives from the system of compulsory deliveries and to allow them a margin of financial independence. In 1989 1,274 such *kolkhozy* controlled 75% of the overall agricultural surface, distinguished into *type A collectives*, specialising on one agricultural product, *type B*, free to undertake any kind of agricultural activity, and

type C, specialising in intensive cultures (cfr. Csaky (*ed.*), 1993; Mihályi, 1993). In the 1980's, when other Eastern European countries were plagued by food shortages and had to resort to food imports from the West, Hungary could boast the highest productivity rates of the whole Eastern bloc (cfr. Mészáros, 1994).

A largely feudal structure was also the main characteristic of agriculture in the German territories under Russian occupation, which in 1949 would establish the **German Democratic Republic**. In these areas, the tradition of *Junkertum* implied that small private farms had been the exception, rather than the norm, so that the transition to a system of large collectives met hardly any popular opposition. In 1989 there were 465 *sovchozy* and 3,855 *kolkhozy*, both commonly referred to as *Landwirtschaftliche Produktionsgenossenschaften (LPG)*. While collectives were not granted the same margin of freedom as on their Hungarian counterpart, *LPG* enjoyed a degree of financial independence, so that, compared to their Eastern European counterpart, they were remarkably efficient- in the 1980's they recorded the lowest production costs in Eastern Europe.

In **Bulgaria**, the combination of the leadership's strict ideological orthodoxy and the lack of substantial opposition from the population resulted after the war in immediate and comprehensive collectivisation. In the early 1970's *sovchozy*, *kolkhozy* and machine tractor stations were merged into large agro-industrial complexes (cfr. Davidova, Buckwell and Konova, 1997). The survival of a nominally extensive private sector (controlling 15% of agricultural land, although admittedly in the least fertile areas) was meant to appease the Turkish minority, which tilled 80% of private plots.

Historically, **Romania's** agricultural sector has always been the most backward in the region, relying on minimal infrastructure and employing 40% of the national labour force. The German and Hungarian minorities were harshly penalised

by the initial land redistribution- most of their land in Transylvania was later turned over to *sovhozy*, while *kolkhozy* controlled the largest proportion of agricultural land in the ethnically Romanian areas. In fact, in both *sovhozy* and *kolkhozy* pay was in no way related to performance (cfr. Gavrilescu, 1994). After Ceacescu's seizure of power in 1965, in the face of persistent shortages, a second wave of agricultural reforms implemented a series of forced urbanisation programmes eradicating entire communities to set up new agricultural centres which could only survive receiving constant state support. Ideological extremism resulted in more efficient *kolkhozy* being purposefully led into bankruptcy to quench "individualism", while individual farmers (controlling 10% of agricultural land) would be forced to cultivate unsustainable crops so as to be induced to renounce their land.

From the Polish and Czechoslovak case, we can see that the agricultural sector could be collectivised most easily in those areas where large estates owned by the aristocracy had historically controlled a large proportion of the agricultural surface, so that the peasantry had developed no attachment to the land it tilled. Eastern Germany and Hungary succeeded in finding an equilibrium between the demands of ideological orthodoxy and the intuitive necessity to grant a margin of initiative to agricultural entities. On the other hand, Bulgaria and Romania opted for a hard-line dirigisme, but failed to overcome their own structural weaknesses, locking the agricultural sector into a vicious circle of dependency and inefficiency.

1.3.3 The decade of reform (1990-2000)

The redistribution of property rights and the ensuing transformation in organisational arrangements have been the initial defining feature of the reform strategies reshaping the agricultural sector in Central and Eastern Europe. While there was a general consensus as to the superior allocational efficiency of private ownership and a common awareness of the distortionary effects of pricing and procurement regulations, the need to choose out of a wide range of strategic policies led to prolonged debates about the possible directions of long-term sectoral development, as well as the nature of cross-sectoral repercussions. It was widely perceived that future agricultural performance might be impaired in case important economic assets were placed within inadequate structures, but there was little agreement as to how merits and drawbacks of alternative arrangements should be assessed. In the course of this section, we shall see how in the majority of cases reform strategies have been captured by social and political interests, failing to lay the foundations for a viable agricultural sector.

In Poland, the initial law concerning the privatisation of public enterprises (13/07/1990) established that state-farms could be either liquidated or transformed into joint-stock companies- restitution was ruled out as it would have implied the return of substantial amounts of land to foreign citizens. In fact, farmers displayed little interest in taking over the land and the agricultural assets of the *sovkhozy*. Later amendments of the privatisation law (16/01/1993-29/12/1993) allowed the Treasury Agency to sell or lease at preferential prices 3 million hectares of land to the farmers who had been tilling it in the previous decades. Successive governments were unsuccessful in overcoming farmers' reluctance to consolidate plots and, in order to retain the support of rural electors, they deliberately avoided to address the issue of over-manning in private plots following the massive outflow of workers from the collectives (cfr. Rabinowicz/Swinnen, 1997). While a number of new co-operatives

were operational in 1998-99, in the last years family farming has become even less commercially viable, as the consequences of the fall in demand for local produce have not been compensated by the reductions in input prices.

Before the dissolution of **Czechoslovakia** in 1993, the Federal Parliament promulgated a series of legislative acts struggling to find an equilibrium between the requests for compensation put forward by dispossessed owners or their heirs and the understandable desire of agricultural workers that their contribution to the rural sector be compensated. This resulted in extremely complex and virtually inapplicable guidelines. A restitution law (26/01/1991) which disposed the return of all plots under 150 hectares to Czechoslovak citizens wishing to take up farming clashed with later guidelines on the dissolution of *kolkhozy*, whereby 25% of their land was to be sold to new co-operatives and 75% distributed for free- 50% to neighbouring farmers and 50% to former employees of the collectives, proportionately to their share in the latter and the time spent there. Eventually, in the face of the resulting chaos, the Czech Republic chose to limit restitution to individuals having submitted their application by January 1992, while in Slovakia restitution was suspended all-together in 1993.

In **Hungary**, unlike in most other countries of the region, there was no real necessity to dismantle the entire system of collectives- in fact, in order to avoid major disruptions in agricultural production, the privatisation law of 26/07/1991 ruled out the restitution of land and assets to previous owners and laid the conditions for their financial compensation. While *type A kolkhozy*, which suffered from diseconomies of scale, were liquidated, 90% of agricultural land was leased to *type B* and *type C kolkhozy*, which a law of 06/01/1992 eventually transformed into limited liability companies (cfr. Mészáros, 1994; Mathijs, 1997). A similar trend spontaneously developed in **Eastern Germany** after the reunification of the country- while initial uncertainty about the direction of agricultural policies resulted in a

drastic fall in agricultural production, once restitution was ruled out, farmers decided in the majority of cases to continue working within the existing structures and to reform them from the inside (cfr. *Bauern-Zeitung*, 1992-93). In this particular case, the adoption of Western Germany's legal and administrative system provided a clear context for sectoral reform, while the federal government's generous subsidies ensured that balance of payments concerns did not limit the scope for structural adjustment. In 1998-99 the boundaries of most new agricultural organisations largely coincided with those of the old *LPG*.

In **Bulgaria**, the first democratically elected parliament ruled on 14/02/1991 that land from agro-industrial conglomerates should be redistributed to farmers wishing to start new agricultural units. To encourage consolidation and attract capital, foreign investors were allowed to acquire minority participation in co-operatives, but the response was rather limited (cfr. Dainov, 1992). This ruling clashed with earlier guidelines disposing the restitution to former owners of plots smaller than 30 hectares, which then could not be sold or leased for three years. In 1994 the government chose to interrupt the restitution program and to compensate previous owners or their heirs with free coupons to be exchanged for land. In fact, political debate in Bulgaria was characterised by the former Communist's opposition to the dismantling of collective infrastructure, to the extent that, following their return to power in 1994, the market for land was virtually frozen for a four-year period. A series of amendments to the 1991 law restricted the transfer of property rights from collective farms under liquidation to private farmers, preferring to introduce co-ownership over the clearer delineation of property rights (cfr. Davidova/Buckwell, 1994 about "red" or "Orlov" co-operatives). The return to power of a moderate coalition in 1998 failed to revert the tendency towards a return to earlier patterns of production, symbolised by the re-introduction of procurement quotas in early 1999.

The reluctance of the old party cadres to oversee the dismantling of collective structures induced Romania's parliament to dispose (16/02/1991) that *sovkhozy* would not be dissolved, but turned into joint-stock companies with 70% state participation. While *kolkhozy*'s land was redistributed, persistent egalitarian preoccupations resulted in plots having an average size of 1.8 hectares. When consolidation was allowed in 1994, the largest majority of farmers possessed no documents as the content of their property rights and there were no clear legislative guidelines as to the establishment of new organizational structures within the agricultural sector. In 1998-1999, Romania was the only country where farmers were not allowed to draw credit from the competent state authorities and were still obliged to rent tractors and other equipment from state-controlled technical outlets (cfr. Ionescu, 1993). In early 2000, the agricultural sector employed 37% of the national labour force, but productivity was among the lowest in Europe (cfr. *Sole 24-ore*, 26/11/1999).

If we compare the rural policies implemented in the past ten years in Central and Eastern Europe, we see that agricultural reform was not the implementation of a one-off strategy- the constant necessity to balance the virtually irreconcilable preferences of different social and political groups pursuing their interests turned the drafting, as well as the implementation of reform policies into a continuous choice problem, where repeated adjustments had to be made in the face of newly arising constraints. Analysts have focused on different aspects of this dialectic- for instance, Verdier (1994) points at the incomplete reform of the rural sector in some countries to argue that the intensity of social and political opposition to agricultural modernisation is stronger in those areas where experiments with collectivisation had not signified a clear break with the earlier structure of the sector. In Lyons, Rausser and Simon (1994), on the basis of the Czech experience, it is claimed that popular support for more radical change depends on a clever sequencing of the reform strategies- pointing at the Bulgarian stand-off, on the other hand, he highlights the

role played by local political cadres and the leadership of former collectives to slow down reform across the region. More generally, we can see that the shifting nature of socio-political constraints makes it problematic to plan strategies in a long-term perspective or to envisage *ex ante* what is likely to be a static equilibrium outcome (cfr. Roland, 1993; Wyplosz, 1993). The analysis of rural transition may yield better insights if it were based on a pragmatic, public choice perspective, rather than on more dogmatic approaches based on specific models of normative choice.

1.4 An outline of the evolution of Lithuanian agriculture throughout the XX century

Despite the incorporation of Lithuania into the Soviet Union following WWII, the record of the transformations undergone by the agricultural sector in the country over the past century allow us to draw a clear parallelism between the country's experience of successive waves of rural reform and that of countries having retained their nominal independence throughout the entire period. The reform efforts of the new Lithuanian state in the 1920's do not substantially differ from those of the other emerging nations in Central and Eastern Europe, though one must not forget that in the Russian empire, agriculture had been characterised by far less developed infrastructure and a lower productivity than in the rest of the continent. Similarly, the post-war of collectivisation to the country largely matched the experience of most countries in the region, although the integration of Lithuania into the Soviet Union resulted in a deeper re-orientation of its infrastructure to serve the Union's rather than domestic needs. The implementation of reform strategies following the restoration of independence has equally exhibited the same mixture of initial confidence and later uncertainty. It appears however that the necessity to reorient the market away from the former Soviet republics and the legacy of a more pervasive form of *dirigisme* have prevented reform strategies from delivering the expected revitalisation of the sector.

1.4.1 The pre-1945 period

Land property relations and their socio-economic implications played an important role in Lithuania's history already in the XIX century. Following the third and last partition of the Polish-Lithuanian Commonwealth in 1795, most of today's Lithuania had come under Russian domination- as a result, while in some areas of the Grand Duchy of Warsaw peasants were emancipated as early as 1807, to the North of the Nemunas serfdom (*baudžiava*) survived virtually unchanged until the 1861 *ukaz* of Alexander II. Under this arrangement, most of the landed estates was controlled by the Polish-speaking aristocracy, while the Lithuanian-speaking peasantry, who were registered as the private property of land-owners, were not entitled to own land. The Tsarist government favoured the perpetuation of this arrangement, as it believed that it would prevent the formation of an anti-Russian *entente* between the two linguistic groups (cfr. Mardosa, 2000).

This expectations were shattered by the 1863 insurrection, following which most estates were confiscated from their original owners and sold or leased to Russian colonists under the control of the state. The major impulse for change, however, came from the emancipation of peasants, who in 1863-64 were exempted from redemption payments and were also allowed to purchase land, though only the rural community (*mir*) could bear land ownership titles. Despite the persistent restrictions, over the 1863-1882 period 10,600 land transactions were undertaken in the Kovno *gubernija* alone, while the average price of land in the country tripled (cfr. Kriščiunas, 1933). After the mid-1880's, as cheaper imports from the Ukraine led to a contraction of the overall agricultural surface and aggravated rural poverty, the purchase or lease of land plots by rural communities became less frequent, while in some cases plots were sold back to the original owners (cfr. Skalweit, 1918). Despite an underlying regressive tendency towards the previous ownership pattern,

however, by 1905 the surface tilled by rural communities amounted to over 40% of the total (cfr. *Table I*).

I- Distribution of agricultural land according to the form of land ownership in 1905

	<i>Latifundia</i>	<i>Rural communities</i>	<i>State</i>	Total
Agricultural land (in 1000 ha.)	4,867	4,792	1,267	10,926
% of the total agr. Surface	44.5	43.9	11.6	100

(Source: Skalweit, *Die Landwirtschaft in den litauischen Gouvernements*, 1918, p.210)

This proportion stayed virtually unvaried until the outbreak of WWI, as Lithuania was only marginally affected by the Stolypin reform, which allowed individual farmers to own and bequeath land and was meant to pave the way for a comprehensive reform of agriculture throughout the Russian empire. In terms of land consolidation and productivity, the country still lagged substantially behind other countries in the region- at the eve of WWI, for instance, land distribution was very fragmented (cfr. *Table II*) and average cereals' productivity was much lower than in neighbouring Eastern Prussia, characterised by similar soil and climatic conditions (cfr. *Table III*).

II- Size of agricultural units in Lithuania in 1914

	Perc. of recorded agricultural units of this size	Perc. of agricultural surface farmed by units of this size
under 3.27 ha.	24%	2%
3.27-10.9 ha.	31%	11%
10.9-32.7 ha.	38%	37%
32.7-109.0 ha.	5%	11%
over 109.0	2%	39%

(Source: LSSR Ministry of Information, *Litva za polveka novoi epochi*, 1967, p.16)

III- Productivity of the main cultures in 1911-1912 (100 kg/ha.)

	Kaunas	Vilnius	Suvalkiai	Eastern Prussia
Rye	9.8	8.5	9.3	16.5
Wheat	11.2	10.7	10.2	17.9
Barley	7.7	8.4	10.4	17
Oat	8.6	7.2	8.6	17
Potatoes	69.7	64.9	67	136.9

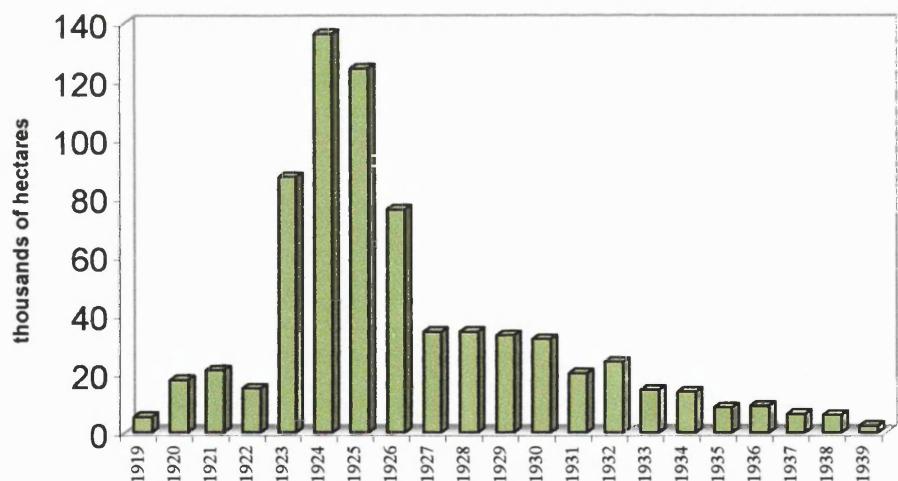
(Source: Kriščiunas, *Die litauische Landwirtschaft*, 1933, p.14)

Following the proclamation of independence in 1918, the leadership of the new state felt the necessity to proceed to an immediate and comprehensive agricultural reform (cfr. *Steigiamojo seimo aktai*, 1921, rep. 1993). The preoccupations of Krupavičius' treatise on agricultural reform (*Žemės ūkio reforma*, 1920, rep. 1993, 1997), calling for drastic land re-distribution and the creation of a new middle-class of small farmers, were reflected by the deliverances of the 03/04/1922 *land law*, (cfr. Kriščiunas, 1933). This legislative act enabled the state to take over all the land belonging to foreign nationals or entities based abroad, as well as the landed estates confiscated by the Tsarist government over the XIX century. In addition, it was established that private citizens were not allowed to own more than 80 hectares of agricultural surface- any land in excess was to be handed over to the state which however (unlike its Latvian and Estonian counterpart) would pay a

generous compensation package. In this way, the state acquired about 715,000 hectares of land to redistribute among the population (cfr. Tamošunas, 1974). By 1938, landless peasants had received about 360,000 hectares, where 40,000 new individual farming units (*vienūkiai*) were founded. The remaining land was used to consolidate existing farms or to ameliorate rural infrastructure.

While the process of redistribution was not marred by controversy to the extent of the other Baltic republics, its implementation was very slow, as we can see from *Table IV*.

IV- Agricultural land distributed in 1919-1939



(Source: Tamošunas, *Lietuvos žemės ūkio raida*, 1974, p.75)

In the late 1920's large surfaces were still without owner, while excessive fragmentation prevented the drafting of long-term development plans- the largest proportion of farms tilled 10-20 hectares, while almost 50% of all agricultural units were subsistence farms owning less than 10 hectares. In 1929, to encourage consolidation, private households were allowed to own up to 150 hectares, even if

this meant that less land was available for redistribution (cfr. LSSR Ministry of Agriculture and Collectivisation Department, *Lietuvos žemės ūkis ir statistika*, 1948). The high number of small-scale farming units is behind the high density of the rural workforce in Lithuania in the inter-war period (cfr. *Table V*)- the comparable value registered in Eastern Prussia was due to the high number of waged workers in the region's latifundia. In general, productivity was lower than in countries such as Germany, Denmark and Holland, where agriculture was already relatively mechanized; on the other hand, rye and wheat productivity in Lithuania was not too dissimilar from that obtained in Latvia, France and Italy (cfr. *Table VI*).

V- Agricultural workforce in the Baltic countries and in Eastern Prussia in 1930

Country	Farmers/members of rural households		Waged agricultural workforce		Overall employees per 100 ha.
	Total	Per 100 ha.	Total	Per 100 ha.	
Lithuania	750,671	19.9	118,689	3.1	23.0
Latvia	617,571	17.0	123,482	3.4	9.4
Estonia	344,297	13.0	82,204	3.1	16.1
Eastern Prussia	328,330	14.1	219,277	9.4	23.5

VI- Rye and wheat productivity in Lithuania and other European countries in 1927-1930

Country	Rye (100 kg/ha.)	Wheat (100 kg/ha.)
Lithuania	11.6	12.5
Latvia	10.6	12.5
Germany	16.6	20.8
Denmark	16.9	28.4
Holland	18.3	30.0
France	11.2	14.4
Italy	13.5	12.2

(Source: Kriščiunas, *op.cit.*, p.82 and p.148; cfr. Romanovas, *Darbo santikių raida Lietuvoje*, 1994, p.30ff.)

The 1920-1940 period witnessed substantial state intervention in the agricultural sector, as the state oversaw changes in property relations affecting 60% of the country's overall surface. At the same time, the country experienced a substantial development in consumer co-operatives, which had already been an important focus of rural life in Tsarist Lithuania (cfr. Mardosa, 2000). In 1922, the *steigiamasis seimas*, eager to promote the co-operative mode of production in the production sphere as well, laid down a number of guidelines for the foundation of credit unions and agricultural co-operatives (cfr. the *co-operative law* of 1922, Šalčius, 1989). By 1926, the Union of Agricultural Co-operatives (ŽŪBU), strongly subsidised by the state, already numbered 65 members. Local administrations also favoured the birth of the first independent credit unions following the imposition of legal curbs on Jewish credit entities.

The late 1920's also witnessed the establishment of processing co-operatives in the dairy and sugar sector. In 1926, 111 dairy co-operatives established the *Pienocentras* union, which proceeded to the rationalisation of the existing network of dairy production units while overseeing the establishment of new processing centres. As a result, by 1939 dairy co-operatives' productivity increased by 154% compared to 1918, while an ever increasing proportion of production was destined to foreign markets- higher standards of hygiene ensured that the percentage of produce conforming to international quality standards increased from 16.9% in 1920 to 88.7% in 1939. In the same period, the state was the major share-holder of the new beet processing centre in Marijampolė, which released Lithuanian beet growers from their dependence on Eastern Prussia's sugar industry and paved the way to the later conglomerates of the Soviet period. Sugar was now exported to Germany, as well as to Britain and the United States. Increased trade with foreign partners permitted also the first international joint-ventures- in 1936, through the dependent company *Sodyba*, *Pienocentras* entered an agreement with Latvian dairy co-operatives to eliminate trade barriers and facilitate technical exchange. The Soviet occupation

would cut short similar plans for closer collaboration with the British dairy industry (cfr. *Encyclopædia Lituanica*, 1959-1978, under *Agriculture*).

Smetonas' regime was highly supportive of the general trend towards co-operative arrangements. This preoccupation is reflected by the fact that in 1926 the special role of agricultural co-operatives was enshrined in the 1922 constitution, while out of 5,550 legislative acts included in the official bulletin *Vyriausybės žinios* (*Government's news*) over the 1920-40 period, about 2,600 mentioned rural co-operation (cfr. *Encyclopædia Lituanica*, 1959-1978, under *Collectivisation*). In 1931, under the auspices of the central government, processing and consumer co-operatives' unions merged into a single entity called *Lietūkis*. The latter attempted to overcome the chasm between production and consumption, establishing a network of rural retail outlets as well as a joint-stock company (*Maistas*) specialising in meat and dairy distribution. *Lietūkis* controlled 80% of food and linen exports, although a parallel union (*Linas*) took over the supervision of the flax industry shortly before WWII (cfr. Penkaitis, 1994).

At the same time, the *Tautininkų* party encouraged the establishment of the Kaunas Chamber of Agriculture (*Žemės ūkio rūmai*), ensuring that 2% of the budget were destined to cover its expenses each year. From 1925 to its dissolution in 1940, the Chamber of Agriculture granted loans for a total of 16 million Litas to cover the expenses of the purchase of equipment and seeds, while subsidising breeding and the establishment of dairy processing in poorer areas. As the impact of the 1929 slump reached the country, active state support for the agriculture amounted in some years to 15% of the overall GNP. While a large proportion of the credit granted in these years was not serviced, the very fact that a state entity was prepared to grant credit to farmers increased their creditworthiness in the eyes of rural money lenders and actually encouraged farmers to think in a longer temporal perspective.

While in 1914 Lithuania was virtually absent from the international market, by 1939 it had become the largest exporter of butter and bacon in Northern Europe (cfr. Tamošiunas, 1974). 49% of the country's surface was being used for cultivation, as opposed to 34% before WWI. The rotation system typical of Tsarist Russia had been phased out, so that animal husbandry now yielded 56% of farms' income. The remarkable achievements of the previous two decades, however, could not hide the persistence of a number of structural problems, first of all the resistance opposed by small-scale farmers to any state-sponsored plan favouring land consolidation. In 1937, out of 287,380 farms, 78% comprised less than 20 hectares- only 3% encompassed more than 50 hectares, while corresponding data for Latvia indicate 42% and 16% (cfr. *Table VII*).

VII- Size of agricultural units in Lithuania in 1930

Units	Percentage out of the total number of units	Overall surface	Percentage of agric. surface farmed by units of this size
1-5 ha.	49,805	18.10%	1,437,000
5-10 ha.	74,738	27.20%	558,000
10-20 ha.	89,672	32.60%	12,506,000
20-30 ha.	33,125	12.10%	801,000
30-50 ha.	19,822	7.20%	7,335,000
over 50 ha.	7,653	2.80%	6,509,000

(Source: LSSR Ministry of Agriculture and Collectivisation department, *Lietuvos žemės ūkis ir statistika*, 1948, Dillingen, p.31)

Any attempt to overcome the consequences of fragmentation by encouraging leasing failed in the face of the farmers' reluctance to till land which was not their own property (cfr. Gregorauskas, 1960). In the face of the increasing degree of indebtedness (a national average of 65 Lt./ha.), local administrations had to intervene to prevent the value of land from falling below 500-600 Lt./ha.. Had the outbreak of WWII not disrupted the natural evolution of the agricultural sector in the country, it

is likely that the state would have proceeded to a forceful consolidation of land plots in order to improve productivity and rural solvency.

Following the June 1940 Soviet occupation, the new Supreme Council (*Aukščiausioji taryba*) promulgated the 22/06/1940 *land law*, laying down the principle of the popular ownership of land but, for the time being, postponing its full-fledged application and merely imposing a ceiling of 30 hectares to the size of individual farms. In fact, in the course of the following year, the occupants proceeded to the immediate deportation of almost 1/3 of the population to Siberia, allowing a fund of over 600,000 hectares of land to become state property. By November 1940, about 400,000 hectares had already been handed over to small farmers, while agricultural co-operatives were reorganised in smaller units- in June 1941, there were about 33,400 so-called "collective units", with an average surface of 7.53 hectares. Later Soviet reports about the period claim that as early as June 1941 60 *tarūkiai* (Lith. for *sovkhozy*) with an average surface of 829 hectares were in full operation, while all "collective units" had their debts cancelled and were exempted from any tax for that year (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, Narodnoe khozyaistvo LSSR*, 1981). Such claims were contested by the studies published in the Lithuanian diaspora, which emphasised the disruption in farming activity resulting in a 30-45% fall in production, while claiming that the land tax imposed on individual farmers was increased by 100-200% (cfr. *Butkutė-Ramelienė*, 1958).

Contemporary research seems to eschew the conclusions of earlier, more ideologically motivated evaluations- it appears that, while there was time to establish 12 *kolūkiai* (Lith. for *kolkhozy*), disruption was not as brutal as often claimed, while small-scale farmers were actually granted 80-90% discounts on seed and fuel. Whichever version most accurately conveys an adequate version of the events of 1940-41, it is clear that the natural development of the sector was

forcefully interrupted. The German administration of 1941-44 did not overrule the 1940 *land law*, while forcing "collective units" to serve the needs of the German war machine- large proportions of produce, later also of machinery and infrastructure, was expropriated and moved West as the Russians moved back. When Lithuania was returned to the Soviet fold, agricultural production was 35% lower than in 1939, while 80% of rural infrastructure had been destroyed or stolen.

1.4.2 The experience of collective agriculture

The definitive incorporation of Lithuania into the Soviet Union in 1944 meant that the nationalisation decree of 1940 was reinstated in full force and in some cases made more severe, as local authorities were granted the right to set ceilings lower than 30 hectares for "political" reasons. As early as January 1946, 1/3 of the agricultural surface had been turned into state property and was being managed by 86 *tarūkiai*. The state officially announced that it planned to redistribute 688,000 hectares to small farmers and establish a system of agricultural units sized 10-15 hectares, which would be served by a network of about 50 machine/tractor stations (cfr. Šleževičius, 1988). By 1948, however, the average size of an agricultural unit oscillated around 9 hectares, against 15 hectares in 1930 (cfr. Penkaitis, 1994). While the official party's line was to favour spontaneous co-operativism, the machine/tractor stations and the other 279 establishments overseeing the maintenance of rural infrastructure, which should have served the co-operatives' needs, were deliberately left under-equipped and unmanned, so that all resources could be channelled to the first collectives established "experimentally" in 1946-47.

The policy of step-by-step dispossession was carried out imposing ever increasing quota requirements (*kvotos*). While in 1946 1/5 of overall produce had to be handed over to state authorities, the proportion was up to 1/3 in 1948. Private farmers were subject to 75% income tax, while their colleagues in *kolūkiai* paid only 35%. Initially the Soviet leadership hoped to convince farmers to enter into collectives without the use of force, but peasants were very reluctant to let go of their plots- the 504 *kolūkiai* operational in 1948 included only 3% of all farmers. In the face of mounting popular opposition, the party leadership resolved to enforce collectivisation by decree- in 1949 the VI Congress of the Lithuanian Communist Party declared that it was the spontaneous wish of Lithuanian agricultural workers to set up socialist co-operatives (cfr. *Encyclopædia Lituanica*, 1959-1978, under

Collectivization). In the wake of this decree, between 1949 and 1951 150,000 were deported to Siberia. By 1952 93.1% of the land had been collectivised- a higher proportion than in Latvia (90%) and Estonia (82%)- while 96% of the agricultural population worked in *kolūkiai* (cfr. Statisticheskoe upravlenie pri Sovete Ministrov LSSR (1960), *Narodnoe khozyaistvo LSSR*). Technically, *kolūkiai* workers retained nominal rights of property to land and agricultural assets, while in *tarūkiai* all such rights were transferred to the state. In the initial stage, the practical difference was minimal- the degree of self-management granted to *kolūkiai* workers consisted in the right to appoint the collective's leadership, but the latter was in fact appointed by local party cadres and could not be rejected. In Lithuania, the prevalence of *kolūkiai* in the initial period of collective agriculture resulted in the virtual expunction of the term *tarūkiai* from common usage, so that in both popular speech and some academic literature *kolūkis* was used to indicate any form of collective agricultural structure (cfr. *Table VIII*).

VIII- Comparative size of *kolūkiai* and *tarūkiai* in Lithuania in 1953-1987

	1953	1960	1970	1980	1987
<i>Kolūkiai</i>					
Number	2,252	1,915	1,428	751	737
Average surface (ha.)	1,569	1,440	1,603	3,181	3,000
Total surface (ha.)	3,533,388	2,757,600	2,289,084	2,388,931	2,211,000
<i>Tarūkiai</i>					
Number	88	228	300	312	310
Average surface (ha.)	n.a.	2,717	3,620	3,450	3,300
Total surface (ha.)	n.a.	619,476	1,086,000	1,076,400	1,023,000

(Source: from Statisticheskoe upravlenie pri Sovete Ministrov LSSR, *Narodnoe khozyaistvo LSSR*, different years, in Penkaitis, *op.cit.*, p.114)

In the Soviet system, the main yardstick for the remuneration of workers was the fulfilment of pre-set production quotas. In the *kolūkiai*, however, remuneration

was measured on the basis of so-called "work norms" (*darbadienis*, from the Russian *trudoden*'), with a day of work valued as 0.5-2.5 "norms". In 1956, the number of yearly compulsory "norms" was set at 200 for men and 100 for women. Workers were paid partly in cash, partly with a share of the *kolūkis'* own produce. This system did not differ substantially from the arrangements that in the XIX century were typical of those parts of Lithuania annexed to the Duchy of Warsaw: while in the rest of Lithuania serfs received no compensation for performing the "tasks" (*laža*) set for them by the land-owners, to the South of the Nemunas peasants received some form of compensation for their services, partly in cash and partly in kind.

In fact, both under the *baudžiava* and in the *kolūkiai*, production was barely sufficient to meet procurement quotas, and as a result, workers' pay was little more than symbolic and could vary substantially from year to year. P. Zunde (1969) reported that in 1951-53 average pay for a *kolūkis* worker in Lithuania consisted in 3.4 kopecks and 0.58 kg. of grain per *trudoden*', amounting to 6.30 roubles and 107.43 kg. of grain per year. In the first years after the introduction of collective agriculture, *tarūkiai* workers received no remuneration in kind and were paid a fixed monthly wage (33.1 roubles in 1950) that was not tied to the performance of the farm and therefore ensured a certain measure of security. From 1956 onwards, however, differences in the system of remuneration between *tarūkiai* and *kolūkiai* were slowly eliminated: the wage of *tarūkiai* was also tied to the performance of the state farm, while *kolūkiai* workers were no longer paid in kind and started to receive a monthly pay that in some cases was higher than that of their colleagues in the *tarūkiai*. Together with the substantial increase in the price of agricultural goods that led to an increase in *kolūkiai* income, the progressive reduction of payment in kind is one of the two factors behind the massive increase in the remuneration of collective farmers between 1950 and 1960 that can be seen in *Table IX* (cfr. also Penkaitis, 1994).

IX- Monthly wages in Lithuanian and Soviet collectives (roubles)

Year	Lith. <i>Kolūkiai</i>	Soviet <i>kolkhozy</i>	Lithuanian wage as a percentage of Soviet wage
1950	0.5	2.4	20.80%
1960	49.2	64.9	75.80%
1970	83.5	74.9	111.50%
1980	134.0	118.5	113.10%
1989	257.3	200.8	128.10%

Year	Lith. <i>tarūkiai</i>	Soviet <i>sovkhozy</i>	Lithuanian wage as a percentage of Soviet wage
1950	33.1	38.2	86.60%
1960	43.0	53.9	79.80%
1970	90.7	101.1	89.70%
1980	137.0	149.7	91.50%
1989	242.7	235.8	102.90%

(Source: combined from *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, Narodnoe khozyaistvo LSSR za 40 let*, 1980, and *LTSR liaudies ekonomika*, 1989; *Tsentralnoe statisticheskoe upravlenie pri Sovete Ministrov SSSR, Narodnoe khozyaistvo SSSR za 70 let*, 1987, and *Sel'skoe khozyaistvo SSSR. Statisticheskii spravochnik*, 1989; in Penkaitis, *op.cit.*, p.118; Soviet averages do not include Lithuania)

In the early 1950's, both in the Soviet Union and across Eastern Europe, machinery, fertilizer and other inputs were controlled by the state through a network of supply co-operatives and machinery stations that did not serve individual peasants. Machine and tractor stations (MTS) pooled all the machinery confiscated from former estates as well as that which was newly produced; collective farms were not allowed to buy their own machinery. This arrangement proved to be highly unpopular and by the late 1950's it was to be discontinued or radically reformed. In 1956, Poland transformed its MTS into servicing and repair station that served both collective farms and individual peasants; in Hungary, collective farms were eventually allowed to own machinery. In Lithuania, following the pronouncement of the Supreme Soviet dated 31/03/1958, MTS were dissolved and their machinery sold to the *kolūkiai*, thus eroding one of the traditional distinctions between state farms

and their collective counterparts. Improved technology in the *kolūkiai* was also going to lead to a higher productivity in the private plots tilled by members of collective farms (cfr. *Table XIII*).

Despite recurrent input shortages, cereals productivity in Lithuania was consistently higher than in other republics of the Soviet Unions, while in Eastern Europe only Hungary achieved a comparable performance (cfr. *Table X*). High agricultural productivity as well as a constant flow of workers away from rural areas (in Lithuania, urban population rose from 23.7% to 44.7% over the 1940-1976 period) enabled local party authorities to channel a higher proportion of resources into the agricultural sector, with the result that after 1970 the remuneration of *kolūkiai* workers was consistently higher than that received by the average *kolkhoz* worker in the rest of the Soviet Union. Recent data indicate how, from 1960 onwards, the proportion of overall investment channelled into Lithuanian agriculture was substantially larger than the Soviet average (cfr. *Table XI*).

X- Rye and corn productivity in Lithuania in 1970 compared to other Soviet Republics and CEEC's (100 kg/ha.)

Country	Rye	Corn
Lithuania	13.0	16.2
Latvia	12.8	15.9
Russia	10.9	14.2
Belarus	9.8	11.3
Ukraine	11.2	16.1
GDR	11.8	14.0
Hungary	12.6	16.0
Romania	9.7	10.9

(Source: Penkaitis, *op.cit.*, 1994)

XI- Comparative investment in agriculture, 1960-1990 (million of roubles)

	1960	1970	1980	1990
Investment in Lithuanian agriculture	91	353	525	642
Percentage of overall investment	26.1	31.2	31.9	22.8
Investment in Soviet agriculture	6,100	16,000	29,800	41,000
Percentage of overall investment	12.8	17.3	19.7	17.8

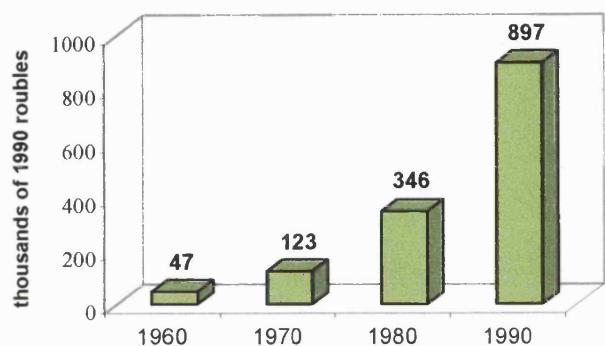
(Source: Statisticheskoe upravlenie pri Sovete Ministrov LSSR, *LTSR liaudies ekonomika*, 1960-1990)

We need to stress that the very existence in agriculture of a three-tiered system allowing the survival of private plots was *per se* a deviation from communist orthodoxy. While the necessity to ensure alimentary self-sufficiency allowed the survival of private plots at the margin of the collectives, the distinction between *kolūkiai* and *tarūkiai* did not serve a pragmatic end, but meant to stress that the transition to "higher forms" of socialist ownership was entirely spontaneous. In order to encourage farmers to renounce their nominal property rights, it was disposed that once procurement quotas were fulfilled, *kolūkiai* were free to sell excess products at a market price, but eventual losses would not be covered by the state- *tarūkiai*, on the other hand, could rest secure that all their produce would be purchased by the state and any loss would be compensated.

In practice, however, *kolūkiai* could cover their losses taking loans from the Agricultural Bank (cfr. Kuzlis, 1992). In most cases, *kolūkiai* would be unable to service their obligation and, unless the Bank transformed the loan retrospectively into a subsidy (cfr. Penkaitis, 1980), they would over the years accumulate a substantial debt towards state financial entities. The fact that essentially collectives had no clear budget resulted in an inefficient usage of resources which was only partially mitigated by Kosygin's introduction of a measure of financial self-reliance

(*khozraschet*) by 1969. *Kolūkiai's* insolvency grew systematically over the years (cfr. *Table XII*), to the point that in 1990 even the sale of their assets would not cover their debt.

XII- Average *kolūkis* indebtedness to the state, 1960-1990



(Source: estimate from *Tiesa*, Jan. 1991; actual values likely to be higher, cfr. Dailienė, in *Lietuvos aidas*, 10/03/2000)

In the early 1970's the renewed economic orthodoxy ushered by Brezhnev meant a return to forced mergers. *Tarūkiai* had to be brought in line with their larger Russian counterparts (measuring on average 2,400 hectares). The surface of private plots suffered a further reduction, while in some regions the funding of collectives was progressively increased by 300%. By 1975, however, albeit with the support of the *kolūkiai's* machinery and infrastructure, private plots (now comprising less than 5% of overall agricultural land) would account for 39% of overall agricultural produce and would rear 65.4% of the cattle- milk/meat productivity per animal in private plots was up to ten times higher than in the collective sector (cfr. *Table XIII*; also *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, Narodnoe khozyaistvo LSSR* (1976) and *Narodnoe khozyaistvo LSSR za 40 let* (1980)). This dichotomy persisted over time and became more extreme after 1978, when more state funds were diverted to subsidise industrial products- agricultural production in the

collectives entered a phase of stagnation, and by the early 1980's, food shortages were common in Lithuanian urban areas, where citizens had no immediate access to private plots.

XIII- Private plots' contribution to overall agricultural production in the Soviet Union, %

	1950	1960	1970	1980	1990	1991
Cereals	50	14	11	9	9.4	21.0
Potatoes	92	76	68	67	73.8	80.7
Sugar beets	12	0	0	0	0.1	4.1
Vegetables	97	86	77	59	59.4	75.9
Meat	93	53	38	25	8.7	26.9
Milk	88	62	46	36	41.3	45.6
Eggs	96	99	61	39	32.1	33.8

(Source: Wädekin, *Privatproduzenten in der sowjetischen Landwirtschaft*, 1967, pp.30ff.)

Assessing the experience of collective agriculture in Lithuania, one must not forget to mention the constant tension existing between local realities and the demands posed by the central government of the Union. *Kolūkiai* and *tarūkiai* were required to present detailed plans of their activity, as well as any request of financial aid, to the *rajonas'* agricultural department. In Lithuania, *rajonai* were not subordinated to the supervision of larger *oblasti* and would submit regional development plans directly to the government, which would harmonise them into a national plan and transmit the latter to the union authorities (cfr. Wegren, 1997, 1998). Once the latter had examined the republics' plans, the union-level *gosplan* would be drafted, usually covering a five-year period (only 1959-66 had a seven-year plan) and including binding regulations concerning overall growth objectives and specific production targets, mechanisms of procurement, maintenance or expansion of infrastructure and equipment, and conditions for the granting of financial support. Such plans were meant to favour a complementary development of

the different sectors of the economy within the Union as a whole, in consideration of the potential and the needs of individual republics (cfr. LSSR Ministry of Finance & the Lithuanian Central Bank (1981), *Liaudies ekonomikos bendroji apžvalga*).

In practice, plans paid little attention to the local circumstances in which farmers found themselves and as a result they would set unrealistic production targets as well as procurement prices which were often insufficient to cover production expenses (cfr. *Tiesa*, April-May 1990; Penkaitis, 1994). The response of Lithuanian agricultural collectives did not substantially differ from that of other productive units in the republic or across the union- little or no attention was given to quality standards, while the volume of output was systematically over-reported, rendering official statistics of little direct value for an assessment of production patterns (cfr. Mathijs/Swinnen, 1996, about the same phenomenon in Eastern Europe). In addition, the fiscal system was set to encourage an inefficient use of resources- Lithuanian *kolūkiai* faced an income tax meant to keep income differential between collectives artificially low, while *tarūkiai* paid a fix tax per unit of output independently of product quality (cfr., *Statisticheskoe upravlenie pri Sovete Ministrov LSSR* (1981), *LTSR liaudies ekonomika*). Attempts to link tax rates to production cost could only partially offset the damage, as most collectives did not keep systematic or reliable accounts.

When in 1986 Gorbachev openly denounced the wastefulness and inefficiency of the Soviet agricultural system and announced its "rationalisation", in the eyes of the public opinion the latter had come to epitomise the wider failure of the collectivised economy. The Lithuanian Ministry of Agriculture estimated that in 1985 in Lithuania 25% of grain, 60-70% of fruit and 75% of potatoes was wasted because of poor storage and transportation facilities. Gorbachev intended to follow the example of the Chinese communist party, which in 1985 had opted to dismantle the state monopoly on the purchase/marketing system, while progressively relaxing

market and price regulation. In Lithuania, while Chinese-style three-year land leases were permitted in some areas "under collective vigilance", the local leadership supported the introduction of so-called "collective contract schemes", whereby specialised households would lease their services to collectives (cfr. USSR Ministry of Finance, *Sel'skoe khozyaistvo*, 1989). In addition, farmers were allowed to sell their products directly in the cities for the first time since 1948.

This higher margin of freedom gave some results in the 1986-89 period (Lithuania experienced a 22% growth in NMP, the highest in the Union), but failed to address the structural problems weighing down collective farms, which by the late 80's survived only thanks to massive state subsidies. A generalised uncertainty as to the future directions of economic policy did however impair the implementation of Ligachev's guidelines concerning the contract schemes. Similarly, while the Union Agro-industrial committee (*Agroprom*) left the leadership of each republic free to transform three-year leases into private land-holdings, fear of later backlashes ensured that Estonia was the only republic where the experiment was carried out (cfr. Kuodys, 1993). In the last years before the restoration of independence, the situation in Lithuanian agriculture was not too dissimilar from the one faced by Stolypin in 1906: a majority of large, inefficient estates affected by chronic over-manning struggled to survive alongside a number of small family farms where peasants are granted a measure of independence. When legislators put hand to reforming the agricultural sector after the restoration of independence in 1990, there was a general consensus that such a margin of disparity between different organisational arrangements would soon be a thing of the past.

1.4.3 The decade of transition (1990-2000)

On 11/03/1990 the Supreme Council proclaimed the restoration of Lithuania's independence and changed its name into Restoration Parliament (*atkuriamasis seimas*). The Council was largely controlled by the nationalistic movement *Sajūdis*, which chose to ignore the Soviet Union's refusal to acknowledge the country's secession and proceeded to draft a series of legislative acts systematically dismantling the existing collective structures. In the face of the Soviet 18-month long blockade, the Council promulgated the laws on the transformation of state farms (16/04/1991), the re-establishment of property rights to land and real estate (18/06/1991), on land reform proper (25/07/1991) and on the privatisation of the property of the collectives (31/07/1991), as well as a series of complementary acts dealing with the implementation of legislation while laying the foundations for the hopeful development of a land market. *Sajūdis* leaders opted for a mixed strategy, whereby the right to own land and agricultural assets could be acquired either by applying for the restitution of confiscated property or by purchasing plots and equipment using the special investment vouchers distributed to all citizens (cfr. Kuzlis, 1992; Kuodys, 1993). Property that was not restituted to its former owners and their heirs was sold at auctions or by means of share subscriptions- in case requests for restitution could not be satisfied, applicants could choose between being attributed a comparable item of property or receiving financial compensation.

While the details of these legislative acts shall be discussed in more detail in *Section 3.2*, it is important to highlight that the intention of the legislators was to compensate those citizens having lost their property in the late 1940's, while at the same time appeasing the employees of agricultural collectives wishing to farm the same land. In fact, former land-owners found themselves in conflict with those small land-holders who had purchased plots measuring 2-3 hectares using their vouchers in 1992-93, as well as with processing conglomerates, most of whom were not

dismantled and were later granted the right to use their land and infrastructure as long as their activity continued (cfr. Ramanauskas, 1993).

As we shall see later in *Section 6.2-6.3*, the prolonged disputes combined with the prohibition to trade restituted land for three years to create a situation of generalised uncertainty and stagnation in rural areas where large tracts of land had no owner or lay fallow. In 1995, about 2,880 agricultural co-operatives and 135,000 family farms were registered in Lithuania, though no more than 40% had clearly defined property titles. In addition, there were about 400,000 subsistence plots, whose surface averaged only 2.1 hectares (cfr. *Table XIV*).

XIV- Different forms of agricultural production, 1991-1997

	1991	1992	1993	1994	1995	1996	1997
<i>Kolūkiai/tarūkiai</i>	1,212	1,219	0	0	0	0	0
-average size, ha.	2,535	2,040	0	0	0	0	0
-total surface, 1000 ha.	3,072	2,486	0	0	0	0	0
Agric. co-operatives	0	0	4,279	3,483	2,880	2,611	1,660
-average size, ha.	0	0	477	450	378	306.3	371.6
-total surface, 1000 ha.	0	0	2,041	1,567	1,088	800	617
Family farms	2,300	5,100	71,500	111,500	134,600	165,800	196,000
-average size, ha.	14.1	9.4	8.9	8.8	8.5	7.8	7.6
-total surface, 1000 ha.	32	48	636	981	1,144	1,293	1,489
Subsistence plots	465,800	479,000	413,100	404,000	396,700	378,400	342,700
-average size, ha.	0.7	1.9	2.1	2.1	2.1	2.2	2.2
-total surface, 1000 ha.	326	910	867	848	833	832	754
Total agricultural land, 1000 ha.	3,430	3,444	3,544	3,396	3,065	2,925	2,860

(Source: Lithuanian Statistics Department, *Annual reports* of the Ministry of Agriculture, 1991-1997. Subsistence plots include the land utilized by gardening societies. The data on total agricultural land refer to land that is nominally used for agricultural purposes.)

Another approach to evaluate the comparative weight of different organisational arrangements is to consider the proportion of *naudmenos* used by

different types of farming units. Lithuanian academic literature uses the term *naudmena* to indicate any asset or infrastructure (including land and rural roads) which is currently being used for agricultural production- a plot left fallow would therefore not be classified as *naudmena*. In the 1990's, agricultural co-operatives and private farms controlled about 64% of the country's *naudmenos*, with 28% being used by subsistence farmers (cfr. *Table XV*; also Kazlauskienė/Meyers, 1995).

XV- Proportion of *naudmenos* used by different types of agricultural production (percentages, 1991-1997)

	1991	1992	1993	1994	1995	1996	1997
<i>Kolūkiai/tarūkiai</i>	89.7	71.7	0.0	0.0	0.0	0.0	0.0
Agric. co-operatives	0.0	0.0	51.9	41.2	32.2	23.9	18.1
Family farms	1.0	2.2	17.9	25.9	32.1	37.2	42.1
Subsistence plots	8.9	25.7	25.9	26.5	27.9	27.5	24.5
State land fund	0.0	0.0	3.8	5.9	7.3	10.8	14.0
Gardening societies	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Total	100	100	100	100	100	100	100

(Source: Lithuanian Statistics Department, *Annual reports* of the Ministry of Agriculture, 1991-1997)

As we shall see in *Section 3.3*, plans to implement full-scale restitution could not be fully carried out, since most collectives were not dismantled, but simply split and restructured. While land auctions were taking place in 1991-92, *tarūkiai* and *kolūkiai* were dismantled and transformed into 6,000 so-called operational units. 4,300 of which would be re-established as agricultural co-operatives, while the land and the assets of the remaining 1,700 was redistributed among over 60,000 family farms. While the average surface of the new co-operatives was smaller than that of earlier collectives and co-operative membership took now the form of share-ownership, their resemblance with the older *kolūkiai* was very pronounced and in general share-holders felt little responsibility for the maintenance of property (cfr. *Vartai*, Dec.1995-Jan.1996; *Lietuvos aidas*, editorial of 09/02/2000). Over the

following years, the overall number of co-operatives decreased by 33% as several went bankrupt, and by early 1996, out of 2,611 registered co-operatives, only about 2,300 were operational (cfr. Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1997). In the course of *Chapter III*, we shall see how local governments (*savivaldybės*) continue to exert a strong degree of control over the activities of surviving co-operatives, usually through the acquisition of a substantial stake in the share-holders' assembly. The decrease in the number of co-operatives has also led to the remarkable growth of the state land fund, which by 1997 controlled 14% of overall *naudmenos* (cfr. *Table XIV*).

The relative inefficiency of agricultural co-operatives and family farms compared to subsistence plots becomes evident if we consider how the former perform in comparison with the latter. Five years after *tarūkiai* and *kolūkiai* were dismantled, subsistence plots, though barely controlling 30% of agricultural land and *naudmenos*, yielded over 80% of the overall production of potatoes and vegetables, as well as breeding over half of the cattle in the country. The data included in *Table XVI* indicate that family farms -which by 1996 controlled a higher share of land and *naudmenos* than agricultural co-operatives- were in fact less productive than the latter. This situation is largely due to the fact that the machinery of former *kolūkiai* had been handed over to the new agricultural co-operatives. If, before 1990, *kolūkiai* workers used the tools and the machinery of their farm to till their own subsistence plots, after the dismantling of the collectives members of the new co-operatives would continue to do so, while family farming had little access to agricultural machinery (cfr. *KŽŪR conference acts*, 09/03/2000). The increasingly marginal role played by co-operatives in the agricultural sector over the 1990's emerges clearly if we consider the data included in *Table XVII*, which considers family farms and subsistence plots together to highlight the ever declining contribution of co-operatives to overall agricultural production. The discrepancies between *Table XVI* and *XVII* are due to the fact that the former only considers a number of agricultural

activities and excludes others (for instance, subsistence plots rear over 90% of poultry in the country).

XVI- Contribution of different types of farming to the total volume of agricultural production (percentages, 1990-1996)

	1990		
	<i>Kolūkiai and tarūkiai</i>	Family farms	Subsistence plots
<i>Agricultural production</i>			
Wheat	90.6	0.8	8.6
Sugar beets	99.1	0.9	0.0
Flax	99.0	0.9	0.1
Potatoes	26.2	0.9	72.9
Vegetables	40.6	0.9	58.5
<i>Animal breeding</i>			
Live cattle (total)	76.2	0.4	23.4
Cows	60.1	0.5	39.4
Pigs	80.7	0.4	18.9
	1996		
	Agricultural co-operatives	Family farms	Subsistence plots
<i>Agricultural production</i>			
Wheat	30.8	30.9	38.3
Sugar beets	36.7	41.9	21.4
Flax	51.1	48.9	0.0
Potatoes	1.4	17.8	80.8
Vegetables	2.8	16.1	81.1
<i>Animal breeding</i>			
Live cattle (total)	34.5	13.7	51.8
Cows	19.2	15.1	65.7
Pigs	48.2	9.6	42.2

(Source: Statisticheskoe upravlenie pri Sovete Ministrov LSSR, *LTSR liaudies ekonomika*, 1990, and Lithuanian Statistics Department, *Annual reports of the Ministry of Agriculture*, 1991-1996, combined in Csaky, C. and Kazlauskienė, N. (1997), *Žemės ūkio reformos būklė Lietuvoje*)

XVII- Proportion of agricultural production originating in different types of agricultural units (percentages, 1990-1996)

	1990	1991	1992	1993	1994	1995	1996
<i>Plant growing</i>							
<i>Tarūkiai and kolūkiai</i>	65	40	0	0	0	0	0
Agricultural co-operatives	0	0	30	30	24	20	18
Family farms and subsistence plots	35	60	70	70	76	80	82
<i>Cattle breeding</i>							
<i>Tarūkiai and kolūkiai</i>	70	62	0	0	0	0	0
Agricultural co-operatives	0	0	43	42	50	44	33
Family farms and subsistence plots	30	38	57	58	50	56	67
<i>Total agric. production</i>							
<i>Tarūkiai and kolūkiai</i>	68	52	0	0	0	0	0
Agricultural co-operatives	0	0	36	36	36	31	25
Family farms and subsistence plots	32	48	64	64	64	69	75

(Sources: Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1990-1997; the data for agricultural co-operatives also include the produce of processing conglomerates and farming land included in the state land fund)

The origins of the enduring dichotomy between co-operatives and small-scale agriculture are to be sought in the rural policies promulgated and implemented over the 1992-1996 period. As the former communists - now known as *LDDP*- were voted back in power in 1992, a number of laws were passed concerning the special rights of employees of former state enterprises and collectives (07/04/1992), bankruptcy of agricultural enterprises (15/07/1993), land leasing (28/12/1993), land organisation (within the land law of 26/04/1994) and finally on the limits of state control (30/05/1995). The company law of 05/07/1994 superseded the earlier law on agricultural companies promulgated on 16/04/1991. As we shall see in *Section 3.4*, these acts largely reflected the more interventionist ideological background of the parliamentary majority, which found further expression in a tendency to centralise

decision-making and to legitimate *savivaldybės'* involvement in the running of co-operatives.

In October 1996, the return to power of a moderate coalition under the aegis of the *Tėvynės sajunga* (the former *Sajūdis*) did not lead to a major overturn in rural policy as expected- Vagnorius and later Kubilius' governments limited themselves to reduce the volume of subsidies and the scale of trade barriers protecting Lithuanian producers from foreign imports (cfr. Paulikas in *Lietuvos aidas*, 17/04/2000). Successive conservative executives, however, have attempted to encourage the creation of credit unions, in order to induce small farmers to overcome their reluctance to save and at the same time to circumvent the notorious unwillingness of formal financial institutes to grant credit to farmers operating outside of the co-operatives (cfr. Steponavičius in *Lietuvos aidas*, 19/02/2000). We shall see in *Section 4.2-4.4* how the flaws of an idiosyncratic accounting system have resulted in co-operatives virtually becoming the only participants in loans schemes devised by the state for the agricultural sector, with the additional drawback that lower-than-average interest rates do not encourage an efficient use of resources. In fact, the improving performance and the increasing scope in the activity of credit unions struck one of the few positive notes in an otherwise rather unpromising context.

The development of a system of fiscal privileges as well as the drafting of new price setting and procurement regulations for agricultural produce ensured that, either directly or indirectly, an ever larger amount of capital was being channelled into the agricultural sector (cfr. Csaky/Kazlauskienė, 1997). This policy strengthened even further the sectoral imbalance between private farming and collectives, by virtue of state authorities' single-minded concern with the latter. In *Section 5.2-5.3* and *5.6* it shall emerge how the chosen mechanisms of fiscal imposition and state support, rather than favouring the establishment of viable farming units, have strengthened the tendency towards moral hazard of existing agricultural co-

operatives, which can consistently rely on state authorities to meet their financial obligations and bail them out from insolvency.

We noted earlier how the choice of agricultural reform strategy tried to reconcile the demands of the upholders of the rights of previous owners and the defenders of the interests of collectives' farmers. However, during the 1992-96 period, which was crucial for the implementation of the decisions taken by the Restoration Parliament, the LDDP came out in full support of new agricultural co-operatives, and in this way it defined an order of priority for state policies that would support large collective arrangements, despite their being only a fraction of overall agricultural units (cfr. *Table XVIII*).

XVIII- Farms' classification according to size (percentages, 1992-96)

	1992	1993	1994	1995	1996
Smaller than 3 ha.	3.9	20.6	20.1	19.6	22.7
3,1-10 ha.	19.5	48.9	48.2	48.1	47.6
10,1-20 ha.	49.0	22.0	22.4	22.6	21.2
20,1-30 ha.	17.6	5.7	6.0	6.2	5.6
over 30,1 ha.	10.0	2.8	3.3	3.5	3.9
Total	100	100	100	100	100

(Source: Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1992-1996; cfr. also Kazlauskienė/Meyers, 1995; data not always consistent)

The owners of small 2-3 hectares plots, known as *trys-hektarininkai*, have on the other hand failed to win the support of the moderate parties, which during their period in power failed to encourage in any way the creation of units of agricultural production and processing which could constitute a real alternative to large and inefficient co-operatives (cfr. Bruveris' interview with Premier Kubilius in *Lietuvos aidas*, 19/02/2000).

Throughout the past decade, the political orientation of successive governments reflected itself strongly in the direction and the priorities of their agricultural policies. Since 1998-99, newly-established political forces such as Karbauskas' Farmers' Party, as well as Paulauskas' *Naujoji Sajunga*, have increasingly taken over the causes previously championed by the LDDP. The Centre-Left coalition voted into power in October 2000, characterised by a generally populist and protectionist outlook, owed its electoral victory to the re-iterated pledge to maintain support to agricultural co-operatives, retaining a substantial degree of control over their activity through the *savivaldybės*' representatives. While the demands posed by the perspective of integration into supranational structures such as the EU and the WTO will inevitably lead to a degree of strategic adjustment, it is unlikely that the overall policy direction taken over the past decade shall be changed radically in the short-run.

1.5 An outline of our hypothesis

In the ten years following the demise of socialist regimes, the frequency and content of state intervention aimed at the establishment of a viable agricultural sector has varied substantially across former collectivised economies, reflecting the historical background of individual countries as well as their diverging political equilibria and the relative importance of agriculture in different regions. In the course of our overview in *Section 1.3*, we saw how across Eastern Europe different historical backgrounds and ideological considerations have ensured that agricultural reform has had widely divergent results. In those countries such as Hungary and Eastern Germany where collective farms had already attained a margin of organizational or financial independence, these structures were allowed to survive virtually unchanged and managed to become an important vehicle in the revitalization of the sector. In other countries such as Romania and Bulgaria, the reluctance of the ruling class to proceed to a substantial overhaul of the rural sector has allowed the survival of profoundly inefficient organizational arrangements that condemn local agriculture to stagnation. In general, the record of reform has failed to live up to the optimistic expectations shared by the political class and large portions of the population at the beginning of the last decade.

In Lithuania, ten years after the promulgation of the initial restitution and transformation laws, the agricultural sector largely reproduces the organisational dichotomy of the collective period. Large and inefficient agricultural co-operatives absorb a substantial proportion of state funds channelled to agriculture and operate alongside a very high number of small family farms and subsistence plots, which cannot count on the support of the state. We saw that, while at the national level family farms control a larger percentage of *naudmenos* than subsistence plots, the latter account for a far larger share of the overall agricultural produce in the country. At the same time, however, data from the Agriculture Ministry leave little doubt as

to the fact that, over the 1990's, Lithuania witnessed the emergence of a two-tiered agricultural sector juxtaposing large-scale conglomerates and small-scale units essentially reproducing the pre-1990 dichotomy between *tarūkiai* and *kolūkiai* on one hand, and subsistence plots on the other. Throughout this dissertation, our task shall be to search for the reasons why rural policies implemented over the past decade have been unable to overcome this organizational set-up.

Debate about the reasons for this failure has raged in Lithuania both in the arena of political debate as well as in academic circles. Accusations of ineptitude have been repeatedly levelled against the political class, whose inability to face the permanent crisis of the rural sector is opposed to the comparatively more successful agricultural policies implemented in the inter-war period (cfr. Ramanauskas, 1996; Gruodis (ed.), *Report of the Lithuanian Agency for Economic Development*, 1999; Deksnys, M., on the experience of the 1930's, in *Lietuvos aidas*, 20-27/03/2000). The political forces succeeding each other at the guide of the country in the course of the past three legislatures systematically counter accusations of incompetence attributing the failure of agricultural reform to the policies adopted by their opponent (cfr. Grižbauskienė/Gadeikis in *Veidas*, 19/10/2000). The reiteration by different parties of their commitment to the revitalisation of the agricultural sector and the persistent situation of stagnation in rural areas has been one of the main factors leading to the growing dissatisfaction of the electorate with traditional political forces and the eventual victory of the Centre-Left coalition known as *Naujoji sajunga* in October 2000.

A contention which is often voiced at the conservative end of the political spectrum (cfr. Pranckevičius in *Lietuvos aidas*, 29/02-07/03/2000) locates the main root of the failure of agricultural transition in the alleged failure of the LDDP governments to resist the pressures exerted by the agricultural lobbies as initial reforms were carried out. According to this view, the "weakness" of state authorities

lies behind the incomplete implementation of existing provisions and the failure to promulgate more radical dispositions. In earlier years, politicians expressing this view did not focus on the flaws of specific items of legislation but tended to underplay them, emphasising rather the role played by agricultural organisations in distorting their implementation and the failure of the state to prevent abuses. Over time, conservative representatives have increasingly pointed at the role of local administrations, claiming that the mechanisms of local governance leave a disproportionate margin of latitude to regional governing bodies, allowing them to reinterpret existing norms to their advantage. Both contentions have been echoed by international commentators, which have alternatively accused state authorities of "passivity" and "tacit collaboration with the opponents of reform" (cfr. *Sole-24 ore*, 26/11/2000; *Baltic times*, May 2000).

On the other hand, representatives of the Left claim that over the past decade, local administrations and agricultural lobbies have merely attempted to counter the "incompetence" of state bodies at the national level (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the Conservative party and of *Naujoji Sajunga*, 2000). According to this view, competent authorities have unduly broadened the scope of legislation, attempting to include therein areas which are best left to the discretion of local authorities. To break out of the present dead-lock, the Seimas and the central government should devolve most of their decision-making power to regional governing bodies, which would have a more adequate understanding of the nature of local issues and would be able to elaborate appropriate responses.

A direct analysis of the Lithuanian experience of transition indicates however that both approaches contain some elements of truth, but neither can yield a comprehensive interpretation of the experience of the past decade. It is difficult to accuse state authorities of "passivity" when, since 1990, 30% of the legislative texts included in the official bulletin *Valstybės žinios* (*VŽ*) concerned agriculture or

contained substantial references to it, while 25% of government resolutions (*nutarimai*) were drafted in response to controversy surrounding agricultural legislation (cfr. Mardosa, 2000). On the other hand, it is undeniable that *savivaldybės* have often failed to heed the intentions of the central government in the implementation of reform- in many cases, however, the very abundance of legislative guidelines have resulted in local administrations setting their own priorities rather than following indications from the government perceived as out of touch with local realities. Neither the central legislative bodies nor the local administrations or agricultural lobbies bear the entire responsibility for the failed revitalisation of the rural sector. An assessment of the experience of the past ten years must therefore focus on the interplay of state authorities with a rural context characterised by the persistence of strong ties between local administrations and the agricultural sector. In the course of the dissertation, we intend to show how the main underlying flaw of the legislative guidelines and of the agricultural policies devised the 1990's has been their inability to overcome the legacy of the collective period, resulting in the creation of organisational arrangements largely reproducing earlier distortions.

It is important to emphasise that despite some changes, the levers of legislative, fiscal and credit power in Lithuania have remained firmly in the hands of the state administration. Rather than reducing state control over agriculture, sectoral reform has merely changed the manner whereby power is exercised in rural areas, in practice ensuring the perpetuation of state control. In the course of the next chapters we shall repeatedly verify how newly-established agricultural co-operatives find it in their interest to remain in a condition of virtual dependence from *savivaldybės*, where the latter exercise control by means of their representatives in the shareholders' assembly. Such arrangement ensures co-operatives easier access to financial support and more generally grants them preferential treatment, while local administrations are entrusted with a larger share of resources (cfr. *Veidas*,

8/12/1999). As a consequence of this situation, independent farming units have not been in the position to establish a viable alternative to larger co-operatives- incomplete property rights coupled with a distorted structure of agricultural subsidies and little access to credit have prevented most independent farmers from moving beyond subsistence agriculture.

In the course of this dissertation, we wish to highlight how the organizational hysteresis of the agricultural sector in Lithuania results from the inadequate incentives laid by state authorities through inappropriate legislation, misguided support interventions and unbalanced fiscal policies, as well as through the perpetuation of credit discrimination against small-scale farmers. It will emerge that the flaws in the policies over the past ten years have resulted in an incomplete transfer of property rights away from the state to the private sector, so that, while legal rights now largely rest with the nominal owners of land and agricultural assets, effective economic rights are still largely in the hands of state authorities. Reform has therefore proved unable to overcome the legacy of collectivisation- on the contrary, it has contributed to its survival under a changed organisational arrangement. Through the analysis of the Lithuanian case, this dissertation should throw a light on the role of authorities in determining the course of agricultural reform in countries undertaking economic transition, highlighting the presence of a significant hysteresis underpinning economic relationships and therefore strongly influencing the implementation of reform as well as the structure of new agricultural organisations.

Chapter II The interaction of agricultural organizations and state authorities in a context of transition

Organisations unite a set of economic actors sharing a common goal, permitting them to structure relations between themselves and thereby to overcome conflicts of interest (cfr. Olson, 1965; North, 1990). Their purpose is at the same time to enable economic actors to interact -to an extent that would not be possible at the individual level- with the existing network of formal and informal constraints that are termed institutions by institutional economists and that permit and structure human interaction and that are termed institutions. Organisations exert a continuous pressure over institutions, so as to alter their structure in a way that furthers the interests of the organizations. In the context of agricultural transition that we are analysing, both agricultural structures such as successor farms or subsistence units co-operatives and state organs such as the parliament or the government -as well as privatization agencies appointed by the state- can be considered as organizations interacting with the institutional framework. The latter is made up of the legislative context as well as of the informal customs that inform the interaction of economic agents and that determines the direction of social and economic change in a way that is often no less incisive than the deliverances of state authorities. The bulk of this dissertation shall concern the interaction of agricultural organizations and state bodies in the context of the Lithuanian transition. The use of the term organization will be largely synonymous with agricultural structures, so that the notion of organizational evolution and hysteresis will be coterminous with the change undergone by agricultural structures over the past decade. It will emerge how rural organizations and state authorities have operated within an institutional context that does not encourage economic efficiency and adaptability, but on the contrary is highly conducive to stagnation and a wasteful use of assets.

In many former socialist countries, organisations operating in the rural sector remain in a relation of semi-dependence from state authorities and do not find themselves in the position to pursue an independent agenda. The reasons for this situation lie in the nature of the interventions deployed by state authorities to implement rural reform. In the immediate aftermath of the political transition, the widely perceived necessity to reform the existent allocation of property rights within agriculture found expression in a number of legislative acts that led to the end of collective structures and were hoped to lay the conditions to the establishment of a viable rural sector. In the majority of cases, agricultural lobbies or interest groups lacked any real structure to be considered partners in the elaboration of reform strategies. Whenever restitution was adopted, farmers would often have little say as to the plot of land or the agricultural asset that they received. Whenever collectives were transformed, agricultural workers often had little choice but to remain employed in structures which were not essentially dissimilar from state farms (cfr. Csaky, 1993; Kazlauskienė/Meyers, 1995). We shall see throughout the dissertation that the root for the resulting strong measure of organisational hysteresis lies in the incomplete transfer of control to the private sector disposed by initial reform legislation. This is then complemented by credit distortions and a set of income transfers policies that have perpetuated the dependence of agricultural organisations from state authorities.

In this chapter, we are going to start with a discussion of the evolution of organisational arrangements within the agricultural sector, arguing that the extent to which property rights are transmitted from the state to rural organisations is the key to understand why the latter have taken different forms in different countries. We shall then analyse in more detail the nature of organisations in contexts of rural transition, arguing that the only viable alternative to the existing structural impasse is the establishment of new, fully independent agricultural co-operatives. In the following section, we shall continue with a discussion of the role played by financial

levers in rural sectors in the region, pointing out how their inadequate use can only re-enforce the negative effect of the tendency of organisations to pursue rent-seeking policies. In this way we shall provide a framework for the detailed discussion of the Lithuanian transition in *Chapter III-V*, where we shall trace the reasons for the substantial failure of the local rural reform strategy, as well for the discussion in *Chapter VI*, where a more general lesson shall be drawn.

2.1.1 The emergence of agricultural organizations and their relationship with state authorities

Demsetz' classic definition interprets property rights as resulting from the union of the control, transfer and income rights (1967). In a market economy, the presence of transaction costs requires fully defined and enforceable property rights in order to induce individual agents to face, either in their private capacity or collectively, the risks implicit in economic interaction. The opposition of socialism to private ownership of means of production should theoretically have resulted in arrangements where the state was the depository of the virtual totality of property rights. In the agricultural sector, the extent to which this principle was applied in practice varied widely from country to country- while in Albania private plots were completely eliminated in the wake of the cultural revolution in 1968 (cfr. Xhamara, 1995), by the early 1980's a substantial margin of freedom had been granted to a number of selected rural organisations in Yugoslavia and Hungary (cfr. Boj nec, 1994; Mathijs, 1997). We mentioned in the previous chapter how in the course of the years, some countries came to rely on private plots to ensure alimentary self-sufficiency (cfr. White, 1990, on Poland; Wolchik, 1991, on Czechoslovakia). The consistently better record of the private sector compared to larger collectives in terms of productivity ensured that, by the early 1990's, there was little disagreement as to the necessity to restore full property rights to land and agricultural assets to the private sector.

Controversy arose however as to which type of rural organisation could replace existing ones so as to ensure that property rights were efficiently allocated.

Over the last years, the belief in the natural emergence of the institutions which underpin Western European and especially North American capitalism has come under increasing criticism by authors highlighting the role historically played by state intervention in the creation of "free" markets (cfr. Fitoussi, 1990; Gray, 1998). In order to support their contention, these authors point at the experience of former socialist countries, where the end of state planning has not brought about the automatic emergence of a viable economy. The presence of legal guarantees defending individual property rights from the interference of state authorities has not proved to be sufficient to induce an effective use of economic assets or the birth of new, viable organisations (cfr. Gavrilescu, 1994, on Romania; Davidova, Buckwell and Konova, 1997, on Bulgaria).

The defenders of the "hands-off" approach (cfr. Brooks, 1991; Csaky/Lerman, 1994) have countered this contention, arguing that in fact the failure of reform strategy has been due to the indecisiveness of the political class, which was reluctant to let go of its privileges and dismantle existing inefficient structures, as well as to the resulting experimentation in some sector with mixed property forms (cfr. Čiulevičienė/Čiulevičius, 1999). In fact, where this approach was followed consistently, as in Eastern Germany and in Hungary, legislators displayed a remarkable degree of pragmatism as well as of flexibility, individuating a number of existing organisational practices and adapting them to a changed environment. In general, qualified intervention incorporating insights from local socio-economic history proves to be consistently more successful than earlier transition strategies grounded on considerations of pure efficiency, or, more generally, on marginal analysis (cfr. Harrison-Mayfield/Midmore, 1996), and which therefore underplayed the role of state authorities. Evidence shows that institutional arrangements

favouring economic efficiency, far from being "spontaneous", require a careful nurturing by the surrounding state authorities, whose task is to lay down clear and effective legislative guidelines as well as to make sure that new organisations enable individual economic agents to interact while meeting the demands of efficiency.

In a context of transition, the initial phase of state intervention is the major determinant of the allocation of assets and is going therefore to play a fundamental role in the creation of new property relations. Demsetz (1967) and Gray (1998) agree in saying that theoretically the enforcement of legislative provisions is not the only way to enforce a particular property rights distribution, as in a number of cultures social customs are so strongly embedded in the texture of society that they function as a substitute for the law. The destruction of traditional societies by means of collectivisation imply however that an external term of reference is needed in the form of clear legal dispositions, which alone can permit the later creation of viable organisations.

Whenever any allocation of property is not yet stabilised, the distinction between legal and economic rights acquires renewed importance. Earlier theory emphasised the legal aspect of property rights, claiming that any such right was in fact a concession from the state (cfr. *Tiesa*, Jan./Feb. 1991; also references in *Informacijos ir leidybos centras, Kooperacija žemės ūkyje- Teisės aktų rinkinys*, 1995). Later, Alchian (1965/1977) and Cheung (1983) pointed out that legal rights were neither necessary nor sufficient for the existence of full economic rights, consisting in the individual's ability to enjoy, either directly or through exchange, the income flowing from a particular asset. Whenever there is more than one residual claimant to one asset- a typical situation in countries undertaking a comprehensive restructuring of property relations-, economic rights become a function of each claimant's effort to control his or her own share. In such a context, legal rights perform the function to accommodate third party adjudication and enforcement (cfr. Barzel, 1989), in whose

absence rules concerning asset usage and exchange are self-enforced and are likely to be sub-optimal.

In the context of agricultural reform, instances abounded where there was more than one claimant to a particular asset. We have already mentioned how a policy of restitution was deemed to result in controversies stemming from muted social as well as territorial conditions. The drafting of clear and effective legislative guidelines was crucial if one was to avoid prolonged disputes as to the attribution of particular assets. The importance of legal rights was also magnified by the fact that, in the absence of documentation proving ownership, the holder of an asset was virtually unable to exert his or her rights to control it (cfr. Navickienė in *Lietuvos aidas*, 08/03/2000). The claim therefore that property relations shall emerge spontaneously as soon as state authorities withdraw from the economy finds here a clear counter-argument.

Once property rights are fully established, however, we have to consider the alternative merits of their distribution. Coase (1960) claimed that, if property rights are well defined and there are no transaction costs, resource allocation is bound to be efficient and independent of the pattern of ownership. In fact, imperfect information about assets' attributes and potential implies that poorly delineated attributes lie in the public domain, so that, when assets are transferred, resources are spent on their capture. In the context of rural transition, this phenomenon is particularly frequent when resources are spent on litigation to ensure control over a particular plot of land (cfr. *Veidas*, 08/12/1999 and 26/02/2000). The informational asymmetry present in most transactions imply that in most cases agents' wishes to maximise the income flowing from a particular asset shall be frustrated by the divergent objectives of their counterparts. To avoid dissipation, it will be often necessary to impose restrictions on the agents involved in the transaction- as a result, most transfers of economic

property rights are couched in contracts determining the terms of exchange of legal rights.

The theoretical benchmark of the contract as a legal structure is usually taken to be the tenancy contract between the tenant and the landlord (cfr. Cheung, 1983). Of course, as markets and societies become more sophisticated, the degree of complexity of contracts is also bound to increase. In rural societies, contracts often take the form of lease agreements, which are an example of transfer of property rights which is limited to a number of attributes. Such agreements have also proved very popular in those CEEC's where sale and purchase of restituted or privatised plots was subject to temporary restrictions. In a lease contract, the actual value of an asset shall not depend exclusively on the flow of income it generates, but is also a function of the costs incurred while measuring its attributes and supervising its exchange (cfr. Barzel, 1989; Perez-Diaz, 1983).

Policing the transfer of an asset means ensuring that each agent bears responsibility for the asset in question to the extent that he or she can affect the income flowing from it. Once the claimant's share in the residual income is proportional to his or her contribution to the mean income, property rights shall be fully defined- on the other hand, the value of an asset shall be lowered whenever non-owners are able to affect its income flow without bearing the related cost (cfr. North, 1992, 1997; also Agra-Europe, 1993). The implication of these considerations is that economic rights are perfectly defined- and consequently, assets value is maximised- only under particular property rights distributions.

Whenever two or more agents enter an agreement and decide to merge their assets in order to undertake a long-term investment project, the risks implicitly faced by each agent are analogous to those encountered in the course of a transaction overseeing property exchange (cfr. Ramanauskas, 1993, 1996). Individual farmers

may be unable on their own to control factors likely to affect agricultural production (such as the climate, or the fluctuation in input prices) and may decide to enter into a co-operative agreement with owners of non-uniform productive inputs, so as to ensure higher efficiency. When specialisation is rudimentary, contractual structures shall mainly focus on the prevention of wealth capture from similar agents, while there will be a tendency to personalise exchange. As the scope of activity is widened, custom is replaced by increasingly elaborate codes of conduct providing guidelines for transactions involving the exchange of property rights (cfr. McFarlane, 1978). Ultimately, exchange tends to become completely de-personalised and subject to contracts enforced by third parties. It is then clear that the function of organisations is to provide a clear and stable definition of the obligations as well as the benefits of all agents involved in elaborate transaction procedures.

The role of state authorities should be that of ultimate guarantor of the rights of each individual entering into such contract. Legislation should ensure that the incentives faced by each agent are clearly spelled out, taking care that transgressors of the terms of the agreement are subject to clear disciplinary measures. While in some cases co-ordination problems may be solved spontaneously resorting to an informal agreement based on custom (which in this context takes the role of an *informal constraint*), the *formal constraint* posed by legislation does in industrialised societies serve as the conventional yardstick to evaluate whether a particular organisational structure serves the purpose of efficiency (cfr. North, 1990, 1992). In a context of economic transition, there may be cases where informal and formal constraints are actually in conflict, whereby the solutions chosen may not necessarily be consistent with profit-maximising behavioural norms. However, as social relationships are shaped by the existing organisational arrangements, formal and informal constraints should eventually come to coincide, so that agreements based on custom substantially reflect the demands of legislative provisions.

Oi and Walder (1999) stressed how, at the onset of the transition, some Western observers seemed to consider the choice of a reform strategy as a deductive exercise—an organisational arrangement was selected as optimal and property rights had to be reassigned so as to bring about the emergence of the envisaged structures (cfr. Leontieva, 1997). Such attitude stems from an inadequate understanding of the nature of transition, which is not implemented in an organisational vacuum, but inherits a set of structures and property rights allocations shaped by the previous system. The intrinsic nature of organisations as expanded contracts devised to supervise the transfer of property rights implies that different allocations of property rights are bound to result in different organisational arrangements (cfr. Williamson, 1985). An accurate analysis of the latter, therefore, ought rather to be an inductive exercise, whose starting point would be the analysis of the initial property rights arrangement inherited from collectivism. Its conclusions should also be qualified by an adequate social and historical appraisal of the context where such organisations operate, as well as by an evaluation of the underlying legislative guidelines. In this way it could emerge that an organisational arrangement which in other countries would be considered sub-optimal or inherently flawed does in fact reveal itself to be the most adequate response to the distribution of property rights and the pattern of social relationships defining a particular context.

2.1.2 Property rights transfer and structural change within rural organizations

The notion of structural change might seem to be inconsistent with the essential purpose of organisations, which is to guarantee a stable framework enabling agents to undertake economic transactions in a context of reduced uncertainty. In fact, rather than for an organizational framework remaining unchanged through time, economic actors look for a credible contractual arrangement which manages to remain credible and efficient in the face of changed political and economic circumstances (cfr. North, 1997)- the inability of organisations to evolve in response to the different needs of the agents undertaking transactions can of itself be a major source of inefficiency. Ideally, organisational arrangement should be able to tread the balance between an unchanged core of formal constraints and the need to satisfy the constantly changing requirements of economic agents. The final equilibrium will be a reflection of the initial allocation of property rights within the organisation, as well as of the changed balance of bargaining power intervened in the meantime between the participants of transactions.

Organisational evolution usually consists in a series of marginal adjustments to the complex of provision, norm and custom that underpin the organisational arrangement. Adjustments may reflect long-term ideological changes or be induced by short-lived changes in the relative value of an asset which is crucial for the transactions covered by the organisation. In order to capture any potential return to their activity, organisations set out to modify the formal constraint that regulate their activity and attempt to erode existing informal constraints (such as social and behavioural conventions) so as to create a new equilibrium that is more in line with their interests. As this process of "creative destruction" is prolonged through time, there is usually no sudden movement from the existing organisational arrangement to a new one, but a movement through a series of intermediate stages which in fact may

or may not lead to the property right allocation best suited to the circumstances. While in the short-term the degree of success of an organisation is a function of the set of opportunities reflecting the existent property rights distribution, in the long-term success is going to be determined by the organisations' so-called "adaptive efficiency" (cfr. Taylor, Alston and Pardey, 2001).

If we consider the agricultural sector in CEEC's as well as in former Soviet republics, the evolution in organisational arrangements taken place in the course of the 1990's can be regarded as a response by members of organisations -both at the individual and at the collective level- to the ever more widespread perception that it was often in their interest to pursue rent-seeking activities over efficiency. In some cases, agricultural organizations would exert pressure on state bodies so as to ensure the promulgation of legislation that would grant them a wider margin of freedom for their activity. In other cases, however, members of former collectives would prove to be more interested in retaining the degree of income security they had enjoyed under the previous arrangement, so that they would oppose any radical reform and enlist the support of those local politicians, who had been close to the leadership of the collectives and were now keen to preserve their position (cfr. *Veidas*, 19/03/2000). When analysing the Lithuanian case in detail in *Chapter III-VI*, we shall see how the efforts of this informal coalition of interest groups have effectively prevented the emergence of new viable productive structures within the agricultural sector.

The ideological orientation of socialist regimes and their strong beliefs in economies of scale had resulted in a situation, whereby the model of the large industrial conglomerate was also applied to agriculture. The transfer of the industrial model was most complete in the state farms (*sovkhozy*), where property rights to land, assets and agricultural produce ultimately rested entirely with the state, while farmers would receive fixed monthly wages. In collective farms known as *kolkhozy*, farmers were referred to as "members" and technically retained their nominal legal

rights to the assets they had been obliged to hand over during collectivisation. In a number of countries, "members'" wages were linked to the *kolkhoz'* performance over the previous accounting year (cfr. Rabinowicz/Swinnen, 1997), but as an increasing proportion of collectives in the region came over the years to survive only thanks to state subsidies, fixed remuneration became the norm. As a result, both legal and economic rights effectively rested with state authorities, which were the only effective claimants to the residual income of agricultural entities.

The property rights framework is a useful tool to interpret the evolution of agricultural collective units which took place in the last years of the socialist regimes. A survey of the failure of the partial property right transfers that in the 1980's took place in the agricultural sector of some socialist economies shows clearly how the concession to the private sector of an incomplete degree of control over agricultural assets cannot lead to a stable equilibrium characterized by viable farming structures. The analysis of the Lithuanian case in *Chapter III-VI* will show how the perpetuation of the structural dichotomy between large, inefficient structures and smaller, but more productive units stems ultimately from the reluctance of state authorities to relinquish their control over the management of co-operatives and the formulation of rural policies.

Before 1990, attempts at organisational reform within the existent framework came with the reassignment of a measure of control to the collectives' leadership, as well as with the establishment of a closer link between productivity and remuneration (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, Sel'skoe khozyaistvo LSSR. Statisticheskii sbornik*, 1960-1990; also Penkaitis, 1980). The most successful of such schemes was implemented in Hungary, where *Type C* collectives regained a substantial proportion of control over their assets by entering into *ex-ante* agreements with state authorities, whereby decisions concerning input purchase, production patterns and marketing strategies could be taken independently

in exchange for the transfer to state structures of an established proportion of the collective's overall returns (cfr. Mihályi, 1993). In this way, residual claims to the income flow from the entity's assets were clearly established and a higher level of efficiency was achieved.

Experiments with partial transfers of economic property rights were however bound to encounter some difficulties, as the nature of the transfer was emphatically presented as "provisional", while all profit-sharing arrangements as well as long-term production plans were subject to the approval of state authorities. Collectives' leaderships either refrained from undertaking substantial internal restructuring or opted for unsustainable development schemes, in the belief that they could reap short-term profits while leaving any long-term losses to the care of state authorities (cfr. *Tiesa*, Jan./Feb.1991; *Lietuvos rytas*, 10/01/2001). For instance, the persistence of soft budget constraints and the resulting distorted structure of incentives faced by the leadership of the collectives was to lead to the substantial failure of partial reform strategies in Vietnam, where the leadership of rural communities implemented changes in the existing crop patterns which eventually led to lower average productivity and returns (cfr. Chaikov, 1989; Ash (ed.) 1998). By the mid-1980's, it was clear that a limited organisational reform based on a partial transfer of economic property rights was bound to result in excessively short-term approaches and inefficiency.

A more radical experiment with property rights transfer was attempted in the course of the Chinese agricultural reforms in the late 1980's. The introduction of the "responsibility system" (*bojinx*) in 1982 led to a comprehensive re-arrangement of the existing patterns of agricultural production, whereby the communist leadership permitted the leasing out to private households of extensive areas of agricultural surface (cfr. Ash/Kueh, 1996). Lessees were expected to pay (in kind) a fixed rental charge and were of course barred from selling their plot of land, but, once their

development plan was approved by the local authorities, they were the exclusive claimant to the income deriving from their activity. The experiment was carried out within a larger two-tiered reform experiment where larger-scale state enterprises remained under the control of the state (which retained most existing price controls), while new small-scale enterprises controlled by individual households and townships were increasingly allowed to operate outside of the system of fixed prices and procurement. The intention of the legislators (cfr. MacKinnon, 1991) was to undertake liberalisation in a sector -such as agriculture- where substantial productivity growth could be obtained rapidly, before proceeding to lift the restrictions tying down heavy industry.

Almost twenty years after its introduction, the experiment with the "responsibility system" presents a mixed record. By 1985, conflicts had broken out between farmers and local administrations concerning the drafting of long-term development programs- the crisis was particularly severe in those areas of the country where the quality of soil and infrastructure was poor and lessees had invested a substantial proportion of their income in amelioration (cfr. Kojima, 1995, about Japan). The resulting interruption of the leasing schemes in a number of regions reflected the increasing awareness on the part of central and local authorities that only a full transfer of property rights could eliminate the danger of on-going conflicts with the state- ideological considerations, however, prevented the local leadership from taking this further step. On the other hand, the fact that farming units were allowed to sell their produce on the market in a context where input prices were still subject to strict controls resulted in a situation where for the first time farmers could finance their on-farm investments independently and without significantly resorting to the state banking system or state-controlled credit co-operatives. From 1978 to 1984, thanks to a policy ensuring that interest rates on deposits remained higher than the rate of inflation, rural household savings in China increased from 1,5% to 6,3% of GNP (cfr. MacKinnon, 1991), thereby also increasing the lending

resources of the banking system. The beneficial effect of this arrangement is evident if we consider that from 1979 to 1992 GNP growth averaged almost 9% per year.

The attempt during the *perestrojka* years to transfer the Chinese model to the Soviet Union was behind Estonia's experiment with service leases (cfr. *Baltic Times*, May 2000; Jonušas in *Lietuvos aidas*, 13/05/2000). In this case *kolkhozy* administrations would contract out the assets and infrastructure needed for a particular service to private households or, less frequently, to another *kolkhoz*. The two parts entered a profit-sharing arrangement, whose terms, if compared to those of Hungarian *Type C kolkhozy*, left the recipients of the assets the main claimant to the residual income of the service. Most such partnerships were short-lived, but it is unlikely that they would have proved to be viable in the long-term- while state authorities played no part in such schemes, it is very unlikely that the contractors - themselves highly indebted *kolkhozy*- would have been in the position to cover the necessary amelioration expenses, laid down in the terms of the agreement as the duty of the nominal holder of the asset. This time, the organisational arrangement is rendered ineffective by a transfer of property rights involving only the right to the control over the income flow, but leaving out the legal ownership title. In addition, the experiment failed to replicate the beneficial effects of the Chinese experience as households or collectives involved in the lease were not in the position to finance the purchase or restructuring of infrastructure and resorted to subsidised loans, which put a further strain on national finances.

The range of experiments carried out by socialist regimes in the 1980's to enhance efficiency in the agricultural sector is not exhausted by the three experiments listed above. However, it was soon evident that their attempt to reform collectivism from within, without completely transferring the control over agricultural assets to the private sector, was in the long run bound to suffer from the same drawbacks of the collectives it wished to replace. Following the demise of the

socialist regimes, there was a general consensus as to the necessity to undertake a comprehensive reform of property rights allocation, but, as we mentioned in the previous chapter, there was wide disagreement as to the way in which this could be achieved. The choice of de-collectivisation would have permitted the full transfer of legal and economic property rights as well as a complete redistribution of the patterns of asset ownership. On the other hand, transformation of existing collectives, while consistent with the state's intention to reduce its direct involvement in the economy, would have implied that a substantial proportion of farmers would be granted control over agricultural assets within already existing structures. These two options reflected the convictions of those who believed that co-operative arrangements were no longer to play a role in the agricultural sector and the claims of those arguing that the record of collective organisations had not been entirely negative, and that a collective arrangement was compatible with different degrees of efficiency.

On the face of the experience of rural reform outlined in the previous chapter, we can outline two tendencies which have developed in countries undertaking economic transition. In countries such as Hungary and Slovenia, and to a lesser extent Eastern Germany, collectives had succeeded in escaping the dependency trap where most of their counterparts in the region had fallen, so that their members had generally become aware of the benefits implicit in the transformation of their structures into full-fledged commercial enterprises. In this case, therefore, collective organisations which survived the initial phase of reform exerted pressure on state authorities so as to ensure that newly promulgated legislation would support and speed up the transformation of collectives into structures compatible with a market economy. In this way, formal constraints were allowed to shape patterns of production and social intercourse in the direction of transparency and efficiency, ensuring that rural organisations entered a phase of *progressive* change.

In most cases, however, the tradition of dependency and subservience to local authority underpinning collective arrangements was so deeply rooted in rural areas as to constitute a serious obstacle for change. The experience of Slovakia, and to an even greater extent Bulgaria and Romania, show that in these countries collective farmers displayed little interest in radical projects to reform the rural sector. Pressure was consequently exerted on state legislative authorities so as to ensure that dispositions concerning co-operative arrangements would be consistent with the continuation of existent practices. In this case, such pressure met the favour of the members of the political establishment who saw their traditional influence in the rural sector threatened by radical structural reform. As a result, existing informal constraints influenced and shaped the new legislative constraints and stymied more radical demands for change, ensuring a kind of *regressive* change.

The notion of *path dependence*, rooted in Kuhn's studies on the notion of scientific paradigm (1970), can provide us with a useful interpretative framework to understand the pattern of organisational evolution in transition countries. In engineering, this concept indicates how an isolated technical development may determine the direction of subsequent technological development. Institutional economists, following North's 1990 seminal work, use this notion to describe how an institutional framework is bound to influence the extent and the general direction of economic development through the set of opportunities it lays down and also through the organisations it shall indirectly bring to life. As patterns of economic as well as of social and political interaction adapt themselves to the existing institutional context, it becomes increasingly difficult to engineer a radical modification of the overall direction of the economy's development.

Across Eastern Europe and the former Soviet Union, the patterns of organisational change within the agricultural sector display a remarkable degree of path dependence, indicating the enduring strength of the formal and the informal

constraints inherited from the earlier institutional arrangement. In those countries, where before 1990 state authorities had been reluctant to grant a measure of independence to agricultural conglomerates, the necessity to reform the sector was accepted with great reluctance; it is enough to consider the wariness of the Romanian and Bielorussian leadership to permit as little as the lease of the assets belonging to *sovkhozy*, or the unwillingness to dismantle a large number of deeply inefficient collectives in Bulgaria and Slovakia (cfr. Wyplosz, 1993). On the other hand, the transformation of the more efficient collectives in Hungary and Eastern Germany into a vehicle for the revitalization of the rural sector had its roots in the greater degree of organizational independence granted by state authorities in earlier years (cfr. Penkaitis, 1994). Path dependence, therefore, may denote both a situation of progressive change, with a general movement towards greater transparency and efficiency, or a regressive involution, where rent-seeking activity is undertaken.

In the next section we shall outline in more detail how in the context of rural transition transformed collectives have failed to turn into the hoped engine of reform and have instead become vehicles of inefficiency and dependence. We shall also attempt to consider what this entails for the future direction of development for agricultural co-operation in the region, comparing it with the organisational arrangements prevalent in other European countries. Later in the course of the dissertation, it shall emerge that the legislative incentives laid by Lithuanian legislators at the on-set of the transition could not bring about a break with the previous organisational arrangement and failed fully to transfer the property rights to rural assets, thereby setting transformed collectives on a path of regressive involution where previous practices are reproduced in an only nominally changed environment.

2.2 Co-operation and the role of share-holding

In the first chapter we saw how the shared awareness of the necessity to reform collective modes of agricultural production did not always result in the dismantling of existing structures. In many countries, transformed *kolkhozy* remained the most important organisational structure operational in the rural sector for the whole of the past decade, and are set to remain so for the foreseeable future. The implicit hope behind the policies permitting the survival of collectives was that in the long term they would turn into self-reliant co-operatives undertaking independent commercial exchange both with domestic and foreign partners, thereby favouring technical innovation and engendering the much-hoped regeneration of rural areas. We shall see in this section how the hoped convergence on Western models of co-operation failed to take place, while the introduction of share-holding models of co-ownership proved to be a double-edged sword, in many cases acting as a deterrent to the further evolution of organisations in the direction of higher efficiency and transparency.

2.2.1 Different patterns of development in European agriculture

In Western Europe, the beginnings of agricultural co-operation in the early XIX century had been characterised by strongly ideological overtones, as co-operatives were presented as the only means whereby small farming units could reduce their economic dependence from more powerful actors as well as realise the social needs of rural communities (cfr. Shapiro, 1993). Later in the century, the orientation became more pragmatic, as there was a wide-spread perception that traditional, subsistence farms tilled by members of one household were no longer sustainable in the face of increasing mechanisation and industrialisation. The earliest example of co-operative law was promulgated by the British parliament in 1852, whereby co-operative founding statutes were granted legal status. For the first time, it was enshrined in law that members of a co-operative would be remunerated proportionately to their contribution to the co-operative's overall output (cfr. Ramanauskas, 1996).

In the course of the XX century, the spread of the co-operative mode of production across Europe has been rather uneven. Agricultural co-operation has proved very popular in Northern Europe and the Netherlands. In Sweden, 86% of overall agricultural produce originates in co-operatives, while in Finland 117 co-operatives including 130,000 agricultural units process 65% of overall meat products (cfr. Šleževičius, 1988; Chaikov, 1989). In the Netherlands, 90% of the country's individual farms are members of *Zebeck*, an umbrella organisation structured along co-operative lines, which deals with the processing and export of the virtual totality of meat and dairy produce (cfr. *Sole 24-ore*, 26/11/1999). In Northern European countries, it is also quite common that each farmer joins three-five co-operatives, investing a part of their assets in each structure according to expected returns.

At the other end of the continent, Southern European farmers have been traditionally more reluctant to enter co-operative agreements. In Spain, despite the relative consolidation of agricultural land intervened in the last decades, about 60% of existing agricultural units continue to be family farms, whose members prefer to exert direct control over their assets than to pool their resources into large rural conglomerates (cfr. Perez-Diaz, 1983). In Italy, while the "agricultural districts" of the North characterised by a high level of technology and specialisation are home to a considerable number of co-operatives specialising in the processing of dairy and meat products (cfr. Brouwer/Lowe, 2000), co-operatives are virtually absent from the South of the country, where a large proportion of the existing 29,000 agricultural concerns, averaging 8 hectares and 10 employees, often remain operational only so as to ensure state subsidies (cfr. Munk, 1993). Greece presents a similar situation, with often inadequately equipped co-operatives grouping less than 30% of farmers (cfr. Goussios/Zacopoulos, 1990).

Against this background, the UK sets itself apart from the experience of other European countries. In Britain, the commercialisation of agriculture started as early as 1846, when the repeal of the corn laws established that subsidies to farming would only be granted in exceptional circumstances (cfr. Smith, 1988). A strong tendency towards consolidation of smaller and medium concerns has resulted in a situation, where British agriculture by 1990 accounted for the lowest employment share in the EU, while out of twenty European food processing plants, eleven were British (cfr. Charvet, 1994). In most areas of the country, large conglomerates averaging 50 hectares have replaced the medium-scaled co-operatives which still survive in Northern Europe. This pattern of agricultural production, displaying substantial affinities with the North American model, is not however likely to be transferred to other EU- in Northern Europe, for instance, agricultural co-operatives have for a long time exerted the function of para-state agencies, mediating between state

authorities and the needs of rural communities (cfr. Ramanauskas, 1992; also *Agra Europe*, 1993).

In the light of the Lithuanian experience, we claimed earlier that the experience of collectivisation brought to an abrupt interruption the natural development of patterns of agricultural production in Eastern Europe. In the inter-war period, the first experiments with agricultural co-operation had already been remarkably successful in raising overall level of productivity (cfr. Kriščiunas, 1933), despite an environment characterised by land fragmentation, generalised lack of working capital and a tendency towards over-manning. The "social" role of co-operatives as the main vehicle of agricultural development and the focus for rural community life implied that such entities were expected to be both commercial organisations and the channel of communication between farmers and local authorities (cfr. Šalčius, 1989). In the aftermath of the transition, as the scope for state intervention in agriculture was substantially reduced, it was hoped that transformed collectives or newly established farming co-operatives would be able to take up the ground-breaking role that had characterised their predecessors before the war. Such "new" entities would also be the main vehicle for a gradual transformation of rural areas along the Northern European model.

We have earlier emphasised how in Eastern European countries organisational evolution has displayed a remarkable degree of path dependence, making it difficult to implement radical change and perpetuating the structures of state patronage in the rural sector. It would however be unfair to claim that no attempt at real structural reform has been made- most legislative texts promulgated at the beginning of the transition reflected the generalised awareness of the necessity to transfer the largest possible measure of effective economic control to nominal asset holders. By 1991-92, it had also become generally accepted that efficiency would be maximised if members of collective arrangements were to receive a remuneration

proportionate to their contribution to the overall output. Compared to their counterparts before 1945-48, however, new co-operatives would operate in profoundly changed social circumstances and were likely- at least in the long term- to adopt more sophisticated technology. This ensured that the methods previously used to calculate the remuneration of co-operative members -in some cases merely amounting to informal agreements stipulated among members and modified year by year- could no longer guarantee an efficient usage of agricultural assets (cfr. *Encyclopædia lituanica*, 1959-78 under *Agriculture*; *Tiesa*, March and September 1991). The choice to introduce share-holding co-ownership appeared to be the only viable option.

2.2.2 Share-holding and property rights transfer

In the rural areas of most Central and Eastern European countries, the adoption of share-holding amounted to nothing less than the adoption of a new ideological paradigm. Earlier on, collective arrangements had been essentially labour-based, whereby claims to the income derived from one's labour could not be transferred, while land and agricultural infrastructure were regarded as virtually indivisible assets. The shift to a capital-based arrangement implied a change in the yardstick for income distribution -now based on each member's amount of shares-, but also a different approach to decision-making. While in pre-war co-operatives as well as in later collectives (at least on paper) deliberations were usually subject to the unanimous approval of all members (cfr. Tamošiunas, 1974; Ramanauskas, 1996), decisions were now taken on the basis of majority voting, where the weight of each member is proportional to the amount of shares he or she controls. From the perspective of property rights theory, share-holding should represent a superior arrangement, as it enables to define in a clear and flexible manner the boundaries of the different claims to the co-operative's income, thereby greatly facilitating transactions. It also functions as a simplifying device in the mechanism of entry and exit from the co-operative- when a member decides to leave, asset indivisibility may pose serious obstacles (cfr. Leontieva on industrial restructuring, 1998; also Damauskas in *Vartai*, 20/03/2000), which can be circumvented if control over assets is exerted through share-ownership.

Across the region, the share-holding model of co-ownership has been applied to transformed collectives that have undergone little structural change and are often termed "successor farms", as well as to new farming units set up by the owners of restituted or privatised land (cfr. *Bauern- Zeitung*, 1995-96; Wegren, 1997, 1998). In most cases, the transformation of *kolkhozy* into share-holding co-operatives took place through the redefinition of already existing property rights through ordinary or

preferred shares, which were either distributed or sold to members of the collective. As mentioned in the previous chapter, central governments, sometimes aided by local administrations, would establish guidelines to ensure a "fair" treatment of incumbent farmers. In addition, a number of shares were set aside and sold, often in auction, but with the proviso that the purchaser resided in the local area (cfr. *Lietuvos žinios*, Jan./Feb. 1992; Boj nec, 1994 on Slovenia). As a result, assets were not necessarily assigned to individuals who were best qualified to dispose of them- "fair" treatment resulted in senior farmers and former *kolkhozy* leadership receiving the largest proportion of shares in recognition of their prolonged period of work in the collective or the "quality" of their contribution (cfr. *Bauern-Zeitung*, Oct.-Dec.1993). The situation was not dissimilar in those farms established on the spoils of earlier *sovkhozy*- the only essential difference was in the fact that the leadership of the state-farm would be fragmented across more concerns, so that, paradoxically, share distribution in each concern tended to be less distorted than in former *kolkhozy* (cfr. Zile, 1992; Gustaitis in *Mokesčių žinios*, 06-12/10/1997).

The most problematic aspect of share-holding conversion, however, was the amount of influence that in some countries it granted to the representatives of state authorities. In Romania and Bulgaria, for instance, a substantial proportion of shares was attributed to local administrations that could support the development of the agricultural sector by granting preferential loans, fiscal exemptions or VAT refunds (cfr. Gavrilescu, 1994). By-laws of co-operatives would sometimes permit the issue of further shares in order to raise capital, but in most cases representatives of local authorities were the only members-holders entitled to purchase them (cfr. *Tiesa*, March 1991; Vilpišauskas, 1993). The shares held by these representatives of the state acted as a multiplier for the influence exerted by the latter on rural organisations, thereby strengthening their tendency to reproduce earlier collectives' relation of dependence from the directives of political authorities.

The resiliency of the ties linking agricultural organizations to state institutions –and local governments in particular- emerges clearly as we consider for instance the manner in which successor farms and local administrations liaise in former Czechoslovakia. In Slovakia, many former *kolkhozy* have granted to local administrations an amount of voting shares carrying the value of the assets acquired thanks to state financial support. In the Czech Republic, agricultural co-operatives that have received substantial credit from local governments have rewarded the latter with non-voting shares with fixed dividends (cfr. *Veidas*, 04/05/2000). In fact, the cases where state authorities have been able to achieve majority control in the shareholding assembly of agricultural co-operatives have been very few; nevertheless, the very fact of their presence in the decision-making bodies of these organizations enables them to exert a substantial degree of control over the development of the agricultural sector as a whole. Of course, there have been some instances whereby organisations have succeeded in breaking away from state control- in Estonia, agricultural co-operatives responded to state support establishing a special fund in aid of the development of rural areas, but granted no shares to representatives of local administrations (cfr. *Baltic Times*, May 2000). In either case, however, the redefinition of property rights by means of co-ownership has effectively ratified the existent allocation of resources and the underlying path dependence of organisational arrangements.

Despite a general belief as to the contrary, allocative efficiency was not substantially better in so-called "new" farms. Individual farmers acquired land and other agricultural infrastructure assets either through restitution or by investing the compensation funds received. In the majority of cases, the plots acquired in this way were turned into small-scale subsistence farms tilled by members of the same household- as we mentioned in the first chapter, farmers often faced restrictions as to the sale/lease of newly received plots, and were generally reluctant to forego their newly regained independence to enter new co-operative arrangements (cfr.

Ramanauskas, 1993, 1996; Čiulevičienė/Čiulevičius, 1999). In countries such as Latvia, the Czech republic and Slovenia, however, some new co-operative experiments were set up, mainly in the shape of middle-sized processing units (cfr. *Veidas*, 04/05/2000). In order to raise capital and increase farmers' attachment to the newly established concerns, as early as 1991-92 most of these entities adopted shareholding co-ownership. The significant problems with the initial valuation of infrastructure, however, resulted in members of the "new" co-operatives holding shares whose value was not an adequate reflection of the concern's assets.

The record on the valuation of assets to be privatised or set aside for restitution indicates that procedures were often haphazard and lacked consistency even within the same country. In some cases, competent authorities used as benchmark the estimates included in the records kept by collectives (cfr. Mackevičius/Poškaitė, 1998). Such values, while systematically inflated, were in fact meaningless in a context characterised by new currencies and high rates of inflation-in former Soviet republics, however, they were often used in the hope that high valuations would attract capital into the rural sector (cfr. Ramanauskas/Motužienė, 1998). At the opposite end of the spectrum, local authorities wishing to spread share-holding models among the rural population sometimes kept the initial value of assets deliberately low in order to avoid paying high compensation whenever restitution was not possible (cfr. Leontieva, 1997; Grižbauskienė in *Lietuvos aidas*, 11/04/2000).

Sometimes farmers expecting compensation would refuse to accept the estimate drawn by state-appointed agencies and the valuation finally recorded reflected a bargaining process between the two sides (cfr. Leontieva on industrial restructuring, 1998; on the role of the LFMI, 2000). In Latvia, despite the obvious inconsistency, different benchmarks were used for different assets originating in the same collective as they were now controlled by different local administrations (cfr.

Zile, 1993). To all these considerations, we must add that the absence across CEEC's of any share-dealing tradition resulted in very little scope for exchange in agricultural stock, so that share value tended to stick to its initial level even whenever it was not adequate. We see therefore that even outside of the context of transformed collectives the redefinition of property rights through share-holding was no guarantee of an appropriate allocation of resources and was in fact likely to ratify existing distortions.

The final negative feature of rural share-holding in CEEC's was its inability to overcome the persistent dichotomy between individual contribution and remuneration that still characterised many agricultural units. In the more blatant cases (such as a number of *kolūkiai* in Aukštaitija, Kontrimavičius in *Vartai*, 24/01/2000), collectives were transformed into large share-holding co-operatives, but individual share-ownership was not clearly delineated, as all members would own only one share collectively (cfr. *KŽŪR conference acts*, 2000). This practice was justified by the contention that within rural communities unused to the system, one could not *de facto* approve a pattern of resource allocation when individual entitlements were yet to be settled and access to litigation was limited. In fact, such decision could only increase the generalised climate of uncertainty and exert a negative influence on the overall development of the areas involved.

The situation was not ideal even in those co-operatives where individual share-holding was the norm. In the Baltic countries, most share-holding co-operatives in the agricultural sector hardly paid any dividends in the first years after their transformation- this was justified as an attempt to build capital reserves, but certainly could not re-enforce members' control over the co-operative's assets (cfr. *Rinkotyra*, 2(4)1999; also the *law on state control* in *Vž*, 30/05/1995). Later on, despite the general improvement in economic conditions, farmers were induced to trade dividends for more stock, which lost a substantial proportion of its value as the

Russian crisis hit the local economies. In 1998-99, there were on the other hand reports of virtually bankrupt agricultural units falsifying their accounts and paying dividends to ensure the continued allegiance of their members (cfr. *LAT-CBS pareiškimas* on fraudulent bankruptcy in *LAT aktais*, 28/12/1998). All this indicates that the adoption of share-holding, unless accompanied by binding guidelines, does not automatically result in a complete transfer of property rights to the members of an agricultural unit.

We mentioned earlier how in former Czechoslovakia share-holding conversion has resulted in the emergence of rural organizational structures that are controlled by local authorities and therefore perpetuate the dependence of the former from the latter. In *Chapter III*, we shall see how the control exerted by Lithuanian local administrations over agricultural co-operatives has actually continued to grow from the early 1990's to the present day. The experience of these countries indicates how share-holding conversion does not automatically guarantee that control over the co-operative's assets is transferred to the private sector, nor that shares adequately reflect the actual value of land and infrastructure. Three considerations follow:

- in the first place, share-holding co-ownership serves to define more clearly patterns of property rights allocation. At the same time, however, share-ownership is not incompatible with an inefficient distribution of property rights- on the contrary, it does increase the negative impact of the latter on the usage of the assets involved;
- in the second place, the initial *valuation* of the assets may fail to reflect their real market value, so that share co-ownership might in fact ratify a distorted valuation and ensure its survival through time;

- in the third place, the adoption of share-holding has in many cases failed to ensure that *remuneration* would be proportional to each member's contribution to the concern's over-all income.

As a result, an inadequate distribution of property rights has combined with distorted valuation of assets, resulting in a situation where share-holding is the main vehicle for the regressive tendencies implicit in local organisational structures. The establishment in Central and Eastern Europe of rural co-operatives structured after Northern European models is not likely to take place in the short-term. In fact, in the course of the next section, we shall see how the manner whereby financial instruments have been deployed in transition countries, instead of laying the conditions for more efficient forms of agricultural organization, has strengthened the dependence of existing rural structures from state authorities.

2.3.1 Different sources of credit and agricultural transition

Rural credit has traditionally played a crucial role in developing economies, as showed by the vast amount of literature discussing the experience of sectoral credit in Southern Asia and more recently in Latin America. Of course, the type of reforms undertaken in former socialist economies could not be modelled on the policies implemented in Third World countries moving out of situations of underdevelopment. At the same time, however, the experience of a number of developing economies in the field of credit indicates how the emergence of a viable agricultural sector necessitates the establishment of an informal credit sector that integrates the activity of "official" credit agencies.

As state farms and collectives were dismantled, there was a general consensus as to the necessity in the short term to pursue a sustained measure of credit intervention in the rural sector. At the same time, however, there was little consensus as to what would be the long-term development of the credit sector. In the course of the 1990's, the focus has moved from a dispute on the merits and de-merits of sector-specific loans financed by the state to a discussion concerning the complementary role of the "official" and the informal sector in meeting the needs of different segments of the market. The experience of Central and Eastern European countries indicates that in most cases (cfr. Genienė/Čiulevičienė, 1998; *Sole 24-ore*, 06/05/2000) the official financial sector has been unable to overcome the legacy of collective agriculture, when credit was granted to *sovkozy* and *kolkhozy* often without properly assessing the recipient's credit-worthiness or the planned use of the received funds. In the same way as the adopted privatization strategies ensured the structural hysteresis of the agricultural sector, the incentives laid by credit institutes ensure that rural organisations regress to a situation of "soft" budget constraints and strengthen dependence on state authorities.

a) *The move away from traditional sources of credit*

Official credit includes first of all the loans granted directly by state authorities, such as ministries, sectoral banks or special development agencies. In socialist regimes, this form of credit was the most comprehensive, leaving little scope to independent financial interactions. Following the liberalization of the financial sector in the early 1990's, financial agencies under the control of the state found themselves operating alongside commercial banks, insurance companies or building societies, with the consequent substantial increase in the number of entities authorised to grant loans. On the other hand, the notion of *informal credit* is used to indicate those credit operations taking place outside of any structure and based on reciprocal trust. In the analysis of economies of transition, the meaning of the term is broadened to include also those loans granted by structures- mainly credit unions- that have emerged to serve those potential borrowers systematically marginalised by "official" credit establishments (cfr. Bagdonavičius, 1998).

The literature on rural development published in the 1960's-70's tended to reflect the belief that a moderately interventionist financial policy was capable of bringing about sustained growth and employment rates in rural areas (cfr. Goldsmith, 1969). The Indian experiment of the 1970's, for example, seemed to prove that agricultural stagnation could be overcome expanding rural credit backed by the state and reducing existing reserve requirements for financial entities (cfr. Reserve Bank of India, *Annual report*, 1976). By levying consistently low interest rates, the "official" credit sector essentially drove most independent credit sources out of the market. By the early 1980's, however, the disappearance of rural money-lenders and usurers resulted in a situation where the program was no longer sustainable, as the state lacked the resources necessary to service all rural areas (*op.cit.*, 1982).

When some Latin American countries in the 1980's set out to liberalise their agricultural sector, the mood had shifted away from full reliance on state intervention. Commercial banks were allowed to pursue an independent credit policy. It was claimed that ceilings on interest rates and sector-specific loans were distortionary, and that no allowance was to be made for inflation (cfr. Aragon, 1966). A tight macroeconomic policy pursued at the same time was meant to encourage farmers to save, but the hope that higher interests on deposits would in the long run favour agricultural growth proved to be delusive- higher returns on savings induced farmers to leave their savings in the banks, so that investment in agricultural input collapsed. In addition, credit liberalisation paved the way to unreliable loaning schemes (*pyramids*) wiping away the savings of entire areas, while in other regions it led to small-scale lenders monopolising credit, leading to interest rate bubbles and eventually lower growth rates (cfr. Taylor, Alston and Pardey, 2001). In Brazil, these problems were so severe that they caused the bankruptcy of previously solid agricultural conglomerates (cfr. De Rezende, 1989). By the late 1980's, it was quite clear that free-market policies had been unable to cope with the demands of rural agents, leading to a debate as to what strategy was best suited to induce the development of rural areas.

In socialist regimes, credit and banking were subject to the tight supervision of state authorities. In the context of a command economy, risk management or strategic investment were unknown concepts, and the range of services offered was extremely limited- the Central Bank undertook the necessary banking operations for state enterprises and directed a proportion of its financial resources to specific sectoral banks (cfr. Penkaitis, 1980). In the Soviet Union, each republic had its own Agricultural Bank which carried full responsibility for financial transactions in the rural sector and upon request would grant loans to agricultural collectives- as we mentioned in *Chapter I*, by 1989 a substantial proportion of collective farms in

CEEC's was heavily indebted towards sectoral financial establishments (cfr. Gaidienė/Abazorius, 1992).

Some informal lending between collectives or individual farmers did in fact take place, but its overall volume remained always marginal (cfr. *KŽŪA annual reports*, 1992-96). After 1990, the plight of newly formed agricultural units induced state authorities in most CEEC's to allow existing Agricultural Banks to retain their special role within the rural sector (cfr. *Tiesa*, March 1991; *Vartai*, Dec.1995/Jan.1996; also Dubinas/Petuchova in *Rinkotyra*, 1(3)1999). Newly established farms were not in the position to meet their need of capital by means of informal credit, while contracting out financial operations to local authorities might have been even more dangerous, as the latter lacked the means to enforce discipline in matters of repayment and would use credit as patronage (cfr. Vengrauskas, 1993). Inflation and dearth of private capital seemed to ensure that lending was set to remain in the hands of financial entities that were under the control of state authorities.

At the very beginning of the transition, there were also other considerations indicating the persistent need for an official lender. In traditional peasant societies, farmers tended to keep their savings in physically productive assets on their farms, while resorting to an external source of credit to finance the purchase of input and consumer goods in the period before their income is realised. In collective system this behavioural pattern was completely eliminated, as farmers' incomes were not directly linked with the natural patterns of production. In a context of transition, as the whole economic infrastructure is being transformed and new farming units are set up, there incurs an even longer temporal gap between the moment an entity undertakes the one-off fixed investments necessary to start a new activity and the moment it reaps its first income (cfr. Kvedaraitė, 1994). In addition, new agricultural units were bound to face substantial expenses to purchase new equipment or other

necessary input, and it is unlikely that new local lenders would dispose of a sufficient amount of capital to cover the needs of more than one or two agricultural units. In the years 1990-92, the ordinary expenses of the production cycle and the purchase of basic input across Central and Eastern Europe were often made possible only through the concession of extraordinary credit through the channel of the local Agricultural Banks (cfr. Petrauskas (29/02/2000) and Kazitėnas (01/03/2000) in *Lietuvos aidas*).

The persisting difficulties in access to credit over the following years, coupled with the generalised atmosphere of economic instability, resulted however in a situation where central Agricultural Banks were no longer in the position to exert a general control over all farming units across the country. At the same time, the necessity to implement more restrictive fiscal and monetary policy under pressure from international organisations led to an effective reduction of lending schemes under the direction of the central government (cfr. Penkaitis, 1994). The role of the single lender backed by the state had to be progressively taken over by “official” credit agencies (in the majority, commercial banks or insurance companies). In some countries (notably Hungary and the Czech Republic, where the memory of the pre-war banking tradition was still strong), such branches quickly established themselves as the main providers of financial services (cfr. *Veidas*, 04/05/2000). In other countries, however, financial instability and high inflationary pressures resulted in a situation where the volume of capital that such entities were able to raise independently was very limited (cfr. *Vartai*, 17/04/2000). The necessity to retain a measure of political consensus in rural areas meant that state authorities had to use newly established financial structures to channel to farming the cheaper credit which before would have been granted directly by the lenders backed by the state.

The fact that in the early 1990's most commercial banks' and insurance companies' outlets were located in large or middle-sized urban centres resulted in a situation where most rural areas were not serviced by any financial entity at all. Historically, in the pre-war period the peasantry had had little if any contact with banking institutes, while during the socialist regime liaising with the establishment granting credit had been mediated by the leadership of the collectives (cfr. Butkutė-Ramelienė, 1958). The banking crises that led to the bankruptcy of a number of banks across the region was certainly not instrumental to the establishment of a climate of trust in the financial sector. In addition, the latter were in the majority of cases unwilling to grant credit to individual farmers, as in most cases the latter did not have the sufficient collateral to guarantee their solvency (cfr. *Baltic Times*, May 2000). The lack of working capital in isolated rural areas in the early 1990's was therefore very severe, and affected most of all those households depending entirely on subsistence farming. While in former Soviet republics this situation was circumvented resorting to the practice of barter (cfr. Ranonytė in *Verslo žinios*, 10/07/1998; also Wegren, 1998), in Central and Eastern European countries it provided the main breeding ground for the first experiments with informal credit.

b) Banks, credit unions and organisational path dependence

In transition countries, rural finance usually emerged as a spontaneous response to a perceived local need. In this sense, it represented an obvious break with the earlier patterns of financial transaction, where all capital transfers required the sanction of the competent state authority. In Lithuania, before 1990, rural credit was subject to strict guidelines, which did not allow individual farms to grant loans to other agricultural organizations. Occasionally, despite the official prohibition, a *sovkhоз* would grant a loan to another state farm, or permit the temporary use of its assets without demanding compensation. Such instances, however, were quite rare, and the decision as to the concession of the loans rested entirely with the leadership of the state farms.

As *sovkhозy* and *kolkhozy* were dismantled, similar informal exchanges would occasionally take place between the recipients of restituted plots. Lenders would pre-select potential borrowers on the basis of kinship or personal acquaintance, and would generally set more flexible terms of debt servicing than commercial banks (cfr. on Latvia, *Lietuvos aidas*, editorial of 14/03/2000; on Poland, Vaškevičius in *Vartai*, 01/05/2000). In the course of time, such schemes tended to become more sophisticated. A number of farmers would pool their limited financial resources and draw an initial statute defining the conditions for the concession of loans, which in the beginning was limited to those farmers having handed over their capital. Over time, such agreements tended to be developed into small-scale credit unions, where subsistence farmers were encouraged to deposit their savings and would be able to obtain cheap credit (cfr. Pranckevičius in *Lietuvos aidas*, 24/05/2000; Lithuanian Statistics Department, *Annual Reports* of the Ministry of Agriculture, 1995-96). The increasing popularity of such union led to intense political debate as to whether it was in the interest of the economy as a whole to support their development (cfr. Nguyen, 1997; Tamulionis in *Vartai*, 08/05/2000).

State authorities found themselves confronted with the unprecedented problem of how to assess the relative efficiency of different credit arrangements.

The *output* of credit establishments is usually taken to be the overall amount of loans granted over a certain period of time (cfr. Mackevičius/Poškaitė, 1998; Tamulionis in *Lietuvos aidas*, 27/03/2000). In fact, the application of this criterion to assess the performance of credit establishments in transition countries is far from straightforward. The combination of wide-spread cross-lending with haphazard standards of book-keeping often results in a situation where many lenders can only give an approximate estimate of the volume of their financial commitments. To circumvent this problem, it has been suggested (cfr. Šlekienė/Klimavičienė, 1999) to adopt a measure of the overall amount of capital available for credit. This would be easier to obtain, but could result in systematically favouring large "official" lenders over the informal sector, unless the measure is qualified to take into account an estimate of the entity's liabilities (cfr. Tamulionis, *Mokesčių sąvadas*, 1997). In addition, it poses the problem of how to regard the "bad debts" of chronically insolvent borrowers- failing to consider later, successful recovery plans or merely delayed payments (which in some countries amount to 60% of the total, cfr. Petrauskas in *Lietuvos aidas*, 04/05/2000) could in effect lead to an overestimate of the effective volume of liabilities.

These disagreements are then reflected on the evaluation of credit agencies' *operational costs*, which may be expressed as a percentage of the overall volume of credit granted over an accounting period (cfr. Kvedaraitė, 1994) or as a proportion of overall liabilities (as suggested by Kovalev, 1995). The question is then raised whether in the calculation of costs one should only consider financial costs or also include auditing as well as administrative, training and maintenance expenses. Depending on how costs are estimated, we would obtain different estimates of credit agencies' *profitability*. Paradoxically, focusing merely on profitability may result in

informal credit establishments being considered more efficient than commercial banks, as they are less likely to incur substantial expenses in terms of administration or personnel (cfr. *KŽUR conference acts*, 09/03/2000).

In fact, the debates surrounding the methods of evaluation adopted by credit establishments may lead us to overlook the basic fact that "official" and informal credit are structurally different and that they tend to service the needs of different organisational arrangements. We mentioned how commercial banks have progressively replaced the single lender backed by the state of the collective period and how they have come to be the main providers of credit for large agricultural co-operatives. One must remember, though, that the majority of "official" financial establishments do not serve exclusively the agricultural sector, while credit unions would serve almost exclusively the rural areas where small farmers had no access to other sources of credit (cfr. Kabat/Hagedorn on Slovakia, 1997). From this perspective, a highly fragmented informal sector made of small-scale, semi-professional lending units characterised by limited credit "output" is bound to be more beneficial to the welfare of rural areas than the presence of fewer outlets of commercial banks integrated within a national network. This is more evident if we consider that in the more depressed areas (cfr. on Eastern Ukraine, K'oster/Shtrive, 1999) informal credit unions are also likely to be a vehicle of social cohesion as well as to oversee a range of other services, such as the storage and the marketing of finite agricultural products. A general yardstick for the relative efficiency of a credit arrangement appears therefore to be its *sectoral viability*, measured pragmatically in terms of its contribution to an entire segment of the economy.

On the basis of these considerations, we can see that in transition economies it is in the national interest to favour a diversification of financial structures, with local credit unions servicing the needs of small-scale farming. So far, CEEC's record of propensity to save has been quite low (cfr. *Sole- 24 ore*, 06/05/2000), so that the

amount of funds managed by credit unions has been relatively limited. Improved access to technology thanks to cheap credit could induce farmers to trade off consumption for saving, laying the conditions for more sustained capital accumulation and income growth throughout the sector. The geographical proximity of local financial establishments to the areas where loan recipients invest the capital they receive could also enable a more accurate assessment of risk and the concession of personalised loans. Ideally, “official” and informal credit sectors could initially service different segments of the market, while in the long term credit unions could take care of the virtual totality of the needs of the agricultural sector (including those of larger co-operatives) and develop into a form of sectoral bank (cfr. Bojnec, 1994, on Slovenia; also Pleskovic/Sachs, 1994).

Over the past decade, however, the situation of agriculture in transition countries has in no way moved closer to any form of co-ordination between “official” and informal finance. Commercial banks and insurance companies have continued to service the needs of large agricultural co-operatives, while credit unions have focused almost exclusively on small-scale farmers and in most cases they tend to disregard co-operatives' requests for credit. Nevertheless, little has been done so far to standardise credit practice (cfr. *Bauern-Zeitung*, 1992-93, on Eastern Germany; K'oster/Shtrive, 1999, on Ukraine; *Baltic Times*, May 2000, on Lithuania and Latvia). The main reason for this phenomenon has been the wish to shelter from the public eye the consistent financial support granted by state authorities to successor farms and agricultural co-operatives through the channel of commercial banks, which is evident if we consider that the majority of recipients of loans from commercial banks continue to be members of transformed collectives (cfr. *Agro-Balt*, May 2000). In a number of countries (cfr. *ELTA* briefing in *Lietuvos aidas*, 04/04/2000; *Žemės ūkio bankas stiprės iš savo pelno*, in *Vartai*, 27/03/2000), the poor financial situation of banks specialising in agricultural loans points to the continuation of earlier practices, whereby farming units are not expected to service

their financial obligations by the same rules applicable to their counterparts in other sectors. Once more, patterns of behaviour established in the previous period act to slow down the evolution of the economy towards a greater degree of transparency and efficiency.

In the first chapter, we mentioned how state funds had been regularly transmitted to collectives whenever the latter were unable to cover their production expenses or the farm's administration wished to undertake a substantial development project. During the socialist regime, *kolkhozy* and *sovkhozy* leaderships systematically liaised with state bodies that controlled the allocation of rural credit. In recent years, many of the party cadres who had supervised the concession of loans before 1990 have come to occupy important positions within commercial banks that enable them to influence the credit policies of the latter (cfr. Andriulis/Terlecka, 1992). As a result, it should not come as a surprise that the concession of loans is not based on impartial criteria (cfr. *KŽŪR conference acts*, March 2000; Kristinaitis in *Veidas*, 09/11/2000).

In addition to the problem posed by corruption, there are two other factors that explain the skewed patterns of credit concession. One is the lack of discipline displayed towards co-operatives accumulating financial arrears, reflecting the privileged position earlier enjoyed by the *kolkhozy* which by the 1980's were no longer really expected to service their financial obligations (cfr. *Tiesa*, Jan./Feb. 1990). The other is the persistent usage of accounting systems inherited from the previous arrangement and preventing an accurate estimate of the financial condition of the potential recipient (cfr. Tamulionis, *Mokesčių sąvadas*, 1997). In our analysis of the Lithuanian case, we shall see for instance how the use in the country of inadequate and often confusing accounting standards amounted to the establishment of a virtual control of "official" credit establishments by successor farms.

Against this background, the superior performance of subsistence farming in terms of productivity which we mentioned in the first chapter should no longer come as a surprise. In order to survive, credit unions need to exert a stronger degree of discipline on their members and demand the timely servicing of financial obligations from their borrowers (cfr. Grižibauskienė/Laukis in *Lietuvos aidas*, 23/03/2000; Pelanienė in *Rinkotyra*, 3(5)1999). Scarcity of funds necessarily leads to their more efficient usage, in the same way as individual plots working alongside collectives had to make the utmost of the little infrastructure and input at their disposal. Indeed, in countries where there is a systematic network of credit unions, data indicate that subsistence farms have a comparative productivity advantage over co-operatives both in livestock rearing, where they were traditionally stronger, and in the cultivation of cereals, where they were sometimes put at a disadvantage by the small size of their plots (cfr. Deksnys, M. in *Vartai*, 27/03/2000; also Swinnen, 1995).

We may conclude this discussion pointing out how the evolution of the credit sector in CEEC's testifies once more to the inability of the economy as a whole to move away from earlier patterns of social relationships, which exert a regressive influence on the evolution of organisational arrangements. State authorities tend to have a vested interest in the preservation of a skewed attribution of credit- easier access to loans implies in fact that share-holding members of a co-operative are more likely to receive regular dividends and become consequently less inclined to challenge the existing patterns of share-ownership, which, as we saw earlier, often grant an undue degree of control to local administrations. Rather than an instrument to foster economic development, therefore, credit tends to become a vehicle to reinforce patronage and dependence on state authorities.

2.3.2 Subsidies and income transfers in the context of agricultural transition

In the decade following the initial wave of economic reform, the price and trade policies implemented by CEEC governments towards the agricultural sector have had to undergo a substantial change both in terms of the *extent* of the protection afforded and of the *mechanism* chosen. Most countries have moved away from consumers' and producers' subsidies and have adopted a moderate form of import protection either in the form of quantitative restrictions as in Bulgaria and Romania (cfr. Davidova, Buckwell and Konova, 1997) or in the form of tariffs as in Central European countries (cfr. Mathijs, 1997). Apart from trade control, the type of intervention adopted since 1990 has also included a range of other measures, such as price controls both at the productive and at the processing level and budgetary subsidies to farmers. In the course if this section, we shall see how the implementation of such strategies, while substantially varying in its impact from country to country, has served to shelter national agricultural sectors from foreign competition, while actually transferring income towards those successor farms which process the primary produce of small-sized farms. We shall also briefly discuss how in some countries (cfr. Mathijs, 1997; Leontieva on Estonia, 2001) fiscal policies have been used in combination with transfer in order to protect the agricultural sector. While agricultural subsidies and fiscal privileges cannot be regarded- as they sometimes are (cfr. *KŽŪR conference acts*, 09/03/2000)- the main culprit for the failure of CEEC's to develop a competitive agricultural sector, they have certainly contributed to the survival of the existent organisational arrangement characterised by the dichotomy between large, inefficient co-operatives and smaller, if more competitive household farms.

While there have been substantial differences in the policies implemented in each country, it is possible to detect an overall synchronic trend in the evolution of rural policy across the region. It is useful to distinguish three phases:

- an *initial phase*, where prices and trade regimes were liberalised and subsidies abolished, resulting in a substantial fall in the real income of farmers as prices of agricultural produce rose and demand fell. The sector had to re-orient itself towards Western Europe. Subsistence farmers were particularly affected by the negative shift in agricultural terms of trade and were often unable to meet input expenses;
- a *transitional phase*, where -often in the wake of the return to power of post-communist parties- a number of *ad hoc* regulations were introduced to shelter the agricultural sector from the effects of liberalisation;
- a *planning phase*, where the governments of many CEEC's, often facing the pressure of international agencies, have moved on to comprehensive agricultural policies sometimes resembling earlier versions of the CAP (cfr. Munk, 1993).

The so-called planning phase has included an increasing array of non-tariff intervention on a set of crops, as well as minimum guaranteed producer prices for a number of sub-sectors such as dairy, sugar or wheat (cfr. Csaky/Kazlauskiene, 1997). In some cases- such as the dairy sub-sector in Lithuania and the Slovak Republic, or sugar in Poland (cfr. *Agro-Balt*, May 2000)- price support policies have been integrated with a measure of production control. In general, especially in Central European countries, the occasional interventions of the first years have evolved into a comprehensive market organisation structure implemented to grant support to farming, from production through processing to the moment of consumption. The fact therefore that state subsidies affect all components of agro-industrial chains make us ask how it is possible to decompose the separate impact of the transfer.

The main index of agricultural support used in CEEC's is the *producer subsidy equivalent (PSE_s)*, which measures "the value of monetary transfer from tax-payers and consumers of agricultural produce to producers" (cfr. Gorton, Blackwell and Davidova, 1997). The *PSE* index can be applied in three different forms: overall *PSE* per commodity, unit *PSE* and %*PSE* indicating subsidies as a percentage of the value of output at domestic prices (cfr. *OECD*, 1995). For any particular commodity, when calculated at the production level, this index can be defined as:

$$PSE_f = Q_f (P_{fd} - P_{fw}) + (D+I) - F$$

where Q_f is the domestic farm level of production of the commodity, P_{fd} is the domestic farm level price and P_{fw} is a reference production price, usually calculated as an average of prices in neighbouring countries. D and I represent direct and indirect payments to farmers- the latter including input support and access to infrastructure- while F stands for tax imposition on producers. If calculated at the processing level, the index can be defined as:

$$PSE_p = Q_p (P_{pd} - P_{pw}) + (D+I) - F$$

where Q_p indicates output at the processor level, P_{pd} is the domestic processing output price and P_{pw} is the world price of the processed product. If the value of *PSE* is 0, farmers/processors are receiving no support or protection, while if the index is positive, they are reaping a price which is higher than the free market level, either as a consequence of state intervention, or because of some market imperfection acting in their interests. In case the index is negative, this indicates that farmers/processors have been subject to tax or they have suffered as a consequence of market

imperfections. It is important to stress (cfr. Lithuanian Statistics Department, *Annual Reports* of the Ministry of Agriculture, 1996-98) that *PSE* does not in itself indicate the source of the income transfer- it may be the case that policies designed for different purposes affect the agricultural sector more deeply than deliberate intervention by the state. Keeping this in mind, exchange-adjusted *PSE* does nevertheless allow us to compare across countries the extent by which the agricultural sector is sheltered from competitive pressures (cfr. *OECD*, 1995; Dubinas in *Rinkotyra*, 4(6)1999).

The degree of variation across countries in the region and the underlying trends are visible if we observe the *%PSE* in *Table I*. For four of the countries included (Bulgaria, Czech Republic, Poland and Slovenia), indices were calculated summing the total value of transfer for a basket of five basic commodities, while for the other two countries (Lithuania and Latvia) indices account for a wider range of outputs, including special regional products. We see that for the period 1994-96, with the exception of Slovenia, direct producers were consistently taxed or received little protection, while the processing stage was consistently protected. Latvia's and Poland's low values for farm transfer may actually indicate that protection granted to some products was off-set by taxation imposed on others (cfr. Zile, 1993). In 1996, Lithuanian and Polish processors enjoyed the highest rates of protection in the region.

I- % Producer subsidy equivalent (PSE) in a number of CEEC's (1994-1996)

	Bulgaria	Czech Rep.	Hungary	Latria	Lithuania	Poland	Slovenia
1994							
Farm	-26	-3	na	2	-18	1	49
Processing	8	34	na	18	30	37	-20
Consumer (%CSE)	-33	-51	na	-12	-43	-61	-65
1996							
Farm	-7	-4	-1	1	-12	1	47
Processing	20	32	26	21	40	40	12
Consumer (%CSE)	1	-39	-37	-18	-19	-53	-59

(Source: combined from *KŽÚA reports*, 1994-1996, and Gorton, Blackwell and Davidova, *Transfer and distortion along CEEC food supply chains*, 1997, in Tangermann and Banse (eds.), *Central and Eastern European Agriculture in an Expanding European Union*, 2000, p.93)

The last line in the table displays so-called *consumer subsidy equivalents* (CSE), which indicate the amount of transfer from producers and tax-payers to consumers resulting from a given set of agricultural and trade policies. The predominance of negative values in the table indicates that in CEEC's, consumers were penalised and effectively subsidised processing outlets (or farmers, in the case of Slovenia). Bulgaria's CSE value for 1996, rather than from a liberalisation of the market, is likely to indicate the concentration of subsidy on particular goods.

At present, the most important policy ensuring income transfer to processors in CEEC's consists in the imposition of state-controlled price margins, whereby direct producers are legally bound to sell raw produce to processing outlets at prices that barely cover production costs (cfr. Wegren, 1997, 1998; *Baltic Times*, May

2000, *et al.*). In a number of cases (such as in Bulgaria and Czech Republic), price margins are also combined with a number of export restrictions to retain support on processing. The impact of this policy has been much more substantial than any transfer achieved by means of direct budgetary support, which in some countries has become virtually insignificant (cfr. on Hungary, Mészáros, 1997). As we shall see in more detail in our analysis of the Lithuanian case, increasing pressures posed by producers unable to purchase the necessary input are likely to lead to a revision of the present policy, which necessitates continuous *ad hoc* interventions by local administrations in support of individual farmers.

We must not forget that over the past decade *fiscal policy* has been deployed in parallel to price and trade policies in ensuring a degree of protection to the agricultural sector. Before 1989-90, there was little scope for fiscal experimentation in the agricultural sector- *sovchozy* were subject to fixed profitability tax, while *kolkhozy* were expected to pay some form of income tax, usually as a combination of cash and deliveries of set quotas of produce. Individual farming units, in addition to the rent for equipment usage, were subject to a turn-over tax, although in some cases local administrations granted exemptions or accepted to be paid in kind (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, Narodnoe khozyaistvo LSSR za 40 let*, 1980). Following the demise of the socialist regimes, the evolution of fiscal policy in relation to agriculture followed a similar path to that of other forms of income transfer. After an initial period of liberalisation, a number of occasional fiscal exemptions were granted so as to shelter the most vulnerable elements in the rural sector from higher input prices and competition from abroad (cfr. *Mokesčių teisinės bazės sutvarkymo programo projektas*, in *Mokesčių žinios*, 20/06-05/07/1998; *Rinkotyra*, 2(4)1999). Later on, the political class perceived the necessity to elaborate a comprehensive fiscal code that would couch rural tax policy in a wider and consistent legislative context. In many countries this has been a rather

controversial and prolonged procedure, indicated by the fact that not all CEEC's have yet issued a complete Fiscal Code (cfr. *Sole-24 ore*, 06/05/2000).

Taxation is included in the framework outlined above through the term $(D+I)-F$ in the definition of the *PSE* index- if $(D+I)-F$ approaches 0, given a fixed quantity of produce, the amount of income transfer to a particular produce will depend exclusively on the differential between the domestic and the reference or international price level. In CEEC's practice, of course, rural taxation always exerts a real impact, though mechanisms of fiscal imposition with respect to the agricultural sector differ greatly from country to country. Cross-country analysis is complicated by the frequent contradictions of existing legislation, as well as by the inconsistencies of accounting practice (as is the case with credit policies) and by the countless number of tax exemptions which are disposed by local administrations and in many cases escape all official record (cfr. on Russia, Wegren, 1997). However, we can see that both in the Visengrad 4 countries and in a number of former Soviet republics, processing centers and agricultural co-operatives with legal personality are subject to lower rates of fiscal pressure than both their counterparts operating in other sectors of the economy and small-scale farms registered as physical persons (cfr. *KŽUR conference acts*, 09/03/2000; *Agro-Balt*, May 2000). As we shall see in more detail in our analysis of the Lithuanian case, this reinforces the generalised tendency to transfer income towards the middle layer of the production process.

In general, the choice of the level of income transfer and of the mechanisms employed to accomplish it is guided by economic as much as by political considerations. The political economy literature tends to emphasise the importance of the changes in the structural condition of state authorities (cfr. Poviliunas, 1993; Pleskovic/Sachs, 1994), as well as of the necessity for political forces to gain and retain a measure of electoral support. Parties whose strongholds are found in urban areas tend to favour consumers over producers and processing units, and are more

likely to cut agricultural subsidies in order to reduce the extent of income transfer from the consumption to the production level. Conversely, political forces wishing to gain the support of the rural electorate are more likely to increase subsidies and to penalise consumers (cfr. Kuodys, 1993). Against this background, the choice or mix of instruments of subsidy is largely guided by the evolution in the size of the agricultural sector, as expressed by its share in national GNP.

A possible qualification of this view, however, may help us to understand why transfer policy in CEEC's has taken the direction we have seen. Income transfers are seen as a function of the "quasi-fixed interests" (cfr. Bagdonavičius, 1998) that may be affected by changes in the level of protection. In other words, the larger the number of individuals or organisations that would suffer from lower income transfers, the higher is the demands for protection. However, this may mislead us to think that pressure for the continuation of existing protection policies is exclusively unidirectional, being exerted either by agricultural lobbies, or, indirectly, by political parties representing the interests of the farming community. As pointed out by Mueller in ch.17 of his 1979 study on public choice, reform programs are not devised "merely because some interest group wants them and the legislature authorises them". In the case of the agricultural sector of transition countries, for instance, the preservation of sustained protection is also in the interest of the administrative bodies overseeing its implementation- the present arrangement enables them to dispose of a more substantial share of resources as well as to manoeuvre the rural electorate thereby ensuring the continuation of their power.

As a consequence, state and local authorities across Eastern Europe have themselves developed a vested interest in the preservation of distorted forms of agricultural production. The combined pressure exerted by agricultural lobbies and administrative bodies has resulted in a channelling of transfer income towards processing structures which, in the majority of cases, are highly over-manned and

inefficient (cfr. Petrauskis' interview to Gruodis in *Veidas*, 02/11/2000). Small-scale producers and subsistence farms have found themselves penalised by the deployment of support policies imposing unsustainable procurement prices and subjecting them to higher tax rates than their larger counterparts.

Our conclusion parallels our earlier considerations as to the role played by credit distortions in preserving the organisational dichotomy inherited from collectivism and reproduced by reform legislation. In CEEC's price and trade policies, as well as fiscal mechanisms, have been deployed in order to shelter the existent organisational arrangement, transferring on to consumers the cost of distortions within the agro-food chain. In this case, however, we can add a more optimistic note: while little or no external pressure is usually posed on CEEC's concerning the liberalisation of the credit sector, income transfers are one of the most contentious issues as countries undergoing transition negotiate acceptance into the EU (cfr. Munk, 1993). This is bound to lead to an overhaul in the system, which would progressively liberalise the agricultural sector and could lay the condition for a move away from outdated organisational structures.

2.4 The roots of sectoral stagnation

The experience of rural reform in Central and Eastern European countries was driven by the conviction that the distribution of property rights underpinning collective agriculture had led to an inefficient usage of existing assets. Technically, it would be incorrect to assert that before 1990 all property rights in the agricultural sector rested with the state; unlike their counterparts working in state farms, the members of *kolkhozy* had in fact retained legal property rights to the land and the infrastructure which they had used before collectivization. In practice, this distinction was purely nominal, since neither *kolkhozniki* nor *sovkhozniki* could exert any real control over the management of their farms. The intended purpose of rural reform legislation was to restore to farmers full property rights to land and agricultural infrastructure, ensuring that they could freely dispose of their assets.

In this context, the role of state authorities would be to spell out clearly the content of such rights and to act as their ultimate guarantor. In case economic agents undertaking a transaction or having entered a form of contractual agreement encounter a co-ordination problem, institutions could ensure that the principles underpinning the terms of the agreement be upheld. In Ch. 5 of his study *Economic analysis of property rights* (1989), Barzel defines organisations as expanded contracts supervising the transfer of property rights in contexts where the informal constraints posed by custom are no longer sufficient to ensure an adequate delineation of individual income claims. The higher is the complexity of transactions undertaken in organisations, the more relevant become the formal constraints shrouded in legal acts. In the same way as fair institutional arrangements do not emerge spontaneously, new, efficient organisational structures cannot be established nor can they survive without adequate state support. At the same time, these considerations belie the contention that there are ideal organisational arrangements that can be applied to any situation- in fact, different property rights distributions

necessitate specifically tailored legislative guidelines to ensure that contractual agreements maximise the income flow from existing assets.

Against these considerations concerning the crucial link existing between legislative intervention and organisational efficiency, this chapter allows us to draw a number of further observations as to the evolution of organisational structures in CEEC's:

- experiments with *partial transfers* of property rights within existing organisations are bound to be unsuccessful, as they still fail to determine clearly the content of the individual claims and obligations of the agents bound by a contractual agreement. The incomplete transfer of control over agricultural assets operated through legislative reform in the early 1990's resulted in the survival of inefficient organisational structures and thus conditioned negatively the further evolution of the rural sector;
- the adoption of *share-holding* was expected to overcome the problem of income claims' determination implicit in labour-based arrangements. However, the redefinition of existing property rights through shares has resulted in ratifying existing, distorted property rights allocation granting undue influence to state representatives. In this way, the hoped transformation of existing co-operatives along Northern-European models was staved off, and organisational hysteresis re-enforced;
- the move away from lending controlled by the state to a multitude of *credit agencies* did not result in a more efficient allocation of credit within the rural sector. A disproportionate amount of capital has been directed to large agricultural units through the channel of commercial banks, while state

authorities have not established adequate guidelines for credit unions servicing the needs of small-scale farmers. As a result, large co-operatives have received preferential treatment over more efficient subsistence plots, and the dichotomy within the system has been strengthened;

- finally, *transfer and fiscal policies* have equally been instrumental to the preservation of earlier organisational arrangements through the channelling of funds from consumers and small-scale producers to processing centers, largely surviving from the pre-1989 period. State authorities have deployed income transfers to defend their vested interests in the agricultural sector, at the same time trying to gain and retain political support in rural areas.

We can claim therefore that the roots of the general failure of reform strategies in CEEC's lie in state authorities' inability to overturn the legacy of the collective period, both in terms of organisational structures and in terms of the policy options instrumental to their survival. Any country-specific study of agricultural transition shall have to be grounded in a detailed evaluation of the legislation underpinning initial reform strategies and their implementation, as well as the policies which affect the successive evolution of the resulting organisational arrangement.

Chapter III-VI will be devoted to an analysis of the Lithuanian experiment with agricultural reform over 1990-2000. In *Chapter III* we shall analyse how legislation on land reform and the transformation of collectives have resulted in only a partial transfer of property rights, while later legislation on the structure of new shareholding co-operatives has laid the pre-conditions for state authorities to exert an ever stronger degree of control over their policies. *Chapter IV* will focus on the issue of credit concession, arguing that the channelling of capital towards co-operatives stems from the deliberate usage of inaccurate accounting conventions and the failure

on the side of the legislators to support the different methods employed by credit unions. *Chapter V* shall focus on price and trade policies and on fiscal legislation, showing how political interests stand behind the changes in policy characterising the last decade. In *Chapter VI* we will undertake a more general evaluation of the experience of agricultural reform in the country, highlighting the main drawbacks of the existing arrangement and suggesting possible scenarios for the future.

Chapter III Restitution, transformation and rural share-ownership in Lithuanian legislation, 1990-2000

3.1 Political change and reallocation of control

The aim of this chapter is to present an overview of the main legislative documents and government resolutions (*nutarimai*) which were promulgated in Lithuania over the past decade in order to lay legally binding guidelines as to the establishment of a viable agricultural sector. The sheer number of legislative texts concerning rural reform strategies drafted since 1990 -over 180 according to *Baltic Times* (cfr. May 2000 supplement on Baltic economies; also Valatka in *Lietuvos rytas*, 09/06/2000)- requires us to operate a selective choice, excluding acts promulgated by local administrations (*savivaldybės*) and those texts dealing with the implementation of other laws. In particular, we shall focus on the earlier phase of legislation, whose relative importance lies in that it has laid the conditions for the successive organisational evolution of the sector.

Political life in Lithuania has been characterised by a high degree of party fragmentation leading to a series of short-lived coalition governments (11 in 1990-2000) and generalised political instability. Despite this, it is possible to distinguish three phases in the country's political evolution, and consequently in the overall development of rural reform:

- *March 1990-October 1992.* During this period, the Restoration parliament (*atkuriamasis seimas*) was virtually dominated by the Christian Democrat *Sajūdis* movement, which proclaimed the restoration of independence and proceeded to promulgate a series of laws disposing the restitution of collectivised property and the transformation of collectives;

- *October 1992-October 1996.* Following the first fully free elections in over fifty years, the former communists (*LDDP*) gained a substantial majority within the *Seimas*. Compared with the guidelines laid under the previous legislature, the laws promulgated in this period tended to favour some notion of fairness over efficiency, in response to the pressure posed by the members of the rural communities who had been most harshly hit by reform;
- *October 1996-October 2000.* In this period, the *Seimas* was controlled by a conservative majority, where *Tėvynės sajunga* (heir of *Sajūdis*) was the most influential political force. This phase saw a return to the earlier commitment to reform, including the setting of new targets for the completion of restitution programs. This period witnessed also constant, though not always successful attempts by the opposition to veto the implementation of the reform program by appealing to the Supreme Court.

We shall see throughout the chapter how the ideological orientation of different political forces has been a determinant factor for the content and the general direction of legislation.

The discussion is going to be divided in three sections, one on land reform proper, one on the transformation of collectives and one on the legislative guidelines underpinning new agricultural co-operatives. In the first section, we shall outline the legislative background of restitution, in order to show that land reform has failed to transfer property rights fully to the private sector by limiting farmers' control over restituted assets. We shall continue pointing out how the partial transformation of collectives has resulted in a distorted allocation of property rights, which is not essentially dissimilar to the earlier arrangement. Finally, we shall discuss how the adoption of share-holding has laid the conditions for local administrations to extend their control over new agricultural co-operatives. We shall see how in Lithuania the

agricultural reform process has been substantially dominated by political interests and has resulted in only a partial transfer of property rights, in this way failing to lay the conditions for the development of a viable sector.

3.2 Restitution and guidelines on land usage

a) The initial phase- 1991-1992

The item of legislation defining the issue of restitution of collectivised property was the *Law on the procedure and conditions of the restoration of the rights of ownership to existing real estate* (Vž, 18/06/1991), known also as *Restitution law*. The issue of land property was specifically addressed by the *Law on land reform* (Vž, 25/07/1991). The provisions of these two texts reflect the highly charged political atmosphere of the 1990-91 period, when the Soviet authorities did not recognise the legitimacy of the Restoration parliament and the country was suffering the consequences of an economic blockade. The *Sąjūdis* leadership had also to overcome the hesitations of the Lithuanian Communist Party (LKP) and of the *Jedinstvo* bloc, demanding the postponement of rural reform, as well as the full-fledged ideological opposition of the orthodox Communists (KP) (cfr. *Tiesa*, 19/06/1991-27/07/1991). During his second term in office in 1998, Prime Minister Vagnorius would respond to criticism as to the inadequacy of these initial texts (cfr. Sept.1998) pointing out that the reason for the promulgation of these laws at the time was mainly the desire to exploit the momentum following the declaration of independence and to state openly that Lithuania had opted to sever all juridical and economic ties with the Soviet Union.

The intention to return to the pre-1940 *status quo*, dismissing the four decades of collectivism as an illegitimate interlude, is made explicit in the first articles of both the *Restitution* and the *Land law*. The legislators stated that a policy of restitution was chosen so as to overturn the consequences of the nationalisation carried out in 1947-49, while all later deliberations taken by the parliament of the Lithuanian SSR as to forced collectivisation were declared illegitimate (cfr. *Tiesa*, June 1991). In order to ensure fairness, applicants for restituted property were

expected to produce deeds of property pre-dating 1940 or documented proof of the act of expropriation. Missing deeds of property nationalisation could be replaced by mortgages and conveyance acts, as well as by other archive material (cfr. *Veidas*, 08/12/1999; also Kubiliénė in *Lietuvos aidas*, 12/04/2000).

While the new Lithuanian state, unlike its Latvian and Estonian counterparts, would extend its citizenship to all the residents of the country (*Vž*, 12/09/1991), the *Restitution law* effectively deployed a measure of economic discrimination against ethnic minorities. Preferential treatment was extended to Lithuanians victims of political persecution and also to ethnic Lithuanians having left the country after the war, while Russians, the majority of whom had emigrated to the country in the 1950's and 60's, were to all effects excluded from the process (*Art.10*). The Polish minority which had resided in Lithuania for centuries was also made the object of discrimination: fears of ethnic revanchism in Dzūkija led to the modification of *Art.9* of the *Restitution law*, ruling that documents issued by the Polish government in 1922-1939 in the Salčininkai, Trakai and Vilnius *rajonai* could not be used to request property rights restitution (cfr. *Baltic Times*, May 2000).

Savivaldybės were granted a large margin of freedom in the implementation of the reform guidelines- the provision that "any archive material" could be used as a proof of earlier property rights meant that local administrations were often called upon to judge as to the merit of contradictory pieces of evidence. Later surveys indicate that in some areas almost 50% of dispossessed owners had never received a deed of nationalisation from the Soviet authorities, which meant that a high proportion of requests for restitution were based on inaccurate cadastral records drawn up in the inter-war period (cfr. *KŽŪR conference acts*, 09/03/2000). As a result, the same plot of land or item of infrastructure would sometimes be the object of a high number of petitions, making recourse to civil litigation necessary. The Land utilization council reported that by 1993, in Western Žemaitija, there was an

average of three claims per each three hectares' unit, with peaks of six or seven in sub-urban areas, and in 1995 32% of the disputed cases had yet to be settled (cfr. *Annual Reports of the Žemėtvarkos taryba*, 1994-95; *Veidas*, 08/12/1999).

Another widely debated issue were the guidelines to determine compensation in case original property could not be returned. *Art.1* of the *Restitution law* established that, whenever restitution was impossible because the original asset no longer existed or its nature had changed "beyond a certain extent", dispossessed owners would receive an equivalent property or proportional financial compensation. In the latter case, the amount and the mechanism of payment would be settled case by case by the local authorities. Financial compensation proved more popular than initially expected- in 1994, the Land utilization council estimated that in the case of agricultural structures set up following the 1922 land reform and still in use, about 70% of potential owners settled for compensation in government securities under the provisions of *Art.7* (cfr. also *Agro-Balt*, May 2000). This was due to the fact that opting for equivalent amounts of property in the lack of stable guidelines to determine the value of land and real estate was a very risky choice- instances of favouritism on the part of *savivaldybės* were widely reported in the country's media (cfr. Navickienė and Kubiliénė in *Lietuvos aidas*, 12/04/2000).

Controversy as to the attribution or the valuation of property were not the only problems besetting the restitution process. In the wake of the substantial decline in production experienced in 1990-91 (cfr. *Table III* in *Annex II*), the *Sąjūdis* leadership though it necessary to prevent a complete collapse of the agricultural sector by introducing a series of restrictions virtually tying the farming population to the land. *Art.4-5* of the *Restitution law* established that in order to be granted property rights to land, applicants wishing to receive former property or equivalent plots had to prove membership of a *kolūkis* or a *tarūkis* for five consecutive years, residence in the *apskritis* where the selected land lay, and finally the readiness to

farm land in accordance with the *savivaldybės*' "territorial guidelines". The law disposed that land should rather lay fallow than be attributed to a petitioner failing to fulfil these requirements, while in case no suitable candidate was found for five years as of the date of the law's promulgation, the plot should enter a state land fund (cfr. Grižauskienė in *Lietuvos aidas*, 11/04/2000; also *Tiesa*, June/July 1991).

The unwillingness of the political class to accept a full transfer of property rights to the private sector emerges even more strongly if we consider the provisions of *Art.4* and *12*. The latter disposed that, for a period of five years after restitution, the assets involved could not be sold, leased or transferred in any way, to ensure that no-one emerged to challenge the legitimacy of their new allocation. This decision was responsible for the high degree of land fragmentation mentioned in *Chapter I*, as consolidation was allowed only under exceptional circumstances and if the legitimate owner proved his inability to work his land individually (cfr. *KŽŪR conference acts*, March 2000; also Kazlauskienė/Meyers, 1995). Theoretically, if these guidelines were breached, all land and assets involved were supposed to be handed back to the state land fund (cfr. *Lietuvos žinios*, Oct./Nov.1999), but fear of expropriation ensured that instances of farmers breaking the law were actually rare (cfr. Leontieva, 1997). The result of this provision was that large areas of land lay unutilised for years, as their new owners were unable or unwilling to farm them, but were not allowed to lease them to other farmers or co-operatives.

The purpose of the *Land law* promulgated in July 1991 was to expand some of the provisions of the *Restitution law*, adding emphasis to the notion that the state retained an important role in determining manners of land usage. *Art.2-4* declared that state authorities would "design and assess alternative reform plans for agriculture", while "endeavouring to create both a private and a viable state sector". *Art.9-12* disposed that land belonging to the state fund could be leased for twenty-five years to farmers willing to till it in compliance with government directives.

Farmers wishing to set up a completely new agricultural unit could now be allocated 80 hectares (as opposed to the 50 allowed by the *Restitution law*) and lease a further 3 from the state fund (*Art.15-16*). The law however established that formal land titles would be granted only if the recipients complied with the government's directives on land usage and had received the "approval" of *savivaldybės* (*Art.17*)- in addition, such titles would initially only grant usage rights (*Art.22*), so that their holders would not have been free to dispose of their assets as they wished. In fact, these so-called "new farms" consisted in larger-than-average subsistence plots, and many farmers preferred to continue tilling limited plots of land so as to avoid the scrutiny of local administrations (cfr. Navickienė in *Lietuvos aidas*, 02/02/2000 and 08/03/2000; also, *KŽŪR conference acts*, March 2000).

We can conclude this section pointing out how the adoption of restitution in Lithuania was largely motivated by the political wish to emphasise the continuity of the new state with the inter-war period. A number of correctives were included in the legislation so as to ensure that the predominantly ethnic-Lithuanian character of the nation was preserved. However, holders of restituted land and assets were not granted full control over their assets- restrictions persisted on land usage and transfer under penalty of expropriation. Local administrations were allowed to retain a strong degree of control over the usage of agricultural assets as well as on the distribution of property rights through their role in the selection of equivalent assets for compensation. The initial restitution strategy was therefore incomplete and considerably slowed down the development of small-scale agriculture.

b) The early LDDP years- 1992-94

Already in its electoral program (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the LDDP, 1996), the LDDP majority elected in October 1992 had emphasised its belief in a deeper involvement of the state in the land reform process. 10% of the national budget was allotted to an agricultural support program, while 50 million Litas were set aside to satisfy requests for monetary compensation. In order to by-pass conservative opposition to new legislation, the LDDP parliamentary majority resolved to issue a *Parliamentary resolution on the main directions of land reform* (VŽ, July 1993). This document established that, as long as a definitive *Land law* was not implemented, the application of the directives of the *Restitution law* had to remain under the control of a governmental commission empowered to amend the text of the law itself. This provision, in blatant contradiction with the powers of the executive as defined in the Constitution (cfr. *LR Konstitucija, Art.9-12, 47*, 1993), resulted also in a tightening of state control over the leasing and the usage of state land discussed by the *Land law's Art.15-17*.

Point I,1 of the resolution established a number of so-called Local land-surveying councils (*Savivaldybinės matininkavimo tarybos, SMT*), whose task was to set guidelines for agricultural development in each *rajonas* in line with the government's directives. The rationale of these structures was to curb the independent power of *savivaldybės*, especially those controlled by the opposition. However, the promulgation of stricter state directives on land usage as well as a higher degree of control exerted by local governments resulted in less effective usage of agricultural assets. On account of the constant changes in the Agricultural Ministry, however, *SMT's* were repeatedly requested to revise their plans accordingly, so that "approval" had to be withheld from a number of farming projects and large plots of land laid fallow for three-four years (cfr. Deksnys, M., in *Vartai*, 27/03/2000).

Part I of this text included also a number of restrictions on transfers of land meant to stabilise the new distribution of property. It was established for example that if land from a *tarūkis* now belonging to the state fund was still farmed by former employees of the collective at the moment of restitution, the new owner was obliged to lease it to the incumbent farmers under the so-called "grey area scheme", unless state authorities granted a dispensation. The absence of fixed criteria for such dispensations prompted accusations of corruption from the conservative opposition (cfr. Navickienė in *Konsultantų klubas, Lietuvos aidas*, 02/02/2000, 12/04/2000). What is certain is that this provision reduced the extent by which the new holder of the plot could control his asset, thereby failing to grant him full property rights.

At the same time, the resolution established that if land was restituted to its previous owners, but the latter informally leased it to the incumbent farmers thus circumventing the ban on official lease for the first five years after restitution, no disciplinary measure would be imposed (cfr. *LAT* Oct.1993 *Reply* and *LAT-CBS pareiškimas*, 12/01/1995, in *LAT aktai*, 1992-99). In this way the government hoped to reduce the disruption brought about by restitution and to retain the political allegiance of the rural population which viewed with suspicion the dismantling of the collectives. Such concerns were also reflected by the government's decision to enforce a ban on the sale of land to legal persons, mainly to prevent foreigners from taking over the undervalued Lithuanian land market (cfr. *Baltic Times*, May 2000). It was initially feared that foreign investors would circumvent this ban inducing Lithuanian citizens to be the nominal owners of plots- however, such forms of "cover ownership" have been extremely rare, usually involving Polish citizens purchasing plots in Dzūkija under the cover of the local Polish minority (cfr. Vaškevičius, Deksnys, M. and Deksnys, V. in *Vartai*, 01-08/05/2000).

In addition to limitations on land transfer, the resolution imposed also a series of further restrictions on land usage. It was established that once the ban on new lease

contracts was lifted, the national cadastre would acquire the power to veto any transaction not in line with land utilization guidelines (*Point I, 10-11*) or the sale of land for non-agricultural purposes. The *SMT*'s could confiscate plots from farmers having "unnecessarily exhausted" the potential of their land and grant them only symbolic compensation. *Savivaldybės* even reserved themselves the right to declare *ex post* that "equivalent" land restituted in 1992 had in fact a higher value than the original plots, and consequently to impose the confiscation of a quota of harvest for a ten year period (*Point III, 22-23*).

It is clear that this Parliamentary resolution was not a mere collection of guidelines for the implementation of previous laws, but an item of legislation in itself, re-enforcing the control exerted by state authorities and privileging short-term political motives over long-term sectoral development. As a result, the content of the property rights held by the holders of restituted property was substantially weakened. The conservative opposition chose to challenge the legitimacy of the resolution with a parliamentary petition addressed to the country's Supreme Court (*Lietuvos Aukščiausiasis Teismas, LAT*). The petition argued that the government had trespassed its competence as defined in *Art.94* of the Constitution and failed to heed its obligation to protect and foster land property rights as stated in *Art.23*. The attention of the court was drawn in particular to *Point I, 15*, which confirmed earlier restrictions on the lease of restituted land, and *Point III, 23*, which disposed that farmers were under the obligation to service any debt undertaken by the previous owners of their plot, even without any guarantee of refund.

The response of the *LDDP* parliamentary faction (cfr. *LAT-CBS Oct.1993 Reply in LAT aktai*) was highly symptomatic of the party's historical attitude to land reform: as long as the distribution of land ownership documents was not completed, farmers were mere "claimants" to land-ownership, and had to regard any usage rights as concessions from the state, which before 1990 had been the sole effective owner

of land in the country. The *LAT* countered this claim, stressing how the Constitution enshrined the duty of state authorities to "guide" land restitution and to limit it only if it opposed the public interest. From this point of view, the re-introduction of measures such as compulsory delivery was illegitimate. The parliamentary resolution was therefore judged to be "unconstitutional", to "increase confusion" and to favour "mistrust" towards the state. It should not be forgotten that the members of *LAT* had been appointed under the *Sajūdis* leadership, and were therefore more partial to the views expressed by the conservative opposition.

The *LAT* pronouncement, however, was counterproductive, as the *LDDP* majority opted to pursue its interventionist program through the more conventional legislative channel. The aim of the new *Land law* (*Vž*, 26/04/1994) was to create conditions for "rational" land ownership in the context of a "harmonious development" of all sectors of the economy. *Art.2* established that local governments could rescind at any time the deed of restitution if a plot of land was declared to be "of public importance", while *Art.6* suspended the restitution of agricultural land still used by state conglomerates. In addition to the provision encouraging the lease of restituted land to incumbent farmers, the legislators opted to permit a system of "servitudes" (*paslaugų išnuomavimas*), so that services on a restituted plot could be leased to farmers from former collectives now landless or underemployed. The system was subject to the usual administrative restrictions: service leasing schemes had to be approved by *savivaldybės*, which could veto "inappropriate" candidates or establish the fixed duration of contracts (usually ten years) independently of the quality of the services provided (*Art.16-17*). The provision substantially reduced the freedom of action of holders of restituted plots, tying them to the changing moods of local politics.

At the same time, land consolidation guidelines were drafted so as to ensure that a degree of state control was retained on all forms of agricultural activity

established after the end of the ban on land trade. In some rural areas, subsistence farmers wishing to set up a co-operative faced a situation where non-restituted plots interrupted the continuity of their land (cfr. Pakutinskas in *Rinkotyra*, 2(4)1999). The land law's *Art.25-29* established that in this case, co-operatives had to be based on *common part-ownership* with the cadastre including "the state" as one of the founding members. In this way, state or local authorities could retain a stake within new farming units and control the direction of their development. As in the absence of state land farmers could merge their land into a *joint ownership* co-operative and would not be subject to the control of state or local authorities, it was in the interest of local administrations to retain within the state's land fund strategically positioned plots in order to influence the agricultural sector from within. This policy considerably slowed down consolidation and was strongly criticised by conservative political forces and independent research centres alike (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK, 1996; Leontieva on the role of the LFMI, 2000).

The reluctance of the LDDP majority to divest the land included in the national fund was also reflected in the guidelines concerning its leasing (the 1991 ban on leasing concerned only restituted land). The *Law on land leasing* (*Vž*, 28/12/1993) established that even in this case prospective lessees' land utilization plans had to be consistent with the government's directives on land usage (*Art.6*). In addition, each potential lessee had to be assessed separately by a special local administration board, while the candidate chosen could not refuse the offer of the lease or discuss its terms- lease and land tax were set independently of the quality of land and the facilities already available (*Art.12-15*). Though lessees could demand compensation for land amelioration expenses, unofficial reports from the Kaunas Agricultural Academy (cfr. *KŽŪA annual report*, 1994-96) indicated that *savivaldybės* hardly ever lent financial support to land amelioration schemes. In fact, Agriculture Minister Kristinaitis (cfr. interview in *Veidas*, 16/11/2000) would later

claim that this system of "forced leases" practised in 1992-96 was in fact aimed at divesting less productive land from the state fund handing it over to joint ownership co-operatives (cfr. also *Agro-Balt*, May 2000).

An overview of the *LDDP* land reform strategy cannot but highlight the desire of the post-communist majority to retain a strong degree of control over the forms of land use, combined with a measure of indifference as to the overall direction of its development. The 1993 parliamentary resolution and the successive *land* and *lease laws* indicate an intensified use of local administrations or privatisation bodies as channels for government policies- in addition, the practice of joint-ownership including the state as member of a new farming unit provided local authorities with a stake in the development of new forms of land utilization. It should be stressed, however, that there was in fact no significant rupture with the policy previously pursued by *Sąjūdis*, as even the Restoration parliament had been reluctant to transfer to the private sector full control over land. What the *LDDP* majority did was to continue on the already trodden path and further reduce the content of existing legal rights by retaining or expanding the economic control exerted by state bodies. By 1993-94, this policy direction was so well established that any attempt to overturn it was bound to encounter the combined resistance of the central government and the *savivaldybės*.

c) *The Supreme Court and land reform- 1994-96*

The second phase of LDDP rule witnessed a series of repeated attempts by the conservative opposition to challenge the policies of the parliamentary majority through the channel of the Supreme Court. Though having little real impact, the reproach issued by the LAT in response to the 09/10/1993 petition strengthened the conservative opposition's hope to reorient the government's policies in the direction of a greater devolution of power and a fuller transfer of control to private farmers. By 1994, however, the majority of the Court's members had been appointed by former communist President Brazauskas (cfr. Mardosa, 2000). In this way, pronouncements issued in 1994-96 consistently defended the government's interventionist interpretation of legislation and ratified the general shift in the equilibrium of power from the legislative assembly to national and local executive bodies. For the purpose of our argument, this meant that the incomplete transfer of the right to dispose of agricultural assets was established as a part of a new political consensus, where considerations of long-term sectoral development were virtually absent.

While an increasing number of petitions concerned the powers of local authorities and *SMT*'s, the guidelines for land restitution and usage were the most frequent targets of criticism (cfr. *KŽŪA reports*, 1994-96). In this section we shall concentrate on two among the most controversial Supreme Court interventions: 1) the pronouncement concerning the rights to land ownership as outlined by *Art.6-24* of the 1994 *law on land* (cfr. *LAT-CBS pareiškimas*, 12/01/1995); 2) the pronouncement on a later *nutarimas* on privatised land (*Vž*, 13/05/1994), regulating the sale and lease of plots for non-agricultural usage (cfr. *LAT-CBS pareiškimas*, 22/10/1996).

In the first case, the petitioners claimed that the five-year ban on trading land as well as the suspension of restitution of land belonging to state enterprises were incompatible with *Art.46* of the Constitution, which ruled that the state must "support rural communities". The petition also challenged the validity of the appendix added to the *land law* in 1994 (*Vž*, 12/10/1994 quoted in *LAT-CBS pareiškimas*, 12/01/1995) allowing *savivaldybės* to reverse land transfers authorised by earlier privatisation commissions- it was argued that this disposition was incompatible with *Art.128* of the Constitution, establishing the superiority of legislative dispositions over the decisions of executive bodies. In response to the first contention, the representatives of the party concerned did not reject the petitioners' point, but claimed that the complexity of the reforms undertaken in the agricultural sector called for a more flexible interpretation of the Constitution's provisions (cfr. *Verslo ir komercinė teisė*, 1-2 1999). As to the second point, it was claimed that, by reversing earlier land transfers regarded to be "against the public interest", *savivaldybės* were in fact favouring the "rational" use of land already included in the 1928 and 1938 Constitutions (cfr. Šalčius, 1989, 1992).

In its pronouncement, the *LAT* essentially seconded the call for a flexible interpretation of legislation and claimed that local administrations "participated" of the government's control over state assets- *savivaldybės*' active involvement in the technicalities of land transfer was even to be encouraged, as it would ensure a more accurate consideration of local circumstances. In so doing, the Court *de facto* granted equal validity to legislative acts and resolutions issued by executive bodies at any level, though it agreed that the Seimas ought to promulgate a law establishing clear guidelines for local administrators. As for the contention that the ban on trading land hampered the establishment of a viable agricultural sector, the Court failed to address the issue directly and merely disposed that farmers "believing to be wronged" by the ban could appeal to local courts.

The points made by the *LAT* effectively established *savivaldybės* as the main actors in the implementation of the restitution process. Decisions taken by local administrations took virtually the status of laws, while owners of restituted plots were left in a condition of perpetual insecurity as to whether their land was going to be confiscated again (cfr. Navickienė in *Lietuvos aidas*, 01/03/2000) As this happened with the approval of the judiciary sector, subsistence farmers were not in the position to appeal against local administrations' rulings. As a result, long-term amelioration projects were shunned in favour of strictly subsistence farming, while some farmers preferred leaving their plot unused rather than risking to lose the fruit of their work (cfr. Ramanauskas, 1996).

The powers vested in the *savivaldybės* were also at the centre of the second petition mentioned above. *Point I* of the 13/05/1994 resolution on privatised land (sometimes referred to as the 17/07/1995 *nutarimas*, after a later re-edition), granted to chairmen of local administrations the power to supervise the implementation of land reform within each *rajonas*, as well as to oversee the transfer of earlier state land into the land funds administered by the *savivaldybės*. The petitioners claimed that such dispositions were incompatible with *Art.120* of the Constitution, establishing that local administration deliberations were subject to central government supervision, and *Art.9* of the revised version of the *law on rural areas' governance* (*Vž*, 12/03/1991), laying down that municipal executives could not interfere in the management of *savivaldybės'* land. A number of other contradictions were pointed out: *Point III* of the resolution granted to municipal executives the right to settle disagreements concerning plot boundaries -*Art.14* of the rural governance law established that such disputes could be settled only in court-, while *Point VII-VIII* allowed non-agricultural land to be transferred into private ownership by non-auction procedures at the discretion, despite *Art.46* of the Constitution recommending that asset transfers be settled on the market.

The party concerned replied on the basis of *Art.24* of the 1994 law on land, which -in response to the earlier dispute on the 1993 parliamentary resolutions-endowed laws, parliamentary resolutions and *nutarimai* with equal power to determine the procedures of land transfer (cfr. *Annual reports of the Žemėtvarkos taryba*, 1995-1996). It was argued that by issuing the resolution on non-agricultural land, the government had intended to give a legislative basis to practices already established in rural areas, where the chairman of the municipal executive was popularly regarded as the ultimate arbiter in land disputes. Pointing to *Art.98-99* of the Civil Code, the government also stressed the distinction between land management and land disposal, claiming -rather inconclusively- that *Point VII-VIII* of the resolution constituted an instance of the former.

The final *LAT* pronouncement was based on *Art.119-120* of the Constitution, defining *rajonai*'s right of self-rule, *Art.1* of the law on rural governance, asserting that the Seimas and the government could redefine the content of this right, and *Art.6* of the law on land, establishing that *savivaldybės*' right to own land derived from the government. The court ruled that the principle of self-rule granted to local executives the right not only to implement the government's directives, but also to take the initiative in case this could ensure their quicker completion. From this perspective, the decision to by-pass the standard auction procedure for plots of non-agricultural land was actually commendable if this favoured the "rational land usage" invoked by the *law on territorial planning* (*Vž*, 12/07/1991).

Over the 1994-96 period, the Supreme Court consistently defended the line of the LDDP parliamentary majority, to the point of dismissing complaints against local administration or courts as matters to be solved by local judicial authorities. Its pronouncements upheld the established pattern of self-serving collaboration between the government and the *savivaldybės* and tended to justify any deviation from set guidelines by arguing that the complexity of the reform process required "flexibility"

and "latitude". The practice to circumvent legislation by means of "creative" *nutarimai* was therefore *de facto* legitimised, while discussion of possible irregularities would be sent back to the local level, where lack of access to civil litigation on the side of private farmers implied that the latter were unlikely to overturn *savivaldybės*' decisions. All attempts by the conservative opposition to challenge the systematic curbing of the content of farmers' economic rights were only of a very limited effect.

d) The Conservative legislature- 1996-2000

By early 1996, the popularity of the LDDP, also in the wake of a series of banking crises which deprived thousands of electors of their savings (*Vartai*, Jan.1996) had substantially decreased. In June 1996, sensing its impending electoral defeat, the post-communist majority succeeded in promulgating a constitutional amendment to *Art.47* of the country's basic law, thereby incorporating in the Constitution a clause that could prevent any challenge being mounted in the future against their handling of land restitution. *Art.10-11* of the amendment- known also as *Constitutional law on the subjects, procedure, terms, conditions and restrictions of land transfer* (*Vž*, 20/06/1996)- established that as of then, the land utilization programs of each *rajonas* had to be approved each year by the Seimas, while "approval" of single development programs in rural areas would be subject to yearly revision. In this way the LDDP attempted to seal its project, pursued for the previous four years, to return the country's agricultural sector to the sphere of control of the local governments.

The electoral manifesto of the Conservative coalition dominated by *Tėvynės sajunga* had included a statement as to the necessity to reform existent rules concerning land usage (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of

the main political parties, 1996). By 1996-97, the process of restitution was well under way, but the end of the five-year ban on trading restituted plots revealed that the country still had no functioning land market, which depressed the commercial value of plots (cfr. *Veidas*, 08/12/1999; also Csaky/Kazlauskienė, 1997). The fact that in most areas there was a *de facto* surplus in agricultural assets and infrastructure became evident when over 1996-97 holders of plots measuring three-four hectares who had been prevented from leasing them away found that there was no demand for their land (cfr. Steponavičius in *Lietuvos aidas*, 15/03/2000; Deksnys, M., in *Vartai*, 27/03/2000). In many cases such nominal farmers opted to declare bankruptcy and leave their land fallow, with the result that the number of registered agricultural units by 1997 had fallen by 42% compared to 1995 (cfr. *Section 1.4.3, Table XIV*).

The Vagnorius government denounced the persistent *dirigisme* of the LDDP as the culprit for the current impasse. In fact the problem was rooted in the earlier phase of the reform, when the *Sąjūdis* leadership imposed restrictions on trading and usage of restituted land in the misguided belief that this would re-enforce the new allocation of property rights. The contention that the new majority would recover "continuity" with the pre-1992 reform strategies allegedly "distorted" in the following period (cfr. *KŽŪR conference acts*, March 2000) did sound even more hollow as the *Law amending the 1991 land reform law* (*Vž*, 02/07/1997) stopped short of allowing the full liberalisation of land transfers and confirmed that foreigners and legal persons could not own land (*Art.1-3*). The reason for this choice was largely political, as the Conservatives feared that more radical reform would erode their already fragile support in rural areas. The result was however that the value of land and agricultural assets continued to decrease- by early 1999, the price of land was about 1/20 of that in Poland (cfr. *Rinkotyra*, 2(4)2000).

This item of legislation, however, went further than any earlier law in outlining criteria and requirements for land transfers, moving away from the notion

of a "rational" use of land under the government's guidance and implicitly acknowledging the importance of a viable land market. Though the amendment to *Art.47* of the Constitution mentioned above was not eliminated and is not even mentioned in the law, it was established that "compulsory" rent contracts to previous farmers would be suspended, while "servitudes" no longer required local administration's approval. In this way the degree of control that individual farmers could exert over their assets was greatly enhanced. At the same time, the maximum amount of agricultural land that an individual farmer could own was increased to 150 hectares, while no more limit was applied to non-agricultural land (*Art.8*). To encourage consolidation, *Art.9-10* disposed that, whenever restitution in pre-war boundaries was impossible, petitioners opting to receive comparable property would be entitled to a plot 30% larger than the original.

The perceived necessity to delineate farmers' property rights more clearly led to the declaration, enshrined in *Art.15*, that all land which on the day of the promulgation of the law was used for subsistence farming and was not the object of litigation would be considered the property of the farmers tilling it, even in the absence of formal property titles. Though lease contracts were limited to five years, lease terms would now be determined by both lesser and lessee through a bargaining process which was not subject to *savivaldybēs*' control. Subsistence farmers were even encouraged to undertake joint ownership projects in the form of co-operatives, modifying the limits or even the location of their farms to include unused land or areas leased by the state, as well as visually delimiting their boundaries in the case of local authorities' delay (*Art.16*). Co-operatives could then receive a licence to carry out independent land surveying operations, in accordance with the later version of the *law of territorial planning* (*Vz*, 16/07/1997).

In 1997, these provisions sounded nothing short of revolutionary, but in the following years most of them were destined to remain dead letters. Subsistence

farmers as well as already established co-operatives lacked the technical preparation and the necessary financial resources to carry out major land usage reforms. Together with remaining restrictions on land sale, the lack of know-how and capital hampered the creation of a viable market for land, which it was hoped could revive rural areas. In other words, while state bodies acknowledged the necessity to reduce their involvement in the agricultural sector and to hand back a larger measure of control to individual farmers, they limited themselves to a series of statements of purpose and failed to provide the necessary pre-condition for independent farming to develop. The political developments following the victory of the Centre-Left coalition in October 2000 are unlikely to lead to a substantial reform of the guidelines regulating land relations in the short term. However, increasing pressure from the EU -as well as the WTO- is bound in the longer run to induce a simplification of existing regulations, as well as the lifting of the ban preventing legal persons and foreigners from owning land, effectively preventing foreign investment from flowing into the Lithuanian rural sector.

3.3 Legislation concerning *tarūkiai*, *kolūkiai* and the control exerted by state authorities

In early 1991, the consensus prevalent in the Restoration Parliament as to the necessity to dismantle collective agriculture was not accompanied by an equal consensus as to how this should be achieved, as the benefits of an immediate and comprehensive privatisation scheme were weighted against the negative impact of a complete change in existing patterns of agricultural production. The decision to retain some of the existing structures and to split the rest into smaller units while redistributing their assets reflected, rather than considerations of an economic nature, the desire to avoid excessive disruption in rural areas while the process of restitution was being carried out. In this section, we shall analyse some of the most important items of legislation concerning former collectives, aiming to highlight how the procedures adopted, rather than leading to a more efficient distribution of assets, have resulted in a reproduction of the earlier allocation of property rights with all the accompanying problems.

The most comprehensive item of legislation on de-collectivisation was the *law on the initial privatisation of state property* (Vž, 02/03/1991). This text had in fact a wider scope than the agricultural sector- its guidelines were applied also in the privatisation of urban conglomerates-, but in rural areas it was deployed mainly in the dismantling of state farms, so that it is popularly referred to as the *tarūkiai* law (cfr. Ramanauskas, 1996). Later legislation during the period of LDDP rule concerned specifically *kolūkiai* and food-processing industries, but the guidelines for the re-distribution of assets did not substantially vary from those laid in the first text. The main drawback of legislation concerning dismantling of state farms was that its provisions were often irreconcilable with the application of the guidelines concerning the restitution of collectivised assets (cfr. Leontieva *et al.*, 1999)- in the following years, petitions for restitution would often be presented concerning

restoration of property rights to land and infrastructure already disposed of during the dismantling of the *tarūkiai*. After 1996, the Conservative majority in the Seimas tried to address this inconsistency, but the resulting inefficiencies are bound to remain a serious obstacle to the establishment of new viable agricultural units.

a) Vouchers and share-subscription: the initial phase

The 1991 privatisation law stated in *Art.1-2* that deciding to divest its assets in the agricultural sector, state authorities renounced any claim to compensation and would no longer attempt to collectivise assets. To the purpose of privatisation, the state established a network of local privatisation commissions under the control of a central commission nominated by the Seimas. This central body would draft a national privatisation strategy in collaboration with the government, while the local commissions would elaborate regional plans together with the incumbent administration of the major industrial conglomerates or *tarūkiai*. Once the list of objects to be privatised has been approved by the government, administrations would subject an initial evaluation of all assets to the approval of the Finance Ministry. As soon as local commissions decide that a sufficient amount of information about the object's present condition and prospects is available, the central commission could authorise the privatisation procedure to start (*Art.4-6*).

The Restoration parliament decided (cfr. *Verslo ir komercinė teisė*, 1-2 1999) that the objects selected for privatisation ought to transform themselves into shareholding companies in order to ease the separate divestiture of individual assets or the creation of smaller operational units. The strategy chosen to transfer assets to the private sector was based on the distribution of vouchers (*talonai*) with which legal and physical persons could purchase assets in the course of auctions (the Litas was not introduced until 25/09/1993). Initially, these vouchers could be neither bought

nor sold nor deposited in banks- in September 1991, however, Vagnorius' government allowed physical persons to open "investment accounts" where vouchers could be exchanged into cash (cfr. *Tiesa*, September 1991). *Art.12* of the law disposed that while objects "of special public interest" would be privatised using vouchers only, in all other cases 1/3 of the assets would be sold for cash in order to meet the expenses of the procedure. Vouchers were distributed in "portions" (*daviniai*) according to the age of the recipient on 31/12/1991: one for people under 18, two for 18-25 year olds, three for 25-30 year olds, four to 30-35 years old, and five to all individuals older than 35. In practice, the provision that local commissions would decide at their discretion the amount of vouchers to be attributed to legal persons was irrelevant, as in 1991-92 the number of organisations already endowed with legal personality was minimal (cfr. Deksnys, M. in *Vartai*, 27/03/2000; also Vitkus in *Lietuvos aidas*, 07/06/2000).

Such an arrangement was deemed to be deeply flawed from the start. The fact that the privatisation plan and the list of objects to be privatised were drawn in collaboration with the government implied that the competent agencies appointed by the state may operate a selective choice as to which organisations to privatise, opting to retain those entities whose control put local authorities in a privileged position (cfr. *Lietuvos aidas*, editorial of 13/05/2000). As we shall further discuss in *Chapter VI*, the survival of a substantial proportion of conglomerates processing raw agricultural produce was an instance of local privatisation commissions granting priority to considerations of social and economic stability rather than to the demands of efficiency (cfr. Damauskas in *Vartai*, 20/03/2000). In addition to this, the fact that the initial valuation was drawn by the administrators of the state farm itself and not by external observers resulted in many cases where the estimate was far higher than the real value of the assets as it relied on earlier, conventional records from the Soviet period (cfr. Kvedaraitė, 1994).

It was pointed out that the method of voucher distribution failed to consider the recipients' "qualifications" or their actual competence in agricultural matters, so that there was no way to ensure that the new distribution of assets would be more efficient than the one it superseded (cfr. *Veidas'* comparison with the Czech case, 04/05/2000). In view of the general atmosphere of instability of 1991-92, however, it is difficult to envisage how such "qualifications" or competence could have been assessed. In fact, the only partial success of the program is to be attributed to other factors, such as the initial ban on trading vouchers and the complex conditions for their use. In addition, lack of information and lingering fears as to a possible reversal of the process to ensure that a substantial proportion of the population did not take part in the privatisation process at all- estimates indicate a proportion between 26% and 40% of unused *talonai* (cfr. *KŽŪA report*, 1994; also Penkaitis, 1994). In January 1993, the LDDP majority attempted to compensate those sections of the population who had been cut off from the privatisation process by allowing the transformation of unused vouchers into state or municipal bonds, but the compensatory effect of this measure was frustrated by high inflation and the later banking crises (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the *Naujoji Sajunga*, 2000).

If we turn to the analysis of how this reform program was implemented, we see how the system favoured the spread of insider privatisation and *de facto* allowed the continuation of the existing distribution of assets. *Art.14* of the law established guidelines for so-called share subscription procedures (*pajū pasirašymas*), which were to be applied when privatising conglomerates worth more than 500,000 roubles or where 20% of the capital was already in private hands at the beginning of the privatisation process. In practice, share subscription became the main strategy deployed to privatise state farms- while the second category was made only of those few *tarūkiai* having leased out services in the late 1980's (cfr. *Section 1.4.3*), inflation ensured that a consistent proportion of state farms were worth 2/3 million

roubles (cfr. *Tiesa*, April/May 1991). This method entailed the stipulation of an agreement with the largest incumbent share-holder, where a price was set for the shares that were not under his control and all remaining assets were transferred to him without having to stage an auction (*Art.17-18*).

In this way, legislation allowed those farmers already controlling a substantial proportion of the *tarūkiai*'s assets to extend their control to the totality of the farm's structure, at the same time, leaving the large majority of the population unqualified to take part in privatisation procedures. The result was a skewed distribution of property rights privileging incumbent state-farm workers, the more so as the share prices set in the subscription agreement were not subject to any external control (cfr. *KŽŪA report*, 1992-93). In fact, the attribution of shares was not entirely transparent even in the case of auctions- local privatisation commissions were free to operate preliminary screenings among potential participants to share subscriptions, ensuring that only certain pre-selected candidates took part (cfr. Čiulevičienė/Čiulevičius, 1999; *Sole-24 ore*, 06/05/2000). Though estimates are inconsistent and official sources until recently have tended to minimise the problem, it is likely than more than 50% of state farms' assets were transferred virtually for free or behind the payment of substantial bribes (cfr. *Report* of the Lithuanian Agency for Economic Development, 1999).

The mechanism whereby *tarūkiai* privatisation was implemented was deeply flawed. The *Sąjūdis* leadership had claimed that the distribution of vouchers and the staging of auctions was only a device to guarantee the fairness of what was largely a spontaneous phenomenon. In fact, the 1991 law did not result in a fairer distribution of assets, leaving a large proportion of the rural population marginalised. Share subscriptions were taken over by local privatisation agencies and majority share-holders to ensure the highest possible degree of organisational continuity, becoming in this way a clear vehicle of hysteresis in the distribution of property rights. In

addition, the fact that prices of shares were often merely symbolic implied that applicants in the subscription were allowed to enjoy the income of agricultural assets without carrying its cost.

If we now consider the method followed to return *kolūkiai*'s assets to private sector ownership, we will see that it was quite similar to *tarūkiai* privatisation, but there were also two important differences. The first is that assets of *kolūkiai*, whose members had always retained nominal property rights on their assets, were not dispersed as those of the state farms- instead, they were usually transferred to private owners as "complete industrial-technological units" heeding the recommendation of the land reform law of 25/07/1991. The second difference consisted in the fact that legislators adopted a policy that attempted to take into account the past contributions of different groups to the life of the collective. *Art.3 of the law on the privatisation of the property of kolūkiai (Vž, 31/07/1991)* established an order of precedence as follows:

- members of the *kolūkis*;
- previous members, who opted out under the lease schemes of the late 1980's;
- previous members, who opted out in 1990/91 expecting to qualify for restitution and planning to start there a farm;
- farmers, having accumulated at least five years of work experience in other *kolūkiai* or ten years in *tarūkiai*;
- members of other agricultural collectives which so far had not been privatised.

Ordinary Lithuanian citizens holding valid privatisation vouchers could purchase land or assets from *kolūkiai* only if the categories above stated that they were

satisfied with the asset distribution sanctioned by the district (*apskritis*) boards. All individuals having worked in the agricultural sector before 1990 would also receive an additional package of "compensation shares" as a proportion of those acquired by means of *talonai*- the percentage would depend on the number of years spent in the collective: 10% for less than ten years, 15% for a 10-15 years period, 30% if more (VŽ, 27/08/1991).

The distribution of *kolūkiai* assets proved to be a more straight-forward enterprise than that the dismantling of *tarūkiai*. Claims to available plots and agricultural infrastructure were clearly delineated, and the qualification of the potential recipients was taken into account. As the rule allowed to establish with a reasonable degree of certainty who was entitled to existing assets, there was less scope for controversy. Equally, the distortions caused in the case of state farms' privatisation by the collusion of interests of local privatisation commissions and majority share-holders were not paralleled in the case of the transformation of *kolūkiai*, as the system did not allow for closed share-holding subscription (cfr. Kazlauskienė/Meyers, 1995). The system also guaranteed a higher degree of social stability to agriculture: in 1996-97, 85% of active agricultural workers were employed in the same *apskritis* where they had been working ten years earlier (cfr. KŽŪA report, 1998).

An overview of structural reform in Lithuania in the early years of transition highlights two main characteristics of the process. One is the arbitrariness and lack of accountability in the exercise of power by *savivaldybės* and privatisation agencies, which has resulted in many instances of inefficient insider privatisation of *tarūkiai*'s assets. The other is the survival of the structures of the old collective farms, which continue to remain a defining feature of the agricultural landscape in the country. In the next section, we shall discuss their organisational structure, but first we shall add

some considerations as to later developments in the exercise of state control over de-collectivisation strategies.

b) Structural transformation and state control

We have seen in the earlier section on restitution how the advent to power of the LDDP in October 1992 signalled a return to a more pronounced interventionism. In the case of the dismantling of the collectives, the process had degenerated into chaos as soon as it started, so that the *Sąjūdis* leadership had had to give free rein to local authorities and privatisation agencies in order to retain a degree of order in rural areas. However, the boundary between the right of control over agricultural assets exercised by *savivaldybės* and that exercised by the private sector seemed to vary from case to case at the discretion of the former (cfr. *Vartai*, Oct.1999; Petruskis in *Veidas*, 09/11/2000). Over 1992-96, the LDDP leadership thought it opportune to promulgate a number of legal texts that would redefine the patterns of interaction between state authorities and agricultural organisations. We shall review a selection of these texts, as they show us how in the course of the years the relations between *savivaldybės* and agricultural organisations have tended more and more to reproduce the relations previously tying local party cadres with *kolūkiai*.

For instance, the legislative underpinning of the relationship between state authorities and surviving processing conglomerates was the main theme of the *law on state enterprises* (*Vž*, 31/12/1994), whose purpose included also the reassessment of the role of state authorities in the management of those entities (including agricultural ones) where they were still in the position to exert a substantial degree of control. This text was soon to be challenged by the conservative opposition on the ground that it extended the power of the government and the *savivaldybės* beyond the limits drawn by the 1991 privatisation law. For instance, the Appendix to the 1991 law established that in former state enterprises now prevalently in private

hands, the proportion of shares owned by state authorities *should* not be higher than 30%. At the same time, *Art.2* of the *law on state enterprises* ruled instead that the state's margin of control within state enterprises had to reach at least 50%. Strictly speaking there was no contradiction between these two provisions, as they concerned a different set of enterprises- however, the directives included in the 1994 law were used as a pretext by *savivaldybės* to increase their control over processing conglomerates (cfr. *Verslo ir komercinė teisė*, 1-2 1999). There were even cases where privatisation commissions bought vouchers from previous *tariūkiai* employees and sold them to municipal authorities, reaping a profit and allowing the latter to retain a more substantial measure of control.

With the *LAT-CBS pareiškimas* of 24/01/1996, however, the Court rejected the calls for the invalidation of the law. The party concerned argued that it had acted out of concern for the "common interest"- it also pointed out that the determination of the extent of privatisation rested with the Seimas and the privatisation commissions and quoted *Art.128* of the Constitution, which states that if the proportion of state capital in a public enterprise is higher than 70%, the Seimas can veto its transfer into private ownership. The Court essentially accepted the argument, claiming that the law on state enterprises was actually more in line with "the spirit" of the Constitution than the 1991 privatisation law, and that by interrupting or sometimes reverting privatisation procedures privatisation commissions were "indirectly implementing" the legislators' will. Such a statement *de facto* implied that any action undertaken by an executive body could be justified on the ground of "indirect law implementation". It also failed to delineate clearly and consistently the extent and the content of the responsibility carried by state authorities, leaving private share-holders in a condition of uncertainty.

In spring 1993, the LDDP majority also proceeded to a comprehensive review of the *kolūkiai* privatisation law, thereby strengthening the supervisory role of

state bodies. The revised version of the law (*Vž*, 05/07/1993) established a Central agricultural reform committee, which would regularly report to the government about the activities of the central privatisation commission within the agricultural sector. Local agricultural committees (*Art.8*) would co-operate with district privatisation boards in evaluating objects selected for privatisation, once more interpreting the old 1993 guidelines "flexibly". Revenue resulting from the non-voucher sale of assets would no longer be included in the national privatisation fund, but collected in an agricultural fund which was meant to cover the reform's administrative expenses and, in the long run, to promote agricultural development schemes. The conservative opposition accused the LDDP of "bureaucratising" the reform process by unnecessarily increasing the number of supervisory bodies (cfr. Leontjeva on the role of the state in industrial restructuring, 1998). As the resources from the agricultural fund were insufficient, local administrations had to cover most of the local authorities' expenses. In 1994, 60% of Šiauliai's *savivaldybė*'s budget was spent to cover the on-going expenses of six privatisation bodies serving a total of 100,000 people (cfr. *Vartai*, Oct. 1999).

In fact, the bureaucratisation of agriculture in Lithuania was not a new phenomenon- in the 1950's there were 49 local agricultural agencies operating in the country, which even temporarily increased to 62 during Khrushchev's *sovarkhozy* experiment (cfr. *Encyclopædia lituanica*, 1978). The period of *Sąjūdis* rule in 1990-92 had seen their virtual disappearance or substitution with provisional rural agencies, whose initial duty had not been to implement the directives of the government, but to report to central authorities about the needs of the rural population. During the years of LDDP leadership, local privatisation commissions took over most of the competence of the rural agencies, so that most of the latter found themselves forced to close down (cfr. Vitkus in *Vartai*, 07/06/2000). Following the 1993 law mentioned above, the role of the local agricultural

committees in matters concerning the implementation of agricultural reform had sometimes grown more substantial than that of the *savivaldybės*.

The "capture" of the privatisation and transformation processes by the state and the local governments was virtually completed by two items of legislation promulgated in 1995- the *law on state control* (Vž, 30/05/1995) and the *law on privatisation of state and savivaldybės' property* (Vž, 04/07/1995). The first law created the position of State controller as the highest instance of economic reform supervision in the country. The controller would report at regular intervals to the Seimas concerning the implementation of early privatisation legislation, while overseeing whether all instances of property transfer are consistent with the law's requirements and the guidelines as to the long-term development of the agricultural sector (Art.1-4). The controller was granted the power to overrule resolutions by privatisation or agricultural committees, in case the latter failed to "defend the interests of the state" (Art.45). This provision was applied only in very few occasions, leading invariably to paradoxical results: a milk conglomerate in the Panevėžys *rajonas*, which had been dismantled in 1994, was provisionally set up again in early 1996 to be re-privatised according to the plan drafted by the State controller (cfr. Ramanauskas, 1996; also *KŽŪR conference acts*, 09/03/2000). In fact, legislation failed to establish any method of appeal against the controller's deliverances, so that the latter were not accountable to any authority.

When the Conservative party was voted back to power in 1996, the issue of transformation of previous collectives was no longer the primary concern of the rural population nor of the politicians. The property of most *tarūkiai* and *kolūkiai* had already been redistributed or handed over to the farmers who had it in use. The issue now was whether the new allocation of property was effective, and it is to this issue that we turn now.

3.4 Agricultural co-operatives and share-holding

The atmosphere of controversy surrounding the implementation of the strategies of de-collectivisation and land restitution resulted in the Lithuanian political class and public opinion alike concentrating more on reciprocal recrimination than on devising a long-term plan for the development of the agricultural sector. As we discussed in *Chapter I*, by the mid-1990's collective agriculture had entirely disappeared from the national landscape. In their place, there was a vast expanse of subsistence plots surrounding a number of new agricultural co-operatives, some (15-20%) newly established by holders of restituted plots, most (80-85%) settled on land and infrastructure inherited from earlier collectives (mainly *kolkhozi*) (cfr. *Veidas*, 08/12/1999). We mentioned in the previous section how joint-stock ownership had been adopted so as to ease the dismantling of *tarūkiai* and the implementation of voucher-based transfers. Share-holding was to become once more the basis of co-ownership, restoring continuity with the experience of pre-war Lithuania (cfr. Šalčius, 1989, 1992) and providing a more flexible method for the transfer of asset.

However, we have seen in our overview of the dismantling of *tarūkiai* how share-ownership could be used to impose on an organisational structure the external control of a single investor, an interest group or a state entity. Control over a substantial stake within a joint-stock company may enable its holder to influence the functioning of the entire organisation, so that the other share-holders' effective hold on their assets is weakened. In case stakes are controlled by a state agency or a local administration, the latter may succeed in imposing a particular direction of development on a company, and through it to an entire sector. The Lithuanian experience with share-holding co-ownership in the past ten years is paradigmatic of the usage of this instrument for purposes that run counter to its original purpose of increasing efficiency and transparency. The purpose of this section is to show how

the legislative guidelines promulgated in the country over the past ten years have been used to accommodate a strong degree of state intervention whose result is effectively to reproduce the earlier dependence of collective agriculture from state authorities.

a) New co-operatives and the control exerted by savivaldybės

The first legislative text discussing share co-ownership in Lithuania -the *law on agricultural companies* (*Vž*, 16/04/1991)- was promulgated by the Restoration parliament shortly after the restitution law and even before any guideline was issued as to the dismantling of collectives. This text defined agricultural co-operatives as "entities formed by physical persons by merging their property (...) in order to undertake agricultural activities or commercialise agricultural produce" (*Art.1*). As established also by the *law on land* and a number of government *nutarimai* (*Vž*, 17/09/1991, 13/05/1994), co-operatives are endowed with legal personality, and are therefore authorised to own assets or infrastructure, but cannot of themselves own land, which must be registered as the property of co-operative members (cfr. Vitkauskienė in *Lietuvos aidas*, 15/04/2000). This initial item of legislation disposed also that agricultural co-operatives were to be characterised by limited liability, though occasional exceptions were to be granted in 1996-97 after the end of the ban on land trading elicited substantial sectoral re-organisation (cfr. Lithuanian Statistics Department, *Annual Report* of the Ministry of Agriculture, 1997). In their quality as legal persons, co-operatives were authorised to undertake transactions concerning their assets and to start liquidation procedures. This law established also that, "for the time being", co-operatives were not allowed to raise capital issuing shares to non-members, so that, in case credit was needed, farmers had to rely on state support or take loans (*Art.2-4*; cfr. *KŽŪA reports*, 1997-99).

As in the agricultural sector as a whole property relations were marred by uncertainty and there were no clear guidelines to asset valuation, legislators paid particular attention to the guidelines establishing how to assess potential members of a co-operative. Once more, we find here an indication of the unwillingness of state authorities to allow a complete transfer of control to the private sector, combined with a persistent emphasis on the "rational use" of assets (cfr. *Rinkotyra*, 2(4)1999). Before the stipulation of any founding agreement (*isteigimo sutartis*), local administrations had to declare that the founding members' "intentions" were compatible with official state directives on agricultural development. Once the company's by-laws have received *savivaldybės'* approval, the latter would then issue legally binding rules concerning the management of capital reserve funds and the distribution of dividends- transgression of these guidelines could mean the cancellation of the enterprise from the local register (*Art.8-11*).

We see clearly that these directives subjected all new agricultural companies to the authority of local administrations, laying no provision for appeal against *savivaldybės'* rulings through civil litigation. In addition, the fact that municipal directives were only valid in individual *rajonai* implied that there was a high margin of inconsistency between the standards applied in different regions- a number of *savivaldybės* established the proportion of funds to be devoted to maintenance, while others spelled out the type of plant to be grown (cfr. *Agro-Balt*, May 2000). Though there are no precise estimates, it seems also that co-operatives' suspension from the register was more frequent in suburban than in more remote areas (cfr. *Lietuvos rytas*, 10/01/2001).

The text of the law included also a number of restrictions on the composition of the capital basis of new co-operatives as well as on the mechanism of shares' transaction. It was established for instance that land and real asset contributions (*indėliai*) of co-operative members had to constitute a "substantial majority" of

ownership capital (*Art.13*). The rational for such guideline was the desire to ensure that, in later years, co-operatives did not build themselves a capital basis taking credit or failing to pay dividends to their own share-holders. Theoretically, in case this directive was infringed, *savivaldybės* could authorise the withdrawal of the capital in excess, but the lack of a clear threshold in the text of the law resulted in very few instances of confiscation. What exerted a real impact on the formation of new co-operatives was the ban on the transfer or the auction of existing shares to non-members- municipal administrations could even veto the transfer of shares from one member to another if this contradicted the temporary ban on trading restituted land included in the restitution law (*Art.21-24*). These provisions implied a virtual freeze in the allocation of property rights established through restitution, for example preventing share-holders wishing to move to urban areas to transfer their assets to potentially more qualified applicants.

Despite *Sąjūdis'* official commitment to a reduction in the state's involvement in agriculture, the initial law on companies allowed state agencies and local administrations to impose a substantial measure of control over new co-operatives. For instance, the chairman of the local privatisation council was "provisionally" empowered to supervise the annual auditing reports of the co-operative's administration and to veto any amendment of company by-laws (*Art.26-27*). On the basis of an expanded interpretation of these powers, in 1993-94 successive *LDDP* governments came to sanction a practice, whereby *savivaldybės* could initiate liquidation procedures for co-operatives that allegedly "did not serve the public interest" (cfr. *LAT-CBS pareiškimas*, 19/06/1995). If we compare these provisions with the guidelines regulating the relationship of *kolūkiai* with local administrations, (cfr. Tamošiunas, 1974), we shall see that the power of the latter on policing and vetoing was virtually unchanged, while new co-operative, in addition, could also be dissolved at the discretion of *savivaldybės*.

b) Share-holding and local authorities

The manner whereby local governments exerted control over agricultural co-operatives was to undergo a substantial evolution as the overall structure of the sector changed. The guidelines discussed above were meant to provide a legislative framework mainly for the new structures arising out of the merger of restituted property. Such structures, however, were very limited in size (averaging 12-15 hectares, cfr. *Rinkotyra*, 1(3)1999, *Appendix*) and to all effects their organisational pattern differed very little from that of enlarged subsistence plots (cfr. *KŽÚR conference acts*, 09/03/2000). Problems arose whenever the structures emerged from the transformation of *kolūkiai* were to be re-organised along more stable lines in agreement with a coherent legislative framework. The issue of internal governance of co-operatives, which in the collective period had consisted only in perfunctory meetings of all members, took an increasing importance. Successive LDDP governments were quick to understand that external control could be more effectively exercised if local governments had a foothold within the organisations themselves.

This perception was reflected in the provisions included in the later legislation on agricultural co-operatives, starting from the comprehensive 1994 *company law* (*Vz*, 05/07/1994)-while the guidelines of this law were applicable to companies operating in all sectors of the economy, special attention was given to agricultural co-operatives and processing conglomerates, attempting to re-organise earlier legislation issued both at the national and the local level (cfr. Dubinas and Petuchova in *Rinkotyra*, 1(3)1999). The main purpose of this text was to establish with greater clarity the possible patterns of share-holding governance that agricultural co-operatives could adopt. At the same time, however, this law outlined the mechanisms whereby supervision could be exerted from the outside. In practice,

and thereby to grant state authorities a channel whereby they could exercise their control.

The first articles of the law laid down a set of guidelines effectively ratifying a system of discrimination, whereby processing conglomerates formally controlled by the state were placed in a privileged position compared to agricultural co-operatives characterised by private or hybrid ownership. Consistently with the provisions of the 1991 text discussed above, while processing conglomerates could raise capital by selling shares on the market, agricultural co-operatives having adopted share-ownership could only be constituted as closed companies (*Art.5*). Conglomerates were also free from any restriction concerning acquisition, transfer or sale of agricultural assets (*Art.13*), while local privatisation commissions could veto any transaction undertaken by co-operatives in case this "harmed the public interest" or put co-operatives in a position of "unfair advantage" in their dealings with processing units (cfr. for an evaluation, cfr. *Reports* of the Lithuanian Agency for Economic Development, 1996-1999).

As in 1994-95 a state processing conglomerate would normally control four-five co-operatives together with 40-50 subsistence farms (cfr. *ŽŪM report*, 1995), it was hardly possible for any production unit to jeopardise their position- nevertheless this disposition was used as a justification to initiate legal proceedings against private agricultural co-operatives in 1994-96, stopping attempts at consolidation or the purchase of new infrastructure (cfr. *LAT-CBS pareiškimas*, 19/06/1995; also Šindeikis in *Veidas*, 9-16/11/2000). *Savivaldybės* went as far as to underwrite debt of public conglomerates, while at the same time disposing that agricultural co-operatives, whose debt amounted to 5% of their base capital, could implement new development plans only with the written consent of their creditors (cfr. Kazitėnas in *Lietuvos aidas*, 01/03/2000). It was only after the Conservatives were voted back into office in 1996 that some of the most blatant abuses were stopped, although, as

we shall see in *Chapter V*, the partiality of state authorities towards the processing sector persists in the form of high income transfers.

The core of the company law consisted in the definition of the complementary roles of the different governing bodies within a share-holding company (*Art.18-29*). The share-holding assembly would be the main deliberative body of a co-operative, while the executive board (*vikdomoji taryba*) and the administration would be its executive arms. The assembly, the board and the administration would then be subject to the control of the observers' council (*stebétoju taryba*), which would function as official *trait-d'-union* between the co-operative and the *savivaldybės*. We shall see now how, under the 1994 law, local administrations exercise control over the co-operatives' governance essentially through the exercise of a tight control over the actions of the different executive bodies.

Candidates for the *observers' council* were to be pre-selected by a special municipal committee and then approved by the share-holders' assembly, but they could be removed at any time by the *savivaldybė* if the latter declared to be "dissatisfied". The members of this council are responsible in front of the local administration for the strategies undertaken by the company and are expected to guarantee for the loans extended by credit institutes controlled by the state and negotiated by the share-holders' assembly. A later amendment to *Art.24* of the law (*Vž*, 20/12/1995) disposed that share-holders controlling more than 50% of the company's assets could vote the dismissal of the council, but municipal authorities were able to circumvent this provision by favouring the appointment on the board of influential members of the share-holders' assembly who would then seek re-election at the following occasion.

Through the observers' council, *savivaldybės* are able to extend their control over the co-operatives' *executive board*, which is a collegial governing body with at least three members. One of the latter must also sit in the observers' council and keep local authorities informed about the board's deliberation. The task of the board (*Art.27*) is mainly to devise the company's on-going development strategy, including financing and marketing techniques which will then be implemented by the administration. Members of the board take turns to supervise the latter's work and to draft reports about the state of the company's finances- in so doing, they enjoy the support of a special financial inspector (*revizorius*) appointed by the share-holders' assembly. In case *savivaldybės* believe that the decisions of the board are against the public interest, it cannot intervene directly, but can request the observers' council to vote its dismissal- if a 2/3 majority is reached, the share-holders' assembly is not allowed to overturn the decision and must elect a new board.

Co-operatives' *administrations* are also a collegial governing body, which includes the heads of the company's different operations. While agricultural co-operatives are characterised by limited administrations averaging 9-12 members, processing conglomerates often hire external experts and auditors, giving rise to a great variation in administration sizes (cfr. Šleževičius, 1992). The role of the administration is outlined in accordance with earlier resolutions concerning shareholding co-ownership issued shortly after the initial 1991 *restitution law* (cfr. *Tiesa*, June 1991). *Art.27* of the 1994 *company law* established that the executive board would determine the competence of each member of the administrative council, though all plans drafted by the administration were to be subject to the approval of the share-holders' assembly and of the observers' council. The implication of this provision was that members of the observers' council could be put under strong pressure from municipal authorities to veto particular policies under pain of being no longer sponsored for re-election (cfr. Gadeikis in *Veidas*, 05/04/2001).

From the considerations listed above, we see that *savivaldybės*' control was extended to all executive layers within the co-operative, and that no policy could escape from the approval of local governments. The fact that municipal authorities could *de facto* remove the observers' council and the executive board made these two bodies accountable to local authorities rather than to the share-holders' assembly, so that the direction in the development of the co-operative was virtually determined outside of its main decision-making body. Appeal to the notion of "public interest" was used to justify any action that did not comply with state directives on land development. Co-operatives therefore enjoyed a very low degree of real independence, with executive bodies (especially the observers' council) serving as mouth-speak of the local authorities.

c) *Alternative forms of co-operatives' governance*

The promulgation of the amended 1997 version of *company law* (*Vž*, 02/07/1997) -drafted mainly by Christian Democrat deputies from rural areas (cfr. *Verslo žinios*, Jan./Feb. 2000)- resulted in yet a further strengthening of the control exerted by local administrations on agricultural co-operatives. This text reflected an increasing awareness of the inefficiencies implicit in functional and supervisory duplication among governing bodies, as well as the potential for rent-seeking activity resulting from the necessity to gain and retain the approval of state authorities. *Art.27* of the new version, followed by a series of resolutions by the Agriculture Ministry (cfr. *Valstybės žinios* and *ŽŪM reports*, 1994-96) established that agricultural co-operatives would now enjoy a degree of latitude in determining their internal structure and could adopt any out of the following organisational models:

- *observers' council model*- in this case there is no executive board and the competence of the observers' council is considerably wider than that established

in the 1994 law, including strategic planning and the assessment of potential sources of financial revenue. However, in this case the council shall be freely elected by the share-holders' council and will act as an intermediary with the *savivaldybē* without being subject to its veto;

- *executive board model*- in this case there is no observers' council and all external relations with local governments are conducted by the chairman of the board. In case the latter is a member of the administration, the share-holders' assembly shall appoint a company negotiator;
- *assembly model*- in this case share-holders appoint both an observers' council and an executive board, but neither of the two represents the company in its relationships with *savivaldybēs*. On the basis of the company's by-laws, the share-holders' assembly shall determine project by project which governing body shall be responsible for it. This model also envisages the possibility to appoint one of the chairmen of the company's operational sectors as chief administrator making him directly responsible to the assembly, which can renew or recall his mandate year by year;
- *administration model*- in this case the administration council is elected by the share-holders' assembly in its entirety for a period of 3-5 years, and may be dismissed before the end of its mandate only of its own choice. While in the first and second model the competence of the administration was determined by the observers' council and the executive board, under this arrangement the administration could take fully independent decisions concerning the future development of the company. The head of the administration could also opt to appoint an external auditor to review the financial situation of each branch, preparing reports which are then presented to the municipal authorities.

The shift in perspective implicit in the 1997 version of company law reflected the wish to simplify bureaucratic procedures within agricultural companies, eliminating

constant cross-checks. Considering the surveys undertaken by the Land utilization council in 1997-98, one can see that in practice most agricultural co-operatives have adopted organisational structures sharing features of two or sometimes more out of the four models outlined above. Co-operatives having initially chosen the administrative model could later take advantage of special provisions listed in *Art.10* concerning companies with low turn-over and merge the observers' and the executive council. Alternatively, production co-operatives having chosen the observers' council model allowed the latter to absorb the administration (cfr. *Baltic Times*, May 2000). The reduction in the number of executive bodies -which, incidentally, was not paralleled in processing conglomerates- resulted in a stronger share-holders' assembly, which was expected to take a more assertive control over the usage of the company's assets (cfr. *KŽŪR conference acts*, 09/03/2000).

The central role of the share-holders' assembly within the new agricultural co-operatives is expanded in *Art.28-29* of the 1997 company law. In line with other instances of legal consultation (cfr. *LAT-CBS pareiškimas*, March 1996), it was established that the share-holders' assembly is the only governing body of the company which can legitimately ratify or amend the company's by-laws, approve the divestiture or the acquisition of assets, issue dispositions concerning the distribution of profits through premiums and dividends, as well as modify the company's capital basis. The share-holders' assemblies would meet to discuss the implementation of the administration's policies (*ordinary meeting*) or to discuss the annual financial reports drafted by the auditor and choose new members for the executive bodies (*report-electoral meetings*). Any decision as to splitting co-operatives into smaller units or merging with other entities will be subject to a secret vote of confidence, requiring the support of share-holders controlling 66% of the company's assets. Theoretically, these provisions constituted a major improvement over the previous arrangement where such decisions were taken by the governing bodies without previous consultation with the share-holders.

We mentioned in the course of our discussion in *Chapter II*, however, how the deployment of share-holding co-ownership is not a guarantee of the fact that the underpinning property rights allocation is adequate. The 1994 provision restricting to the agricultural sector the circulation of shares issued by agricultural co-operatives had served largely to retain a degree of stability in rural areas, avoiding major disruptions in the pattern of production. As this restriction was lifted in 1997, a limited number of external investors did for the first time purchase stakes within agricultural companies, so that control over agricultural asset was no longer the exclusive attribute of farmers tilling the land (cfr. Kvedaraitė, 1994; Ramanauskas, 1996; also *Vartai*, Tamulionis, 20/03/2000). Since the 1997 version of the law reduced the scope for the influence of local administrations within agricultural co-operatives via governing bodies, LDDP-controlled *savivaldybės* set out to acquire substantial stakes in agricultural companies, in order to influence the outcome of the meetings of the share-holders' assemblies and ensure that their policies were in line with the government's directives (cfr. *Vartai*, 24/01/2000; *Agro-Balt*, May 2000). The conservative opposition questioned the validity of this practice on the ground that it consisted in *de facto* asset re-nationalisation, contradicting the provisions of the 1991 *restitution law* and *Art.47* of the Constitution (cfr. Gruodis, 2000; Leontieva, *op.cit.*, 1998). However, as these texts banned only re-nationalisation by force, no legal challenge could be mounted against it, so that share-holding came to guarantee *savivaldybės'* control.

The elaborate provisions detailing the manner in which agricultural co-operatives could service their debts to local administrations resulted also in an increased role of the latter within the share-holders' assembly. *Art.30-35* of the 1997 law established that along the capital basis agricultural co-operatives were entitled to use borrowed capital as well as "ownership funds" (*nuosavybės fondai*), consisting of profit deductions and revenue from shares sales. The sum of these two funds could not amount to more than the estimated value of all the assets registered in the

company's name. At the same time, *Art. 42* established that agricultural co-operatives could transfer part of their assets to *savivaldybės* in case they could not meet their financial obligations otherwise. As a result, ownership funds had to be reduced through the invalidation of a corresponding proportion of shares. A resolution issued by the Securities' commission (cfr. *Vž*, 05/08/1996) disposed instead that rather than for formal disenfranchisement, companies had to opt for reducing the value of the shares held by actual members of the co-operatives. In this way, whenever agricultural co-operatives incurred into serious debt, *savivaldybės* could not only acquire direct control over a number of assets, but also increase their indirect control over the co-operative's strategies through their position in the share-holders' assembly (cfr. *LAT-CBS pareiškimas*, 24/01/1996 and 23/12/1996).

If we consider the evolution over the past ten years of the control exerted by local administrations over agricultural co-operatives, we can highlight three phases, each of them tied to a particular item of legislation:

- the *first phase*, linked with the 1991 *law on agricultural companies*, whereby control on the latter was external and exerted through the local privatisation council;
- the *second phase*, linked with the 1994 *law on companies*, where *savivaldybės* exerted their supervision through the executive bodies of the company;
- the *third phase*, linked with the 1997 version of this law, which apparently granted a greater weight to the deliberations of the share-holders' assembly, but which effectively sanctioned the control exerted by the municipal authorities from within the co-operatives.

The movement from the first to the third phase consisted essentially in a shift away from a more occasional pattern of control which was more liable to criticism, to a

continuous supervision of on-going strategies which, being embedded within the structure itself, could more easily be justified as legitimate.

3.5 Conclusion

The aim of this chapter was to give an overview of how Lithuanian agricultural legislation has evolved over the past decade and how its implementation has affected existing patterns of agricultural activity. We mentioned how the *Sajūdis*' leadership and the Restoration parliament decided to opt for a policy of restitution to emphasise the complete rejection of the experience of collectivisation, while also pursuing a policy of compensation towards the victims of the occupational regime. At the same time, while *tarūkiai* were dissolved, collective farms underwent transformation and were transformed into a number of smaller and more manageable farms. Guidelines were laid for the establishment of new co-operatives, although most of the newly established structures could be regarded as successor farms of the previous collectives and their infrastructures had not undergone any substantial change. Share-holding came to be the main form of co-ownership in the agricultural sector, purportedly to guarantee a higher degree of flexibility and transparency.

While the pronouncements of the politicians consistently paid lip-service to the intention of overcoming the legacy of the previous period, the results of the reform strategy have not matched earlier expectations. Fragmented subsistence farming continues to be the main trait of the agricultural sector in the country, counterbalanced by a number of large agricultural co-operatives and state-controlled processing conglomerates. In the course of the chapter we have highlighted three main flaws:

- holders of restituted assets were not granted a full right of control over their assets, so that restrictions persisted on land usage and transfer under pain of expropriation. In this way property rights to land and agricultural infrastructure were only partially returned to the private sector. The notion of a "rational use of the land" enforced by local privatisation commissions prevailed over efficiency;
- the method used to privatised *tarūkiai* resulted in an internal privatisation of assets by incumbent holders of substantial stake, while *kolūkiai* often did not undergo any re-organisation at all. This allowed the survival of existent organisational structure under a new guise;
- share-holding has become the main instrument whereby state bodies exert their control over the agricultural sector, ensuring that *savivaldybės* can influence the decisions of the share-holders' assembly from within.

In the course of the next two chapters, we shall see how the involvement of state authorities in the agricultural sector has manifested itself in a skewed allocation of funds towards co-operative structures and processing conglomerates.

Chapter IV Evaluation of credit-worthiness and the structural dichotomy of Lithuanian agriculture

4.1 Lithuanian agriculture and the evolution of the financial sector

In the course of *Chapter II*, we outlined how countries undergoing transition had to undertake a comprehensive reform of the financial sector, consisting in a movement away from a single official lender to a multitude of structures including commercial banks, insurance companies and credit unions. The regulatory framework typical of socialist countries, characterised by a pronounced degree of centralisation and disregard for cost efficiency, was not suited to the radically altered demands of a market economy, where credit institutes must enforce a degree of financial discipline within the private sector which is consistent with the government's pursuit of macroeconomic stability. In the new context, the financial sector is also expected to provide intermediation between savers and investors and to provide the latter with an informed guidance on alternative investment policies.

In 1990, newly independent Lithuania inherited a Central Bank which was subject to the direct control of the state and which, apart from exercising the usual money-generating function, enjoyed an almost complete monopoly on the movement of domestic savings. We mentioned earlier how Central Banks undertook all banking transactions for state bodies as well as for most state-controlled enterprises. In Lithuania, the Central Bank oversaw the finances of *tarūkiai* and of conglomerates processing agricultural produce, while the Agricultural Bank (*Žemės ūkio bankas*, *ŽŪB*), which started its activity in 1951 in the wake of collectivisation, directed funds from the Central Bank to the *kolūkiai* according to the guidelines laid in the five-year plans (cfr. Chaikov, 1989; Buškevičiūtė/Pukelienė, 1998). In the Baltic states the financial sectors of individual republics retained a more marked degree of

independence than their counterparts in other members of the Soviet Union (cfr. Tamulionis, *Mokesčių svadas*, 1997; Penkaitis, 1980). The scope for independent resource allocation, however, remained extremely narrow, while services such as the evaluation of investment projects were virtually non-existent.

A typical feature of Soviet Lithuania compared to other countries in the Eastern bloc was the informal survival of some of the rural credit outlets that had characterised the inter-war period. In the early 1950's, the local party leadership had allowed a number of semi-autonomous credit points to continue operating in more isolated rural areas (cfr. *Encyclopædia lituanica*, 1959-78, under *Agriculture*). In the course of the following decades, these structures had been the only source of credit for farmers tilling individual plots and had therefore played an important indirect role in ensuring the alimentary self-sufficiency of the country (cfr. *Chapter I*). As they drew most of their savings from *kolūkiai*, however, these outlets were badly affected by the crisis of collective agriculture and by the mid 1980's most of them had no more funds to grant credit and only few survived the transformations in land relations that affected the country in 1991-92.

This two-fold structure of the credit sector has persisted as one of the characteristic features of the Lithuanian agricultural sector following the transition as well, where banks and insurance companies work alongside informal lenders in servicing the needs of large agricultural co-operatives and subsistence farmers (cfr. Penkaitis, 1994). The birth and progressive strengthening of informal lenders reflects the evolution of the agricultural policies pursued by state authorities. In the initial period of transition, successive governments would use commercial banks as vehicles to channel funds towards the agricultural sector which was affected by a substantial dearth of working capital. The criteria used for the evaluation of creditworthiness over the following decade, however, meant that banks would privilege processing conglomerates belonging to the state or large successor farms.

At the same time, *savivaldybės* would try to direct subsidies to agricultural co-operatives under their jurisdiction. As a result, the private agricultural sector would have little share in sectoral funds, so that informal lending would then step in to fill the vacuum left by sectoral institutes.

In the course of this chapter we shall give an overview of the mechanisms whereby creditworthiness is assessed in Lithuania, discussing what are their consequences for the structural evolution of the sector. We believe that the focus on the current financial indicators is the main reason why official credit agencies discriminate against subsistence farmers. This discrimination results in a strengthening of the divide between larger structures and small-scale farming, especially as the latter have to meet substantial expenses in the initial period after restitution. We shall conclude outlining credit unions' alternative methods to evaluate credit-worthiness, arguing how such alternative structure could service the needs of those rural entities which are marginalised by traditional financial institutes.

4.2 Accounting conventions and agricultural structures

The Restoration Parliament addressed the issue of agricultural credit as early as July 1991, when restitution and transformation of collectives had yet to be implemented. The initial *law on sectoral credit* (cfr. *Vž*, 18/07/1991, after *Tiesa*, July 1991) attempted a first distinction between different forms of agricultural credit, but failed to outline clear criteria for the evaluation of creditworthiness of individual entities. Over 1992-96, the LDDP governments were to follow issuing more than twenty pronouncements and *nutarimai* addressing the problem of the formulation of consistent yardsticks of assessment for potential borrowers. The aim of this section is to show how the way accounting data are *arranged* already combines with the existent organisational arrangement of the agricultural sector to ensure that large agricultural co-operatives are assessed more leniently than their counterparts in the subsistence sector. In the next two sections we shall focus instead on how established patterns of financial *analysis* have resulted in discrimination against subsistence agriculture.

The evaluation of credit-worthiness in Lithuania is beset by the co-existence of different accounting practices (cfr. *Verslo žinios*, 17/01/2000), which renders necessary some preliminary observations concerning the way information about rural concerns is arranged. Following Western standards, the Lithuanian rural sector has witnessed the spread of both *transaction accounting* (*apyskaita*) and *cash-flow accounting* (*ataskaita*)- the former consists in the on-going record of transactions undertaken by an enterprise, while the latter records the financial exchange accompanying these transactions. At the end of the accounting period, on-going transaction accounting is wound up in a final *income statement* (*apskaita*), while its financial counterpart is summarised in a *balance statement* (*atskaita*). The usage of the Lithuanian versions of international accounting terms is far from consistent- for instance, *atskaita* is often used to refer to the independent financial evaluations of

processing conglomerates drafted by auditing firms on behalf of financial institutes (cfr. *Rinkotyra*, 2(4)1999). Throughout this text we shall follow the terminology used by the publications of the Kaunas Technological University (cfr. Radavičius, 1997), whose conventions are generally consistent with the use of the Agricultural Academy in Kaunas and the Ministry of Agriculture, though not always with that of the press (cfr. *Vartai*, Feb./March 2000, as well as *Veidas*, 08/12/1999).

The necessity to get used to an array of new concepts and practices after using the laborious Soviet accounting system for nearly forty-five years has posed a considerable strain on farming units and financial institutes- in particular, there has been little progress on the integrated usage of *apyskaita* and *ataskaita*. While in most Western countries transaction-based accounting encompasses cash-flow accounting as a constituent element, in the Lithuanian agricultural sector, with the exception of small subsistence farms keeping only non-professional records, these two records are kept separately (cfr. Šlekienė/Klimavičienė, 1999). The financial institutes undertaking to evaluate the credit-worthiness of an organisation are therefore expected to interpret two parallel sets of accounts and to compose them into an overall picture by means of so-called *combined accounting* (*suderintoji atskaita*). The absence of binding guidelines as to how to perform this operation is bound to result in inconsistent evaluations performed by different financial institutes (cfr. Kvedaraitė, 1994; also Tamulionis, *Mokesčių sąvadas*, on the usage of combined accounting for fiscal purposes).

The potentially flawed or misleading nature of the insights provided by combined accounts is all the more evident if we consider the flaws implicit in the practice of transaction accounting, which tends to replicate patterns established during the period of collective farming. In the later years of the Soviet occupation, the accounting offices of many *kolūkiai* would produce *apskaitos* where the volume of transactions was routinely increased in line with the guidelines laid by the

government (cfr. Bagdonavičius, 1998). Following de-collectivisation, the tendency to fabricate "corrected" *apskaitos* for financial institutes has continued. While there is now no need to adjust the volume of transactions, agricultural co-operatives tend to disguise the extent of the depreciation (*nusidėvėjimas*) of their equipment in order to attract credit as well as private capital (cfr. Purlienė, 1999). Large processing conglomerates or successor farms, which are more likely to employ senescent infrastructure, are also in a better position to hide this fact- their size makes inaccuracies in their accounts less visible, while local administrations often have a stake in large agricultural co-operatives and may share an interest in keeping flaws uncovered. On the other hand, subsistence farms do not enjoy the protection of *savivaldybės* and are more likely to present accurate accounts, but this may tend to leave them at a disadvantage in the distribution of credit.

A further element of confusion arises from inconsistent practices within ongoing cash-flow accounting. Processing conglomerates and successor farms tend to follow Anglo-American accounting standards, while farms established later usually adopt Franco-German conventions (cfr. Šlekiienė/Klimavičienė, 1999). This situation is due to the fact that in the years of the dismantling of collective structures the Finance Ministry organised training programs highlighting the benefits of former system (cfr. Višnaiuskas in *Vartai*, Oct./Nov.1995), while the diffusion of continental standards was linked with EU aid granted to farms established after the end of the ban on the trading of restituted land- by January 2000, 70% of processing conglomerates were still working with the earlier system, while an estimated 82% of all small subsistence farms had either adopted or moved to the second type of practice (cfr. *Verslo ir komercinė teisė*, 1-2, 1998).

The Anglo-Saxon system is based on the assumption that all realised production may be regarded as income, independently of the fact, whether it has been paid for or not. On the other hand, expenses are classified on the basis of the

function they serve, such as production, marketing or tax. In this way, it should be easier for the analyst to evaluate returns to different elements of the company's activity. *Table I* represents a simplified example of *ataskaita* for a small-scale dairy processing enterprise in Aukštaitija:

I- Example of Anglo-Saxon *ataskaita* (1999, thousands of Litas)

Income		6,250	100.00%
Expenses	Cost of raw material	-3,900	-62.40%
	Trade	-1,000	-16.00%
	Administration	-800	-12.80%
	Other expenses	-100	-1.60%
	Tax	-225	-3.60%
	Net profit	225	3.60%

(Source: adapted from Šlekienė/Klimavičienė, 1999, p.34)

On the other hand, the continental system is based on the assumption that income is equal to the quantity of output produced over the previous accounting period, including inventory produce. Expenses are classified on the basis of the input purchased or the services utilised, so that it is possible to keep track of the formation of added value (*pridėtoji vertė*) and its usage at different stages of production. *Table II* is an example of what the same *ataskaita* could look like using the continental system, assuming that all production takes place at one single step:

II- Example of continental *ataskaita* (1999, thousands of Litas)

Realised production	6,250		
Inventoried production	1,170		
Non-realised production	-		
Over-all output	7,420	100.00%	
Used material	1,400	18.87%	
Used services	1,100	14.82%	
Added value	4,920	66.31%	
<i>Financial expenses</i>	3,500	47.16%	
<i>Net income</i>	1,420	19.14%	100.00%
Non-financial expenses	100	1.35%	7.04%
Amortisation	870	11.73%	61.27%
Profit	450	6.06%	31.69%
Profit	450	6.06%	31.69%
Tax	225	3.03%	15.84%
Net profit	225	3.03%	15.84%

(Source: adapted from Šlekienė/Klimavičienė, 1999, p.34-35)

As we shall see in a later section, the adoption of either mechanism of assessment is bound to exert an important role in the evaluation of creditworthiness, as financial analysts are bound to inspect *ataskaita* data (and the ensuing balance statement) before deciding on the granting of a loan. From this point of view, the attractiveness of the Anglo-Saxon mode of accounting lies essentially in its comparative simplicity. In the context of the Lithuanian agricultural sector, however, this approach is bound to be misleading as it fails to take into account the substantial delays in payment characterising the agricultural sector, in particular processing conglomerates failing to meet their obligations towards producers of raw agricultural goods (cfr. Pelanienė in *Rinkotyra*, 3(5)1999; Petrauskas in *Lietuvos aidas*, 04/05/2000, *et al.*). In this way, analysts could be misled to believe that the conglomerate has reaped a profit, when in fact it may be unable to cover its production expenses. In addition, this system does not highlight the contribution of each step of the production process to the final output, so that analysts have to resort

to other information (cfr. Tamulionis, *Mokesčių svadas*, 1997; Bagdonavičius, 1998).

The continental accounting standard, on the other hand, is independent of the terms of payment and allows for a greater degree of detail. In larger agricultural co-operatives not only different stages, but also different types of production within the same concern are accounted for separately, and the same is done with inventories. This practice allows also the cross-comparison of farming units working in the same sub-sector at the end or at different stages of the production process (cfr. on *SAPARD, KŽŪR conference*, March 2000; *ELTA* reports in *Lietuvos aidas*, 15/04/2000). In addition, on the basis of variations of the inventory level, analysts may also collect information as to changes in demand for different products (cfr. *Agro-Balt*, May 2000). It appears that this system is better suited to the Lithuanian context, providing deeper insights as to the internal working of agricultural organisations and a more adequate estimate of their financial condition. The reason why a substantial proportion of successor farms refrain from adopting these accounting standards probably reflects their unwillingness to allow cross-comparisons.

In conclusion to these considerations, we can see how the dichotomy existing within the agricultural sector between large co-operatives and subsistence farming is strengthened by the way in which transaction and financial accounting are drafted. Processing conglomerates and large-scale agricultural concerns tend to present distorted income statements and, for contingent reasons, most of them use cash flow accounting conventions leading to an inadequate picture of their financial situations. This puts them in a position of advantage if compared to subsistence farms, which are less likely to present inaccurate income statements, as well as to the agricultural co-operatives that use the French-German accounting system. Paradoxically,

organisations adopting more transparent accounting conventions are likely to be deemed less credit-worthy than their counterparts issuing less accurate accounts.

4.3 Working capital, real capital and credit strategies

The evaluation of the creditworthiness of individual entities may focus on the composition of the entity's capital at any moment in time, pinning down the type of on-going credit strategy pursued by the applicant, or may concentrate on the evaluation of the concern's over-all financial stability. Intuitively, on-going *apyskaita* and *ataskaita* are going to provide useful insights into the analysis of the concern's current strategies, while financial stability shall be assessed against the background of final income and balance statements. In this section, we shall focus on the first of these two types of analysis, highlighting the impact of working capital and real capital estimates on the granting of credit. We shall see once more that the methods employed to estimate the composition of capital of potential borrowers results in systematic discrimination against small-scale farmers, perpetuating the predominance of large co-operative structures.

Broadly following international convention, the guidelines for evaluation of creditworthiness distinguish between working (*apyvartinis*, literally "turn-over") and real (*neapyvartinis*, or "non-turn-over") capital (cfr. Mackevičius/Poškaitė, 1998):

- *working capital* includes those assets which are used in the course of the production cycle and are then created anew. These assets are divided into a *constant* part, providing the farming unit with a safety net, and a *variable* part, whose volume follows a cyclical pattern according to need. Wishing to carry out

- a more detailed analysis, financial institutes distinguish *reserves* (both raw material and inventory), *receivables* (sums that buyers must pay for already purchased produce), *short-term investment* (securities and deposits) and *cash*;
- *real capital* is made up of those assets which are used for more than one production cycle. They include land, real estate and infrastructure which the entity in question can dispose of on the basis of clearly defined property rights (cfr. Šlekiénė/Klimavičienė, 1999). Long-term financial resources are also included.

Apart from their over-all volume and internal structure, credit analysts are also interested in the degree of liquidity of the assets making up working and real capital. While the former two characteristics are crucial if the continuity of the concern's activity is to be ensured, liquidity plays an important role in determining the entity's present ability to cover its financial obligations.

In the next two sub-sections, we shall discuss the role of working and real capital estimates separately, highlighting how in both cases accounting practices lead to an allocation of resources that reinforces the existing organizational arrangements and systematically discriminates against small-scale independent farming.

a) Working capital

While in the case of accounting standards, the demise of collective agriculture signified the transition from one set of procedural conventions to another, in the early 1990's the dismantling of the comprehensive web of loans and grants tying together state authorities and *kolūkiai* introduced farming units to the virtually unknown world of independent financial management, with its own evolving set of definitions and conventions. Financial institutes were quick in adopting analytic schemes used in Western Europe, thanks also to a series of EU exchange programs (cfr. *Rinkotyra*, 2(4)1999).

In the evaluation of an entity's creditworthiness, analysts try to highlight the mechanism whereby the different parts of working capital are currently being financed (cfr. Jones/Dudley, 1978). An enterprise where the volume of working capital is equal to the volume of liabilities to be met within the current production cycle is regarded as pursuing an *ideal credit strategy*. Such an arrangement, however, is hardly going to guarantee the stability of agricultural concerns, as in the event of a climatic anomaly or a sudden change in consumers' tastes, farming units may have to forego a proportion of long-term assets and find themselves unable to meet their obligations (cfr. Warren, 1982, on financial management for British farmers in the XIX century). In Lithuania, the instability of the agricultural sector is such that a farm pursuing an "ideal" credit strategy would actually be open to substantial risks of default- in order to ensure financial stability, the sum of real capital and constant working capital should match long term liabilities (cfr. Ramanauskas, 1993, 1996).

Once this requirement is fulfilled, the difference between the three remaining credit strategies lies in the method whereby the variable part of capital is financed. In case both long-term assets and a small part of working capital are covered with long-

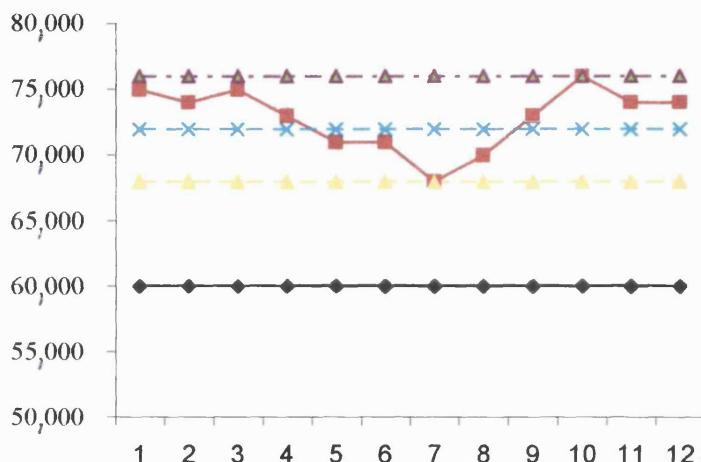
term loans, with the extant part of working capital provided for with short-term loans, the concern is said to pursue an *aggressive credit strategy*. Usually this arrangement is adopted by those farms undertaking substantial redevelopment projects, such as Irish farmers in the first years of Ireland's membership of the EU (cfr. Marsh/Tangermann, 1996). In the context of the Lithuanian agricultural sector, however, instances of this approach are very rare and confined to special concerns undertaking biological agriculture with the aid of foreign capital (cfr. *KŽŪR conference acts*, 09/03/2000).

In case short-term loans are avoided and all working capital is financed with long-term loans, the farms is said to pursue a *conservative credit strategy*, which shelters farmers from the risk of running short of liquids in the case of an unexpected shock. In Western Europe, such strategy is adopted by structures which do not plan to undertake internal restructuring or expand. In Lithuania, this is the option favoured by large scale-farms, which tend to postpone the servicing of their obligations into the ever more distant future (cfr. Vengrauskas, 1993). Finally, whenever the constant part of working capital and a substantial proportion of the changeable assets are covered with long-term loans, the concern is said to pursue an *intermediate credit strategy*- credit institutes tend to favour those structures where the latter proportion stays stable. This strategy is usually chosen by small subsistence farms, both in Western Europe (cfr. *KŽŪR conference acts*, 09/03/2000) and in Lithuania (cfr. Tamulionis in *Vartai*, 08/05/2000).

These last three credit strategies may be illustrated with the help of an example, indicating the alternatives open to a firm endowed with a particular combination of assets or liabilities:

III- Composition of the capital of a middle-sized farming unit

(Litas, 1996, month by month)



(Source: adapted from Mackevičius/Poškaitė, *Finansinė analizė*, 1998, p.123)

8,000 Lt. is the constant part of working capital, so that 68,000 Lt. is the *minimal financing requirement* at the close of the agrarian production cycle in July and 76,000 Lt. is the *maximum requirement* at its start in October. The red line stands for the co-operative's over-all actives according to the latest *atskaita*. The yellow line represents an *aggressive strategy*, whereby long-term liabilities cover only real capital (the dark line) and the constant part of working capital. The brown dotted line indicates a *conservative strategy*, whereby long-term loans finance the totality of working capital, whereas the blue line highlights a possible *intermediate strategy*, whereby long-term liabilities cover real capital as well as the constant part of working capital and a proportion of changeable ones.

As we mentioned earlier, farms that undertake an aggressive credit strategy can usually afford such a strategy thanks to the loans granted by private investors (cfr. *Mž*, 13-19/05/1997). On the other hand, credit institutes tend to look more

favourably at those entities pursuing policies where a substantial proportion of assets is financed by means of long-term loans, either by means of a conservative, or an intermediate strategy. As a result, preference is routinely given to entities which are not going to undertake substantial renovation plans (cfr. *Rinkotyra*, 2(4)1999). In a context of transition such as that of the Lithuanian agricultural sector the absence of sector-specific credit programs inevitably results in a strengthening of existing organizational structures, at the same time laying the conditions for the reestablishment of the special relationship between the leadership of the successor farms and that of the financial institutes.

b) Real capital

In the course of this sub-section, we shall see how financial discrimination against subsistence farming has been strengthened further by a flawed understanding of the role of real capital in ensuring a concern's credit-worthiness. While analysts are concerned also with the comparative analysis of real capital *usage* and *re-creation patterns* across different agricultural units, in the farming sector financial institutes are mainly interested in real capital *structure* and *dynamics*, focusing on its volume and the internal composition, as well as in its *temporal efficiency*, evaluating how the potential borrower has scheduled his or her investment over time (cfr. Bagdonavičius, 1998).

Credit institutes attempt to construct time series to detect trends within the composition of capital of a concern year after year- whenever possible, expected real capital should be compared with its actual amount. As in the case of large agricultural conglomerates real capital constitutes the greater proportion of the entity's assets, the accuracy and the amount of detail included in the concern's *apyskaitos* is going to play a decisive role in determining the adequacy of the

assessment (cfr. also Pranckevičius on the National Fiscal Inspectorate in *Lietuvos aidas*, 02/05/2000).

The main indicator of creditworthiness used to assess real capital is its *compound rate of return* (Lit. *fondogrąža*), which is an analytical index based on the internal structure and dynamics of the assets making up the real capital. While in the 1980's this index was used to evaluate the contribution of *kolūkiai*'s real capital to the collectives' profitability, at present the aim of the analyst is to estimate how each of the components of real capital contributes to the volume of final production (cfr. Šlekienė/Klimavičienė, 1999).

The simplest *fondogrąža* index (F_1) is equivalent to the ratio of $q(V)$ (the volume of working capital) and $q(A)$ (the volume of real capital)- the following two-factor model highlights the proportion of the quantity of fixed real capital $q(FA)$ to both $q(V)$ and $q(A)$:

$$F_1 = \frac{q(V)}{q(A)} = \frac{q(V)}{q(FA)} \times \frac{q(FA)}{q(A)}$$

where $q(V)$ = volume of working capital and $q(A)$ = volume of real capital.

A more sophisticated *fondogrąža* index (F_2) would calculate the ratio of $v(V)$ (the value of working capital) and $v(A)$ (the value of real capital). More elaborate models may include other factors such as the production's added value (APV) and indicators for the volume (q) and the value (v) of machinery or infrastructure (M, I):

$$F_2 = \frac{v(V)}{v(A)} = \frac{v(V)}{APV} \times \frac{APV}{q(M)} \times \frac{q(M)}{q(I)} \times \frac{q(I)}{v(I)} \times \frac{v(I)}{v(M)} \times \frac{v(M)}{v(A)}$$

Credit institutes wishing to undertake a comparative estimate of concerns' creditworthiness sometimes include a proxy for the degree of enterprise specialisation, ranging from zero for purely subsistence farms to values close to one for large conglomerates specialising in the processing of one product (cfr. Šlekienė/Klimavičienė, 1998; also Ramanauskas, 1996). The determination of this proxy's numerical value, however, appears to reflect the analysts' wish to classify concerns into clearly defined categories rather than the willingness to undertake an accurate assessment of the available data (cfr. Tamulionis' suggestions on the manipulation of indices in *Mokesčių svadadas*, 1997).

Intuitively, the higher the value of the *fondograža*, the more creditworthy an entity should be. However, credit institutes using the simpler version of the index tend to favour entities where $\frac{q(FA)}{q(A)}$ is smaller (indicating that the farming units is not using all its assets) and $\frac{q(V)}{q(FA)}$ is larger (indicating that the amount of working capital is not substantially smaller than the amount of real capital). The aim of banks and building societies is to check whether farming units have a sufficient share of reserve, or non-utilised, assets, making also sure that at the same time the ratio of working capital to utilised real capital is sufficiently high (cfr. *VMI raštas* quoted in Bagdonavičius, 1998). Entities with such characteristics are meant to be "stable" and less likely to incur into disruptions of the production process. Credit institutes using the second type of index tend to prefer entities where the margin of production added value is higher, while the proportion of machinery and infrastructure within over-all assets is at least 50%.

It is easy to see how this reading of the index results in discrimination against subsistence farms and strengthens the flow of capital to larger successor farms. Subsistence farms tend to use the virtual totality of their assets in the course of their

activity, while the usage of mechanised equipment is usually quite limited. At the same time, the measurement of production added value is virtually impossible in small-size farms undertaking basic subsistence agriculture. The paradox is that the presence of fallow land, obsolete unused infrastructure or under-utilised equipment

translate themselves into lower values of $\frac{q(FA)}{q(A)}$, so that once more successor farms

having inherited the senescent assets of previous *kolūkiai* find themselves in the position to control the flow of loans granted by state credit institutes. The fact that sometimes these estimates are carried out by *savivaldybės*' officials tells us that often the more detailed estimates of the *fondograža* are carried out when the decision as to the granting of the loan has already been taken.

While the adoption of Western analytic standards for the evaluation of creditworthiness was hailed as a major step forward for the Lithuanian financial sector, such enthusiasm ought to be qualified by a more informed awareness of the structural distortions that its usage has failed to consider and therefore implicitly perpetuated. While it is to the merit of existing financial institutes that the dangers inherent in the pursuit of "ideal" credit strategies by agricultural entities were soon to be envisaged, the failure to integrate the conventional understanding of the remaining strategies with an accurate structural analysis of potential applicants has led to systematic discrimination against independent farming, guilty of not being able to accumulate an amount of reserves of working capital comparable to that of their larger counterparts. The analysis of the rate of return of real capital has been equally flawed by a misguided preoccupation with non-utilised assets meant to guarantee the concern's creditworthiness. In the next section, we shall see how a similar unwillingness to adapt standard analytical tools to the structural realities of the rural sector has resulted also in a flawed analysis of concerns' over-all financial stability.

4.4 Disposable capital, borrowed capital and over-all financial stability

Although instances of combined accounts attempting an evaluation a joint evaluation of *apskaitos* and *atskaitos* data were already present in Lithuania in the inter-war period (cfr. Šalčius, 1989, 1992), the limited amount of financial capital at the disposition of agricultural co-operatives and the fact that a substantial amount of transactions took place without any financial transfer meant that the evaluation of financial stability as such took always second place to the analysis of transaction-based accounts (cfr. Tamošiunas, 1974). As mentioned in *Chapter I*, in the Soviet period considerations of collectives' financial stability were not even raised as state authorities constantly intervened to ensure that the necessary resources were at the *kolūkiai*'s disposal. Following the restoration of independence, financial institutes assessing potential applicants focused on the evaluation of the latter's on-going credit strategy- it was only after the Agricultural Bank followed a series of guidelines on the evaluation of financial stability (cfr. Lithuanian Statistics Department, *Annual Reports* of the Ministry of Agriculture, 1996-99) that the latter started to be assessed alongside the on-going credit strategy to evaluate the creditworthiness of potential borrowers. While a detailed analysis of the evaluation of financial stability of farming units would lie outside the scope of this work, a brief overview of the approach adopted by credit analysts will immediately reveal its intrinsic flaws, which strengthen the bias of credit institutes towards successor farms and processing conglomerates.

The 1997 guidelines of the Agricultural Bank emphasise the necessity to retain within financial statements a clear distinction between the agricultural co-operatives' *disposable (nuosavas) capital* and *borrowed capital*:

- *disposable capital* consists mainly in the statutory (*istatinis*) capital made up of the contributions of individual members as the co-operative is established. Following the ease of the restrictions on the circulation of stock (cfr. *Section 3.4*), agricultural co-operatives are allowed to raise further capital issuing securities. Further financial reserves such as undistributed dividends may also become part of disposable capital if the guidelines of the 1994 *company law* are obeyed;
- *borrowed capital* consists in reserves that are at the firm's disposition only temporarily. As most of these reserves are financial obligations (*isipareigojimai*), they are usually classified according to their type and duration. The Lithuanian *atskaita* convention characterises all obligations lasting more than one year as long-term (cfr. Kvedaraité, 1994), but this distinction is not very helpful to credit analysts, who tend to follow international usage and rearrange obligations in term of their volume and periodicity.

On the basis of the information included in the *atskaita*, it is then possible to calculate a so-called *dependency coefficient* expressed as the ratio of *disposable* and *borrowed capital*. This coefficient is also called *leverage index*, despite the ambiguity implicit in the usage of this term (cfr. Bagdonavičius, 1998). International convention identifies a value of one for this coefficient with an ideal situation of financial stability (cfr. Šlekienė/Klimavičienė, 1999)- however, as in the case of the ideal credit policy mentioned in the previous section, this is unlikely to guarantee long-term financial stability in a sector subject to uncontrollable factors such as agriculture. As a result, Lithuanian analysts tend to disregard the dependency coefficient and focus rather on the more analytical assessment of the relation between assets and liabilities, where disposable capital and other types of financial obligations are regarded as the financial counterpart of real and working capital.

A company is going to be considered balanced in case the relation between assets and liabilities respects the following relation:

$$NA + AA = NK + IL + TL \quad (eq.1)$$

where NA = real capital, AA = working capital, NK = disposable capital, IL = long-term obligations, and TL = short-term obligations (cfr. Šlekienė/Klimavičienė, 1999). The second term (AA) can also be expressed as $A+P+D$, where A = reserves, P = receivables, and D = short-term investment. *Eq.1* can therefore be written as

$$A + P + D = ((NK + IL) - NA) + TL \quad (eq.2)$$

As D refers to investment programs carried out in the course of one accounting period and P indicates the financial obligations accumulated by the company's clients, their calculation is unlikely to engender controversy. The calculation of the volume of reserves, on the other hand, is more problematic and is regulated by the guidelines outlined in *Section 4.3*. The mechanism whereby reserves are estimated is going to be crucial for the over-all assessment of financial stability, as credit analysts generally assume that receivables and short-term investment are sufficient to cover short-term obligations and tend to omit them from their calculations (cfr. *Verslo ir komercinė teisė*, 1-2 1998). *Eq.2* is therefore simplified into

$$A \equiv ((NK + IL) - NA) \quad (eq.3)$$

As a consequence, the stability of an entity is going to be regarded as ensured if disposable and long-term borrowed capital (jointly referred to as NKA) do match existing reserves:

$$A \leq ((NK + IL) - NA) \quad (eq.4)$$

This measure of assessment is commonly adopted to establish the degrees of financial stability of different loan applicants:

- *absolute financial stability*- in this case, *NKA* is covered by existing reserves, with the possible addition of some extra-ordinary loans (*tikslinės paskolos*) to service arrears which can no longer be postponed. In the Lithuanian agricultural sector, it is possible to find such a situation only in large processing conglomerates (cfr. *LAT-CBS pareiškimas*, 23/12/1996 and 28/12/1998);
- *normal financial stability*- in this case, reserves exactly match the sum of *NKA* and extra-ordinary loans;
- *unstable financial situation*- in this case, the equilibrium between reserves and capital is not ensured by extra-ordinary loans, but requires a further inflow of capital. This situation is the most common, and it is regarded as acceptable by credit institutes as long as a substantial proportion of short-term loans and credit is covered by inventories;
- *critical financial situation*- in this case, the volume of reserves is lower than the sum of long-term borrowed capital and any other short-term financial obligations. Equilibrium can be restored only by increasing reserves or reducing the volume of expenses.

The main difference between Lithuanian and international practice in the evaluation of a concern's financial situation is that in the former case the so-called extra-ordinary loans are not regarded as liabilities, although technically it should be so (cfr. *KŽŪR conference acts*, 09/03/2000). Their impact on preserving a degree of financial stability in rural areas is substantial- independent surveys as to the financial condition of agricultural concerns in Aukštaitija highlighted that 50-60% of those units displaying a "normal" degree of stability were in fact heavily subsidised with *tikslinės paskolos* granted under *savivaldybės*' guarantee (cfr. *Agro-Balt*, May 2000).

In general, extra-ordinary loans constitute about 45% of all loans granted in the country, but about 80% of them (cfr. Grižibauskienė in *Lietuvos aidas*, 28/03/2000) are granted to co-operatives or processing conglomerates.

The paradoxical implications of this practice are evident. We mentioned in the previous section that the method used to estimate reserves in *apskaitos* results in a situation where larger units are regarded more favourably by credit institutes than subsistence farms. As reserves are meant to be covered by disposable and long-term borrowed capital, the need for credit expressed by larger co-operatives and processing conglomerates is automatically going to be greater than that of subsistence farms. In Lithuania, the former are able to retain a higher degree of stability thanks to the guarantees granted by local administrations to credit institutes as to the servicing of extra-ordinary loans (cfr. Bagdonavičius, 1998). What effectively happens is that *savivaldybės* negotiate transfers of capital to successor farms, whereby the amount of *tikslinės paskolos* is included among the assets so that the financial situation of the concern is made to look more stable. In most cases, such extra-ordinary loans are either paid by local administrations or they are not serviced and retrospectively turned into grants- what matters is that, when co-operatives apply for further loans, they can display combined accounts indicating that their reserves are covered, so that banks and building societies, despite their awareness of the problem (cfr. Leontieva on the role of the new government, 2001), have no argument for refusing the granting of loans.

This mechanism effectively results in a two-level wastage of resources- state authorities (mainly *savivaldybės*) elicit a particular type of credit which is usually not serviced in order to allow the agricultural organisations they protect to obtain ordinary loans. In addition, it reinforces the dependency of successor farms from local administrations, without whose support they would not be able to obtain credit. On the other hand, as subsistence farms are unlikely to receive *tikslinės paskolos*

from financial institutes, analysts assessing their combined accounts will often classify them as "unstable" or "critically unstable" (cfr. Bičkauskienė in *Lietuvos aidas*, 18/04/2000). The implication of these considerations confirms once more our earlier contention as to the role of accounting conventions in the perpetuation of the gap between small-scale agriculture and large-scale, inefficient structures.

4.5 Sector-specific credit and structural stagnation

In the course of this section we shall see how the deployment of sector-specific credit has acted as a multiplier of the existing organisational inertia, directing funds away from small-scale farming towards larger and less efficient co-operatives. In the wider context of a financial sector still burdened by excessive centralism and bureaucracy, the persistence of discrimination in the granting of credit could only strengthen the existent collusion between municipal authorities and successor farms, creating a situation where loans are systematically granted to the units which are least capable of servicing them. In the next section, however, we shall balance these criticisms with a discussion of independent credit unions, indicating how the latter can provide a viable alternative to the current scarcity of credit and the accompanying mismanagement of existing financial resources.

At the onset of transition, the manner whereby credit was granted exerted a substantial impact on the development of new forms of agricultural organization. We mentioned in *Section 3.2* how the vouchers distributed under the de-collectivisation schemes enabled previous members of the collectives to take over already existing assets free of charge- however, most of the latter required substantial restructuring and had to be replaced. At the same time, however, the liberalisation of prices implemented by the Prunskienė government paved the way to a high inflationary pressure which wiped away the savings of the rural population and posed a serious obstacle to the utilization of restituted plots of subsistence farms (cfr. *Veidas*, 08/12/1999). In early 1991, the estimated cost to purchase the necessary equipment and to replace obsolete infrastructure varied from 60,000-100,000 roubles for a subsistence farm tilled by members of a single household to 500,000-1,000,000 roubles for a larger co-operative (cfr. *Tiesa*, March 1991). Over 1992-94, the perceived necessity to support the establishment of viable structures translated itself

into a number of *nutarimai* meant to regulate the manner whereby traditional credit institutes grant loans to farmers (cfr. *Vž*, Jan./June 1992).

Guidelines as to the granting of loans were devised in the context of a wider reform of the banking system largely imitating initiatives undertaken at the same time in the Russian Federation (cfr. Genienė/Čiulevičienė, 1998; also Wegren, 1998). We mentioned in *Section 3.2* how, during the collective period, rural credit had been under the control of the Agricultural Bank, which had enjoyed a substantial degree of discretion in the choice of its targets while being rather lenient in demanding the servicing of loans (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, LTSR liaudies ekonomika*, 1982-88). Following the October 1992 elections, the task of supervising the granting of loans was transferred to the newly established Central Bank, which would serve as a *trait-d'-union* between the Finance Ministry and the recipients of credit. However, the *nutarimai* mentioned above failed to outline how the Central Bank was supposed to supervise the credit activities of the newly established commercial banks or the usage of credit capital by agricultural enterprises in rural areas. Many new financial institutes relied on state support and lacked the technical know-how to discriminate among potential borrowers. Nevertheless, the policy of unqualified support initially granted by successive LDDP governments to banks retaining quotas of state participation allowed them to continue operating even in conditions of worsening insolvency- it was only the banking crisis of late 1995-early 1996 and the ensuing collapse of a number of financial institutes that forced the political class to revise its approach to sectoral loans.

Following the election of a Conservative majority in October 1996, control over agricultural credit was partially returned to the Agricultural Bank, which by late 1997 had granted its supervision to most forms of agricultural credit. Following the guidelines laid in a project for the development of a viable agricultural sector drafted

in collaboration with the World Bank (cfr. Deksnys, M. and Tamulionis on the WTO in *Lietuvos aidas*, 24/01/2000), the Agricultural Bank itself would grant loans exclusively to successor farms, while processing conglomerates would receive periodic loans from other banking institutes (cfr. *Vartai*, 27/03/2000). In addition, the second Vagnorius government reformed the Agriculture Support Fund (ŽŪPF), whose task was to grant loans at special rates to any farming unit after evaluating their creditworthiness and the extent of their "actual" need. In 1994 the fund had granted 101,7 million Litas of special credits, 60-70% of which to subsistence farms- by 1997, the loans granted by the ŽŪPF were limited to 10 million Litas to cover fuel expenses and a further 20 million to establish a guarantee fund for infra-sectoral loans.

The reforms implemented over 1996-2000, however, have not resulted in a change of the existing distorted practice where financial institutes fail to include in their own *ataskaitos* a large proportion of the loans granted to successor farms (usually called "political loans"), so as to hide the eventual insolvency of the recipients of credit as well as the banks' mismanagement of financial resources (cfr. Van Bekkum/Shilthuis, 2000, on other CEEC's). Such "political loans" are made possible by the personal relationships existing between former *kolūkiai* leaders -now employed in co-operatives' administrations- and banking officials, most of whom had been working for the Agricultural Bank under the earlier regime. In some cases, when co-operatives are unable to service their financial obligations, *savivaldybės* may request financial agencies to extend the terms of payment or to transform loans retrospectively into "non-returnable grants" (*negrąžintinės išmokos*) as had been customary whenever collective farms were unable to service their debt to the state.

We see therefore that the web of informal relationships tying co-operative leaderships with bank officials, as well as the guarantees put forth by *savivaldybės*, have ensured that official financial institutes have served almost exclusively the

relatively more homogeneous market of successor farms and conglomerates (cfr. Csaky/Kazlauskienė, 1997). The complacency of state authorities and the accompanying lack of transparency have resulted in systematic insolvency on the part of co-operatives backed by *savivaldybės*. The accompanying reduction of funds to the ŽŪPF, which served mainly subsistence farms, could only make more acute the established disequilibrium between different types of agricultural organization. As a result, subsistence farmers have had to rely on informal credit patterns, reflecting the economic as well as social relations existing between farmers and which are greatly differentiated from region to region. While some have attributed the fragmentation of informal credit markets to some form of hidden government scheming (cfr. *KŽŪR conference acts*, 09/03/2000), in fact the presence of a high number of informal lenders is a natural consequence of a context where the persistence of fragmented property rights results in generalised insecurity and substantial transaction costs and informal relationships are the only way to gather the structurally necessary "credit references" about potential borrowers.

The stronger the personalistic element, the more the interdependence of credit and other market transactions is going to be crucial for the determination of expected returns on loans- in this way, interest rates are going to reflect the extent of these higher transaction costs. The situation characterising the Lithuanian market for agricultural credit has therefore yielded a partial equilibrium limited to successor farms where rates are set in advance (cfr. *Lietuvos rytas*, 29/05/2000), alongside an informal sector where credit terms are stipulated case by case in consideration of the behaviour of potential borrowers in parallel markets (cfr. Tamulionis in *Vartai*, 20/03/2000). While Lithuanian subsistence farmers appear in general to be systematically less insolvent than their counterparts in other transition countries (cfr. *Sole 24-ore*, 06/05/2000), their fragmentation and the inequality of farming conditions resulted, in the first years of transition, in a rather haphazard distribution of capital where credit terms were less favourable than those of larger co-operatives.

In most countries undergoing economic transition, the evolution of official credit markets has been characterised by limited access to loans and a high concentration of portfolios (cfr. *Baltic Times*, May 2000). Although estimates are inconsistent (cfr. Tamulionis in *Vartai*, 07/02/2000 vs. Steponavičius in *Lietuvos aidas*, in 19/02/2000), it appears that in Lithuania less than 20% of over-all agricultural organisations have enjoyed access to loans granted by credit institutes- in addition, 5% of over-all organisations (mainly successor farms and processing conglomerates) had access to 80% of over-all credit. As a result of this situation, larger structures have enjoyed the free income transfer implicit in under-priced credit coupled with an increased command over resources permitted by the loans.

In practice, considering the high proportion of enterprises defaulting on their financial obligations, loans to agricultural co-operatives have often taken the form of mere transfers of resources, according to a pattern qualitatively identical to the support granted to *kolūkiai* in the socialist period. A strong degree of behavioural inertia is also reflected by the persistence, in the period 1992-96, of a marked bias in the allocation of credit towards those sub-sectors which had already received substantial support during the previous regime. According to *Agro-Balt* 2000, during the LDDP legislature 44% of the loans were granted to successor farms involved in the dairy industry and the processing of sugar beets, leaving less than 15% to live stock and food crops- the proportion in 1986 was 42% and 14% (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR, LTSR liaudies ekonomika*, 1987). The ceilings set on agricultural loans by the LDDP government in early 1993 (cfr. Kvedaraitė, 1994) had a further distortionary effect- the strong inflation rates of the 1991-93 period meant that in many cases successor farms effectively faced negative interest rates. The Conservative opposition, considering the substantial impact of these subsidies, mockingly called such farms "state private collectives" (cfr. *Veidas*, 08/12/1999) highlighting how the population was in fact paying a tax to support a restricted set of privileged borrowers.

At the other end of the spectrum, the deployment of the criteria of evaluation of creditworthiness highlighted in the previous sections implied that the requirements posed by official credit agencies on individual farmers were beyond the means at their disposal in the immediate aftermath of de-collectivisation. In 1992-95, in order to obtain credit, subsistence farms were often required by the Agricultural Bank to mortgage their crops, real capital and land (*ikeitimas*), effectively reproducing the system deployed in the 1980's to grant loans to farmers tilling private plots. Other banks tended to request even higher guarantees and borrowing a practice from other former Soviet republics, charged a percentage of the loan as an anticipated fee (cfr. Kovalev, 1995; also Tideman, 1995). In fact, anecdotal evidence as well as the local press (cfr. *Veidas*, 05/04/2001, quoting from the Kaunas daily *Laikinoji sostinė* of March/April 2001) suggest that in many *rajonai*, until 1995-96 up to 90% of all applications submitted by subsistence farmers were actually dismissed out of hand. In addition, even when all conditions were met, banks were extremely reluctant to grant long-term credit, requesting the repayment of the principal within one year (cfr. on the *AKKOR* experience in Russia, Wegren, 1998).

These considerations clearly indicate how it is not possible to dismiss the credit policies implemented in Lithuania over the past decade as irrelevant to the development of the agricultural sector. The financial levers utilised by the state had a significant impact on the way the new agricultural sector took shape, laying the conditions for a stronger degree of continuity with the previous organisational arrangement and effectively preventing the emergence of viable commercial farms. The precedence granted to social and political considerations rather than to the demands of efficiency did not bring about a reduction of the influence of state-controlled financial agencies and *savivaldybės* over the mechanisms for granting credit, but rather a strengthening of their role. The Agricultural Bank, initially conceived as an agency that would foster the interests of farmers (cfr. *Tiesa*, September 1991), failed to attain full independence from the government and

effectively became its mouth-piece on agricultural credit. Commercial banks also failed to develop a coherent credit policy and the scope of their patronage in rural areas was very limited. At the same time, the partiality of state authorities towards larger co-operatives has made a large number of successor farms virtually dependent on cheap loans, while inflating the demand for credit at unsustainable levels.

4.6 Credit unions and alternative standards for the evaluation of creditworthiness

While commercial banks and insurance companies service the majority of large agricultural enterprises, credit unions set up by family farms and individuals tilling subsistence plots have experienced a remarkable development in the years following the promulgation of the *law on credit* (Vž, 21/02/1996). The initial intention of this legislative provision was to release some of the pressure accumulated on the official financial sector, which in 1995-96 had experienced a series of banking crises (cfr. *Vartai*, Dec.1995/Jan.1996)- the later version of the law (Vž, 18/05/2000), however, emphasised the specific virtues of credit unions as opposed to traditional financial structures (*Art.1-2*) and tried to remove some of the obstacles to their diffusion laid by earlier legislation. In the course of this section, we shall outline how credit unions have attempted to circumvent the impasse resulting from the unwillingness of established financial agencies to trust in independent farming and the concomitant absence of alternative sources of credit. At the same time, we shall highlight how the strategy to assess credit-worthiness adopted by credit unions enables the latter to avoid the distortions characterizing methods based uniquely on accounting data.

In the previous section, we mentioned how small-scale farms, facing the inflexibility of banking institutes and building societies, had to resort to informal lending activities carried out outside of any stable structure. Since individual farmers usually disposed of very limited amounts of liquid capital, professional money lending could not be revived in the forms of inter-war Lithuania, when each rural centre had one or two "established lenders" (*skolintojai*, cfr. Šalčius, 1989). Nevertheless, anecdotal evidence indicates that informal lending was already quite high in the immediate aftermath of de-collectivisation- estimates from the Kaunas Agricultural Academy *KŽŪA* claimed that in 1992-95 76% of credit activity was

carried out in the informal sector (cfr. *KŽŪA annual reports*, 1996). The variety of ensuing equilibria, however, failed to reflect the effective opportunity cost faced by individual borrowers and lenders, as the personalistic nature of the ties between lenders and borrowers often obfuscated the real nature of the latter's solvency (cfr. *KŽŪR conference acts*, 09/03/2000). Even as a second-best solution, the multiplicity of interest rates set by lenders in the informal sector was unable to yield a more adequate distribution of resources, accentuating on the contrary regional disparities as individual lenders expected that potential borrowers reciprocate in the long-run (cfr. Tamulionis in *Vartai*, 07/02/2000).

The establishment of self-funded credit unions from the mid-1990's onwards (cfr. *Lietuvos rytas*, 29/05/2000, quoting from the local Polish weekly *Kurier wilenski*) was greeted by academic circles and other think-tanks as the only possible way out of the partiality and wastefulness of sector-specific credit granted by state-controlled banks and agricultural agencies. In those rural areas of the country which were not served by commercial banks, credit unions could offer more convenient location and would impose low minimum transaction sizes and balance requirements. For the first time, small-scale farmers would be able to hold liquid deposits paying interest rates rather than other hedges (mainly real capital) yielding low rates of return and subject to low inflation tax. As a result, empirical evidence (cfr. Tamulionis, *op.cit.*) indicates that, after initially diverting savings from direct investment in assets and infrastructure, the establishment of credit unions in rural areas tends to increase the savings rate. At the same time, farmers and unions' representatives consistently declare (cfr. Kontrimavičius in *Vartai*, 24/01/2000) to feel under increased pressure to meet their financial obligations if credit comes from "known" entities rather than from "distant" state authorities.

After an initial period when the state took little interest in the establishment of credit unions, the Conservative majority realised their increasing importance and

promulgated a set of guidelines regulating their inner functioning and their relationships with state authorities. The later version of the *law on credit* defines credit unions as co-operative credit outlets established by independent farmers and characterised by legal personality and limited responsibility (*Art.3*). In this sense, they exert temporary property rights on a number of assets- real as well as financial- entrusted to them by their own members, but they are not automatically expected to deploy them to service any obligation taken by the latter with other credit structures. Credit unions are organised in a way similar to that of agricultural co-operatives, although in this case members shall be allowed to join one union only (*Art.15*). The Civil Code (*Par.14-17*) complements the provisions of the law with a series of guidelines as to the by-laws of credit unions, outlining the relationship between the share-holders' assembly and the union's executive bodies.

The directives concerning the granting of loans by credit unions are the object of detailed regulations included in a series of governments' *nutarimai* (cfr. *VMI raštas* in Bagdonavičius, 1998-99). In the 1996 law, it was established first of all that financial services may be granted to any physical or legal person within the agricultural sector, although members of the credit union shall enjoy special terms (*Art.6-8*). *Art.11-14* insisted that a ceiling be imposed on the amount of credit which each borrowers could dispose of- members of the union could dispose of up to ten times their contribution to the statutory capital, while the case of other applicants would be decided individually by the share-holders' assembly. *Art.9* of the 2000 version qualified the earlier provisions specifying that credit could be used to acquire real asset or meet service charges- on the other hand, the purchase of securities issued by agricultural co-operatives was not allowed, arguably in order to ensure that funds would be channelled into material amelioration projects. In terms of the loans' guarantees, the law distinguished between legal and physical persons, establishing that the former are not allowed to use land as collateral and had instead to levy a mortgage on real estate (*užstatas*) or issue a payment pledge. The fact that

subsistence farmers are technically allowed to use their land as collateral, however, does not necessarily mean that they are in a better position- in some *rajonai*, the value of their land is as low as 5 Lt./ha and no other form of collateral is available (cfr. *Rinkotyra*, 2(4)1999).

If we then consider the issue of evaluation of the creditworthiness of potential clients, we shall see that the root of the difference between commercial banks and credit unions lies in the fact that the former must rely on balance and income statements drafted by the applicant, while credit unions are in the position to keep track of the on-going transaction-based accounts and may request their members to submit reports concerning their productive activity at any stage of the accounting period (cfr. Petrauskas in *Lietuvos aidas*, 20/05/2000). In this way, rather than focusing on the evaluation of the mechanism whereby short-term assets are financed or on the assessment of financial stability, credit unions are in the position to make cross-cut comparisons of the cost efficiency of the potential borrower at different stages in the production cycle. This process is termed *cost self-assessment* (*savikaino įvertinimas*) (cfr. Tamulionis (ed.), *Kaip išvengti didelių mokesčių laiku ir visus juos sumokant*, 1997).

Credit unions are going to distinguish between fixed (*pastovieji*) and variable (*kintamieji*) costs:

- *fixed costs* include all expenses which are not related with the volume of production. In the case of processing conglomerates and agricultural co-operatives registered as legal persons, fixed costs shall largely consist in rent or in expenses to meet depreciation costs of infrastructure. In Lithuania, the proportion of fixed costs for subsistence farms or co-operatives registered as physical persons is likely to be lower, not only as

a result of the smaller scale of the entity, but also because physical persons are allowed to own land (cfr. the *law on land* in *Vz*, 25/07/1991, and the *LAT-CBS pareiškimas* of 12/01/1995). Interest on credit is regarded as part of fixed costs in case the granting of the loan repeats itself on a cyclical pattern;

- *variable costs*, on the other hand, are a function of the volume of production. For obvious reasons, subsistence farms are likely to face lower expenses, though in the agricultural sector shocks may affect any unit independently of its size.

One must not forget that in a context characterised by generalised instability the distinction between fixed and variable costs is circumstantial and often subjective-transaction-based accounts prepared by members of credit unions may fail to be comparable even if each is drafted with the intention to keep an accurate record (cfr. Bagdonavičius, 1998). With all its limitations, however, the evaluation of farming units on the basis of the comparative costs is bound to yield a more accurate evaluation of their efficiency, thereby leading to a more adequate allocation of credit resources. While inflated *apskaitos* are still drafted to impress state-controlled banks and financial agencies, in the case of credit unions it is in the interest of the applicants to present truthful reports of their transactions, as all members contribute to the capital used to finance loans (cfr. Šlekienė/Klimavičienė, 1999). At the same time, the geographical closeness of the members of the union usually implies that any attempt at fraud would be easily uncovered.

Over the past years, credit unions have also developed an increasing awareness of the necessity to integrate accounting data with a more comprehensive assessment of potential applicants including an evaluation of their position within their branch of activity. The variety of "informal" considerations used by credit

unions to evaluate potential borrowers emerges as we read through the reports issued by individual credit unions, as well as by the Union of Credit Unions in 1998 (cfr. Ranonytė in *Verslo žinios*, 10/07/1998; also Petrauskis in *Veidas*, 09/11/2000, quoting the local press). Among the elements most frequently mentioned, we should remember:

- "*character*", indicating the applicant's record on requesting credit support. The nature and frequency of the loans taken over successive accounting years enable credit unions to draw a picture of the client's reliability;
- *capacity (pajėgumas)*, indicating the client's ability to meet its credit commitments. In particular, the bank is interested in the *uncovered loan coefficient*, expressing at any moment of time the percentage of financial arrears whose terms of payment have expired more than two months earlier (cfr. Ramanauskas, 1996);
- *collateral*, including all real capital and capital laid out as a guarantee for the restitution of the loan. While subsistence farms and agricultural co-operatives registered as physical persons may put forward land plots as collateral, Lithuanian legislation (cfr. *Art.16* of the 1997 *law on land*) does not allow legal persons to own land in their own right, so that processing conglomerates resort to assets such as machinery or infrastructure. According to the Agricultural Bank's guidelines, reflecting generally accepted standards (cfr. *Baltic Times*, May 2000), the value of the collateral has to be 40-50% larger than the amount of the loan;
- *context (sąlygos)*, measuring the comparative position of an enterprise against the joint background of the sub-sector where it operates and the geographical area where it is operational. To this aim, the union necessitates of a comprehensive data-base requiring the collaboration of local branches of financial agencies (cfr. Steponavičius in *Lietuvos aidas*,

15/03/2000). Proxies for this indicators were usually provided by the share of a particular market occupied by the applicant in question.

In practice, evaluation of an applicant's *character* or of its *context* are often beyond the reach of most credit unions, as they would lack access to the necessary data. In two separate works on agricultural transition credit, the *KŽUR* conference of March 2000 highlighted a number of so-called *static factors* used as yardsticks of credit-worthiness:

- the price and position of the *land plot* where the farming unit is located. The higher the value of the land, as estimated in accordance with the *land law* guidelines, the more credit-worthy shall the potential borrower be;
- the *chosen enterprise specialisation*. As estimated by farmers' organisations themselves (cfr. Steponavičius in *Lietuvos aidas*, 19/02/2000), the risk that a borrower may not service his obligation tends to be high as the specialisation is very narrow or is very broad, as resources are required to purchase more equipment and to train personnel;
- the *juridical status* of the organisation. A co-operative issuing securities is more likely to meet its financial obligations than a single subsistence farm (cfr. *Rinkotyra*, 1(3)1999). In case the agricultural concern was structured as a share-holding co-ownership, the company's by-laws, as well as the acts of the share-holders' assembly can provide relevant information as to the financial situation of the enterprise.

Such factors could be integrated with a number of *dynamic* yardsticks such as the following:

- the tendency to *result stochasticity* (cfr. Tamulionis, *Mokesčių svadės*, 1997)- a higher degree of outcome variation was interpreted as an indirect indicator of insolvency risk;
- the on-going *composition of the inventory*- the need to preserve a larger variety of agricultural produce and equipment, necessitating higher inventory expenses (*atsargos*), is regarded as indicating a stronger likelihood of insolvency;
- the chosen *development strategy* of the firm- individual farms as well as producers of raw agricultural goods, independently of their legal personality, needed comparatively more credit in order to purchase long-term assets.

The emphasis on different characteristics of agricultural concerns and on different aspects of their activity inevitably led to individual credit unions setting inconsistent requirements to potential borrowers. In an attempt to unify standards, twenty-eight large credit unions (out of a total of thirty-five operating in the country as of 01/01/2000) established an umbrella organisation known as *LKU (Lietuvos kredito unijos)*, which in the long term is expected to set unified standards for the evaluation of potential borrowers. While by 1997-98 the *LKU* effectively includes only 3500 members out of a totality of 200,000 family farms and over 300,000 subsistence units, its impact on the country's agricultural sector has been consistently growing- if in 1995 loans granted by credit unions amounted to only 0,09% of the total, this percentage is now about 15-20% and in some rural areas it reaches 30% (cfr. Tamulionis in *Vartai*, 08/05/2000). Through their membership in the *LKU*, individual credit unions are also able to borrow from each other circumventing the lack of capital periodically affecting them, ensuring that independent farmers can rely on a constant source of capital.

Despite the persistent mistrust from some local administrations regarding credit unions as "unnecessary" (cfr. Lithuanian Information Institutes, *Rinkiminės nuostatos* of the Naujoji Sajunga, 2000), state authorities in general have mitigated their initial opposition. This is witnessed by the *nutarimas* issued by the first Pakšas cabinet (cfr. *Vž*, Nov.1999) establishing that in the future the state should encourage subsistence farmers to transfer their savings to credit unions. In the long term such disposition could increase the latter's membership by two-three times and correspondingly increase the circulation of capital.

In the context of an evolving agricultural sector, the task of alternative credit structures is that of serving the needs of those farming units marginalised by traditional financial agencies. While the structure of Lithuanian credit unions is bound to undergo significant changes in the future, the degree of latitude characterising the evaluation of potential borrowers in the informal sector has ensured that the mechanisms whereby credit is granted are tailored to each case's specific characteristics. Data from the *LKU* about credit unions solvency from 1996 onwards (cfr. Tamulionis, *op.cit.*) confirm the intuition that the personalistic nature of the relationships developed between unions and their clients enable the former to break the information barrier burdening financial agencies, thereby reducing the incidence of moral hazard and default.

4.7 Conclusion

Over the past decade, the organisational arrangement of the Lithuanian agricultural sector has been deeply influenced by the practices adopted by financial agencies to evaluate creditworthiness. In *Chapter III* we saw how the nature of legislation on the dismantling of collectives and the establishment of new farming units has led to the reproduction of a system of large co-operative farms and small-scale subsistence agriculture. At the same time, the necessity to purchase input and more adequate infrastructure as well as the need to cover the costs of processing, storing and marketing agricultural produce meant that farming units were not in the position to undertake the necessary investments without resorting to the aid of credit institutes. The interaction with the latter has played an important role in ratifying and strengthening the privileged position of larger co-operatives, perpetuating inefficient patterns of production as well as their dependence from local administrations.

We mentioned in *Section 4.2* how the choice of accounting standards by farming units themselves results in a misrepresentation of their real financial situation. In particular, the assumptions underpinning Anglo-American accounting conventions are not suited to the Lithuanian context, which is characterised by systematic delays and frequent default. Subsistence farms adopting the more realistic continental standards are systematically marginalised as they appear less credit-worthy. In the intentions of local financial agencies, the adoption of international accounting conventions was meant to allow a more transparent comparison of Lithuanian enterprises with their Western counterparts. In practice, the failure to accommodate for the specific circumstances of the local situation has resulted in a distinctively misleading picture, where enterprises are implicitly encouraged to hide the delays in transaction cost servicing to attract a larger share of financial resources.

The methods adopted by financial agencies to evaluate the creditworthiness of rural concerns reproduce the bias for larger-scale entities characteristic of collectivism. A general rule that does not merely apply to the Lithuanian case is that credit agencies' reluctance to grant loans to agricultural entities pursuing substantial restructuring is bound to reinforce existing structural arrangements. While a restricted number of farming units could pursue aggressive credit strategies, this policy is available only to few entities that undertook biological agriculture and can dispose of private capital that was not available to the majority of small-scale farms. At the same time, the fact that successor farms tend to dispose of a more substantial amount of reserves than their smaller counterparts results in a situation where the mere size of the applicant becomes a discriminating factor in the decision on the granting of credit. The deliberate omission from on-going accounts of delays in servicing transaction costs as well as the failure to consider the structural difference between different agricultural organizations that credit agencies are generally unlikely to grant loans to small independent farmers.

The method used to assess over-all financial stability on the basis of the income and balance statements issued at the end of an accounting period strengthens the organizational hysteresis of the sector. We mentioned in *Section 4.4* how the preservation of financial stability within agricultural co-operatives where *savivaldybės* retain a vested interests depends systematically on the periodic granting of *tikslinės paskolos* that are not classified as liabilities and which are often never serviced. While most large co-operatives and processing conglomerates constantly receive such disguised income transfers, subsistence farmers must make do with their own scarce resources and as a result in most cases they are classified as unstable. As a result, financial support credit is granted almost exclusively to entities which already receive funds from state authorities. In fact, the paradoxical nature of this situation is clear to both local administrations and financial agencies (cfr. *Lietuvos rytas*, 10/01/2001). However, its perpetuation serves the immediate interests

of both the former and the latter better than any attempt to undertake a comprehensive reform of the criteria, whereby financial stability is assessed.

In *Section 4.5*, we saw how the combination of these factors has led to a virtual monopoly of sector-specific credit by those organisations which have inherited the larger proportion of the assets of former *kolūkiai* and whose leaders have retained personal ties with officials of credit agencies who already worked in financial institutes under the previous regime. The personalistic nature of the transactions enabling the granting of so-called "political" loans results in a restricted access to financial resources, where the amount of credit granted as well as the terms of its servicing are set in advance independently of the assets at the disposal of the borrowers. This situation had a significant impact on the development of the agricultural sector, perpetuating the inefficiency of some structures and their dependence from state authorities, while preventing the establishment of viable alternatives.

While informal lending carried out outside official credit structures was quite widespread at the immediate onset of transition, its scope was insufficient to meet the needs of the thousands of small farms operating in isolated areas. The need to overcome the dearth of financial resources has led to the establishment of credit unions collecting individual farmers' savings and granting loans at rates tailored to the possibilities of independent farmers (cfr. *Section 4.6*). The main advantage of credit unions is their ability to collect inside information about potential borrowers, allowing a fuller assessment of the latter reflecting their relative position within their geographical area or their branch of agriculture. This alternative method of assessment focuses on an evaluation of comparative costs, but also integrates it with an analysis of other non-accounting elements such as the applicant's past record in meeting financial obligations, his or her specialisation, the nature of the proposed collateral or the intended strategy of development.

On the basis of the considerations outlined in this chapter, we can see that credit institutes have played an important role in strengthening the structural dichotomy within the agricultural sector. The second important phenomenon emerging from this chapter's discussion is the evolution of the Lithuanian financial sector in response to the changing needs of agricultural concerns. Ten years after the onset of economic reforms, a network of banks and building societies largely controlled by former party cadres serves the needs of successor farms and processing conglomerates that remain largely under the control of local administrations. On the other hand, rural areas have witnessed the unprecedented emergence of independent credit unions, where for the first time the granting of sector-specific credit and the usage of financial resources is supervised by potential credit recipients operating in the sector in question.

The structural inefficiency of the first type of credit institutes is largely due to the flawed mechanism of credit assessment which results in a systematic misallocation of resources by favouring the least suited among the applicants for credit. At the same time, their survival and resistance to any type of inner reform reflects the tacit collusion existing between banks' leadership, large-scale farming units and state authorities. At the other end of the spectrum, as they accumulate more and more experience and tailor their loans to the needs of the peasantry, credit unions increasingly provide independent small-scale farmers with a structure where the latter can deposit their savings and receive credit independently of the ingrained hostility of official financial agencies.

Chapter V The role of fiscal policies and income transfers in agricultural transition

5.1 Taxation and transfers as instruments of agricultural policy

The on-going debate in Lithuania on the mechanisms and limits of fiscal intervention in the rural sector reflects the way opposing factions evaluate the practices of occupation years, where the deliberate overlooking of any notion of balanced budget resulted in a diminished perception of the link between tax revenues and the impact of state intervention. The crucial importance of establishing an effective fiscal system in the country is clear once we consider that fiscal revenue constitutes 95% of national budget revenues (cfr. Csaky/Kazlauskienė, 1997). Debate has also divided different political forces as to the extent whereby control over fiscal revenue could or should be handed over to *savivaldybės* (cfr. Purlienė, 1999). The decisive role played by farming in the national economy, however, is reflected in the pattern of taxation, which systematically sets agriculture apart from other sectors, in this way continuing a tradition started in earlier historical contexts.

We mentioned in *Chapter III* how in 1990-91 the Restoration Parliament was firmly set to stress the continuity of new land relations in the country with the inter-war property allocation. A similar intention can be detected behind the earliest pronouncements of this legislative body concerning the establishment of a new fiscal system (cfr. *Tiesa*, April/May 1990). Legislators looking for a benchmark considered the *tax law* of 23/02/1919 (cfr. *Encyclopædia lituanica*, 1959-1978, under *Agriculture*) and later deliberations concerning farming units issued under the *Tautininkų* period (cfr. Jurgutis, 1938). An initial report (cfr. Ramanauskas, 1992; also Prunskienė, 1994) called for the re-introduction of a clear distinction between direct and indirect taxation as well as the careful selection of sectors whose role in

the economy as a whole made the concession of fiscal privileges advisable. The establishment of executive bodies which could oversee the distribution of subsidies was also mentioned as one of the priorities of any future government.

Before 1939, a distinction had been made between rural establishments keeping on-going financial accounts (mainly larger co-operatives), and those whose scale rendered formal accounts unnecessary or which relied on barter (mainly subsistence farms). While the former were subject to a 16% profit tax, the latter were taxed on the basis of their average income measured over the previous three years. Attempts to introduce a single basis for rural taxation (cfr. Genienė/Čiulevičienė, 1998) were dismissed by state authorities as either unfeasible or too costly. The effectiveness of the existent arrangement seemed warranted by the extraordinary rate of growth experienced by the agricultural sector- despite the recession of the early 1930's, overall fiscal revenue from agricultural units grew by 300% over the 1918-1938 period (cfr. Šalčius, 1989). On one hand, it is possible to argue that the privileged fiscal position enjoyed by larger rural establishments in the 1930's lies behind today's uneven treatment of successor farms and small-scale units (cfr. Šalčius, 1989). On the other hand, however, one should bear in mind that the manner whereby pre-war co-operatives were organised differed substantially from that of successor farms and share-holding co-ownership was very rare. As a result, state authorities could not exert the type of on-going control that became wide-spread in the 1990's- in fact, the degree of independence enjoyed by farming units before 1940 was substantially higher than that of their counterparts after de-collectivisation.

Different degree of fiscal pressure started directly to reflect political priorities during the Soviet period. *Tarūkiai* were subject to a profitability (*rentabel'nost*) tax, which replaced the progressive income taxes of the immediate post-war period and until the *sovarkhozy* period was determined by the local authorities. In the 1970's, state farms were subject to different rates of taxation according to the level of their

profitability, while receiving systematic aid from a so-called "economy stimulation fund" (cfr. Penkaitis, 1980). *Kolūkiai*, on the other hand, were subject to fixed rates of income tax which did not vary with income levels (though *savivaldybės* would grant occasional privileges) and which were paid partly in cash, partly through compulsory quotas- from 1966 onwards, collective farms were also expected to finance the stimulation fund mentioned above through the payment of a turn-over tax, but would benefit from it only desultorily. Private farming was subject to some form of turn-over tax as well as land and assets rent (cfr. *Statisticheskoe upravlenie pri Sovete Ministrov LSSR* (1980), *Narodnoe khozyaistvo LSSR za 40 let*). In the aftermath of the war, private households had been subject to 50-60% "work tax" in order to encourage collectivisation (cfr. *Butkutė-Ramelienė*, 1958). Later on, state authorities came to the conclusion that it was not in the national interest to impose heavy fiscal impositions on private farming, as alimentary self-sufficiency largely depended on individual plots. *Tarūkiai*, regarded as the "highest form" of agricultural production, were nevertheless the main recipients of direct and indirect transfer- price of finite products were set independently of production costs, while the difference was systematically reimbursed by the state.

In the course of this chapter we shall see how the fiscal and transfer system established after the restoration of independence is embedded in a legislative context favouring a dichotomous system of large farms and subsistence farms or family co-operatives. The existing fiscal arrangement has resulted in the deepening of this divide, where successor farms enjoy legal personality, while their smaller counterparts are usually registered as physical persons. Through the deployment of income transfers and trade barriers, state authorities have not only strengthened the existing organisational dichotomy, but have also contributed to the preservation of existing distortions in production patterns. Following the October 2000 elections, the new Centre-Left coalition has announced that it shall evaluate whether conditions exist for the abolition of the profit tax on legal persons (including successor farms)

as well as for a simplification and partial dismantling of the existent transfer and customs system (cfr. Grižibauskienė in *Veidas*, 22/02/2001; also *Lietuvos aidas*, editorial of 21/01/2000). While it is difficult to envisage how such reforms may be implemented in a context beset by generalised fiscal evasion, the persistent partiality of state authorities re-emerges if one considers how electoral programs fail to mention the distortions implicit in the taxation of subsistence farms.

5.2 Agricultural structures and the taxation of physical persons

The tax on physical persons' income (*fizinių asmenų pajamų mokesčis, FAPM*) is to this day regulated by a provisional law, promulgated by the Restoration Parliament in October 1990 and later modified by the *LDDP* majority (cfr. *Vž*, 09/12/1993, after *Tiesa*, October 1990). The conservative majority elected in 1996 intended to undertake a comprehensive fiscal reform, including a systematic revision of fiscal privileges. However, the complexity of the procedures involved resulted in a situation where legislative bodies focused almost exclusively on the resolution of the on-going conflicts between different administrative layers concerning the utilisation of fiscal funds, while judicial bodies were faced with a vast number of complaints initiated against fiscal authorities. As a result, the initial legislation was granted extended validity (cfr. Tamulionis, *Mokesčių sqvadas*, 1997) and the version included in the 1999 Fiscal code coincided largely with the previous version.

The relevance of this tax for the analysis of the structural evolution of the agricultural sector in Lithuania becomes evident if we consider that, while its Latvian counterpart (cfr. *KŽŪR conference acts*, 09/03/2000) concerns exclusively the income of private individuals, *FAPM* is also applied to the following subjects (*Art.1*):

- *subsistence farmers*, supporting themselves -either exclusively or partially- through agricultural work;
- *individuals*, receiving income from enterprises or co-operatives in the form of dividends, as well as one-off remunerations from entities undertaking productive or commercial activity. This provision includes members of agricultural co-operatives having transformed themselves into share-holding co-ownership;

- *family farms* and *individual enterprises* which are not endowed with legal personality. This provision covers a number of medium-sized individual farms as well as a number of "new" co-operatives;
- *foreign-capital enterprises*, operating in Lithuania, but subject to other countries' legislative regulations (double taxation is the object of specific pronouncements by the Finance Ministry, cfr. *Vž*, 01/04/1997). This provision is going to cover those few agricultural entities operating with foreign capital participation, usually in special economic areas (cfr. Pranckevičius, in *Lietuvos aidas*, 07/04/2000).

In each case, the extent of fiscal imposition is going to be a function of the estimated volume of income. In theory, the data from the income declaration form submitted by subsistence farmers or small co-operatives should provide sufficient information to determine the fiscal basis. The substantial delays in payment of raw agricultural produce, however, have elicited a legislative response on the side of the competent fiscal authorities (cfr. Bagdonavičius, 1998), allowing for the inclusion of payment in kind in a wider definition of income. In a number of *rajonai* (cfr. *Rinkotyra*, 4(6)1999), *savivaldybės* allowed local fiscal officers to apply *FAPM* rates to declared expected income, but Vagnorius' second government discontinued this practice as in this way national fiscal revenue would not reflect the real financial situation of the sector. We shall now consider in detail the guidelines concerning each of the three groups mentioned above, trying to highlight how they reflect a bias towards existing co-operative arrangements.

Whenever they tax private individuals, fiscal authorities subtract a basic non-taxable minimum (*PNM*) from the declared realization income and subject the remainder to a 33% tax rate. The amount of *PNM* set by Vagnorius' government in February 1998 for agricultural workers (cfr. Buškevičiūtė/Pukelienė, 1998) was 214

Lt. for farmers whose primary income derives from agricultural activities, while for individuals, whose monthly income from part-time agricultural work is lower than 20% of the total, the sum is 278 Lt.. If the income remainder after the subtraction of *PNM* is less than 50% of the non-taxable minimum (as it is in 75% of the cases), the tax rate shall be equal to 10%. Whenever it is between 50% and one *PNM* (15% of the cases), the rate will be 20%, while even higher amounts will be subject to 35% fiscal imposition (cfr. Tamulionis in *Vartai*, 31/01/2000). Estimates from the Finance Ministry, however, indicate a median fiscal burden of 30% for individual agricultural workers for the 1997 fiscal year (cfr. *Mž*, 13-19/05/1997). This means both that the median agricultural worker is subject to an even higher rate of taxation than his counterpart in other sectors and that his tax burden is higher than in the inter-war period, when income in kind was usually exempt from tax (cfr. Jurgutis, 1938). Far from favouring subsistence agriculture, therefore, the fiscal system treats it more harshly than other sectors.

According to the 1990 version of the law, individuals, receiving income from enterprises or co-operatives in the form of dividends, were subject to a 33% tax rate once subtracted the relevant *PNM* amount. In the case of agricultural co-operatives, however, dividends were not taxed if their overall amount was lower than the *PNM* for primary incomes, while one-off remunerations from the sale of agricultural products from small-scale plots were exempt from any fiscal imposition if they were lower than twelve times the *PNM* for secondary incomes (cfr. *Mž*, Oct.1997; also Buškevičiūtė/Pukelienė, 1998). Upon suggestion of the Free Market Institute, the 1999 Fiscal Code included an amendment whereby revenues from securities issued by agricultural co-operatives would be exempted from tax if they amounted to less than twelve times the *PNM* for secondary incomes, while higher amounts would be subject to a 15% tax rate. The implication of this provision is that handing over assets to a share-holding co-ownership put farmers in a more favourable fiscal condition than subsistence farming.

The application of *FAPM* to family farms that do not enjoy legal personality and individual enterprises is regulated a specific set of guidelines (*Art.24-26*). The juridical foundation for rural entities run by a single family or a group of families- often themselves structured as co-operatives- lies mainly in the Civil Code and in *Art.4-6* of the *company law*, while special guidelines for so-called individual enterprises are included in the relevant LAT pronouncement (cfr. *LAT-CBS pareiškimas*, 24/11/1996). Individual enterprises are structured like so-called full (*tikrosios*) co-operatives, in the sense that its members are under the obligation to service with all their assets any liability undertaken by the enterprise- on the other hand, in mixed (*komanditinės*) co-operatives, full and limited members share a common ownership right to the statutory capital, but are expected to answer only with those assets that they have handed over to the co-operative. The *law on the implementation of FAPM legislation* (*Art.10ff.*) favours "full" co-operatives, exempting them entirely from income tax if the proportion of revenues from the agricultural sector amounts to more than 95% of the total. All family farms and individual enterprises, however, are subject to 5% or 10% tax rates whenever the percentage of agricultural revenue is 75-95% or 65-75% of the total- if the proportion is lower, the tax rate is set at 24%. According to the Lithuanian Ministry of Agriculture (cfr. Šlekienė/Klimavičienė, 1999), if the proportion of agricultural income was less than 65% of the total, overall income within the first two years of activity was subject to a special 18% tax rate, which was reduced further to 8% for revenue re-invested within family farms. This provision was meant to help the establishment of family farms following the end of the ban on trading restituted land and has been included in the 1999 Fiscal Code. It is easy to see that the margin of fiscal imposition is much lower in the case of family farms than in the case of subsistence farmers, while no parallel measures exist to support them in the initial phase.

Agricultural co-operatives operating in so-called free-economic areas (*LEZ*) are subject to different guidelines, included in the *law on special economic areas* (*Vž*, 28/03/1997) expanding the earlier government resolution on the priority branches of the national economy (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos*, 1996). With this legislative item, the conservative majority established that for the first five years after their establishment, fiscal imposition to agricultural co-operatives having no legal personality would be lowered by 80%. This measure could be extended for five further years in case of proved necessity (*Art.3*). In order to attract foreign investment into rural areas, a later *nutarimas* established that if a foreign investor acquired at least 30% of the capital of an agricultural co-operative having no legal personality and invested therein a certain amount of funds, the co-operative's income for the following five years would be exempted from *FAPM*, while for the following ten all fiscal imposition would be reduced by 50%. All capital invested in the acquisition of the new technology or in *R&D* by agricultural entities operating in free economic areas will be subtracted from taxable income, while *savivaldybės* are granted the right to introduce further fiscal advantages at their discretion.

Family farms having no legal personality and undertaking technological renovation may also decide to obtain an exemption from *FAPM*, according to the guidelines established in a special *nutarimas* (cfr. *Mž*, 18-24/03/1997), which leaves to *savivaldybės* the discretion to vary patents' acquisition tariffs by 50%. A later pronouncement about change in patent prices (cfr. *Vž*, 08/07/1998) by the Finance Ministry established that subsistence farmers, undertaking small-scale trade in agricultural goods, could also acquire a patent exempting them from *FAPM* for a period of three years, but it appears that the implementation of this measure has been rather erratic.

In fact, any assessment of the legislative documents and resolutions by successive governments and judicial bodies (cfr. Informacijos ir leidybos centras (1995), *Kooperacija žemės ūkyje- Teisės aktų rinkinys/Lietuvos Respublikos ŽŪM*) should be accompanied by the awareness that such wealth of provisions has resulted only in a haphazard implementation of regulation, while failing to stymie a persistently high rate of tax evasion in rural areas (estimated as 60% in the 1996 fiscal year, cfr. Pelaniénė in *Rinkotyra*, 3(5)1999). The official policy upheld by the conservative majority over 1996-2000 (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK, 1996) was to move towards more uniform tax rates for different economic entities as well as to eliminate regional disparities. Proposals in this direction were opposed by *savivaldybės*, which envisaged them as an indirect attack on their administrative independence- in the long run, however, less unequal levels of taxation would stimulate fairer competition, while ensuring a more even inflow into different *rajonai* of foreign investments, which now almost exclusively privilege free economic areas.

5.3 Taxation of agricultural entities endowed with legal personality

The tax on legal persons' profit (*juridinių asmenų pelno mokesčis, JAPM*) was introduced by the Restoration Parliament with a special law (cfr. *Mž*, 29/07-04/08/1997 after *Tiesa*, 31/07/1990), whose provisions were substantially reproduced by the new legislative text elaborated by the Fiscal commission of the Seimas in 1998-99 (cfr. *Vž*, 01/02/2000). The crucial role of the *JAPM* for the development of the agricultural sector is reflected also by the range of provisions concerning its payment included in the *law on small economic entities* (cfr. *Vž*, 12/07/1995), as well as by the number of *nutarimai* (fourteen in the 1996-2000 legislature) dealing with the concession of exemptions. The subjects of this tax include:

- *agricultural entities* having legal personality, whose juridical foundation lies in by-laws set in accordance with the *company law* (cfr. *Vž*, 05/07/1994);
- *processing conglomerates* controlled by the state or *retail outlets* undertaking commercial activities. The Bank of Lithuania belongs to this category, so that its budgetary incomes is also subject to *JAPM*;
- *agricultural entities*, having legal personality, controlled by foreign capital. These are quite few in number and usually undertake small-scale processing of biological products (cfr. also *Verslo ir komercinė teisė*, 1-2 1999, in connection with the issue of corporate governance).

Even more than in the case of the *FAPM*, the method of calculation of the fiscal base (*apmokesčinimo pagrindas*) is likely to distort the impact of the imposition of the tax. The fiscal base consists in the sum of *realisation* and *non-realisation income*, where the former includes income from the performance of services and the sale of finite products or of long-term assets, while the latter consists in income derived from the lease or investment of long-term assets as well as income derived

from state assets transferred to legal persons in unlimited freehold, such as uncultivated land, swamps and stretches of water (cfr. Navickienė and Kubiliénė in *Lietuvos aidas*, 12/04/2000). An earlier *VMI* report (cfr. Bagdonavičius, 1998) specified that non-realisation income should not include dividends and interests from obligations issued by other concerns, insurance payments and income derived from participation in economic entities having no legal personality. This last provision is crucial if fiscal authorities are to avoid double taxation in agricultural enterprises, which are often members of agricultural co-operatives registered as physical persons. *Art.4* of the 2000 version of the law established also that the tax calculation base ought not to include monetary compensation for the devaluation of long-term agricultural assets inherited from *kolūkiai*, which the LDDP majority had ratified shortly before the 1996 election (cfr. Kilikauskas in *Lietuvos aidas*, 21/03/2000).

Once the tax calculation base has been determined, legal persons should subtract production and circulation costs to obtain accounting profits (*apskaičiuojamasis pelnas*). *Art.4* of the law states that the establishment of specific guidelines regulating the estimation of depreciation costs are left to individual enterprises, which are nevertheless bound to consider the yearly normative limits set by the Finance Ministry (cfr. *Mž*, 20/06-05/07/1998). Processing conglomerates and agricultural co-operatives endowed with legal personality, however, enjoy special, "accelerated" depreciation limits (cfr. Buškevičiūtė/Puklienė, 1998), and in some cases even this sector-specific normative may be exceeded, provided that *nusidėvėjimas* subtracted from accounting profits amounts to less than 40% of the latter.

As we mentioned in the previous chapter, the usage by processing conglomerates of accounting conventions whereby it is assumed that all transactions are accompanied by immediate payment is likely to lead to an overestimation of the amount of realisation income reaped by the entity in question. At the same time, the

practice started by the *LDDP* government after 1992, and later seconded by *savivaldybės*, to transfer assets from dismantled collectives to conglomerates, were bound to inflate the value of the non-realisation income (cfr. Purišienė, 1999). The fact that agricultural co-operatives endowed with legal personality may be characterised by high tax bases is not a necessary indication that processing conglomerates are the objects of substantial fiscal imposition- agricultural entities enjoy in fact a comparatively larger degree of discretion, in determining their own accounting profits, than is enjoyed by their counterparts in other sectors. For instance, in line with guidelines issued in other countries undertaking transition (cfr. Zile, 1993, on Latvia), agricultural co-operatives established as legal persons, in the first years following their adoption of share-co-ownership, are allowed to exempt from taxation the profits re-invested into "special funds" set up in order to cope with unforeseen difficulties, as well as representation expenses or donations to charity (cfr. Petrauskas in *Lietuvos aidas*, 14/03/2000).

The 2000 version of the *JAPM* law, in addition, has enriched the list of items to be subtracted from the tax base (*Art.4*), including also social security payments, interests on loans from credit agencies financed with state capital, payment of arrears to the workforce, and, for agricultural enterprises, all tax payments resulting from the usage or rent of land and farming infrastructure. As a result, the percentage of accounting profits within the tax base can be lowered by a margin of up to 60%, leaving a large proportion of income virtually untaxed (cfr. Bagdonavičius, 1998). Agricultural enterprises endowed with physical personality, on the other hand, do not enjoy any comparable privilege.

In terms of the rate of taxation, the provisions of the law set are consistent with the general legislative tendency to set successor farms and processing conglomerates aside from the rest of the economy. *Art.7* of the 2000 version of the law lowered the standard tax rate from 29% to 24%, leaving the proviso that local

administrations could grant exemptions to individual sectors if that was believed to serve the public interest- agricultural enterprises having legal personality, for instance, are subject to a reduced rate of 10%, as long as the proportion of realised income derived from agricultural production or services amounts to 50% of the total (*Art.8*). In addition, while the law's earlier version established that the proportion of accounting profits invested into *R&D* was subject to the 10% tax rate, in the later version it is exempt from any fiscal imposition. Complete exemption from *JAPM* is also granted "for the time being" to processing units endowed with legal personality whose activity amounts exclusively to process raw agricultural products purchased from small-size farming units (cfr. Tamulionis (ed.), *Kaip išvengti didelių mokesčių laiku ir visus juos sumokant*, 1997).

A set of provisions concerning legal persons operating in free economic zones or including a substantial proportion of foreign capital were also incorporated in the new version of the *law on the implementation of the JAPM law* (mentioned in *Mž*, 20/06-05/07/1998). Agricultural co-operatives with legal personality operating in *LEZ* are subject to a tax rate which is reduced by 80% for the first five years after their establishment and by 50% for the following five. The law also established that if a foreign investor had acquired more than 30% of the enterprise's capital therein investing more than a certain amount, the entity would be exempted from any tax for the first three years after its establishment, while for the following three the rate would be reduced by 50%. As *savivaldybės* lament the resulting loss of fiscal revenue (cfr. Kilikauskas in *Lietuvos aidas*, 21/03/2000, quoting from the Kaunas daily *Laikinoji sostinė*), the more recent implementation law (*Art.8*) established that such fiscal privileges could be suspended in case more than 30 % of realisation income had accrued to agricultural enterprises by means of wholesale trade, or a substantial proportion (whose determination is left to the discretion of municipal authorities) derives from trade in natural resources. In this way local administrations enjoy a substantial margin of freedom in determining the evolution of the sector.

5.4 Tax application and control

The 1996-2000 legislature has witnessed the intensification of political discussion concerning the necessity to reform and simplify the method of payment of the tax as well as to revise the guidelines used to determine the responsibility for instances of flawed accounting. Despite these considerations, however, the general orientation favouring agricultural enterprises with legal personality remains a permanent feature of fiscal regulation, as it emerges from the analysis of *nutarimai* and recent legislative pronouncements (cfr. *Baltic Times*, May 2000). In this subsection we shall focus on three main points: the impact of inflation in the calculation of the tax, the role of the so-called "take-out" coefficient and the delimitation of the competence of control authorities.

Plans to modify version of the *JAPM* law have focused on the necessity to integrate existing methods of calculating accounting profits (*apskaičiuojamasis pelnas*) with a more adequate consideration of the effects of inflationary pressures. The high inflation rates characterising Lithuania in the first half of the 1990's (35.6% in 1995, cfr. Csaky/Kazlauskienė, 1997) resulted in a distorted evaluation of depreciation costs, as *nusidėvėjimas* was calculated on the basis of the nominal value of the asset in question at the moment of its transfer to the private sector. Once inflation had subsided by the mid 1990's, agricultural enterprises having received infrastructure previously belonging to collectives found themselves in a position to subtract substantial sums from the tax base, while the actual replacement cost was much lower (cfr. Ramanauskas, 1996). The systematic underestimation of the accounting profits of successor farms with legal personality inevitably resulted in a lower fiscal imposition.

In the mid-1990's, successor farms would occasionally accompany income declaration forms with *ad hoc* explanatory letters outlining the effects of inflation.

This should have allowed local fiscal authorities to tailor fiscal pressure to the individual circumstances of each entity. Over the past decade, however, both the Supreme Court (cfr. *LAT-CBS pareiškimas* on asset evaluation, 13/02/1998) and a number of academic economists (cfr. Ramanauskas/Motužienė, 1998) did stress the flaws of this practice- once again, local administrations were able to control the local fiscal authorities and to influence the determination of the tax base. On one hand, it is generally recognized that the uneven impact of inflationary pressures on different units within the agricultural sector should be taken into account when determining the tax base. On the other hand, it was suggested (cfr. *Mž*, 19-25/01/1998) that the introduction of some form of constant dollar accounting, where all *ataskaitos* entries are adjusted on the basis of purchasing power at the end of the accounting period, might allow a more transparent comparison between different agricultural entities and limit the power of local administration to control local fiscal authorities. Political parties, however, have been reluctant to accept any proposal that would lead to a reduction of *savivaldybės*' power –in October 2000, the *Naujoji Sajunga* proposed that each registered farming entity drafted its own plan for the calculation of accounting profits, but with the proviso that the plan remained subject to the *veto* of the local administrations (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos*, 2000).

The 1996-2000 legislature has witnessed also the intensification of the political discussion concerning the mechanism of payment of the tax (cfr. Bruveris in *Lietuvos aidas*, 13/04/2000) as well as the guidelines used to determine the responsibility for instances of flawed accounting (cfr. Tamulionis, *Mokesčių sąvadas*, 1997). Particular attention was given to the mechanism, whereby *JAPM* advance payments (*avansiniai mokesčiai*) had to be serviced. The guidelines included in the earlier version of the law (*Art.12*) disposed that each agricultural unit having legal personality was expected to set its own "take-out" (*išėmimo*) coefficient, calculating the ratio between the tax paid in the previous accounting year and the

realisation income for the same period. The amount of the advance payment was then set as the product of this coefficient and the realisation income for the current accounting year- this sum would then be paid to the state budget in thirty-six instalments. At the end of each quarter, enterprises would draft an account reporting their income for the previous three months (*Art.14*)- the competent fiscal authorities would then implement the necessary measures to even out any resulting imbalance. By the mid-1990's, however, the amount of bureaucratic work implicit in this arrangement, coupled with the substantial delays in the payment of tax instalments as well as compensation, had become unsustainable and resulted in a generalised awareness of the necessity of reform (cfr. Šindeikis in *Veidas*, 09/11/2000).

A legislative amendment promulgated in July 1998 (cfr. Buškevičiūtė/Pukelienė, 1998) and later included in the 2000 version of the law established that farming units would no longer calculate their own individual "take-out" co-efficient, but would merely pay twelve monthly instalments, each 1/12 of the sum paid over the previous accounting year- local fiscal authorities could also grant exemptions to agricultural enterprises, whose forecasts for the current accounting year envisage a decrease in realisation income by over 25% (cfr. Tamulionis (*ed.*), *Kaip išvengti didelių mokesčių laiku ir visus juos sumokant*, 1997). While undoubtedly representing an improvement over the previous arrangement, the present system is still rather cumbersome and fails to address the main problem implicit in the legislation, which is the incorporation of earlier errors within the calculation of the tax. Earlier, inflated estimates for realisation income for agricultural entities endowed with legal personality resulted in very low values for the *išėmimo* coefficient and therefore in more contained advanced payments than it would have been the case. The substitution of the coefficient with monthly payments fails to interrupt the chain of distortions engendered by the usage of earlier payments as a basis, thereby re-enforcing over time the privileged position of agricultural co-operatives endowed with legal personality and processing conglomerates.

The legislative foundation of the preferential treatment of agricultural units registered as legal persons is enhanced by the differential treatment of tax evasion on the basis of juridical personality. As in other cases, this dichotomy derives from the way local administrations are able to control fiscal supervision. Technically, the exercise of fiscal control is the prerogative of the *National Tax Inspection (VMI)*, which is financed with budget funds and responds to the Finance Ministry and to the government as a whole. The *VMI* is aided by a network of territorial branches which are registered as legal persons under the *savivaldybės*' jurisdiction. After the promulgation of the *law on tax inspection* (cfr. *Vž*, 01/07/1997), the *VMI* was sided by a fiscal police appointed by the *savivaldybės*, which includes a central auditing branch and other local units supervising *ataskaitos* (cfr. *Verslo ir komercinė teisė*, 1/2 1998). In practice, fiscal police has progressively taken over the competence of the *VMI* and has turned from its executive branch to the main entity responsible for detecting fiscal irregularities (cfr. Vinickienė in *Lietuvos aidas*, 16/03/2000, in connection with audit reform projects). Under the supervision of local authorities, the tasks of the fiscal police have been further extended- in case the possibility of evasion is ruled out (cfr. *Art.9-12* of the *nutarimas* on fiscal controversies, *Vž*, 02/07/1998), local branches of the fiscal police shall have to determine whether entities having accumulated fiscal arrears will be able to meet their obligations in the future, or the entity's financial situation is such that forced debt exaction would lead to its bankruptcy.

According to the guidelines ratified by Kubilius' government again in February 2000, in case fiscal evasion is recognised as deliberate, the *VMI* "may decide" to inflict a punishment proportionate to the nature of the infringement (cfr. *Rinkotyra*, 1(3)1998; Vitkus in *Lietuvos aidas*, 01/06/2000; *et al.*). This effectively leaves a double loop-hole whereby *savivaldybės* may distort fiscal control by inducing the competent bodies to favour organisations where local administrations have a vested interest (cfr. Pranckevičius in *Lietuvos aidas*, 02/05/2000).

Theoretically, processing conglomerates found guilty of fiscal evasion should be sentenced to a fine equal to 100% of the amount subtracted (cfr. Tamulionis, *Mokesčių sąvadas*, 1997, *Appendix*). In practice, the fiscal police only rarely implements this guideline and levies smaller fines or -in over 50% of the cases-imposes no fine at all (cfr. Csaky/Kazlauskienė, 1997; Leontieva on Estonia, 2001).

In the case of small-scale agricultural units and subsistence farming, the attitude of fiscal control bodies is practically the reverse of that outlined so far. Individual farmers and co-operatives registered as physical persons are more likely to be accused of fraudulent fiscal accounting, despite the fact that a large proportion of mistakes is due to the farmers' inexperience (cfr. *KŽŪR conference acts*, 09/03/2000). In addition to this, instances where no fines are levied are very rare- out of 1.36 billion Lt. fiscal arrears as of 01/07/1998, 31.2% (the largest single component) came from fines charged on subsistence farms for fiscal evasion, compared to a 12-15% coming from processing conglomerates (cfr. Šlekienė/Klimavičienė, 1999; also *Rinkotyra*, 3(5) 1999). Once more, small-scale farming lacks the protection granted by local administrations to larger structures and are subject to a relatively more severe degree of fiscal control. The dichotomy in the treatment is only partially re-equilibrated by the fact that 60% of the debt of small farms to *savivaldybės* is usually recognised as "hopeless" (*beviltiškas*), and is eliminated from the official account of budget arrears.

A complete analysis of fiscal control makes it necessary to mention also the flawed notion of the controller's legal responsibility implicit in the legislation. In case accusations of fiscal irregularities fail to be supported by a closer analysis of financial accounts, the entity in question is nevertheless required to cover the expenses of the necessary control operations. Instances were reported of local branches of the fiscal police initiating control procedures against processing co-operatives on the basis of unsubstantiated rumours, with the obvious purpose of

requesting disproportionate reimbursements (cfr. *Naujoji Romuva*, 1998). On the other end of the spectrum, fiscal police having deliberately failed to initiate procedures against insolvent individual farms for fear of pushing them into bankruptcy were removed from office following an intense parliamentary debate (cfr. *Lietuvos rytas*, 10/01/2001).

Finally, the 1997 *tax inspection law* failed to outline in detail a procedure whereby entities declared guilty of fiscal transgressions could appeal against the fiscal police's deliberations. While the July 1998 *nutarimas* on fiscal controversies established a *Fiscal controversy commission* and a corresponding tribunal (cfr. *Vž*, 02/07/1998), the recourse to the latter is in most instances beyond the means of farming entities having already serviced the costs of control. In addition, the absence of local branches of this entity is aggravated by the lack of access to civil litigation in rural areas already mentioned in *Chapter III*. Once more, it is more likely that large entities have access to litigation with more frequency rather than small subsistence farms.

Though non-academic awareness of these phenomena is rather limited, increasingly frequent reports in the media as to the preferential treatment of certain types of agricultural structures has resulted in the issue once more coming to the fore of the political debate. Before the October 2000 elections, the Kubilius government stated that its earlier resolution as to the exemption of processing conglomerates from *JAPM* had only a temporary validity (cfr. Bruveris' interview with Kubilius in *Lietuvos aidas*, 19/02/2000). In the course of the electoral campaign, representatives of the Conservative coalition reiterated that in the long term fiscal treatment of processing conglomerates and successor farms had to be brought in line with that of other farming units, though the terms of this realignment had to be discussed with representatives of farming organisations (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK, 2000). On the other hand, the leader of the

Farming Party Karbauskas advocated the preservation of the *status quo* and an even wider margin of discretion for *savivaldybės* to grant exemptions. It is unlikely that the victory of the Centre-Left coalition may lead to any significant change in fiscal policy, or in any transfer of income away from larger structures. On a more positive note, the *Naujoji Sajunga* may attempt to overcome the problems resulting from a haphazard implementation of existing directives and tackle the issue of tax evasion (cfr. Tkač, 1992, on similar issues in the Russian Federation).

5.5 Subsidies, arrears payments and agricultural structures

While in a market economy the price of agricultural goods as well as the volume of production ought to be determined by the equilibrium of supply and demand, state regulation both in the West and in countries undertaking transition has exerted and continues to exert a much stronger impact on agriculture than on other sectors of the economy. We mentioned in *Chapter II* how in Eastern European countries the demise of socialist regimes initially led to the virtually complete elimination of agricultural subsidies. However, the necessity to avoid the collapse of agricultural production and to avoid social unrest in rural areas resulted in the gradual re-introduction of a number of measures targeting certain types of organisational set-ups or, more frequently, certain sectors of production. In the Lithuanian case the more prominent role of agriculture in the economy of the country meant that the web of interventions developed in the course of the past decade would be both more comprehensive and have a deeper impact on the development of the country as a whole. In the course of this section we are going to concentrate on three main points:

- *price regulation and trade barriers.* We shall see how the determination of prices and the imposition of trade barriers has resulted in disproportionate protection of domestic agricultural production, sheltering it to the detriment of independent producers and consumers;
- *arrears payment schemes.* We shall see how the elaboration of rigid payment systems has in practice resulted in state authorities taking over the obligations of middle-to-large scale processing units and thereby legitimating substantial income transfers from tax payers and subsistence farmers to farming units at the other end of the spectrum.

From this overview it will emerge how the deployed array of price policies and payment schemes, rather than helping the rural sector to break away from the existent inefficient organisational patterns, has instead seconded the stagnating tendencies implicit in legislation and strengthened by the mechanisms selected to determine the amount of fiscal imposition. In *Chapter VI* we shall integrate this discussion emphasising how direct state intervention meant to support the establishment of a viable farming sector has failed in its intent largely because of a misguided concern with the survival of existing structures.

a) Prices and tariffs

The comprehensive system of price support which had characterised the agricultural sector in Lithuania since the end of the *sovmarkhozy* period had already seen its scope substantially reduced in the late 1980's, when a number of products were no longer included in a basket grouping the main subsidy recipients (cfr. Lithuanian Statistics Department, *Reports of the Ministry of Agriculture*, 1992-93). Following the restoration of independence, the liberalisation of energy prices implemented in 1991-92 had a particularly harsh impact on the rural sector, which had been used to paying virtually symbolic prices for electricity and fuel and had to reduce the volume of production drastically. In the course of the 1990's, successive governments intervened to support agriculture with a mixture of intervention on prices and customs duties in order to shelter internal production from international competition. While the scope of price support deployed ten years after the dismantling of collectives is not as extensive as it was during the socialist period, its impact is still strong and has permitted the survival of patterns of production that would be unable to adapt to a full-fledged free market.

Table I on pg. 238 compares the evolution of market prices of agricultural goods in Lithuania over the 1990-1996 period with similar data from the USA and

OECD countries. In 1990, the price paid to domestic producers of agricultural goods, though higher on average than that paid in other Soviet republics, was much lower than that of other countries. At the same time, however, buying-up, or procurement (*supirkimo*) prices were set independently of actual production costs, with the intention to even out differences throughout the country and to support less efficient structures. As mentioned in *Chapter I*, while in the 1950's such prices were often insufficient to cover the costs incurred by the *tarūkiai* and *kolūkiai*, in later years they would be corrected to take into account the inefficiency of local agricultural procedures and would in this way allow the continuation of unsustainable production schemes (cfr. *Baltic Times*, May 2000). At the same time, in order to preserve social consensus, retail (*mažmeninės*) prices of final agricultural produce were kept at artificially low levels, implying that a substantial (though never disclosed to the public) proportion of the national budget was devoted to cover transport and storage costs (cfr. *Tsentralnoe statisticheskoe upravlenie pri Sovete Ministrov SSSR, Narodnoe khozyaistvo SSSR za 70 let*, 1987).

As we can see from *Table II* on pg. 239, when prices were liberalised in January 1991, the procurement prices of most products failed in the short run to follow the downward trajectory that had been predicted for them (cfr. Prunskienė, 1994). The general decrease in the price of raw agricultural produce did take place in the mid 1990's, partly as a consequence of the over-all increase of world production of agricultural goods. As prices in Lithuania came to reflect more closely the market value of the produce (which in most cases was 50% lower than the *supirkimo* price), it was expected however that the extent of this decrease would be even more pronounced. Instead, while the procurement prices for live stock, eggs and sugar beets were substantially reduced and approached the market value estimated by the *KŽŪA*, *supirkimo* prices for other items such as milk, wheat and barley by 1996 were not substantially different from the values of 1991 and in some *rajonai* they were actually higher.

The reason for this phenomenon is the imposition of price floors for a number of products as part of the so-called *lowest-limit procurement scheme (MRSK)* in the national agricultural plan (*NŽŪP*) drafted by the LDDP government (cfr. Csaky/Kazlauskienė, 1997). In this way productive structures could continue meeting production targets which had been set keeping the entire Soviet market in mind, but which had little rational in the substantially more limited Lithuanian market. Officially the *MRSK*, together with other instances of periodic intervention on other individual farms, was put forward by LDDP politicians as a response to the duty of state authorities to accumulate a minimum amount of alimentary reserves in order to be prepared for any "unforeseen circumstance"- the program would be revised each year in order to take into account the rate of inflation as well as subsidies granted to other sectors of the economy. In 1996-2000, representatives of the Conservative majority justified the continuation of the system of procurement prices claiming that it did not substantially differ from the policies of price support adopted in the EU (cfr. *Veidas*, 16/11/2000).

This comparison, however, is misguided, as the *MRSK* scheme also sets production quotas which have to be fulfilled and handed over to special collection points (cfr. the former GDR's *Körungspunkte*, Penkaitis, 1994)- unless this requirement is fulfilled, state authorities should technically rescind the price support system. In practice, *savivaldybės* have been rather lenient in upholding this requirements and have ensured that price support continued even when quota were not met (cfr. *KŽŪA Annual reports*, 1999-2000)- in this way local administrations would uphold the value of the stock issued by the co-operatives where they have a vested interest. As a result, a number of sectors have been exposed to the pressures of the market, while others have been sheltered from it by means of direct state interventions.

After the 1991 price liberalisation, retail prices followed a trajectory similar to that of buying-up prices: after initially overshooting, they started to decline and eventually stabilised in the mid-1990's. If we observe the data included in *Table II*, we see also that for two of the three production areas mentioned earlier (wheat and rye), 1996 retail prices were not different from their counterparts in 1991, while retail price for milk was almost twice as high. This reflects the agricultural policy implemented by the *LDDP* majority after the October 1992 election, which included the introduction of substantial levies -disguised as quasi-fixed price floors- on basic consumption goods such as milk or bread. The rational behind this decision was to raise revenue for state authorities, ensuring that the latter disposed of sufficient funds to step in and meet the financial obligations of insolvent processing conglomerates. While similar policies were pursued in Latvia and Estonia as well, the data in *Table III* on pg. 240 indicate how the extent of state intervention in Lithuania was far stronger- if we consider milk, wheat and bread, we see that the mark-up of both procurement and retail prices on the underpinning market price is far more substantial than in the other Baltic countries. We may therefore assert that the relative under-performance of Lithuanian agriculture compared to other countries in the region reflects also the nature of existing price policies, which have allowed agricultural structures to retain inefficient patterns of production and have shifted to the consumer the burden of supporting processing units.

**I- Comparison of Lithuanian prices with world prices of agricultural produce,
1990-96, US\$/t**

		1990	1991	1992	1993	1994	1995	1996
Live cattle	<i>Lithuania</i>	184	74	174	382	448	538	695
	<i>USA</i>	1,731	1,636	1,661	1,682	1,517	1,460	1,436
	<i>OECD</i>	728	583	633	795	880	1,090	1,084
Pigs	<i>Lithuania</i>	175	78	303	670	961	1,033	1,315
	<i>USA</i>	1,220	1,096	949	1,016	884	933	1,176
	<i>OECD</i>	1,059	1,016	1,167	988	994	1,309	1,469
Fowl	<i>Lithuania</i>	150	70	171	476	1,031	1,137	1,312
	<i>USA</i>	1,207	1,146	1,160	1,217	1,228	1,243	1,351
	<i>OECD</i>	1,199	1,220	1,258	1,150	1,174	1,240	1,333
Milk	<i>Lithuania</i>	34	7	46	71	75	119	137
	<i>Australia</i>	179	188	202	180	205	231	225
	<i>N. Zealand</i>	122	129	144	138	147	184	192
Eggs	<i>Lithuania</i>	81	79	311	530	704	841	1,095
	<i>USA</i>	1,012	1,024	928	930	968	886	1,356
Wheat	<i>Lithuania</i>	25	9	49	71	74	116	194
	<i>USA</i>	150	134	147	142	147	181	200
	<i>OECD</i>	142	98	133	117	115	164	199
Barley	<i>Lithuania</i>	25	8	42	60	55	90	161
	<i>USA</i>	101	114	119	118	117	142	151
	<i>OECD</i>	109	96	104	85	81	129	167
Potatoes	<i>Lithuania</i>	16	7	28	54	53	110	69
	<i>USA</i>	106	121	88	56	135	270	91

(Source: adapted from Lithuanian Statistics Department, *Annual reports of the Ministry of Agriculture*, 1997)

II- Real procurement and retail prices of agricultural goods
(December 1990=100)

Procurement price

	1991	1992	1993	1994	1995	1996
<i>Live-stock</i>	57.2	47.5	46.4	28.0	24.1	25.0
<i>Pigs</i>	63.3	81.8 *	81.6	63.3	48.4	49.2
<i>Fowl</i>	66.2	54.7	65.0	79.2	62.1	56.9
<i>Milk</i>	30.4	63.5*	46.6	25.4	28.8	27.1
<i>Eggs</i>	141.2	153.7*	132.7	89.0	74.9	71.8
<i>Wheat</i>	51.2	86.0*	61.2	33.9	37.3	50.9
<i>Barley</i>	46.1	73.2*	52.1	25.2	28.8	42.2
<i>Potatoes</i>	63.7	67.7	75.1	37.3	55.7	28.0
<i>Sugar beets</i>	124.6	47.7	33.9	22.8	22.4	20.9

Retail price

	1991	1992	1993	1994	1995	1996
<i>Beef</i>	194.1	202.5	219.9	165.8	147.9	132.7
<i>Pork</i>	169.5	216.7	215.3	145.0	134.7	141.8
<i>Fowl</i>	128.0	131.5	120.9	105.0	79.7	78.1
<i>Milk</i>	98.6	209.9	207.7	152.1	166.2	185.3
<i>Eggs</i>	146.3	129.1	94.1	71.5	62.8	65.7
<i>White bread</i>	160.3	155.0	153.5	153.6	161.2	152.9
<i>Rye bread</i>	126.7	87.3	127.5	149.4	133.9	136.9
<i>Potatoes</i>	227.8	228.2	120.2	171.8	227.2	123.8
<i>Sugar beets</i>	193.9	281.5	232.8	137.6	127.7	115.5

* increase due to extraordinary 1992 state intervention (cfr. *Rinkotyra*, 1(3)1999)

(Source: combined from *Rinkotyra*, 2(4)1999, *Appendix*, and Csaky/Kazlauskienė, 1997, p.70)

III-Comparison of procurement prices and retail prices of agricultural goods in the Baltic countries in 1996

Production	1996 Procurement price		1996 Retail prices		
	Average (Lt./ton)	% of average market price of raw agricultural produce	Average (Lt./kg.)	% of average market retail price	
Live stock			Beef	<i>Dec. 1996</i>	<i>June 1997</i>
<i>Estonia</i>	717	92.0	2.36	92.3	88.4
<i>Latvia</i>	779	100.0	2.67	100.0	100.0
<i>Lithuania</i>	797	99.4	2.60	99.4	97.5
Pigs			Pork		
<i>Estonia</i>	1,180	90.4	3.12	89.4	93.6
<i>Latvia</i>	1,305	99.9	2.95	89.3	88.6
<i>Lithuania</i>	1,006	70.0	3.34	100.0	100.0
Other meat			Veal		
<i>Estonia</i>	1,467	100.0	2.41	100.0	90.2
<i>Latvia</i>	1,301	99.3	2.61	86.4	98.2
<i>Lithuania</i>	992	60.9	2.67	82.6	100.0
Milk			Milk (Lt./litre)		
<i>Estonia</i>	214	100.0	0.41	100.0	87.4
<i>Latvia</i>	181	84.7	0.46	99.5	98.5
<i>Lithuania</i>	239	165.2	0.67	127.0	130.0
Wheat			Bread		
<i>Estonia</i>	174	89.6	1.00	100.0	100.0
<i>Latvia</i>	172	89.0	0.94	88.8	94.1
<i>Lithuania</i>	294	146.0	0.97	119.8	116.3
Barley			Sugar		
<i>Estonia</i>	<i>n.a.</i>	<i>n.a.</i>	0.58	75.4	68.1
<i>Latvia</i>	40	84.1	0.83	96.3	97.5
<i>Lithuania</i>	67	110.2	0.84	109.0	110.0

(Source: adapted from Csaky/Kazlauskienė, 1997, and *Rinkotyra*, 1(3)1999 and 2(4)1999)

The distortionary effect of the *MRSK* on some production areas is compounded by the protectionist policy pursued by successive governments over the past decade, chiefly through the implementation of the provisional *law on excise duties* (cfr. *Vž*, 22-27/04/1994) and the *law on customs' tariffs* (cfr. *Vž*, 08-12/04/1998). In the 1999-2000 period, tariffs and duties levied on agricultural goods and food have been the focus of much political debate, as Lithuania came under increasing pressure to conclude its negotiations with the WTO (cfr. Deksnys, M., and Tamulionis in *Vartai*, 24/01/2000). While Lithuania is now set to become a conditional member of the WTO sometimes in 2002, it will be granted full membership only if it will agree to implement a series of liberalisation measures which have been frozen since 1998-99.

Apart from distinguishing between seasonal and constant tariffs, existing legislation (cfr. *Mž*, 1992-96; *VMI raštai* in Bagdonavičius, 1998; *Rinkotyra*, 1(3)1999; *et al.*) envisages five main types of customs' duties for agricultural products:

- *standard* - their aim is to regulate the country's relations with its trade partners and collect revenue for the national budget;
- *exceptional* - by means of them, the government may decide to retaliate for what it perceives as "hostile" trade policies;
- *anti-dumping* - these duties are applied to products, whose price in Lithuania is set lower than in the country of origin, posing a threat to the domestic market;
- *compensation* - these duties are applied to imports, whose producers enjoyed a special subsidy from state authorities. A 1999 *nutarimas* established that the amount of the tariff would be proportional to the original subsidy;

- *protective*- by means of them, the state taxes the import of particular items, whose domestic it believes should be expanded or at least maintained at the existing level.

If we keep in mind that the 1998 customs' legislation sets 20% as the maximum tariff to be levied "under normal circumstances", the data included in *Table IV* on pg. 243 indicate clearly how agriculture is subject to a degree of protection which is higher than that recommended even under Lithuanian law. While *Art.3* of the law disposed that so-called compensation and protective tariffs could be set only in exceptional cases, the Agriculture Ministry, following consultation with *savivaldybės*, could decide at any time to impose exceptional tariffs on agricultural import. Thanks to this arrangement, the LDDP majority felt justified to retain exceptional import duties on a number of products such as fowl, dairy products (including milk) and corn, whose domestic industry is therefore heavily protected. In 1999-2000, local administrations have been the strongest advocates of the retention of high import barriers in face of mounting pressure from international organisations (cfr. *Sole-24 ore*, 26/11/1999).

From *Table IV* we see that, as of 01/01/2000, extraordinary duties were imposed on the import of a set of agricultural goods, including dairy products, wheat, corn and fowl. The imposition of extra-ordinary restrictive measures on the import of fowl was largely a response to the on-going protests of local breeders, who felt that their position in the domestic market was being eroded by cheaper imported produce (cfr. *Rinkotyra*, 1(3)1999). As far as the other beneficiaries of these restrictions are concerned, however, we see clearly that they coincide with those agricultural sub-sectors which already enjoy substantial protection thanks to the persistent state intervention on procurement and retail prices.

IV- Import duties on main agricultural goods in 1996 (percentage)

Product	Standard duty	Extraordinary duty	Anti-dumping
Cattle	20%	25%	30%
Pigs	20%	25%	30%
Fowl	20%	25%*	30%
Beef and veal	30%	30%	35%
Pork	30%	30%	35%
White meat	25%	25%	40%
Dairy products (excluding butter and cheese)	20%	30%*	40%
Butter	45%	50%*	50%
Cheese	30%	35%*	50%
Eggs	30%	30%	35%
Potatoes	20%	20%	25%
Wheat	30%	35%*	45%
Flower	30%	35%*	40%
Fodder	30%	35%	40%
Sugar	87%	87%	87%
Bread	30%	35%	35%

* =in force on 01/01/2000

(Source: combined from Csaky/Kazlauskienė, 1997, and *Rinkotyra*, 4(6)1999)

As the amount of import duty is calculated, an additional distortion may arise as the estimate of the value of the imports is left to the discretion of customs' officers (cfr. Purlienė, 1999). Over the past years, the latter were repeatedly reported to accept bribes from foreign producers trying to curb the amount of import duty imposed on their products (cfr. *Agro-Balt*, May 2000). In order to prevent abuses, the Customs' department issued a list of comparative prices of imported agricultural goods, based on weighted averages of previous years' values which should be used as benchmark for evaluation (cfr. Buškevičiūtė/Pukelienė, 1998). The system, however, remains flawed, as nothing prevents foreign producers and customs' officers to agree on *ad hoc* values for a number of years, leading to distorted comparative prices. The distortions implicit in the system are amplified further by the fact that the calculation of excise tax on imports (Art.2 of the 1994 law) is based

on the sum of the customs' value and the tariff. While the official publication *Akcizų tarifai* disposes that, in the case of agricultural products, excise duties are not to be shown separately, the result of double taxation is that the fiscal burden on some agricultural imports is substantially higher if compared with other Eastern European countries. This degree of protection is set to continue as scheduled reductions in customs' tariffs are constantly postponed into the future (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK and of the Naujoji Sajunga, 2000).

As import duties grant a substantial degree of protection to the whole of the agricultural sector sheltering it from foreign competition, there is no direct discrimination against subsistence producers comparable to that which we highlighted discussing the *FAPM* and *JAPM* guidelines in *Section 5.2-5.3*. However, in the previous sub-section we claimed that the policy of inflated procurement and retail prices deployed in some areas of agricultural production does penalise the consumer in order to enable state authorities to come to the help of large-scale processing conglomerates. The levying of extra-ordinary import duties on products eroding the sheltered position of the very same conglomerates is bound to increase the distortionary effects of direct price interventions, strengthening the inertia inherent in the agricultural sector and hindering any attempts by small-scale farmers to develop into sustainable commercial units.

b) Arrears payment

1997-98 saw the overhaul of the system of minimal buying-up prices (*MRSK*) against the background of the reform of the National program for agricultural development (*NŽŪP*). The intervening changes had the substantial merit to highlight the disequilibrium fostered over the previous years in the agricultural sector by the on-going state interventions on prices and import tariffs. The Vagnorius and Kubilius governments, however, proved no less unwilling than their predecessors to undertake any substantial reduction of the involvement of the state in the agricultural sector. This emerges clearly as we assess the policies undertaken by these two governments as to the payment of arrears in the dairy production chain, which is paradigmatic of the evolution within the agricultural sector as a whole. It is chiefly as a result of these policies that the distortionary interventions on pricing and customs highlighted in the previous sub-section have had the additional effect of making these massive transfers of resources to successor farms and processing conglomerates a customary practice.

As we mentioned in *Section 3.4*, by the mid-1990's the stabilisation of ownership relations following the abolition of the trade ban on restituted plots had resulted in a situation where each large processing conglomerate would control a set of co-operatives as well as a substantial number of subsistence farms. At the same time, we should remember that other subsistence farms continued the practice, established under collectivism, to hand over their raw produce to collection centers usually adjacent to large successor farms, which would then process it and prepare finite products for distribution on the market (cfr. *Rinkotyra*, 1(3)1999). The price paid by processing conglomerates or successor farms to suppliers of raw agricultural products would largely coincide with the *supirkimo* price discussed in the previous sub-section. Theoretically, any such expense, together with production costs, should

be covered with the revenue raised with the sale of finite products on the market- we saw how in some cases state authorities do also intervene to set retail prices.

At the outset of the transition, it was hoped that, once prices were set by the competent authorities, governments would no longer have to intervene and in the long term each sub-sector would eventually find an equilibrium independently. However, the LDDP government hoped that setting higher production targets for processing conglomerates would help the country to obtain more consistent milk production quotas from the EU (cfr. *Rinkotyra*, 3(5)1999; also Deksnys, M.. and Guiga in *Vartai*, 28/02/2000). Numerous processing structures, however, found themselves in a position where they could not cover the increased costs of production and at the same time meet their obligations with their suppliers. While successor farms would be burdened by over-manning and would rather pay their own employees than their suppliers, processing conglomerates face outdated technology and the necessity to rent machinery in order to meet production targets. Processing structures would therefore accumulate substantial arrears (*atsiskaitymai*) towards their suppliers, who would anyway continue bringing their produce to the established collection points as in the majority of cases the latter are the only outlet available to them.

A sensible solution to the impasse would be the establishment of independent processing centres run by subsistence farmers themselves. In this way small-scale farming could break out of the circle of dependence resulting from the persistence of compulsory quotas and the lack of alternative structures, while larger co-operatives and conglomerates could undertake the long overdue structural overhaul. The policy implemented by successive Lithuanian governments until 1996-97, instead, has consistently privileged the interests of the processing tier of production over both producers of raw agricultural produce and consumers, as the Ministry of Agriculture has systematically stepped in to meet processing units' obligations towards

subsistence farmers. This practice had already been common in the 1970 and 1980's, whenever *kolūkiai* undertaking processing were not in the position to reimburse tillers of private plots supplying collectives with raw produce (cfr. Šleževičius, 1988).

If we consider the dairy sub-sector, we see clearly how this practice has distorted the entire chain of production, as well as damaging the consumers. We saw earlier that state authorities imposed high barriers to the import of dairy products, so as to redirect demand to domestic production. At the same time, the imposition of semi-set retail prices could allow the state to raise revenue and to pay processors' arrears to subsistence farmers. However, while consumers would pay a higher price enjoying a restricted choice, the revenue raised would be insufficient to cover all necessary expenses, so that producers would only receive a fraction of the *supirkimo* price- in 1999, milk producers would receive 40-65 cents/kg., while production and transport expenses were estimated at 65-70 cents/kg. (cfr. *Rinkotyra*, 3(5)1999; data from other publications are not always consistent). In this way, subsistence farmers would never have the necessary capital to set up alternative processing structures. At the same time, existing processing units are able to reap income from the sale of their products while discharging the cost of raw materials on the state. *Savivaldybės* holding interests in processing conglomerates have been the most vocal supporters of this system- while not involving them financially, the agricultural organisations under their influence remain the main beneficiaries of state support, while independent farming is purposefully left in a condition of dependence.

The abolition of set *supirkimo* prices for milk in November 1999, purportedly in expectation of their generalised rise, was presented by the Kubilius administration as a major step towards the liberalisation of the milk market. In fact, very likely with the tacit agreement of local administrations, processing conglomerates succeeded in establishing a cartel setting prices at 30-35 Lt.- barely covering 50% of production

costs. In an attempt to improve its own finances while at the same time easing the survival of processing units, state authorities implicitly accepted a further shift of resources away from subsistence farms. In addition, the fact that the Ministry of Agriculture is not legally bound to comply with its own schedule for compensation payments (cfr. Navickienė in *Lietuvos aidas*, 08/03/2000) and the virtual pointlessness of any recourse to litigation effectively leaves producers without any guarantee that obligations towards them shall be met.

The fact that co-operatives and conglomerates' financial arrears are still systematically serviced by the state is possibly the most blatant example of state partiality towards a certain type of farming arrangement. More than in any other case, Lithuanian governments have consistently acted to preserve the structural imbalance between larger structures and smaller producers which could be eliminated only if the former were forced to face up to their financial responsibilities. While the proposed fund to guarantee compensation to producers of raw agricultural goods (cfr. Tamulionis in *Vartai*, 07/02/2000) might at least relieve subsistence farmers of the constant state of uncertainty which burdens them now, such plan would in practice relieve processing units of any pretence of accountability, putting pressure on an already strained budget and transforming the state into the official supplier of successor farms.

5.6 Conclusion

The mechanisms of fiscal imposition as well as the patterns of income transfer evolved in the course of the first decade of reform highlight the general perception -shared by politicians across the political spectrum- of the crucial role of agriculture within the national economy. At the same time, however, fiscal legislation and the records of state authorities indicate the persistence of a deep-seated bias in favour of larger successor farms and processing units, which benefit from a more favourable fiscal treatment while being often able to discharge their financial obligations on the state. With the due differences reflecting changed political circumstances, this arrangement reproduces local administrations' partiality towards *tarūkiai* and *kolūkiai* during the collective period, as well as the discrimination against small-scale farming of the inter-war period. In addition, the distortions in the accounting system highlighted in the previous chapter have resulted in inaccurate calculations of the tax base which have amplified the privileges granted to agricultural co-operatives. As a result, the dichotomous structure of the agricultural sector has been strengthened even further.

Among the elements playing an important role in the evolution of agricultural structure we should mention the following:

- confusion as to the definition of income for subsistence farmers and family farms registered as *physical persons* has resulted in inconsistent estimates of the value of *FAPM*. The practice to use *realisation income* in the calculation of fiscal imposition even as payments are delayed has led to an overestimate of the tax base. At the same time, unfavourable treatment of the median agricultural worker has meant that handing over agricultural assets to already existing share-holdings is often more advantageous than use them for

independent farming (cfr. Ranonytė in *Verslo žinios*, 10/07/1998; also Gadeikis' interview with Kristinaitis in *Veidas*, 05/04/2001). In addition, while there are substantial differences in the level of taxation across the country, the concession of fiscal exemptions is highly subjective, privileging entities where local administrations have substantial stakes;

- on the other hand, agricultural entities registered as *legal persons* are effectively in the position to *determine* the extent of their tax base through the arbitrary subtraction of elements or the establishment of "special funds". "Provisional" exemptions from *JAPM* for processors of raw agricultural produce and substantial privileges for co-operatives operating in *LEZ* signify that successor farms and processing conglomerates are subject to a lower degree of fiscal imposition than subsistence farms;
- attempts to include the effects of inflation on taxable profits led to the overestimation of *replacement costs* and thereby favoured entities to which the property of former collectives had been assigned. The guidelines regulating the *mechanisms of tax payment* strengthened the position of successor farms. For the latter, inflated values for "take-out" coefficient resulted in contained advanced payments- the substitution of the coefficient with monthly payments fails to overcome the problem, as the usage of earlier payments as a basis perpetuates the existing chain of distortions. Finally, fiscal supervision is under the strict control of *savivaldybės*, which tend to be more lenient in assessing the fiscal conduct of co-operatives where they have an interest;
- finally, while *price regulation* and trade barriers have granted a disproportionate degree of protection to domestic production, the tendency of

state authorities to meet the financial obligations of processing conglomerates has legitimated substantial income transfers to the latter to the detriment both of consumers and of subsistence farmers.

Fiscal regulations, protection schemes and arrears payment policies have amplified the already existing inertia in the organisational set-up of the agricultural sector. In particular, the role of local administrations in the implementation of legislative guidelines has resulted in a situation where *savivaldybės* deliberately overlook existing abuses, while often oppose projects envisaging more adequate mechanisms of taxation.

Chapter VI The experience of agricultural transition in Lithuania 1990-2000- evaluation and perspectives

6.1 The role of national and local administrations in agricultural transition

In the ten years following the demise of socialist regimes, the frequency and content of state intervention aimed at the establishment of a viable agricultural sector has varied substantially across former collectivised economies, largely reflecting the historical context of individual areas, as well as the different role of agriculture in different regions. The presence of common patterns of reform in countries sharing similar cultural and economic features does not justify however commonly held beliefs as to a necessary long-term convergence in the performance of equivalent sectors in different countries. Legislative guidelines, as well as direct executive interventions are bound to reflect different sets of political priorities, resulting in widely divergent social and institutional arrangements. The determinant influence exerted by socio-political considerations lies behind our resolution to focus extensively on the role of national and local administrations in the course of the earlier chapters, structuring the exposition of the process of Lithuanian agricultural reform around legislative pronouncements and corresponding executive *nutarimai*.

In the course of Lithuania's recent history, local administrations have played a leading role in setting the agricultural sector's targets and general direction of development, as well as in channelling towards it the resources necessary to achieve them. Over the last years, the experience of the inter-war *Tautininkų* governments has been increasingly posited by the Lithuanian academic community (cfr. Bičkauskienė in *Lietuvos aidas*, 24/03/2000; Mardosa, 2000), as well by a number of independent think-tanks and research institutes (cfr. *Agro-Balt*, 2000; Petrauskis' interview with Gruodis on bureaucracy in *Veidas*, 02/11/2000), as a benchmark of

"positive" interventionism, as opposed to the "negative" interventionism of the 1990's. All political forces, including Paksas' Liberals and Paulauskas' *Naujoji Sajunga* which otherwise envisage a progressive reduction of the role of the state in the economy, reach a substantial consensus when it comes to the assertion that, both for economic and social reasons, agriculture would remain a key sector in Lithuania's economy, and as such it required the particular attention of the different tiers of public administration.

In the eyes of many external observers (cfr. *Baltic Times*, May 2000), the reason why agricultural reforms have been unable to provide the conditions for a viable rural sector is that legislators have "fallen hostage" to the demands of the agricultural lobbies, which have managed to prevent more radical legislation as well as stifling the implementation of existing provisions. According to this point of view, accounts of rural transition focusing on the actions of public administrations would be incomplete and uninformative, failing to grant appropriate considerations to the crucial role of sectoral and regional pressure groups (cfr. *Sole-24ore*, 06/05/2000). A direct analysis of the Lithuanian context, however, leads us to believe that this interpretative approach is in need of substantial qualification.

The fact that the reforms undertaken by three successive legislatures have failed to deliver the expected break-through in the agricultural sector is not the result of the inactivity of the political class- reviewing the parliamentary records from 1990 to 1997, one is struck by the amount of legislation devoted to agriculture, as well as by the extent whereby both central governments and local administrations followed its implementation. Although during the Conservative legislature farmers' associations became more assertive in conveying their *desiderata* to politicians both through direct actions and through their mouth-pieces in the Peasants' party, their role as primary initiators of reform programs has been very limited, and the state has never considered them primary partners in the formulation of legislation (cfr.

Lietuvos aidas, 12-19/03/2000; also *Rinkotyra*, 1(3)1999, and *KŽŪR conference acts*, 09/03/2000). The passivity of farmers' associations –more interested in obtaining special concessions from the *savivaldybės* than in questioning the direction of the reform process- ensured that over the 1990-2000 decade public administration remained the predominant arbiter of change in the rural areas of the country.

The organizational structures that have emerged within the agricultural sector over the past ten years ultimately reflect the incentives laid by the state by means of its policies in the early phase of restitution. For instance, in the immediate aftermath of de-collectivisation, the ban on trading restituted plots put a freeze on transactions and on the consolidation of land. At the same time, the 1991-93 laws resulted substantially in an internal buy-out of agricultural assets by former collective workers and in the creation of new farming units, largely structured along the lines of earlier collectives. As a result, by early 1994, successor farms controlled over 50% of overall *naudmenos*, while a substantial proportion of subsistence farmers tilled plots smaller than 10 ha. (cfr. Lithuanian Institute of Statistics, *Annual reports* of the Ministry of Agriculture, 1994-96).

In addition to define the initial behavioural choices of actors operative in the agricultural sector, the role of public administration –especially *savivaldybės*- has been crucial also in setting determining the long-term evolution of the ensuing organisational arrangements. During the Soviet period, the system of agricultural subsidies and procurement quotas, integrated by sector-specific fiscal privileges, had created an environment which was not conducive to efficiency and independent initiative. Over 1992-96, the *LDDP* majority, supported at the local level by the former *kolūkiai* leadership, substantially slowed down and in some cases reversed the decline of subsidies to the rural sector started under the *Sajūdis* period- in *Sections 5.2-5.3* we saw how newly-promulgated fiscal legislation included substantial exemptions for successor farms (cfr. also *Rinkotyra*, 1(3)1999; Leontieva

on Estonia, 2001). At the same time, as outlined in *Sections 4.2-4.4*, the usage of an elaborate dual system of accounting has generally resulted in an inadequate evaluation of the potential of different farming units, resulting in a disproportionate channelling of resources towards the larger co-operatives and the agricultural conglomerates, with subsistence farmers being denied access to any form of financial support. The lack of structures able to pose an alternative to official credit agencies has ensured that local administrations were in the position to determine the balance of power within the financial sector (cfr. *Verslo žinios*, Jan./Feb. 2000; *Agro-Balt*, May 2000). The combination of sector-specific fiscal policies and credit control ensured that the existent opportunity set was virtually determined by *savivaldybės'* officials.

When one considers the amount of reform undertaken over the past decade, it emerges that the criticisms levelled at the alleged impotence of the state should rather be targeted at the inefficiency of the organisational arrangements resulting from the implementation of the reform. This does not deny that the Seimas promulgated legislation liable to substantial improvement or that the slowness in the implementation of some aspects of reform (such as, for example, land restitution) magnified its negative elements. The reasons for the failure of the reform program lie elsewhere. The different tiers of public administration largely succeeded in implementing the reforms planned in the early years of transition, but the resulting economic environment was characterised by a series of incentives which in practice perpetuated the distortions of the collective period. Rather than reducing state control over agriculture, the process of sectoral transition merely changed the way in which control was exercised in rural areas (cfr. Ramanauskas, 1996; for a comparison with China, cfr. Kelliher, 1992).

In the next four sections, we shall bring together some of the insights from earlier chapters to highlight how the past decade of reforms within Lithuania's

agricultural sector has resulted in a complete change of juridical property relations, leaving however *de facto* power equilibria unchanged. *Sections 6.2-6.4* shall focus on the role of local administration, while *Section 6.5* shall highlight the impact of fiscal and credit policies implemented at a national level. The discussion shall be articulated as follows:

- in *Section 6.2*, we shall argue that the adopted method of land restitution has contributed to the preservation of earlier distortion and slowed down the modernisation of farming. We shall see how public administrations have retained a substantial degree of control over land usage and transfer, so that recipients of restituted plots are not in the position to dispose freely of their property;
- in *Section 6.3*, we shall see that the slowness whereby property rights to farming assets and land are defined and then juridically recognised results in unsettled property relations and hinders the development of a viable land market. An implication of this situation is a more pronounced degree of dependence of farmers from state support or *savivaldybės*;
- in *Section 6.4*, we shall see how the establishment of new farming units has provided local administrations with new channels to exert control over the rural sector- as a result, the development of a viable farming sector would harm *savivaldybės*' interests. At the same time, remaining within organisations enjoying the support of local administrations has become the only way for many impoverished farmers to ensure their own survival;
- in *Section 6.5* we shall see how nascent forms of agricultural organization that could have represented a viable alternative to the inefficiency of successor farms have been hampered by the fiscal and customs policies promulgated by successive governments. We will evaluate the structure of rural subsidies and procurement, largely modelled on the earlier system disposing of *kolūkiai*'s produce. At the same time, we shall see how the financial levers adopted by state

authorities have established a distorted system of incentives, thereby strengthening the organisational divide characterising the agricultural sector.

While public opinion in Lithuania is becoming increasingly aware of the inability of reformers to overcome the legacy of collectivisation, there is considerable disagreement as to which strategy could enable the agricultural sector to break out of the existing impasse. In *Section 6.6*, we shall offer some suggestions for the future development of farming, highlighting the need for a quick completion of the restitution process, as well as the need to ensure the independence of farming organisations from the structures of local administrations.

6.2 Property rights and the patterns of land ownership

The notion, mentioned in *Chapter II*, of property as a bundle of control, transfer and income rights (cfr. Demsetz, 1967) is reflected, in the experience of countries undertaking transition, by the existence of different ways in which exercise of property over assets having been divested by the state. The Lithuanian experiment with restitution of collectivised assets and transformation of existing collective structures has resulted in a situation where property rights to land and agricultural assets can in most cases be defined as hybrid, as they encompass features typical of both private and public ownership. While after 1996-97 conditions for trading restituted assets were substantially liberalised, the incentives established by public administrations are such that a viable market for land is still not operational-rather than a commercially sustainable private agriculture, the legislative context favoured the leasing of plots to collective structures alongside basic subsistence farming. Our intention in this section is to show how the reforms implemented over the 1990-2000 period by successive governments and municipal administrations have resulted in a set of state-sponsored incentives favouring successor farms and preventing the development of more efficient forms of agricultural organization.

Within the set of countries having undertaken a comprehensive process of privatisation, we can distinguish between nations such as Hungary and the Czech Republic characterised by the primacy of legislation imposed from above (cfr. Mathijs, 1997) and countries such as Albania and Romania, where privatisation was initially driven by regional or sector-specific practices initiated by relevant interest groups (cfr. Cungu/Swinnen, 1997). Lithuania can be classified with the first group in consideration of how parliamentary and executive pronouncements were effectively the only benchmarks in determining what proportion of the available land fund would be handed over to the private sector and who would be entitled to it (cfr.

the *Restitution law* of 18/07/1991 and the *law on land reform* of 25/07/1991, *Section 2.2*).

Following the restoration of independence, the right to dispose of land rested entirely with the Restoration parliament, which enjoyed full discretion to define restitution and transformation methods. In the medium run, the right to dispose of land and to transfer it to private individuals was partially transferred to the municipal authorities under the supervision of the local branches of the *Žemėtvarkos tarybos*, which would select the final recipients among the applicants for restitution. We mentioned in *Chapter III* how the provisions of the *restitution law*, ostensibly meant to regulate the progressive transfer of property rights to individual farmers, were drafted so as to ensure that local administrations retained a measure of control. While the upper limit to the land which could be leased by one single individual was allegedly introduced to curb a foreseeable collapse in agricultural production, the requirement of a certain number of years of residence within a collective resulted in a severe selection among potential recipients and belied the purported notion of a generalised distribution of state assets.

If control over farming land is defined as the ability to undertake any type of agricultural activity on its surface, recipients of restituted land in Lithuania cannot be regarded as exercising full property rights on their plots. While Vagnorius stated that full control over land would be transferred to the farming population within two years (cfr. Grižibauskienė in *Lietuvos aidas*, 11/04/2000), this contention was belied by the provisions of the land reform law discussed in *Chapter III*, ratifying the notion of "rational use of land" and the need to gain the approval of *savivaldybės* for any land utilisation project. Under LDDP rule, control rights over land were further weakened by the 1993 *resolution on the directions of land reform*, whereby the SMT discussed in *Section 3.2* were empowered to oversee whether plans for the utilization of individual plots were consistent with *savivaldybės*' guidelines, as well as to

impose a set of further restrictions mentioned in *Section 3.3*. It emerges clearly that in the initial phase of transition recipients of restituted assets only received nominal property rights, while control over land usage rested largely with municipal authorities.

Legislation also posed severe limitations on the other two defining aspects of property rights. The three-year ban on the sale or lease of restituted plots and the prohibition to own land applied on legal persons and foreign nationals sensibly curbed the potential for land trading by artificially reducing demand and supply. Compulsory rents in so-called "grey areas" (cfr. *Rinkotyra* on the formation of the land market, 2(4)1999) further limited the recipients' rights to transfer their plots and thereby the scope for the development of the land market (cfr. Valatka in *Lietuvos rytas*, 09/06/2000). The right to enjoy the income flowing from the plots was also limited whenever local administrations made use of the resolution's *Point III*, 22-23 imposing the confiscation of a quota from the harvest. The need to ensure the approval of state authorities for any land utilization project led to a context of persistent uncertainty concerning the limits of legitimate individual initiative. In some cases, transfer and income rights limitations following transgression of particular guidelines took the form of absolute suspension of property rights (cfr. *LAT-CBS pronouncement*, Oct.1993, and *pareiškimai* of 12/01/1995 and 24/01/1996). It must be remembered, however, that while the right to the control over land was weakened across the whole sector by the consistent deployment of usage directives (cfr. the 1993 *leasing law*, *Art.6ff.*), after the 1996 local elections a number of *savivaldybės* started to interpret legislative directives with more leniency. As a result, the extent to which property rights were exercised in different *rajonai* could differ substantially.

In the wake of their return to power in October 1996, the Conservative majority attempted to down-play the concern with a rational use of land which had been a

characteristic feature of the previous legislature, going as far as to admit in *Art.15-16* of the 1997 amendment law the necessity to overlook the absence of documentation formally proving ownership (cfr. *Baltic Times*, May 2000). However, legislation failed to eliminate restrictions on the rights to transfer and income mentioned above, so that the provisions encouraging land consolidation included in the law could be applied only in a limited number of areas. Compared to the comprehensive restitution operations undertaken over the previous years, however, such operations only exerted a limited impact on the incentives faced by individuals and organisations (cfr. *Vartai*, 03/04/2000). Qualitative variations in the assignment of property rights constitute one of the main factors underpinning the different patterns of land ownership which characterise different *apskričiai* and are reported in *Annex IV*.

Despite the fact that the 1996 electoral program of the Conservative parties and the pronouncements of the governments of the 1996-2000 period were characterised by a general commitment to liberalise land usage and transactions, by the end of the legislature a number of not irrelevant obstacles remained in place:

- the persistent *fragmentation of land* originating in 1991-92 from the creation of 3 ha. plots has not been overcome by the legislative provisions (cfr. *Rinkotyra*, 1(3)1999) raising from 80 to 150 ha. the upper limit on the surface of land that previous owners or their heirs can receive, as the majority of plots remains smaller than 20ha. If we take consolidation as a proxy for the extent whereby property rights are exerted, the degree of control exerted over the territory by Lithuanian agricultural workers appears considerably weaker than in other CEEC's. An assignment of property rights incapable of ensuring an effective usage of agricultural assets can be overcome only by an overhaul of

legislation in line with EU directives (cfr. Bruveris' interview with Ušackas in *Lietuvos aidas*, 29/01/2000);

- the *choice of plots* which can be used for agricultural purposes has recently been transferred to the *Žemėtvarkos taryba* (cfr. *Art.5-6, 10* of the 1999 amendment to the *land law*; also Kubilienė in *Lietuvos aidas*, 12/04/2000). While this move was meant to limit *savivaldybės*' power to devise land utilization plans in virtual disregard of the recipients' "social and psychological" condition (cfr. Bruveris' interview with Kubilius in *Lietuvos aidas*, 19/02/2000), it has resulted simply in moving effective control rights from one administrative body to the other, still leaving holders of legal rights outside the decision making process;
- despite wide-spread criticism, governments and *savivaldybės* have been unwilling to eliminate the *distinction between "grey" and "green" areas* resulting from the initial ban on privatised land. We mentioned how in the former areas, the movement of population towards urban areas following collectivisation resulted in a large proportion of land (from 14% in the Vilnius *rajonas* to 57% in Eastern Žemaitija, cfr. *Rinkotyra*, 1(3)1999, *Appendix*, and *Annual reports* of the *Žemėtvarkos taryba*, 1997-98) being left fallow, as many rightful owners were not in the condition to return to their place of origin while being banned from selling or leasing their plots. Once again, we see that the implementation, rather than the lack, of reform legislation has yielded an arrangement which, while meant to strengthen restored property rights, has resulted in their emptying;
- those applicants for restitution who cannot receive their plots in the original borders are not allowed to express their *desiderata* as to the *choice of an equivalent plot*. Municipal authorities retain absolute control as to the Free

land fund and no check exists on the strategies that they choose (cfr. Navickienė in *Lietuvos aidas*, 01/03/2000). Transfer rights rest largely with the *savivaldybės*;

- previous owners of collectivised assets or their heirs having received monetary compensation from the state are subject to strict *limitations* if they wish to employ the latter to purchase *new plots of land* (cfr. *KŽŪR conference acts*, 09/03/2000). Urban residents are in most cases not allowed to purchase plots within their urban area and are coaxed to purchase plots adjacent to isolated self-subsistence units (*vienkiemiai*), contributing even further to the fragmentation of land ownership and the incompleteness of control rights. To make matters worse, a recent government *nutarimas* (cfr. *Lietuvos aidas* editorial of 31/03/2000, quoting from the Kaunas daily *Laikinoji sostinė*) has established that *apskričiai*'s rulings as to which plots can be acquired with compensation money are not liable to appeal;
- finally, the *method of property rights restoration* (i.e. the choice between financial compensation and restitution in kind, as well as their terms) can be modified only resorting to the authority of the courts (*teismine tvarka*). Theoretically, the *apskritis*' authority may grant an exemption to this rule if property rights restoration has been planned, but not yet implemented- such instances, however, have been quite rare (cfr. Navickienė, in *Lietuvos aidas*, 01/03/2000; also Poviliunas, 1993 and the *Žemėtvarkos taryba*'s reports, 1996-97). As a result, citizens thinking that the set terms of compensation are not satisfactory are unable to modify them if they cannot cover the expenses for litigation. This implies that public administrations may act without any external mechanism of control, retaining the ability to determine the extent to which effective control over privatised land rests with its nominal owners.

Any hypothesis envisaging the failure of agricultural reform as resulting from the inability of state authorities to implement previously drafted reforms in the face of grass-root opposition is bound to reveal its explanatory inadequacy when we consider the cumulative effect of the limitations listed above, from which it emerges that the Lithuanian public administration has yet to relinquish full control over land. The instances of civil litigation initiated by individual citizens against the Agriculture Ministry and the *Žemėtvarkos taryba* (cfr. Tamulionis, *Mokesčių sąvadas*, 1997; also Bagdonavičius, 1998) to overrule decisions perceived as having failed them can be regarded as implicit attempts by recipients of privatised plots to acquire fuller control rights over the assets they received and thereby to increase the effectiveness of the property rights they were assigned.

In 1996 the Vagnorius government reorganized the Land reform department (*Žemės reformos skyrius*, ŽRS) in order to simplify the lengthy legal proceedings necessary to contest ministerial resolutions (cfr. Grižibauskienė in *Lietuvos aidas*, 28/03/2000). The pronouncement of this newly established body were granted particular attention by the media, but the state stopped short from defining what is their legal status in relation to executive or judicial pronouncements. Arguably, the underlying wish was to retain the ultimate authority to overturn any ruling harming local administrations' interests (cfr. *Veidas*, 08/12/1999). In recent years, local branches of the ŽRS have defended the rights of private individuals against the interest of local administrations- *savivaldybės*, however, have largely failed to heed the suggestions of these bodies, upholding the judicial superiority of the pronouncements of local courts. The structure intended to provide policy benchmarks for the allocation of property rights has therefore been unable to redress the disequilibrium between private individuals and the state authorities effectively controlling the agricultural sector.

A further problem magnifying the negative effects of unbalanced property rights is the slowness whereby *savivaldybės* release certification attesting legal ownership of land. A recent pronouncement by the Ministry of Agriculture (cfr. *KŽŪA reports*, 1999-2000) reasserted that the right to decide the order whereby applications for ownership certification are satisfied rests with the authors of the *seniūnijos*' land utilization plans. Recipients of restituted plots are given precedence on the basis of what the ŽRS calls "contestability" (*užginčimas*) of the right to control land- for instance, recipients of a plot in its original borders are less likely to see the legitimacy of their property rights challenged by alternative pretenders or organisations than recipients of plots in modified borders or of equivalent plots found in different locations. It is implicitly claimed (cfr. Navickienė, *op.cit.*, 2000) that a certain amount of time has to elapse before the state can give its seal of approval to potentially questionable property relations. This argument, however, fails to consider that in this way individuals holding weaker control rights- such as the owners of equivalent plots, seldom in the condition to undertake farming- may find these very rights substantially weakened by the delayed concession of documentation (cfr. Navickienė and Steponavičius in *Lietuvos aidas*, 15/03/2000).

On the basis of these considerations, we see that, though the state has nominally divested itself of the majority of its assets, state authorities still retain a substantial degree of control over land usage and transfer, so that in most cases recipients of restituted land are not in the position to dispose freely of their plots. Later in the next section we shall see how this effectively partial restitution of property rights has been one of the main factors behind the patterns of agricultural organization. We shall now discuss how the deeply ingrained partiality of local administrations has prevented the development of a viable land market.

6.3 Ownership relations and the land market

By late 1996 the dismantling of the collectives was largely concluded, while the majority of the agricultural co-operatives still in operation had already been established. The end of the ban to trade restituted land meant that recipients unable to till their plots could finally dispose of them as they wished, reducing the surface of land left fallow and progressively favouring the consolidation of plots. By 1998, the number of applicants still waiting for the restitution of plots, as well as the amount of land divested from collectives which was yet to be transferred to the private sector was substantially lower than in 1995-96 (cfr. Kubiliénė in *Lietuvos aidas*, 12/04/2000). Ownership relations had largely stabilised in the dual pattern of subsistence farms and successor farms mentioned in *Chapter III*.

In late 1998, it was generally believed that land reform would be virtually concluded by the end of the year 2000, leaving only 5% of restitution requests to be met under the following legislature (cfr. *Rinkotyra*, 1(3)1999). In the eyes of the political class, conditions seemed ready for the development of an autonomous land market, which could operate independently of state intervention. It was hoped that the development of agricultural enterprises would benefit from the rise in land property prices, which were regarded as a necessary consequence of the joint decrease in land supply and increase in demand brought about by the eventual expansion in private farming (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK, 1996).

These expectations were not confirmed by successive events. By the beginning of the year 2000, no more than 45% of restitution requests were met in some *rajonai*, with a large percentage of the land lying fallow. At the same time, the land market has failed to take off, with the price of land plummeting to unprecedented lows in many areas (cfr. *Baltic Times*, May 2000). The Centre-Left opposition, backed by a

number of think-tanks (cfr. *Naujoji Romuva*, Nov. 1998), saw the reason for this failure in the central government's inability to withstand the farming lobbies' opposition to the liberalisation of land transactions- an accusation the more remarkable, coming from an association enjoying the support of the former rural élites.

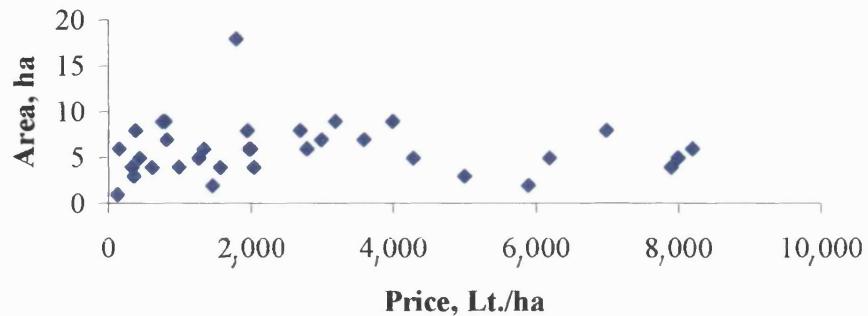
In fact, considering the amount of national and local legislation promulgated over the previous ten years, as well as the accompanying executive *nutarimai*, we see clearly that the present situation of rural stagnation is not the result of any inherent weakness on the part of state authorities, but of a number of flaws implicit in reform legislation, resulting once more in unclear or limited property rights to land. The degree whereby *savivaldybės* interfere in setting land utilisation targets is one of the main factors behind the variation in land valuation across *rajonai* (cfr. *Table I*) as well as within a particular *rajonas* (cfr. *Table II* about the Vilnius area; also *Lietuvos rytas*, 10/01/2001).

I-Average price of agricultural land (1998-99)

<i>Apskritis</i>	<i>Price, Lt./ha</i>	<i>Average plot size, acres</i>	<i>Number of transactions</i>
<i>1. Alytus</i>	2,693	423	39
<i>2. Kaunas</i>	2,469	620	513
<i>3. Klaipėda</i>	1,726	591	255
<i>4. Marijampolė</i>	1,461	702	176
<i>5. Panevėžys</i>	1,257	735	406
<i>6. Šiauliai</i>	1,420	780	647
<i>7. Tauragė</i>	1,202	518	93
<i>8. Telšiai</i>	905	564	424
<i>9. Utena</i>	1,385	690	188
<i>10. Vilnius</i>	3,597	552	193

(Source: adjusted and combined from *Rinkotyra*, 1(3)1999 and *Baltic Times*, May 2000)

II- Agricultural land plots sold in the Vilnius *apskritis* in 1998



(Source: Annual report of the Žemėtvarkos taryba, 1999, section on the Vilnius rajonas)

According to data by the Lithuanian Institute of Agrarian Economics (cfr. *Rinkotyra*, 2(4)1999), as of 01/01/1999 the state land fund included 6,530 ha. of land, of which 60% (3,940.9 ha.) was set aside for agricultural purposes. 84% of agricultural land was occupied by *naudmenos*- a term which, as we mentioned in *Section 1.4.3*, is applied to any type of structure used for agricultural production, from family-run isolated farm to large co-operatives controlled by *savivaldybės*. 73.3% of the *naudmenos* were used for farming, 11.2% was taken up by grazing ground and 11.1% by orchards- the rest was occupied by forests, water and rural roads. In accordance with the 1991 and 1997 laws, four million hectares of land have been interested by applications for the restoration of property rights, although up to late 1999 (cfr. *KŽŪR conference acts*, 09/03/2000) only 2.3 million requests (about 58% were satisfied). In terms of surface, over the 1994-98 period, the land used for private agriculture increased from 378,600 to 1,445,800 ha., while land for subsistence agriculture decreased from 839,800 to 685,000 ha. and land leased by agricultural co-operatives from the state also shrank from 993,300 ha. to 770,700 ha..

As of 01/01/2000 (cfr. Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1999), the proportion of agricultural land used for private commercial agriculture (36.4%) consisted mainly of private land owned by members of agricultural co-operatives or by co-operatives registered as physical persons, which then leased a further 8.5%. The few new state agricultural co-operatives established on plots returned to *savivaldybės* by owners unwilling to farm them lease a further 0.6% of the land, while other legal persons lease about 0.5%- a further 19.0% is used for subsistence agriculture, while 17.4% is left fallow. As late as April 2000 (cfr. Bukontienė in *Lietuvos aidas*, 02/02/2000), the *Žemėtvarkos taryba* claimed that by the end of the year land partition would stabilise- by then, 95% of restitution applications would have been satisfied, though financial compensation would be continued until 2006.

These forecasts are only partially supported by data on the real situation in most *apskričiai*, where it appears that not all *seniūnijos* have drafted comprehensive plans for the utilisation of the territory in the local land fund (cfr. *Annex IV*). In some cases large percentages of land still lie fallow, while in a number of *rajonai* over a third of land has not juridically been attributed to any owner. As pointed out by the Centre-Left opposition in response to such over-optimistic pronouncements by government officials (cfr. Pronckus in *Respublika*, 10/04/2000, quoted by Grižibauskienė in *Lietuvos aidas*, 11/04/2000), over 1999-2000 cadastral units were able to satisfy only 326,000 out of 733,000 restitution requests, while the registration of new plots had fallen from 123,000 in 1993-96 to 86,000 in 1996-2000. In most cases, *savivaldybės* no longer have financial obligations towards cadastral units, but the lack of technical expertise considerably slows down the determination of plot borders (*paženklinimas*) as well as the accompanying land-surveying operations (cfr. Vitkus on the *Saulėtekio* commission's recommendations, *Lietuvos aidas*, 21/04/2000). At the same time, the promised payment of state securities to individuals having requested monetary compensation, if continued at the present rhythm, is unlikely to be completed before

2010 unless the state sets apart a further 800 million Lt. for compensation purposes. As control rights over land remain undefined as long as restitution continues and potential customers lack the necessary capital to undertake transactions, it is unlikely that the market for land shall start to function normally before the end of the present legislature.

The persistent situation of uncertainty as to the allocation of property has represented an obstacle to the consolidation of land, resulting instead in further fragmentation of plots. By 1996, using 1993 as a base year, the number of co-operatives established within the limits of former collectives had increased by 200%, but land attributed to them had increased only by 58.6% (from 986,800 to 1,483,100 ha). This reflects a situation where new farming units are established on ever smaller surfaces as farmers are unable to agree on the terms of co-operation and the servicing of maintenance expenses (cfr. Csaky/Kazlauskienė, 1997). At the same time, land used for subsistence farming has decreased by 12.6%, while the number of farming units has increased by 15% (cfr. *Agro-Balt*, May 2000)- as a result, while in 1990 each farmer tilled on average 17 ha., in 1994 this surface had shrunk to 8.5 and in 1996 to 7.6. In addition to this "spontaneous" process of fragmentation, one should not forget the survival of a substantial number of small-scale plots (1-3 hectares) reflecting the preoccupations of early legislators, wishing to avoid the excessive concentration of land in few hands. The fact that local administrations effectively stopped their consolidation through the initial ban on trading land was often interpreted by farmers as a signal that central governments supported small-scale farming (cfr. Ramanauskas, 1996).

The situation of disequilibrium between larger estates and smaller plots has been re-enforced by the strategy adopted in the concession of financial aid. As we mentioned in *Chapter III*, systematic support has been granted only to co-operatives located in *rajonai* where *savivaldybės* are in the position to exert a strong degree of

control through their presence in the share-holders' assembly (cfr. *Verslo ir komercinė teisė*, 3-4 1996). In most cases, concession of credit was made dependent on the implementation of short-term policies devised by local authorities and likely to be modified in accordance to the latter's political orientation. Support could also be withheld if holders of land attempted to change patterns of land usage without the approval of the competent state authority- once more, this was much more likely to affect smaller, family-based units than successor farms, where most farmers were former members of the collectives (cfr. Kazlauskienė/Meyers, 1995). Paradoxically, however, agricultural organisations opting to forego the support of state authorities would be able to undertake longer-term development plans without needing to ensure the constant approval of the *savivaldybės*. As a result, while average *naudmenos* productivity could differ by 1.7 times from *rajonas* to *rajonas*, the average productivity of subsistence farms is 2.4 times higher than that of successor farms, with *apskričiai* where the ratio is as high as three (cfr. *Annual report* of the Žemėtvarkos taryba, 1999; Lithuanian Statistics Department, *Apskričiai's report*, 2000). This dichotomy is set to become even stronger as land development strategies drafted by *savivaldybės* tend to consider successor farms and subsistence farms as self-subsistent realities, rather than complementary realities within one single sector.

As an example of the distortions resulting from the partiality of state authorities towards successor farms, we can mention the case of the almost 2.6 million ha. of land drained in the 1950's and 1960's during the *sovarkhozy* period and later proved to be unsuited to agriculture (cfr. Statisticheskoe upravlenie pri Sovete Ministrov LSSR, *Narodnoe khozyaistvo LSSR za 40 let*, 1980). Most of this area, as well as other plots proved unsuited to agricultural production, are still included in registered *naudmenos*. Efficient management of existent resources would require *savivaldybės* to establish generally accepted measures of land productivity (such as profits/losses per ha.) and deliberate on alternative uses such as forestation or return to the natural state (cfr. *Rinkotyra*, 2(4)1999). Instead, the paradoxical

tendency is to include unproductive soil in co-operatives established within the borders of earlier *kolūkiai*, so as to elicit state subsidies, leaving better land to subsistence farmers (cfr. Lithuanian Statistics Department, *Annual reports* of the Ministry of Agriculture, 1993-96). Intuitively, this situation leads to a deepening of the dichotomy in productivity rates.

Policy distortions are directly reflected in the price of land. In inter-war Lithuania, the price of a plot was usually calculated on the basis of the revenue yielded by a hectare of land, although in some areas (especially in the Klaipėda region) overall profit were sometimes used as a benchmark for the price of land as well as for the determination of interest rates on loans obtained using the plot as collateral (cfr. Čiulevičienė/Čiulevičius, 1999). In 1937-39, on average, the profit for a hectare of land was 32 Lt., the relevant interest rate 6% and the price of land 536 Lt.. Following collectivisation, however, the evaluation of land was disconnected from its productive potential- plots would receive so-called "appraisal points" (*balai*), purportedly based on the "perceived quality of land management". This resulted in *tarūkiai* systematically receiving higher *balai* than *kolūkiai* as state farms were regarded as an intrinsically superior form of land management than collective farming (cfr. Butkutė/Rameliénė, 1958).

After 1990, the Restoration Parliament ruled that, for compensation purposes, in the initial phase of reform land would be evaluated on the basis of the value of corn harvested over one hectare over the previous 2.5 years (cfr. *Rinkotyra*, 2(4)1999). However, this disposition was implemented haphazardly as *savivaldybės* allowed the usage of inconsistent methods by different cadastral units even within the same *seniūnijos*. The result is a situation where in some *rajonai* the price of land is determined by an idiosyncratic "measure of plot fertility" (*derlingumas*), while in other areas the competent authorities apply *ad hoc* valuation methods motivated by non-economic considerations- in some cases, plots of fertile land tilled by

subsistence farmers are deliberately evaluated at a lower price than equivalent surfaces of less fertile soil attributed to larger successor farms, as control over relatively infertile soil is a practical guarantee of future financial aid (cfr. *Veidas*, 08/12/1999; Leontieva on the tasks of future governments, 2001).

As a consequence, plots characterised by the same indices of *derlingumas* are priced totally differently- a hectare of the least productive quality of soil priced 200-400 Lt., in the Molėtai, Utena and Širvintai *rajonai* can be evaluated at 700-800 Lt. in Joniškis and Šiauliai or even 1,000-1,200 in Kėdainiai if it is included in a co-operative (cfr. Deksnys, M., in *Vartai*, 20/03/2000). High-productivity plots, priced at 2,000 Lt./ha or more when included in the co-operatives of the Vilnius area, are traded at 300 in Telšiai where a large proportion of farming consists of small family-based plots. A *prima facie* consideration is that the price of land is much lower than the EU average (set at 5,000 \$/ha.). The establishment of viable farming units, however, is more directly affected by the absence of a transparent market mechanism, as prices fail to be reliable indicators of land value. Agricultural units registered as physical persons are in many cases unable to use their land as collateral not only because in case of bankruptcy, credit institutes registered as legal persons could not take over the ownership of the plots, but also as a consequence of the absence of any link between price and land value (cfr. Navickienė in *Lietuvos aidas*, 15/03/2000).

As persistent legislative distortions have set limits to the right to control and transfer land, the ensuing organisational arrangements could not develop as efficiency-seeking entities, but would tend to conform to and subsequently elicit biased state intervention. Successive governments as well as local administrations appear to have laid incentives which failed to create incentives for the creation of viable agricultural organisations, favouring instead stagnation and the survival of the dichotomy between successor farms and subsistence units.

6.4 Structural organization in the agricultural sector- predominance of successor farms and distorted asset distribution

The second version of the *company law* promulgated by the Lithuanian parliament in December 1995 (cfr. *Vž*, 20/12/1995) defined co-operatives as voluntary unions of physical and/or legal persons, pooling their assets and resources together to establish a new economic subject whose purpose is to satisfy the economic and social needs of its members, while requiring their commitment and the willingness to take on a certain degree of risk (cfr. also Ramanauskas, 1996). Within the farming sector, individual farmers pooling their resources together may find themselves in a better position to face the uncertainties inherent in agricultural production. In addition to reaping higher incomes by reducing transaction costs and appropriating more attractive margins closer to the consumers, farmers merging their assets may achieve a stronger bargaining position and build countervailing power in their interaction with the different layers of public administration (cfr. Van Bekkum/Shilthuis, 2000). In a context of transition characterised by imperfect markets, the function of agricultural co-operatives is broadened to include the provision of processing outlets for individual farmers' produce, access to foreign markets for new production lines, as well as services to the consumers affected by the collapse of distribution and marketing relations. In the long-run, co-operative structures should help individual farmers to absorb the impact of a modified structure.

While it was initially hoped that the new agricultural co-operatives established within the boundaries of earlier collectives would constitute a vehicle of sectoral transformation, only in a handful of cases the members' right of control over the co-operatives' assets has been exerted effectively. In most structures, non-active members and management controlled by *savivaldybės* dominate decision-making processes, while the younger generation of farmers is marginalised- the pervasive

role of municipal administrations ensures that the organisations established in Lithuania after the demise of collectivism do not necessarily fit the definition reported above and must operate in a distortion-ridden context. In the course of this section we shall see how state interference has shaped the co-operatives' internal structures, creating an on-going conflict between the short-term interest of the members- mainly focused on the appropriation of external subsidies- and the demands of efficiency.

We mentioned how, before the implementation of reform legislation in 1991-92, agriculture in the country was organised in 834 *kolūkiai* and 275 *tarūkiai*. By 1994, none of these structures nominally survived, although 18.1% of the agricultural *naudmenos* (cfr. *Section 1.4.3*) previously included in collectives were still tilled by the same farmers with virtually unchanged patterns of production (cfr. Lithuanian Statistics Department, *Annual reports* of the Ministry of Agriculture, 1995-96). As of 01/01/2000, within the Lithuanian farming sector one could distinguish four main types of organizational structures:

- *large successor farms*. These entities, which have taken over the majority of the assets of previous collectives unsuited to smaller-scale farming, tend to include both the production of raw agricultural goods as well as their processing. Technically, such farms are structured as co-operatives leasing most of their land from their own share-holders or from the state. Initially, successor farms were obliged to rent land in the "grey areas" mentioned in the previous section obeying strict payment guidelines (cfr. Csaky/Kazlauskiene, 1997). In 1997, some of these guidelines were lifted, but the high sunk costs incurred in the previous years meant that patterns of production were already established and would not be easily changed (cfr. *Rinkotyra*, 4(6)1999). As of 1992, there were 4,279 registered farms,

but as restrictions to land trade were lifted and a wave of bankruptcies ensued in the mid-1990's, their number decreased to 1,660 by early 1998. According to data issued by the *KŽŪA*, in 1997 surviving successor farms tilled an average of 371.6 ha. of land, controlling about 50% of overall agricultural *naudmenos*, but yielding no more than 25% of overall agricultural production;

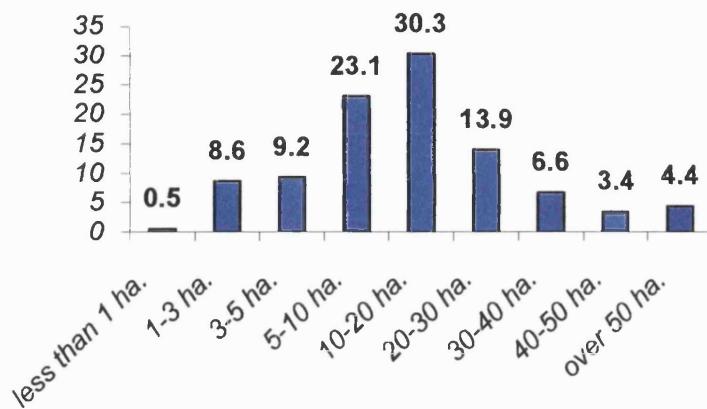
- *small-scale family farms*. Examples of family farms had already been set during the late *perestrojka* period, when the Supreme Council of the Lithuanian SSR handed over plots averaging 14.1 ha. to about 5,200 households (cfr. *Tiesa*, June-July 1991, on earlier reform experiments). This program had to be discontinued -causing substantial unrest- when the *restitution law* was implemented in 1992-93. As of 01/01/1998- date of the last comprehensive survey-, there were about 342,000 small-scale subsistence farms. According to the last comprehensive survey taken by the Agriculture Ministry in 1997, the average surface of such farms was 7.6 ha., but they used 32.1% of all *naudmenos*. Despite fragmentation and limited access to technology, small-scale family farms, together with the individual plots mentioned below and the plots of gardening societies, yield about 75% of the country's overall agricultural produce, reproducing the situation of the 1970's and 80's (cfr. Lithuanian Statistics Department, *Annual reports* of the Ministry of Agriculture, 1996-98, and Tamošiunas, 1974). Despite initial expectations that family farms would quickly merge, their number over the years has tended to decrease very slowly;
- *individual subsistence plots*. These plots, whose average size is 2.2 ha., usually belong to members of successor farms, who till them in order to supplement their income from the co-operatives. In 1998 they occupied

8.5% of agricultural *naudmenos*, although in many areas they were left fallow. The number of these plots steadily diminishes as they are increasingly merged with or leased to successor farms (cfr. *Rinkotyra*, 4(6)1999);

- so-called *agricultural conglomerates*. The latter are processing entities largely belonging to or controlled by local administrations. While the Agriculture Ministry registers 196,000 such units with an average surface of 7.6 ha. (cfr. *Section 1.4.3, Table XIV*), we need to emphasise how only few scores of these units are large processing conglomerates able to influence the country's economy, while the remaining ones are often very small entities with less than ten workers and rather outdated infrastructure, to which the term "conglomerate" is not really suited (cfr. Šleževičius, 1988, 1989). The recorded tendency in a constant increase in their number results from the fact that the LDDP government granted subsidies to such units independently of their size, so that two "conglomerates" employing five workers each will receive twice as much support than one conglomerate employing ten (cfr. *Mž*, 29/07-04/08/1997, in connection with the concession of fiscal privileges; also Tamulionis, *Mokesčių svadas*, 1997).

Table III gives an indication of the uneven distribution of agricultural land at the end of 1998 throughout the country. It is interesting to compare this table with the data in *Table II* and *Table VII* of *Chapter I* - we can see how the agricultural sector in Lithuania has always been characterised by a large basis of small-sized farms, with substantially fewer larger units.

III- Distribution of agricultural units by farm size (percentages, 1998)



(Source: *Rinkotyra*, 1(3)1999, Appendix)

Wishing then to assess the evolution of ownership structures within agriculture in the wider context of CEEC's, it emerges clearly that the main factor behind consolidation or fragmentation tendencies are the incentives faced by individual farmers, who may or may not be induced to hand over their assets to co-operative structures (cfr. Swinnen, 1995; Mathijs, 1997). In Lithuania, the legislation promulgated in the wake of the collectives' dismantling (cfr. *Section 3.3*) was supposed to provide individual farmers and households with a choice of alternative arrangements where agricultural assets could be deployed- it was expected that the envisaged degree of organisational latitude (cfr. also *Verslo ir komercinė teisė*, 1-2 1999) would allow the development of a more varied rural sector than is the norm in the EU, where the family farm is the prevalent form of agricultural organization. As mentioned earlier, many politicians across the political spectrum believed that the farming sector would come to model itself naturally along Western European models, so that the predominance of successor farms was to be regarded as a temporary phenomenon which should not cause concern (cfr. Ramanauskas, 1996). It is only in the most recent period that an increasing awareness of the inefficiencies inherent in the dichotomous structure of agriculture and of the policy distortions

underpinning their perpetuation has induced politicians and economists alike to take a closer look at the way in which co-operative governance is exercised.

The academic establishment as well as independent think-tanks such as the Free Market Institute (cfr. *KŽŪA annual reports*, 1998-2000; Gruodis, *Report of the Lithuanian Agency for Economic Development*, 1999) have repeatedly attempted to devise generally accepted benchmarks to assess whether agricultural entities established after de-collectivisation conform to the notions of independence and efficiency as conventionally understood in the EU. Naturally, a fundamental condition should be the independence from the veto of local administrations of decisions concerning the sale and the acquisition of new infrastructure or machinery (cfr. *VMI raštas* in Bagdonavičius, 1998). Opposition politicians (notably the leader of the Peasants' Party Karbauskas, cfr. Bruveris in *Lietuvos aidas*, 13/04/2000) have argued that in the Lithuanian context a measure of control by local authorities is required, and that in any case *savivaldybės* rarely exert control over more than 20% of the assets of a farming unit. In reality, the pressure exerted by local authorities' representatives on decision-making processes are proportionally stronger than the actual weight of the stake of local administrations (cfr. *KŽŪR konferencija*, March 2000). The system of joint governance becomes virtually irrelevant unless a mechanism is devised to curb *savivaldybės'* influence.

A yardstick for measuring the balance of power within successor co-operatives could result from the analysis of the outcome of inner interest conflicts. The frequency of cases where municipal representatives gain the upper hand on decisions concerning re-investment of profits or major restructuring plans could serve as a proxy of dependence from *savivaldybės*. In Lithuania, however, accurate reports on decision-making processes within agricultural organisations are not easily available- the political class and the media have granted more attention to the prolonged disputes between producers of raw agricultural produce and processing

conglomerates (as in the case of the realisation of sugar crops, cfr. Pranckevičius and Vitkauskienė in *Lietuvos aidas*, 25/03 and 15/04/2000). As a result, the on-going disputes opposing *savivaldybės* to administrative bodies or fractions of the shareholders' assembly have been sheltered from public scrutiny, gaining the spotlight only when conflicts involving different factions lead to public actions (cfr. *LAT-CBS pareiškimas* on *savivaldybės*' responsibility for co-operatives' policy, 19/06/1995). As *savivaldybės* reserve the right to veto public access to the reports of shareholders' assemblies, a systematic assessment of the control exerted by administrations is virtually impossible (cfr. Pranckevičius in *Lietuvos aidas*, 29/02/2000; also *Agro-Balt*, May 2000), with circumstances permitting at most a case-by-case evaluation.

In general, the extent whereby in the agricultural sector municipal authorities interfere with the activities of co-operatives' members delimit the extent of their right of control over the entity's assets and income, which is mediated by their individual contribution to the statutory capital. In Lithuania, conflicts within agricultural co-operatives reflecting divergence of interests between the administration and individual share-holders (technically termed "portfolio problems", cfr. Buskevičiūtė/Pukeliénė, 1998) have been quite rare- in Hungary, for instance, local administrations requested the intervention of the state to solve particularly controversial situations (cfr. Mészáros, 1998). This is largely due to the fact that Lithuanian *savivaldybės* have consistently steered successive governments away from implementing comprehensive reform strategies within farming units. At the same time, individual co-operative members do in most cases lack the know-how to draft long-term development plans and leave all responsibility for decision making to members of the administrative board (cfr. *KŽŪR conference acts*, 09/03/2000).

More frequently, the agricultural sector has been beset by "control problems", arising when members of the supervisory board sit also in the administrative council-

in such a situation, strategies inconsistent with the entity's long-term interests may be implemented with the connivance of the bodies supposed to oversee decision-making processes. This has been quite common in the dairy processing sector, especially in those Žemaitija *rajonai* controlled by Centre-Left parties- structural reform meant to transfer a larger share of the company's returns to primary producers were vetoed by the administration council controlled by *savivaldybės*, effectively side-lining individual farms from the distribution of subsidies. Municipal authorities have effectively been unable to provide incentives ensuring that control over agricultural assets flows to individuals best qualified for their use.

In order to overcome conflictual situations of this sort, local legislators ought to develop a deeper awareness of the extents and the limits of the interests of different members of individual organisations, differentiating between specific membership types while ensuring equal treatment to all individuals within each category. The effectiveness of property rights allocation would be enhanced if co-operatives devised category-based incentives as opposed to general ones. An example could be the differentiation of the price whereby securities issued by the co-operatives may be purchased by members (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos* of the TS-LK, 2000). A more proportionate relation between individual contributions to the co-operative's activity and the resulting gains could also be achieved by avoiding a collective set-up of the statutory capital and highlighting the members' individual responsibilities in the *isteigimo sutartis* (cfr. Section 3.2). The *law of agricultural companies* discussed in Section 3.3 could also be modified, ensuring that the allocation of votes in the share-holders' assembly reflects the volume of transactions undertaken by individual members rather than a misguided egalitarian principle, whereby members who are not actively contributing to the entity's turn-over may veto measures jeopardising their position (cfr. Damauskas in *Vartai*, 20/03/2000).

More generally, in order to ensure a more adequate distribution of assets within the agricultural sector, it would be necessary to undertake a substantial transfer of property and infrastructure under the guidance of a specifically appointed state agency- proposals for a unified control body where representatives from all *apskričiai* would sit together with ministerial inspectors were voiced repeatedly in 1998-99 (cfr. Lithuanian Statistics Department, *Apskričiai's* report, 2000). The implementation of such a proposal, however, would imply the dismantling of up to 60% of existent successor farms (cfr. *KŽŪA annual report*, 1998) and the necessary retraining of a substantial percentage of the rural labour force (now amounting to 26% of the total, cfr. *Rinkotyra*, 1(3)1999) which should undertake independent farming or leave the agricultural sector altogether. In fact, from 1996-97 onwards larger co-operatives and processing conglomerates were affected by an outflow of labour force, but very few have heeded the invitations of successive governments to establish new farming units (cfr. *Rinkotyra*, 2(4)1999), preferring some form of part-time employment on the side of the collectives. At the same time, the lower quality of land and infrastructure has hindered the development of any more extensive experiment in independent farming.

The persistent stagnation of rural organisations reflects also demographic and geographic factors. While the privileged position of *kolūkiai* workers in the distribution of agricultural assets, combined with trade restrictions, meant that land for the establishment of independent farming units was scarce, the demographic composition of former collectives' workforce meant that the number of younger farmers willing to forego the safety net of successor farms remains quite limited (cfr. Eidvydas on "Sodra" in *Mokesčių žinios*, 08-14/06/1998). Central governments and *savivaldybės*, however, have consistently dismissed farming associations' appeal to stop the haemorrhage of suitable labour (cfr. *Lietuvos aidas*, 28/03/2000, on the labour market)- as a result, the poorest areas where the development of independent

farming would be most needed (such as the Ignalina or Telšiai *rajonai*) are also the ones with the highest rate of emigration towards urban areas.

On the other hand, in areas close to urban centres such as Kaunas, Šiauliai or Panevėžys organisational hysteresis in the rural sector is seconded by the stronger ties of *savivaldybės'* authorities with the leadership of former *kolūkiai* located around major cities- in many cases, members of co-operatives controlled by local administrations receive payment in kind even if production is not realised, while members of new farms cannot rely on any alternative form of support (cfr. *Mž*, 05-11/08/1998, on VAT). Finally, a substantial proportion of suburban land was taken up by small plots tilled by co-operative members and city residents, as well as by so-called gardening societies, which were less capital intensive and entailed a lower degree of risk (cfr. *Agro-Balt*, May 2000). As a consequence of these factors, new co-operatives were set up mainly in areas where no alternative employment channels were available, while land available was of consistently lower quality and consequently productivity rates were far lower.

A last factor contributing to the underdevelopment of independent farming is the sedimentation of farming practices (cfr. Balnis in *Vartai*, 08/05/2000). The liberalisation of prices implemented by K. Prunskienė's government in January 1991, while for the first time succeeding in closing the gap between production costs and retail prices, damaged agriculture more than any other sector, as terms of trade turned drastically against food products (cfr. Prunskienė, 1994). As it would happen in Russia one year later under Gaidar (cfr. Wegren, 1998), the rise in prices was much higher than expected, so that the Restoration Parliament opted to retain for the time being some of the subsidies and credit policies applied during the Soviet period, which effectively favoured higher-cost producers. While we are going to discuss the successive evolution of the structure of subsidies in the next section, it is important to stress how the perpetuation of earlier support schemes allowed the continuation of

crop growing in unsuitable areas (cfr. *Rinkotyra*, 4(6)1999) as well as instances of redundant and high-cost animal husbandry (cfr. for a comparison with the EU, cfr. Charvet, 1994). As *savivaldybės* continue to favour weaker farming units where they have vested interests, the partiality of local administrations can only strengthen the incentives against the creation of fully independent organisational set-ups.

In conclusion, Lithuania has so far failed to reproduce Western European patterns and has not witnessed a convergence of subsistence farms within new co-operatives as it was initially expected. Attributing this phenomenon merely to the tendency, inherited from the socialist period, to mistrust collective structures (cfr. *Sole-24 ore*, 26/11/1999) or to the "absence" of the state (cfr. Chaikov, 1994) fails to consider that reform legislation has virtually recreated the earlier patterns of rural relationships making organisational success a function of subservience to state authorities rather than of internal efficiency. As in other Eastern European countries seeking EU membership, more sophisticated membership arrangements within share-holding co-operatives have proved unworkable in the face of share-holders' passivity- the fact that co-operative legislation is not included in the EU *acquis communautaire* has also resulted in the indefinite postponement of the projected reform of co-operative legislation (cfr. Bruveris' interview with Ušackas in *Lietuvos aidas*, 29/01/2000). The interests of the administrative élites in *savivaldybės* have converged with the need perceived by many farmers in impoverished rural areas to ensure their own survival remaining within organisations consistently enjoying the support of local administration bodies.

6.5 Credit and fiscal policies as a vehicle of structural discrimination

In the course of *Chapter IV-V* we analysed the impact of credit and fiscal policies on the development of the agricultural sector in Lithuania. We saw how the implementation of fiscal legislation as well as accounting conventions and the nature of the credit sector resulted in an implicit, though substantial transfer of funds to large agricultural co-operatives to the detriment of alternative structures. In this section we shall highlight how such pattern of state intervention has resulted in a strong degree of structural discrimination within the agricultural sector, as the guidelines regulating income transfers effectively result in the marginalisation of subsistence agriculture. Over the past decade, the impact of income transfers has grown in response to the growth of the agricultural budget, which now amounts to over 10% of the overall budget. In the course of this section, we shall also see that the main reason why agricultural co-operatives have been the recipients of a more substantial share of subsidies lies in the mechanisms chosen by support funds to assess potential recipients.

The constant growth of agricultural support emerges clearly if we consider the data included in *Table IV* below. While the overall agricultural budget has been steadily increasing throughout the past decade, the percentage administered by the Agriculture Ministry through the National agricultural program (*NŽŪP*) has remained virtually steady around little more than 50%- the remaining part originates from the previously mentioned *Kaimo rémimo fondas* (*KRF*) or (no more than 10%) directly from the *savivaldybės*. In this case, therefore, the latter bear only a marginal part of the guilt for the distortion we shall highlight below.

**IV- Agricultural budget and subsidies compared to the overall state budget
(1994-98)**

	1994	1996	1998
Overall agricultural budget	296,887	413,300	517,976
Subsidies from the Agriculture Ministry	150,700	233,600	276,925
<i>- as a percentage of the overall budget</i>	50.76%	56.52%	53.46%
Overall sectoral support	2,986,700	4,444,000	4,774,000
<i>-perc. going to agricultural budget</i>	9.94%	9.30%	14.85%
<i>-perc. going to agricultural non-budgetary subsidies</i>	5.05%	5.26%	8.80%
GDP	16,980,700	23,829,000	31,115,000
<i>-perc. going to agricultural budget</i>	1.75%	1.73%	1.66%
<i>-perc. going to agricultural subsidies</i>	0.89%	0.98%	0.89%
Agricultural GDP	1,235,900	2,222,500	3,544,300
<i>-perc. going to agricultural budget</i>	24.02%	18.60%	14.61%*
<i>-perc. going to agricultural subsidies</i>	12.19%	10.51%	7.81%*
Value of agricultural production (est.)	3,566,500	5,572,100	5,630,100

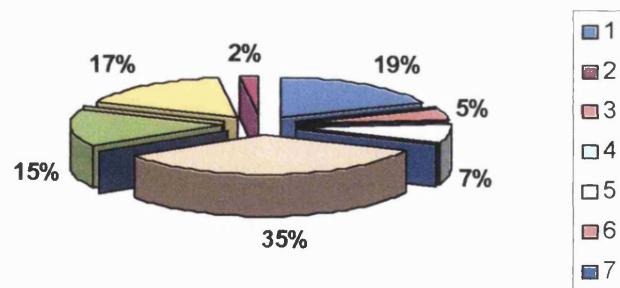
* = likely under-estimates

(Source: combined from the *Annual report* of the Ministry of Agriculture published by the Lithuanian Statistics Department, 1999, Appendix, and *Veidas*, 08/12/1999, p.12-13)

The table also shows how, if we also add non-budgetary support, over 15% of overall sectoral support goes into the agricultural sector- according to independent surveys, no other sector of the economy receives such extensive state support (cfr. Csaky/Kazlauskienė, 1997). While the percentage of overall GDP which is devoted to agricultural support is rather limited, the indication of about 10% of agricultural GDP used as rural subsidies is much higher than in neighbouring Latvia (6-7%) or Estonia (4%) (cfr. Zile, 1993). We should point out that, despite earlier commitments to the contrary, agricultural support continued to grow under the Conservative governments of 1996-2000 and is unlikely to decrease under the current Centre-Left administration.

Similar insights derive from the consideration of the partition of overall budgetary contributions to agriculture in 1997 in *Table V* below. (1) is the so-called "structural contribution to development", which consists of one-off transfers to particularly needy *rajonai*, and whose distribution is overseen by the Agriculture Ministry according to disposition still promulgated by the Restoration Parliament. (2) represents the expenses incurred to keep a measure of national food reserves and to provide farming units with seed as well as other necessary input. (3) stands for compensation payment for *naudmenos* and forested areas mentioned in *Section 6.2*. (4) consists in subsidies to production granted to agricultural co-operatives, while (5) represents the subsidies granted to subsistence agriculture. (6) stands for all financial aid granted to processing units and retail centres, while (7) includes any remaining expense.

V- Budgetary contributions to agriculture (percentages, 1997)



(Source: Csaky/Kazlauskienė, *op.cit.*, p.11)

The Agricultural Ministry is in charge of (1), (5) and (6), while the *KRF* is mainly responsible for the distribution of subsidies to co-operatives and subsistence farms-

savivaldybės take care of compensation payments for people unable to receive their original plots in the original boundaries.

In order to analyse the actual nature of agricultural support, we can consider an itemized list of agricultural budget funds, which permits to detect trends in the allocation of resources within the sector.

VI-Agricultural budget funds (1994-98, thousands of Litas)

	1994	1996	1998
1.Structural contributions to development	69,856	70,511	92,145
2.Food reserves	12,480	29,175	27,000
3.Investment on input and infrastructure	8,465	4,930	3,539
4.Compensation	0	0	11,000
5.Grants from the Agriculture Ministry	3,186	4,184	6,687
6.National Agricultural Program (excluding 1)	202,900	305,500	376,605
6.1. <i>Production subsidies</i>	27,700	140,300	195,000
6.2. <i>Market regulation reserves</i>	0	17,000	14,200
6.3. <i>Socially motivated subsidies</i>	0	0	450
6.4. <i>Credit programs</i>	101,700	34,600	20,428
6.5. <i>Subsidies to farmers tilling infertile soil</i>	0	13,800	12,354
6.6. <i>Restructuring of co-operatives' infrastructure</i>	37,000	34,700	22,918
6.7. <i>Subsidies for special inputs</i>	1,300	7,900	14,493
6.8. <i>Subsidies for acid soils</i>	0	16,000	0
6.9. <i>Subsidies for special breeds</i>	5,300	11,000	17,450
6.10. <i>Agricultural research</i>	4,100	8,200	2,180
6.11. <i>Subsidies for biological products</i>	3,500	3,750	2,673
6.12. <i>Subsidies to agricultural services</i>	6,400	0	10,835
6.13. <i>Others</i>	15,900	18,250	33,624
Total	296,887	413,300	517,976

(Source: adjusted and simplified from Csaky/Kazlauskienė, *op.cit.*, 1999, *Appendix*, using data from the 1999 *Annual report* of the Ministry of Agriculture)

While structural contributions to development -usually spent on social support in particularly poor *rajonai* (cfr. Šindeikis and Grižibauskienė in *Lietuvos aidas*, 16/11/2000 and 22/02/2001)- continued to increase, successive governments devoted an increasing amount of resources to building food reserves while progressively reducing investment in infrastructure and input. This reflects the situation, typical of the 1980's, when the amount of resources employed by state authorities to maintain notoriously inefficient food reserves was three-four times higher than collectives' expenditure on rural infrastructure (cfr. *Tiesa*, Feb. 1991, referring to the acts of the XIX conference of the Lithuanian Communist Party in 1988). What is most important, however, is that "production subsidies" constitute over 50% of the subsidies granted under the *NŽŪP* scheme, while the amount spent on credit programs or restructuring constantly decreases. We see therefore that the distribution of subsidies suffers from the short-term perspective of government and *savivaldybės* representatives, which prefer to retain a margin a consensus by distributing what are effectively grants rather than by implementing any comprehensive structural reform program. *Table VII* below illustrates how the sum in 6.1 above has systematically grown larger over the years, while the set of recipients has grown smaller.

VII- Budgetary contributions to support the prices of some agricultural products (1994-98, thousands of Litas)

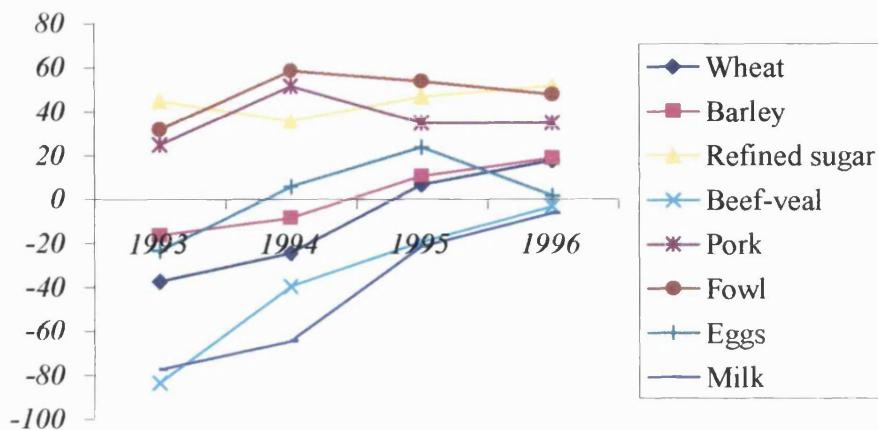
	1994	1995	1996	1998
<i>Cattle</i>	56,200	64,400	72,339	83,300
<i>Pigs</i>	0	0	12,260	15,800
<i>Milk</i>	29,800	42,300	67,567	70,700
<i>Crops</i>	0	5,800	8,670	11,200
<i>Flax</i>	9,800	25,000	5,100	14,000
<i>Others</i>	17,900	2,800	0	0
Total	27,700	140,300	165,936	195,000

(Source: Csaky/Kazlauskienė, *op.cit.*, 1997)

It is important to point out that "others" indicates mainly vegetables and fruit grown by subsistence farmers- paradoxically, the Conservative majority eliminated the latter from the *NŽŪP* in the conviction that their interests would have been better served by the *KRF* (cfr. interview with Kubilius in *Lietuvos aidas*, 19/02/2000). The constant increase in production support over the past years is also evident if we look at *Table VIII*, depicting the evolution of support in the mid-1990's- while in 1993 support granted to agricultural produce was outweighed by inflation in all branches of production except for pigs and fowl, by 1996 only milk and veal remained under the international parity threshold.

VIII- Support to agricultural producers as percentage change over international PP (1993-96)

	1993	1994	1995	1996
<i>Wheat</i>	-37%	-24%	7%	18%
<i>Barley</i>	-16%	-8%	11%	19%
<i>Refined sugar</i>	45%	36%	47%	52%
<i>Beef-veal</i>	-83%	-39%	-19%	-3%
<i>Pork</i>	25%	52%	35%	35%
<i>Fowl</i>	32%	59%	54%	48%
<i>Eggs</i>	-23%	6%	24%	2%
<i>Milk</i>	-77%	-64%	-21%	-6%
Total	-33%	-8%	6%	14%



(Source: combined and adjusted from *Rinkotyra*, 2(4)1999, and the 1997 *Annual report* of the Ministry of Agriculture. Data for later years not available)

Over the past years, politicians from the whole of the political spectrum have repeatedly emphasised that the National Agricultural Policy should eschew any deliberate partiality towards certain types of agricultural production over others (cfr. Lithuanian Information Institute, *Rinkiminės nuostatos*, 2000). In practice, however, large agricultural co-operatives have been systematically favoured by the mechanism whereby the *Kaimo rėmimo fondas* selects among applicants for support. The guidelines for the *KRF* were drafted in 1997 by the second Vagnorius government with the intention to unify all programs operating along the *NŽŪP* into one common structure (cfr. *KŽŪA reports*, 1997-98; also *Agro-Balt*, 2000)- political considerations, however, prevented the complete merger of previous structures and practices, so that as a result the *KRF* started to function as a three-tiered entity with three different sets of requirements for organisations undertaking different types of agricultural activity. It is in this procedural multiplicity that lies the root of discrimination against subsistence farms.

According to the *KRF* statutes, *procedure A* is used for entities growing most varieties of cereals, potatoes and permanent grass; *procedure B* for farming units

growing fodder and root crops; *procedure C* for plots where farmers grow fruit and vegetable. In practice procedure A is applied to successor farms and procedure C almost exclusively to small-scale subsistence farms- procedure B, on the other hand, is applied to either type of organisation, especially to smaller co-operatives growing beets or to larger subsistence farms specialising in the production of fodder. In both procedure A and C, applicants for the subsidy are expected to bring all the necessary documents to a special inspection department run by the *savivaldybė*, while in most cases decisions for procedure B are taken centrally by the Agriculture Ministry (cfr. *Rinkotyra*, 2(4)1999, *Appendix*). The *KRF* is then merely expected to ratify these decisions, which, if favourable, allow the concession of the subsidy.

The requirements for fodder and root crops growers are significantly simpler than for their counterparts undertaking other types of agricultural activity- applicants are only required to provide documents proving that the purchase of the necessary seed and implements has taken place, as well as a certificate of the *apskritis*, defining the legal status of the applicant and the location of its plot. In most cases, the examination of the petition is a formality and the subsidy is granted within two-three weeks from the application (cfr. *Rinkotyra*, 1(3)1999; also Lithuanian Statistics Department, *Apskričiai*'s reports, 2000). In both A and C, however, applicants are expected to provide additional documents, attesting full property rights on the land, as well as documents proving that no financial obligations are extant- subsistence farms growing fruit and vegetable are also expected to certify that the *rajonas* declared their project consistent with the plan of "rational land usage" mentioned in *Chapter III*.

The implications of these requirements are evident. The absence of certification proving property rights to land is more likely to damage subsistence farmers, who are often locked in never-ending disputes about the attribution of plots of land. We have discussed in the previous chapters how *savivaldybės* customarily

intervene to bail out the co-operatives and the other entities wherein they have a stake- as a result, their financial situation will appear more stable than that of their smaller counterparts. Finally, the requirement to certify the *rajonas'* approval of a land utilization project signifies that subsistence farms which had been operating without informing the competent authority must regulate their position- in many cases, farmers prefer to forego the subsidy rather than enter in contact with local administrations. In this way, successor farms are more likely to be regarded suitable for the reception of aid, and the *KRF* becomes one more instrument in the hands of local administrations intent in perpetuating their influence on the rural sector. A possible way out of the current situation could be a joint reform of the *NŽŪP* and the *KRF*, whereupon the Agricultural Ministry would take control both over the deployment of budgetary support and over the management of extra-budgetary subsidies.

6.6 Suggestions for structural reform

In earlier chapters, we have seen how the dichotomous organisation of agriculture into successor farms and family plots appears to have become the main signature of transition. Over the past ten years, Lithuanian academic institutes such as the Kaunas Agricultural Academy, the Institute of Agrarian Economics, the Free Market Institute as well as other think-tanks (cfr. *KŽŪA reports*, 1996-99; Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1998; also Leontieva, 2000, 2001) have repeatedly emphasised how the revitalisation of the sector shall have to pass through a substantial renewal of its organisational arrangements. In the long term, newly established farming units should conform to the criteria outlined in *Section 6.4* for co-operatives operating in a market context- their members should not only be the nominal owners of a co-ownership's assets, but ought to be able to control them and to enjoy benefits proportional to their contribution to the entity's turn-over. In the course of this conclusive section, we shall summarise some of the possible policy options, whereby Lithuanian co-operatives may succeed in overcoming the inertia implicit in their organisational set-up and become active vehicles of rural progress.

A first step towards a more accurate distribution of property rights within existing successor farms ought to imply a clearer definition and reappraisal of the *savivaldybės'* sphere of competence. Local administrations should progressively reduce their control over co-operatives' governing bodies, while ensuring at the same time that the interests of retired employees and non-residents do not override those of farmers who are actively involved in the running of the organisation and may decide to undertake independent farming. The *SAPARD* program mentioned in the previous chapter could be extended to projects devised independently by members of successor farms- co-operatives could meet the accompanying fund raising requirement divesting assets which are not currently utilised (cfr. *KŽŪR conference*,

09/03/2000). In many cases, however, while retired employees and urban residents control the larger proportion of overall assets, the latter tend to have a low market value. The risk is that co-operatives established under such scheme would be small-size entities with little capital at their disposal, surrounded by large expanses of fallow or under-utilised land (cfr. *Baltic Times*, May 2000, on similar experiences in Estonia).

Such arrangements, rather than reducing the role of the state in the rural sector, might actually result in a situation where the state would constantly have to intervene and dispose of the agricultural land discarded by the co-operatives. It may therefore prove more expedient to retain most agricultural assets within existing organisations, while elaborating a more adequate structure of incentives- if the collusion between *savivaldybės* and successor farms is to be overcome, it is necessary to restore external investors' trust in these structures by laying down proper transaction and control channels. At present, when local administrations deliberate on the distribution of subsidies, little or no account is taken of the amount or the quality of the produce of each co-operative compared to other entities operating within the same branch of agriculture (cfr. Deksnys, M. and Deksnys, V. in *Vartai*, 08/05/2000). Moreover, as a consequence of legislation ratified during the LDDP leadership (cfr. *Section 3.4*), Lithuanian successor farms, unlike their counterparts in the other Baltic countries (cfr. Zile, 1993), encourage a static style of share-holding- acceptance of new members and the independent raising of capital are not encouraged. Some measure of price differentiation and of membership flexibility are a necessary prerequisite if co-operatives are to break away from the existing mould and make financial commitment attractive to potential members.

The redistribution of assets which would result from a better definition of property rights could redress the persistent productivity imbalance, which still sees the larger proportion of agricultural goods originating in small, family-run plots. We

mentioned in *Section 6.4* how the emergence of new co-operatives in Lithuania has been a rather limited phenomenon, with local administrations deliberately distorting the price of land as well as fiscal and credit policies discriminating against independent farming. In addition, the manner in which such new units operate differs little from that of subsistence farms- in the majority of cases, both the former and the latter lack the capital to cover processing expenses, so that raw produce is handed over to processing units. Since, as we mentioned in *Section 5.5*, most processing conglomerates consistently fail to meet their financial obligations, reliance on erratic state subsidies has locked most small farms in a vicious circle of dependency (cfr. Deksnys, M., in *Vartai*, 24/01/2000).

It is often claimed that this permanent impasse is eventually bound to convince farmers of the necessity to overcome their differences and merge their assets in order to acquire a more substantial position within the sector (cfr. Kazlauskienė/Meyers, 1995; *Agro-Balt*, May 2000). A closer degree of organisational collaboration among small farms could also ease the establishment of effective credit unions and thereby circumvent the reluctance to grant loans of traditional credit agencies. However, due to the ingrained suspicion of collective structures, it is unlikely that any substantial break-through in farmers' attitude shall take place spontaneously- paradoxically, the establishment of farming units able to exert pressure on local administrations can become possible only if the latter come to see the greater independence of agricultural structures as an opportunity not only for workers employed in the farming sector, but for the over-all development of the national economy.

In the face of existing constraints, the following are three possible channels for agricultural development:

- *region-specific development.* In less industrialised *rajonai*, up to 40% of the population is employed in agricultural co-operatives or in family farms, while a further 20-30% consists of retired employees (cfr. Lithuanian Statistics Department, *Apskričiai*'s reports, 2000). Such areas are unlikely to benefit from foreign investment, while the establishment of more efficient farming units is stymied by the lack of capital and know-how. A possible strategy to break the vicious circle of stagnation may include the establishment of consumer co-operatives, which could ensure a constant supply of food to the local population and use any resulting profit to improve the local infrastructure (cfr. Ramanauskas/Matužienė, 1998). This model would largely replicate the consumers' co-operatives typical of the inter-war period (cfr. Šalčius, 1989), though their contemporary counterparts should increase the scale of their operations and cover larger areas;
- *sector-specific development.* The fragmentation of small-scale farming has so far prevented individual farmers from taking advantage of the implicit power deriving from their *de facto* control over the larger proportion of agricultural produce. In more developed areas, individual agricultural units could merge and come to exert their control over entire sub-sectors through horizontal expansion- in this way they could circumvent the problems derived from lack of capital, which prevents them from undertaking a vertical growth strategy. Experiments were already carried out in Aukštaitija (cfr. *Rinkotyra*, 2(4)1999, quoting from the Kaunas daily *Laikinoji sostinė*), where breeding farms have achieved substantial economies of scale by merging their assets- the exertion of tighter quality control has also earned them a certificate allowing expansion into the EU;
- *product-specific development.* In the more advanced *rajonai*, farmers should attempt to integrate their activities both horizontally and vertically. In the long-

run, new co-operatives could become share-holders of processing conglomerates, leading to a progressive reduction of the role of state authorities in determining the patterns and the location of processing operations (cfr. Ramanauskas, 1996). In Latvia, for example, farmers control 17-20% of the shares of agro-industrial conglomerates, while in Slovenia, where such experiments were started in the early 1990's, this percentage has reached 45% (cfr. Zile, 1993; Pleskovic/Sachs, 1994; also *Baltic times*, May 2000). Such arrangements would greatly decrease transaction costs, while allowing producers to exert greater control over final products' placement. In the longer term, members of such integrated structures could upon entry purchase delivery rights to processing outlets in the form of shares (cfr. *Agro-Balt*, 2000).

Any such experiment with structural reform, irrespective of its scope, could achieve its full potential only in case it were accompanied by appropriate fiscal reform and by a systematic overhaul of the system of income transfers, ensuring that existing successor farms no longer enjoy a privileged position. While the elimination of the tax on legal persons' profits (*JAPM*) would be the priority of any future Conservative administration, the interests of the agricultural sector would be served best by a comprehensive reform of the fiscal system eliminating tax discrimination based on juridical personality, and by an overhaul of the accounting system permitting a more accurate assessment of the financial situation of the firms and a less distorted distribution of credit. Fiscal and financial transparency would also lead to an increased inflow of capital and encourage partnerships with foreign investors (cfr. *KŽŪR conference acts*, 09/03/2000)- in the long term, the latter could provide the Lithuanian agricultural sector with outlets within an enlarged European Union.

Chapter VII Structural hysteresis and state intervention in a "stagnating" transition

The contention made in the initial chapter as to the overbearing role of legislative and socio-political factors- as opposed to strictly economic ones- in determining the evolution of the agricultural sector within countries undertaking transition is confirmed by our overview of the Lithuanian experience. The content of the legislative acts promulgated by successive parliaments as well as of the executive and judicial pronouncements accompanying their implementation reflected more the political orientation of different legislatures rather than a realistic appraisal of the needs of the rural sector. The wealth of reform initiatives undertaken in the first years of transition, however, could not overcome the legacy of the collective period, as legislation itself was embedded in an interventionist culture which unwittingly led to the reproduction of the earlier structural set-up. This was evident both in the emerging forms of co-operative governance and in the guidelines regulating the relationships between the different tiers of the production chain. At the same time, the survival in rural areas of patterns of social interaction originated during collectivism and the extent to which they permeated the relationships of agricultural entities with *savivaldybės* are evident if we consider the evolution in the organisational structure of the rural sector. State authorities have shied away from fully transferring to their nominal holders the right of control over agricultural assets, leaving farmers unable to dispose of them freely. The resulting hysteresis in rural relationships has ensured that the organisational dichotomy of large co-operative enterprises has survived as the defining feature of Lithuanian agriculture.

The necessity to tread a balance between a comprehensive sectoral reform and the preservation of a reasonable degree of continuity in production resulted in sectoral reform strategies which stopped short of the dismantling of earlier structures

which were virtually controlled by local administrations. Concomitant egalitarian preoccupations led to the fragmentation of restituted land and the repeatedly mentioned ban on land trade. The virtual marginalisation of individual farmers from the plans of rural development highlighted in the previous section, as well as their deliberate subordination to the interests of successor farms and processing conglomerates (cfr. *Section 5.6*), has effectively prevented -with only few exceptions- the merger of subsistence farmers into self-sustaining autonomous co-operatives capable of exerting pressure on state authorities (cfr. Ramanauskas, 1996; Csaky, 1997; Kontrimavičius in *Vartai*, 24/01/2000 *et al.*). The latter are not accustomed to consider subsistence farms as relevant interlocutors in the formulation of rural policies, but as local administrations usually control considerable stakes within successor farms established as share-holding co-ownership, state agencies tend to make larger co-operatives the crucial benchmark against which to assess a policy's potential benefits. Successor farms face such a set of incentives that their position is fostered more by preserving their identity of interests with state authorities, rather than pushing for radical reform which would deprive them of established channels of support.

Evaluating rural change across the former socialist bloc, De Janvry claimed as early as 1991 that land reform was doomed to failure irrespectively of the mechanism of its implementation- he contended that the political class would inevitably second the rural workers' deep-seated mistrust for change and would consent to a limited measure of agricultural reform in order to retain political legitimacy and stave off more radical demands (cfr. De Janvry, 1991). Such pessimism was founded on the experience of the 1980's, when communist leaderships facing an increasing degree of discontent with collective agriculture had responded to these challenges with ineffective reform plans (cfr. *Section 2.2*)- De Janvry believed that the political class would deliberately elaborate unfeasible reform plans setting aside insufficient resources for their implementation. While it is

probably unwarranted to attribute exclusively self-serving intentions to the first generation of Lithuanian reformers, one must remember that the latter carefully weighted the demands of efficiency against the necessity to gain political support. Such implicit constraint was manifest in the formulation of general guidelines for de-collectivisation as well as in the determination of solutions for the destination of specific assets.

In order to appreciate fully the roots of the problems highlighted in *Section 6.2-6.4*, it is important to remember that even during collectivism, land had consistently enjoyed a special status. We mentioned in *Chapter I* how, unlike their counterparts in other Soviet Republics, Lithuanian authorities had never proceeded to the full nationalisation of land, preferring to leave most agrarian surfaces within collective units where nominal property rights still rested with farmers. In the 1990's, a mere redistribution of asset ownership failing to restore property rights -which, technically, had never been eliminated- would have been inconsistent with the alleged commitment to restore -within the limits of feasibility- the situation preceding forced collectivisation- the consequence, however, has been a virtual bloc on land ownership relations. As highlighted in *Section 3.4*, while earlier political patronage was granted through the appointment of *kolūkiai* managers loyal to the local communist authority, control would now be exercised by the *savivaldybės'* representatives in the share-holding assembly. Theoretically, subsistence farmers are not subject to any form of state control, but the preservation of compulsory procurement schemes and the implicit income transfers mentioned in *Section 5.5* have effectively weakened the control exercised by farmers on their assets. The discrimination ratified by fiscal legislation and inadequate mechanisms of credit concession discussed in earlier chapters could only amplify the negative impact of this arrangement.

From a sociological perspective, in the year 2000 rural social relationships had changed very little from the period before collectives were dismantled. In the intention of the legislators, agricultural reform was meant to eliminate the surplus in the farming work-force, while more skilled workers should have received the necessary incentives to remain in rural areas and start new family farms. We have seen how this has not taken place- in fact, like Russia and other former Soviet states, Lithuania suffers from having an excessively high proportion of the workforce (26% in 1999, cfr. Lithuanian Statistics Department, *Annual report* of the Ministry of Agriculture, 1998) employed in agriculture, while at the same time lacking skilled workers and having to recruit extra help to carry out the harvesting (cfr. *Vartai*, 06/03/2000, in connection with the issue of insolvency). The impact of the high average age of the agricultural work-force if compared with other sectors has been made more acute by the necessity in the early 1990's to reform the health and education sectors- the dismantling of the collectives' schools and hospitals without any alternative being provided was bound to result in the younger generations' movement towards urban areas (cfr. Grīžibauskienė in *Veidas*, 22/02/2001).

In the course of ten years of reform, state authorities have remained the main actors in determining the evolution of the Lithuanian agricultural sector- a fact more striking if we consider that in neighbouring Latvia, and even more so in Estonia, legislation is not expected to regulate all aspects of interaction within the rural sector, while the control exerted by local administrations on agricultural organisations has substantially decreased as farming pressure groups have grown and strengthened (cfr. *KŽŪR conference acts*, 09/03/2000). Fiscal and credit policies have laid the conditions for constant discrimination in favour of larger co-operatives, to which isolated individual farmers have been unable to oppose a common front. It appears that over the next years, as Lithuania comes to face the demands of European integration, the establishment of a viable agriculture shall be a function of the ability to engineer a progressive withdrawal of the state from the rural sector,

while ensuring that newly-established agricultural organisations are able to cope with the diminished role of state authorities. This shall not be possible unless the process of land restitution and the distribution of property rights documentation is brought to its overdue conclusion, while restrictions on land ownership are removed allowing the development of a land market.

In conclusion, the evolution of the Lithuanian agricultural sector can be interpreted as the result of the combination of the formal constraints posed by the legislative arrangement and the informal constraints resulting from political interests and inherited patterns of social interaction in rural areas. The reform process has been captured by those actors -successor farms and *savivaldybės*- which have managed to retain the privileged position already enjoyed under the previous regime. In the light of the resistance to reform opposed by both successor farms and state authorities, the tendency to organisational stagnation within the Lithuanian agricultural sector is unlikely to be reversed in the immediate future.

Annex I

Legislation regulating bankruptcy proceedings

In the course of our discussion in *Chapter III* and *VI*, it was argued that the existence of a network of shared interests between local administrations and successor farms is one of the main factors explaining why the Lithuanian agricultural sector failed to overcome the legacy of the collective period. Discussion focused on the issue of corporate governance, as well as on the role of fiscal and credit policies in strengthening the ties between municipal authorities and large-scale farming units. In this annex, we wish to discuss briefly the role played by *savivaldybės* in the bankruptcy proceedings within the agricultural sector, highlighting once more how the systematic intervention of local administrations has allowed the survival of inefficient productive and processing structures, and, indirectly, discriminated against independent farming.

Shortly after the October 1996 elections, the new conservative majority entrusted a specially appointed parliamentary committee to draft a new *corporate bankruptcy law* (*Vž*, 19/06/1997), which replaced the earlier *bankruptcy law* issued by the Restoration parliament (*Vž*, 15/08/1992) and expanded in 1994 (*Vž*, 19/05/1994). The 1997 law was expanded to include the provisions of the earlier *law concerning the bankruptcy of agricultural enterprises* (*Vž*, 15/07/1993). While the number of bankruptcy proceedings initiated after the promulgation of the new law displayed a marked tendency to decrease (34 proceedings were initiated in the first six months of 1999 against 496 in the first six months of 1997, cfr. *Rinkotyra*, 1(3)1999), the average duration of the proceedings has been growing constantly longer- while in the early 1990's they would often be concluded within six months, more than 85% of the cases started after October 1997 had yet to reach a final

settlement in June 2000 (cfr. Bičkauskienė in *Lietuvos aidas*, 18/04/2000). The roots of this impasse are commonly regarded as the complexity of the dispositions laid by the new version of the law, coupled with the often unsustainable costs of the proceedings- calls for a simplification of the procedure are regularly raised by politicians across the whole of the political spectrum (cfr. Bruveris' interview with Prime Minister Kubilius in *Lietuvos aidas*, 19/02/2000). The high cost of undertaking bankruptcy proceedings affected processing conglomerates with particular severity- by early 1999, over 60% of them were unable to meet their obligations towards suppliers of raw agricultural goods, but most insolvent conglomerates could not be declared bankrupt for lack of funds (cfr. *KŽŪR conference acts*, 09/03/2000).

What politicians usually fail to highlight is the role played by local administrations and credit institutes in the course of the proceedings, especially those carried out with the active involvement of the local judicial authorities (*teismine tvarka*). According to *Art.3* of the 1997 law, bankruptcy proceedings could be initiated in the following two cases:

- the owners of an economic entity or a co-operative governing body take the initiative to declare that their own company is insolvent;
- creditors or suppliers of raw agricultural produce to processing conglomerates issue a formal declaration concerning the entity's failure to meet the financial obligations it carries towards them, or present sufficient evidence showing that their creditors are likely to become insolvent in the near future due to financial mismanagement or inadequate infrastructure.

In the former case, local courts were only expected to oversee the implementation of the dispositions of the company's representatives as to the assets of the entity being dissolved. In the five years following the promulgation of the law, however, less than 20% of bankruptcy proceedings followed spontaneous declarations of insolvency (cfr. Tamulionis in *Vartai*, 07/02/2000), while in all other cases, local judicial authorities were expected to verify the claims laid by the creditors and undertake the following steps:

1. inform the company's share-holders that bankruptcy proceedings have been initiated by their creditors on their behalf;
2. establish the exact amount of the creditors' claims to be satisfied in the course of the proceedings;
3. suspend the company's governing bodies and transfer their powers to a specially appointed bankruptcy administrator;
4. warn the company's share-holders and former administrators of the prohibition embedded in the bankruptcy law (cfr. *Art.5ff.*) to severe contracts with current employees so as to avoid meeting extant financial obligations towards them once bankruptcy is declared;
5. set up a special "rescue" committee, whose task is to evaluate whether the company's circumstances permit to avoid bankruptcy through the divestiture or the re-organisation of existing assets.

In case the "rescue" committee declares within one month of its establishment that extant financial obligations may be met without undergoing bankruptcy, the company's governing bodies are re-instated in their functions and bankruptcy proceedings are interrupted (cfr. Bagdonavičius, 1998). Otherwise, the bankruptcy administrator would issue a ruling, whereby the company is declared insolvent and unfit to continue any type of economic activity, and plans for the sale of existing assets are drafted with the collaboration of the company's former governing bodies.

The wording of these 1992 dispositions, however, fail to tell us that, no matter whether bankruptcy proceedings were interrupted or brought to their conclusion, there was effectively no guarantee that the company in question was going to meet its obligations or to undertake any substantial restructuring. Re-organisation would be accompanied by a judicial declaration, establishing that the company in question was exempted from all fiscal obligations (including social security payments) for an indeterminate number of years until re-organisation procedures were concluded. Wage payments as well as the servicing of financial arrears to energy suppliers could be legitimately delayed as long as such expenses were regarded as "unnecessary" for the company's recovery. In practice, as long as the entity in question did not declare that re-organisation procedures were completed, it could continue its activity as before bankruptcy proceedings had been initiated, with additional fiscal privileges and the protection of local judicial authorities against creditors' claims (cfr. *LAT-CBS pareiškimas*, 23/12/1996).

Even in case bankruptcy had to be carried through, the sale of the company's assets would in most cases yield insufficient revenue to meet the extant financial obligations behind the initiation of the procedure- most of the capital raised would be used to pay the bankruptcy administrator or to cover the expenses of removing or destroying obsolete infrastructure, while employees would receive only symbolic compensation (cfr. Petrauskas in *Lietuvos aidas*, 04/05/2000). The 1993 *agricultural bankruptcy law* established that assets belonging to processing conglomerates being dissolved would be sold in open auctions at prices higher than their real market value (Art.3), but even in this way the capital raised proved to be insufficient. In many cases, the ensuing protests of the dissatisfied workforce would continue for years, turning individual bankruptcy cases into *causes célèbres* (cfr. Grižbauskienė on the Kaunas' "Inkarai" sugar processing plant, in *Lietuvos aidas*, 22/04/2000).

On the basis of these considerations, we see that judicial authorities were faced with the choice between allowing agricultural units to continue with their activity undertaking only a minimal degree of "cosmetic" change, or dissolving them without however forcing their members to meet their financial obligations. One should remember at this point that local courts are appointed by municipal administrations, which take care to ensure that the judiciary does not interfere with their economic interests. The decision of local courts as to the re-organisation or dissolution of agricultural entities against which creditors have issued a formal declaration largely reflects the extent of the interests of the local administrations within the company in question (cfr. *LAT-CBS pareiškimas*, 23/12/1996; 13/02/1998).

The dissolution of a processing conglomerate where the local *savivaldybė* controlled a substantial proportion of the company's shares implies a perceivable reduction of the degree of control that municipal authorities could exert over the territory. The larger the *savivaldybė*'s control over the share-holders' assembly, the more likely local courts would be to issue a ruling allowing the company in question to undertake "re-organisation", leaving existent structures virtually intact (cfr. *LAT-CBS pareiškimas* on fraudulent bankruptcy, 12/03/1999, for a response of the Supreme Court to complaints along these lines put forward by dissatisfied creditors). Wherever bankruptcy could be avoided, there have been a number of instances where members of the dissolved organisation would buy back their own assets in the course of the auction concluding bankruptcy proceedings in order to set up a new entity virtually identical to the one recently dissolved (cfr. Bičkauskienė in *Lietuvos aidas*, 18/04/2000). Municipal administrations would not oppose this procedure as long as they were rewarded with a substantial proportion of the share package, so that by the end of the proceedings the power of the *savivaldybės* would be even stronger than before.

Over the years, suppliers of processing conglomerates failing to obtain satisfactory compensation from the latter have addressed a number of official complaints to state authorities, claiming, on the basis of the country's Civil Code, that the state's so-called "subsidiary responsibility" towards the agricultural sector obliged local administrations to intervene in support of farmers whenever they could not cover their costs of production (cfr. *Mž*, 16-22/02/1997). The Supreme Court, however, has declared that the 1994 company law (cfr. *Vž*, 05/07/1994) as well as the Lithuanian Constitution do not enjoin compulsory state support of farmers- the local courts are to determine when it is in the interest of the local economy to demand that municipal authorities intervene to compensate creditors (cfr. *LAT-CBS pareiškimas*, 13/02/1998). In practice, this means that *savivaldybės* enjoy complete discretion as to who is to receive financial support- the interests of processing conglomerates always take priority.

The dispositions of the 1997 law on bankruptcy proceedings do not differ substantially from their 1992 counterparts. New legislative guidelines, however, emphasise the need on the *savivaldybės*' part to keep track of the *ataskaita* of companies rumoured to be insolvent, as well as to evaluate their balance statement when taking decisions as to their dissolution or re-organisation. In the intention of the legislators, this was going to help local courts to achieve a more adequate assessment of the degree of insolvency of the enterprises under scrutiny. *Savivaldybės* were expected to appoint an auditing commission which until the end of the bankruptcy proceedings would constantly revise its evaluation of the company's financial situation as well as its assessment of the value of its assets (cfr. *LAT-CBS pareiškimas* on asset evaluation, 13/02/1998). Unfortunately, the potential benefit from this arrangement was outweighed by a number of directives issued by the central government (cfr. Valatka in *Lietuvos rytas*, 09/06/2000), disposing that courts should dismiss creditors' formal declarations whenever they were directed against enterprises which could not cover the costs of bankruptcy proceedings. The

paradoxical result is that partially insolvent companies are more likely to be forced to undertake bankruptcy proceedings than fully insolvent ones, while the ensuing decrease of the over-all number of bankruptcies in the agricultural sector is sometimes taken as an indicator of a general improvement of the rural economy (cfr. *Baltic Times*, May 2000).

A last word should be spent on bankruptcy proceedings concluded with an out-of-court settlement (*neteismine tvarka*). According to the 1997 bankruptcy law (*Art.16-17*), the decision to opt for such arrangement rests with the governing body of the company in question, which is nevertheless expected to obtain the approval of the local municipal authority. The company is then expected to sell part of its assets in order to satisfy within the following accounting year at least 80% of the claims put forward by the creditors in the formal declaration. It comes as no surprise then that processing conglomerates systematically opt for in-court settlements, as these effectively allow them to postpone the servicing of their obligations indefinitely or to let *savivaldybēs* intervene on their behalf.

This brief overview of bankruptcy proceedings confirms our contention that public administration bears a substantial part of the responsibility for the organisational stagnation of the agricultural sector. While politicians have repeatedly stressed the necessity to reform the bankruptcy law, the present impasse could be overcome ensuring that present dispositions are implemented keeping in mind the interest of all parts involved. In this way re-organisation or dissolution procedures would no longer be distorted by the administrations' bias towards existing co-operatives or processing structures.

Annex II- Lithuania's economy: an overview

I- Fundamental data

Total inhabitants	3.7 ml.
Inhabitants of rural areas	32%
Overall surface	6.5 ml. ha.
Agricultural surface	3.51 ml. ha.
Agricultural <i>naudmenos</i>	84.00%
-arable land	84.00%
-gardening plots	1.70%
-pastures	14.30%
Forests	1.98 ml. ha.
Food and agricultural GDP in 1998	10.40%
Percentage of work-force in agriculture	24.00%
Agricultural goods proportion among exports	17.10%
Agricultural goods proportion among imports	13.10%
Proportion of meat and dairy products among exports	60-72%
1998 Agricultural production as a percentage of 1989 levels	58%
- cattle breeding	44%
- crop growing	72%
Proportion of cattle breeding activities out of the whole agricultural sector	45%
Agricultural <i>naudmenos</i> in private hands	88%
Proportion of their product in the overall volume of agricultural production	75%

(Source: Csaky/Kazlauskienė, *Žemės ūkio reformos būklė Lietuvoje*, p.29, adjusted)

II- National economy indicators (1991-96)

	1991	1992	1993	1994	1995	1996
<i>GDP growth</i>	-15.00%	-39.00%	-16.20%	1.00%	3.00%	3.60%
<i>Average inflation rate</i>	224.00%	1162.70%	291.40%	72.20%	39.60%	25.00%
<i>Inflation rate at the end of the year</i>	376.0	1154.1	189.9	44.8	35.5	13.1
<i>Nominal exchange rate/\$</i>	110.00	170.00	4.24	23.16	4.00	4.00
<i>Real exchange rate (07/1993=100)</i>	653	243	113	58	43	35
<i>Current account balance as a percentage of GDP</i>	n.a.	3.2	-6.2	-4.2	-3.8	-7.5
<i>Fiscal deficit as a perc. of GDP</i>	n.a.	n.a.	5.1	5.2	4.3	4.9
<i>Unemployment rate</i>	0.3	1.3	4.4	3.8	6.1	7.0

(Source: Csaky/Kazlauskienė, *op.cit.*, Appendix)

III- Agricultural indicators (1991-96)

	1991	1992	1993	1994	1995	1996
<i>Proportion of agricultural production in the overall GDP (old method)</i>	19.20%	21.00%				
<i>(new method)</i>		11.50%	10.40%	6.70%	8.50%	10.40%
<i>Overall changes in agricultural production</i>	-5.80%	-23.40%	-5.50%	-20.20%	6.10%	10.30%
-crop growing	2.60%	-33.50%	26.00%	-28.00%	16.10%	21.80%
-cattle rearing	-12.00%	-14.50%	-26.90%	-11.20%	-2.70%	-2.80%
<i>Overall structure of agriculture</i>	100	100	100	100	100	100
<i>Prop. weight of plant growing</i>	47.5	56.9	47.1	54.0	53.4	54.6
<i>Prop. weight of cattle-rearing</i>	52.5	43.1	52.9	46.0	46.6	45.4
<i>Prop. of the work-force in agriculture</i>	17.50%	18.70%	21.90%	22.50%	22.90%	24.00%
<i>Prop. of agricultural imports</i>	5.20%	11.50%	4.20%	11.60%	13.40%	13.10%
<i>Prop. of agricultural exports</i>	30.70%	19.70%	12.20%	19.90%	18.30%	17.10%

(Source: simplified and adjusted from *KŽŪA annual report, 1997*)

IV- Areas taken up by basic crops (1991-96, thousands of ha.)

	1991	1992	1993	1994	1995	1996
<i>Total area</i>	2,800	2,688	2,681	2,557	2,359	2,455
<i>Fodder</i>	1,528	1,329	1,204	1,145	1,100	1,132
<i>Corn</i>	1,087	1,165	1,289	1,218	1,053	1,116
<i>Other crops</i>	185	194	188	194	206	207
<i>Commercial crops</i>						
<i>Wheat</i>	272	284	376	270	261	348
<i>Barley</i>	523	611	588	620	544	474
<i>Potatoes</i>	106	114	122	117	125	125
<i>Vegetables</i>	21	20	25	28	26	29
<i>Sugar beets</i>	30	33	33	27	24	31

(Source: adjusted and simplified from the 1997 *Annual report* of the Ministry of Agriculture, in Csaky/Kazlauskienė, *op.cit.*, 1997)

V- Number of cattle at the end of the year (1991-96, thousand head)

	1991	1992	1993	1994	1995	1996
<i>Live-stock (except milk cows)</i>	2,197	1,701	1,384	1,152	1,065	1,054
<i>Milk cows</i>	832	738	678	615	586	590
<i>Pigs</i>	2,180	1,360	1,196	1,260	1,270	1,128
<i>Fowl</i>	16,994	8,259	8,728	8,849	8,444	7,775

(Source: adjusted and simplified from the 1997 *Annual report* of the Ministry of Agriculture, in Csaky/Kazlauskienė, *op.cit.*)

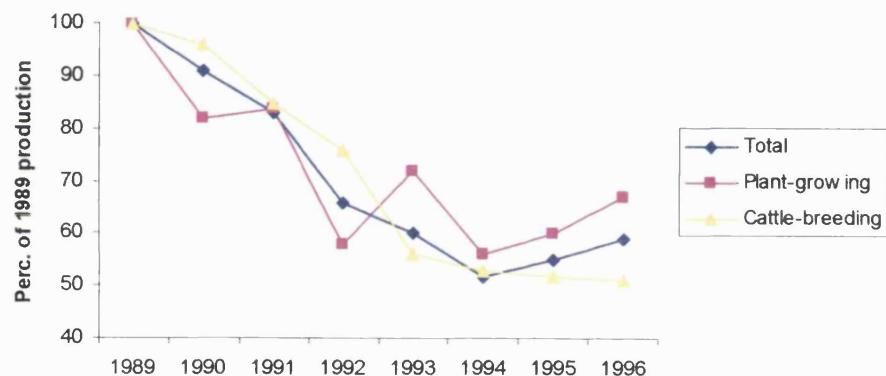
VI- Agricultural productivity dynamics (1991-1996, thousands of tons)

Product	1991	1992	1993	1994	1995	1996
Wheat	855	834	890	549	637	936
Barley	1,699	955	1,208	1,091	892	1,177
Potatoes	1,508	1,080	1,773	1,096	1,594	2,044
Sugar beets	811	622	855	462	692	796
Meat	450	415	276	222	208	199
-beef	209	226	162	116	87	83
-pork	194	155	90	82	93	88
-fowl	44	32	22	24	26	25
Milk	2,916	2,421	2,067	1,896	1,819	1,831

(Source: adjusted from Ramanauskas, *Kooperatyvai žemės ūkyje*, 1996, p.36)

VII- Overall agricultural production (1989-96, 1989=100)

	1989	1990	1991	1992	1993	1994	1995	1996
Total	100	91	83	66	60	52	55	59
Plant-growing	100	82	84	58	72	56	60	67
Cattle-breeding	100	96	85	76	56	53	52	51



(Source: adjusted from data presented at *Agro-Balt*, May 2000)

VIII- Agricultural exports and imports (thousands of US \$)

	Exports		Imports		Trade balance	
	1995	1996	1995	1996	1995	1996
<i>Europe</i>	198,206	180,409	313,059	379,816	-114,852	-199,407
<i>EU</i>	136,415	96,896	204,139	226,425	-67,724	-129,529
<i>EFTA</i>	6,867	17,214	25,481	48,637	-18,613	-31,423
<i>Estonia</i>	15,950	25,316	7,450	10,776	8,500	14,540
<i>Latvia</i>	23,850	32,609	4,400	6,378	19,450	26,231
<i>CEEC's, Malta and Cyprus</i>	15,040	7,921	68,656	84,521	-53,616	-76,601
<i>Turkey</i>	84	453	2,932	3,079	-2,848	-2,626
<i>CIS</i>	289,961	346,477	103,662	122,091	186,299	224,386
<i>USA</i>	2,686	4,372	13,118	23,683	-10,432	-19,310
<i>Others</i>	4,826	24,132	57,740	51,364	-52,914	-27,232
Total	495,679	555,390	487,578	576,954	8,101	-21,562
Total including other sectors	2,705,016	3,279,706	3,648,470	4,404,544	-943,453	-1,124,838

(Source: Csaky/Kazlauskienė, *op.cit.*)

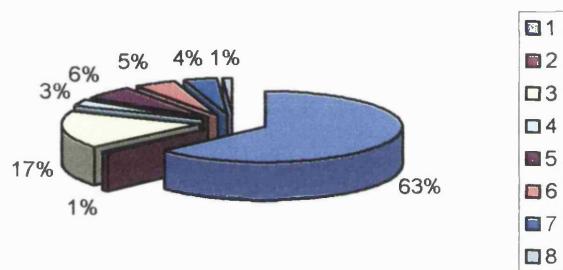
IX- Agricultural exports and imports (percentages of the total)

	Exports		Imports	
	1995	1996	1995	1996
<i>Europe</i>	40.0	32.5	64.2	65.8
<i>EU</i>	27.5	17.4	41.9	39.2
<i>EFTA</i>	1.4	3.1	5.2	8.4
<i>Estonia</i>	3.2	4.6	1.5	1.9
<i>Latvia</i>	4.8	5.9	0.9	1.1
<i>CEECs, Malta and Cyprus</i>	3.0	1.4	14.1	14.9
<i>Turkey</i>	0.0	0.1	0.6	0.5
<i>CIS</i>	58.5	62.4	21.3	21.2
<i>USA</i>	0.5	1.2	2.7	4.1
<i>Others</i>	1.0	4.3	11.8	8.9

(Source: Csaky/Kazlauskienė, *op.cit.*, Appendix)

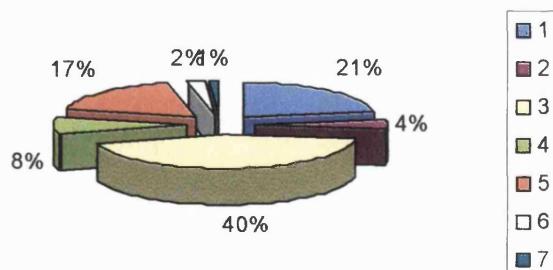
X- 1996 agricultural exports according to trade partners

1) CIS	63%
2) USA	1%
3) EU	17%
4) EFTA	3%
5) Latvia	6%
6) Estonia	5%
7) Others	4%
8) Eastern Europe	1%



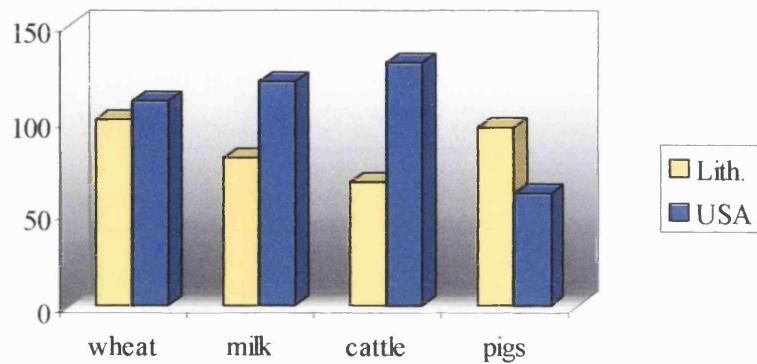
XI- 1996 agricultural imports according to trade partners

1) CIS	21%
2) USA	4%
3) EU	40%
4) EFTA	8%
5) Eastern Europe	17%
6) Estonia	2%
7) Others	1%



**XII-1996 price of a number of agricultural goods in Lithuania and the USA compared with the corresponding OECD information price
(1996 OECD information price= 100)**

	Lithuania	USA
Wheat	99	110
Milk	80	120
Cattle	66	130
Pigs	96	60



(Source of Table X-XII: adjusted and combined from Csaky/Kazlauskienė, *op.cit.*, 1997, and *Rinkotyra*, 1(3)1999, *Appendix*)

XIII- Evolution of some economic indicators from 1994 to November 1999

	1994	1995	1996	1997
Gross domestic product				
Current prices, mill. Litas	16,904	24,103	31,569	38,340
Constant prices (at 1995 prices)	23,335	24,103	25,238	27,075
Change over previous period, %	-9.80%	3.30%	4.70%	7.30%
Production- % change over PP				
Sales of mining and manufacturing	-29.80%	0.90%	3.50%	8.00%
Electricity, gas and water supply	-11.60%	21.90%	9.70%	-9.30%
Primary petroleum refinement	-27.90%	-15.30%	19.20%	34.10%
Agriculture	-17.00%	7.70%	8.50%	5.80%
Construction				
Independent work at current prices, million litas, total	1,753.9	2,208.8	2,281.8	2,860.1
-within the country	1,502.9	1,866.1	2,023.4	2,618.8
-outside the country	251.0	342.7	258.4	241.3
Goods carried, total, thousands of tons	62,999.0	53,437.0	45,874.2	48,116.7
Labour market and wages				
Unemployment rate, %	3.80%	6.10%	7.10%	5.90%
Average monthly earning (before tax), litas				
-total economy	325.4	478.9	621.1	785.5
-public sector	371.0	532.2	683.3	851.3
Minimum living standard, litas	50	69	91	111
Minimum wage, litas	57	135	240	374

Prices				
<i>Consumer price index (Dec. 93=100)</i>	123.8	172.9	215.5	234.6
<i>Change over PP, %</i>	72.2	39.6	24.6	8.9
<i>Food products (Dec. 93=100)</i>	121.0	169.6	216.7	229.8
<i>Change over PP, %</i>	59.6	40.2	27.7	6.1
<i>Producer price index (Dec. 93=100)</i>	113.9	146.2	171.4	178.6
<i>Change over PP, %</i>	44.8	28.3	17.2	4.2
<i>Construction price index (Dec. 93=100)</i>	129.0	161.7	189.0	207.5
<i>Change over PP, %</i>	84.0	25.4	16.8	9.8
Foreign trade				
<i>Imports, million litas</i>	9,355	14,594	18,235	22,577
<i>Exports, million litas</i>	8,077	10,820	13,420	15,441
Domestic finance (million litas)				
<i>Net foreign assets</i>	2,148	2,829	3,124	3,483
<i>Domestic credit</i>	2,926	3,340	3,437	4,498
<i>Claims on central government</i>	-500	-753	-479	-43
<i>Claims on savivaldybės</i>	2	8	62	52
<i>Claims on non-financial public enterprises</i>	399	242	140	149
<i>Claims on private sector</i>	3,016	3,828	3,704	4,170
<i>Average annual interest rates on deposits</i>				
<i>with commercial banks, %</i>	22	15	11	5
<i>Average annual interest rates on commercial banks loans and advances, %</i>	33	26	15	12

	1998	1998-I	1998-II	1998-III	1998-IV
Gross domestic product					
<i>Current prices, mill. Litas</i>	42,945	9,354	10,818	11,721	11,051
<i>Constant prices (at 1995 prices)</i>	28,459	6,108	7,161	7,988	7,202
<i>Change over previous period, %</i>	5.10%	-15.50%	17.20%	11.50%	-9.80%
Production- % change over PP					
<i>Sales of mining and manufacturing</i>	9.30%	-10.20%	11.50%	1.80%	-2.60%
<i>Electricity, gas and water supply</i>	3.20%	15.10%	-41.20%	-3.40%	75.30%
<i>Primary petroleum refinement</i>	27.90%	3.70%	7.70%	-2.40%	-3.70%
<i>Agriculture</i>	-2.50%	-10.00%	46.60%	112.20%	-61.10%
Construction					
<i>Independent work at current prices, million litas, total</i>	3,489.1	517.2	882.3	1,161.9	927.7
- <i>within the country</i>	3,389.2	492.4	849.9	1,136.6	910.3
- <i>outside the country</i>	99.9	24.8	32.4	25.3	17.4
<i>Goods carried, total, thousands of tons</i>	48,484.3	10,730.0	12,624.1	13,442.2	11,688
Labour market and wages					
<i>Unemployment rate, %</i>	6.40%	7.50%	7.10%	5.90%	6.40%
<i>Average monthly earning (before tax), litas</i>					
- <i>total economy</i>	955.0	877.4	944.5	980.4	1,014.7
- <i>public sector</i>	1,021.1	968.4	1,043.4	1,063.6	1,115.0
<i>Minimum living standard, litas</i>	123	120	123	125	125
<i>Minimum wage, litas</i>	418	400	410	430	430

Prices					
<i>Consumer price index (Dec. 93=100)</i>	246.5	244.8	247.8	246.7	246.8
<i>Change over PP, %</i>	5.1	2.1	1.2	-0.4	0.1
<i>Food products (Dec. 93=100)</i>	229.5	235.3	234.7	225.8	222.1
<i>Change over PP, %</i>	-0.1	2.7	-0.2	-3.8	-1.7
<i>Producer price index (Dec. 93=100)</i>	166.7	172.9	168.1	164.7	161.2
<i>Change over PP, %</i>	-6.7	-2.4	-2.8	-2.0	-2.2
<i>Construction price index (Dec. 93=100)</i>	219.0	214.0	218.7	221.3	221.8
<i>Change over PP, %</i>	5.5	0.7	2.2	1.2	0.2
Foreign Trade					
<i>Imports, million litas</i>	23,174	5,668	6,085	5,748	5,673
<i>Exports, million litas</i>	14,842	3,880	3,873	3,722	3,367
Domestic finance (million litas)					
<i>Net foreign assets</i>	4,288	3,296	3,283	4,452	4,288
<i>Domestic credit</i>	5,255	4,525	5,230	4,223	5,255
<i>Claims on central government</i>	-566	-358	14	-1,350	-566
<i>Claims on savivaldybės</i>	124	40	104	105	124
<i>Claims on non-financial public enterprises</i>	354	152	84	230	354
<i>Claims on private sector</i>	4,873	4,475	4,717	4,794	4,873
<i>Average annual interest rates on deposits</i>					
<i>with commercial banks, %</i>	4	5	5	5	4
<i>Average annual interest rates on commercial banks loans and advances, %</i>	17	10	12	14	17

	1999-I	1999-II	1999-III	ott-99	nov-99
Gross domestic product					
<i>Current prices, mill. Litas</i>	9,001	10,671	n.a.	-8.3	-6.7
<i>Constant prices (at 1995 prices)</i>	5,753	6,875	n.a.	41.3	28.1
<i>Change over previous period, %</i>	-20.10%	19.50%	n.a.	-14.70%	-60.50%
Production- % change over PP					
<i>Sales of mining and manufacturing</i>	-16.30%	16.60%	-2.40%	-8.30%	-2.60%
<i>Electricity, gas and water supply</i>	-9.40%	-54.20%	0.90%	41.30%	75.30%
<i>Primary petroleum refinement</i>	-29.40%	39.90%	-25.20%	-14.70%	-3.70%
<i>Agriculture</i>	-16.20%	45.20%	102.30%	-21.60%	-56.50%
Construction					
<i>Independent work at current prices, million litas, total</i>	381.2	761.2	846.4	250.5	193.2
- <i>within the country</i>	374.8	750.3	839.6	247.0	190.5
- <i>outside the country</i>	6.4	10.9	6.8	3.5	2.7
<i>Goods carried, total, thousands of tons</i>	9,608.6	14,219.3	n.a.	n.a.	n.a.
Labour market and wages					
<i>Unemployment rate, %</i>	8.10%	7.80%	7.10%	5.90%	6.40%
<i>Average monthly earning (before tax), litas</i>					
- <i>total economy</i>	1,031.8	1,078.7	1,092.6	1,084.0	1,081.6
- <i>public sector</i>	1,122.6	1,159.8	1,165.2	1,139.9	1,146.5
<i>Minimum living standard, litas</i>	125	125	125	125	125
<i>Minimum wage, litas</i>	430	430	430	430	430

Prices					
<i>Consumer price index (Dec. 93=100)</i>	249.4	249.0	247.9	247.1	247.1
<i>Change over PP, %</i>	1.0	-0.1	-0.5	-0.7	0.0
<i>Food products (Dec. 93=100)</i>	224.5	221.2	217.6	218.6	218.1
<i>Change over PP, %</i>	1.1	-1.5	-1.7	0.2	-0.2
<i>Producer price index (Dec. 93=100)</i>	156.6	162.8	175.6	187.5	187.5
<i>Change over PP, %</i>	-2.8	3.9	7.9	2.4	0.0
<i>Construction price index (Dec. 93=100)</i>	221.3	225.1	225.6	224.8	n.a.
<i>Change over PP, %</i>	-0.2	1.7	0.2	-0.2	n.a.
Foreign trade					
<i>Imports, million litas</i>	4,304	5,172	4,882	1,744	1,643
<i>Exports, million litas</i>	2,855	3,079	3,136	1,117	1,084
Domestic finance (million litas)					
<i>Net foreign assets</i>	4,144	3,747	3,260	3,260	3,365
<i>Domestic credit</i>	5,716	6,567	7,083	7,083	6,914
<i>Claims on central government</i>	-506	-22	274	274	29
<i>Claims on savivaldybės</i>	126	140	174	174	182
<i>Claims on non-financial public enterprises</i>	400	440	554	554	562
<i>Claims on private sector</i>	5,238	5,544	5,601	5,601	5,669
<i>Average annual interest rates on deposits</i>					
<i>with commercial banks, %</i>	3	3	3	3	4
<i>Average annual interest rates on commercial banks loans and advances, %</i>	15	15	14	14	11

(Source: combined, adjusted and simplified from the *Annual reports* of the Ministry of Agriculture, 1994-2000)

Annex III - Land reform and ownership relations as of 01/01/2000

I- Distribution of agricultural land according to land user group (01/01/2000)

	Alytus	Kaunas	Klaipėda	Marijampolė	Panevėžys
Land owned by agricultural concerns registered as physical persons	43.20%	48.70%	30.90%	52.15%	48.00%
Land held by subsistence farmers	20.00%	18.00%	17.87%	20.00%	15.00%
Land held by gardeners' associations	0.10%	0.30%	0.03%	0.18%	0.20%
Land leased by agricultural co-operatives	16.40%	7.40%	4.80%	6.07%	8.00%
Land leased by other physical persons or by concerns endowed with legal personality	3.90%	15.00%	27.20%	15.80%	15.00%
Land not utilised	16.40%	10.70%	19.20%	5.80%	14.80%

	Šiauliai	Tauragė	Telšiai	Utena	Vilnius
Land owned by agricultural concerns registered as physical persons	50.00%	46.20%	44.70%	39.40%	27.40%
Land held by subsistence farmers	16.90%	18.30%	14.20%	12.10%	20.30%
Land held by gardeners' associations	0.30%	2.30%	2.70%	4.10%	4.50%
Land leased by agricultural co-operatives	9.10%	25.60%	23.60%	12.00%	16.20%
Land leased by other physical persons or by concerns endowed with legal personality	11.50%	7.40%	14.70%	32.30%	31.10%
Land not utilised	12.20%	0.20%	0.10%	0.10%	0.50%

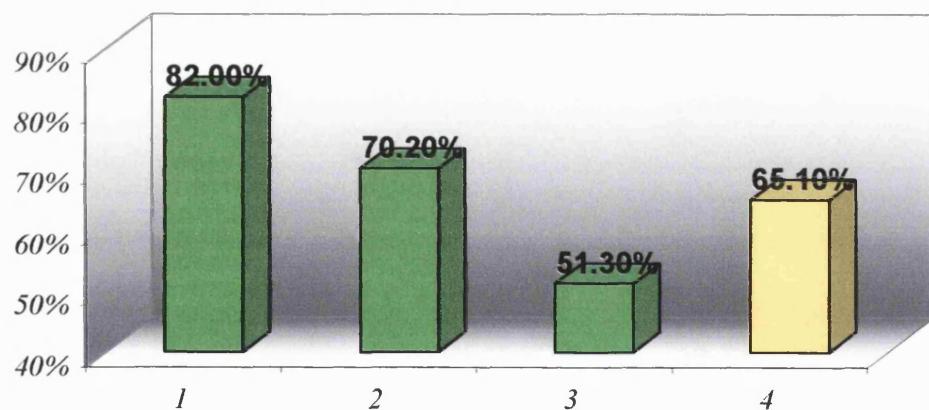
II- Citizens' applications submitted for restitution of property rights as a percentage of total land surface (01/01/2000)

	Requests to obtain plots in the original borders	Requests to receive equivalent plots	Requests for financial compensation
<i>Alytus</i>	71.30%	14.20%	14.50%
<i>Kaunas</i>	62.80%	14.30%	22.90%
<i>Klaipėda</i>	58.00%	30.00%	12.00%
<i>Marijampolė</i>	55.70%	26.70%	17.60%
<i>Panevėžys</i>	63.00%	18.00%	19.00%
<i>Šiauliai</i>	59.00%	20.00%	21.00%
<i>Tauragė</i>	57.00%	29.00%	14.00%
<i>Telšiai</i>	62.40%	15.90%	21.70%
<i>Utena</i>	65.00%	11.00%	24.00%
<i>Vilnius</i>	66.00%	18.00%	16.00%

III- Approved citizens' applications for restitution of land property rights in original borders (including forested surfaces), 01/01/2000

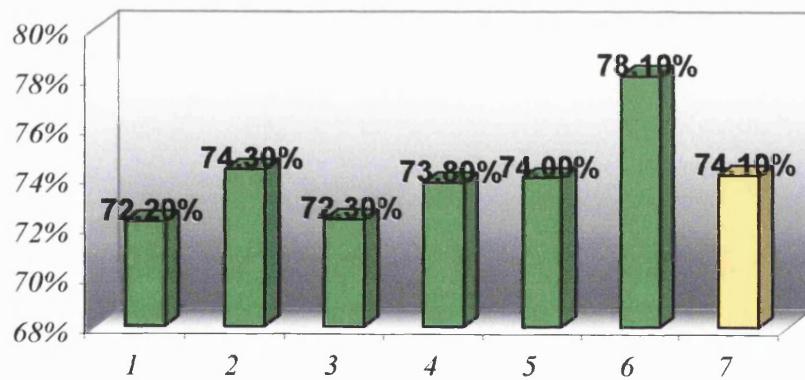
Alytus apskritis

Rajonas	Percentage
1)Alitus rajonas	82.00%
2)Lazdijai rajonas	70.20%
3)Varėna rajonas	51.30%
4)apskritis average	65.10%



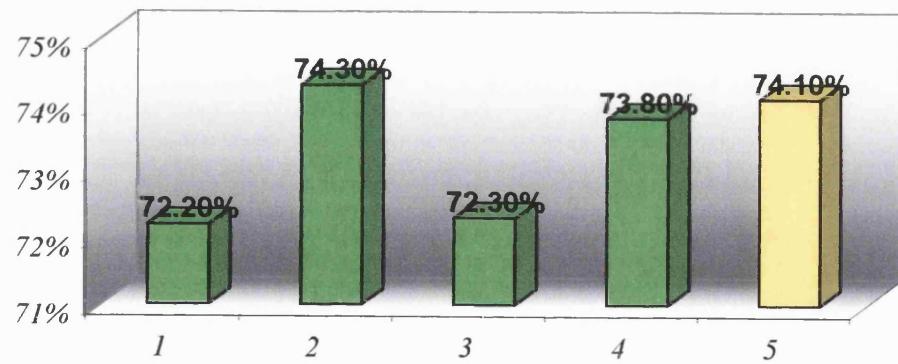
Kaunas apskritis

Rajonas	Percentage
1) Jonava rajonas	72.20%
2) Kaišiadorys rajonas	74.30%
3) Kaunas rajonas	72.30%
4) Kėdainiai rajonas	73.80%
5) Prienai rajonas	74.00%
6) Raseiniai rajonas	78.10%
7) apskritis average	74.10%



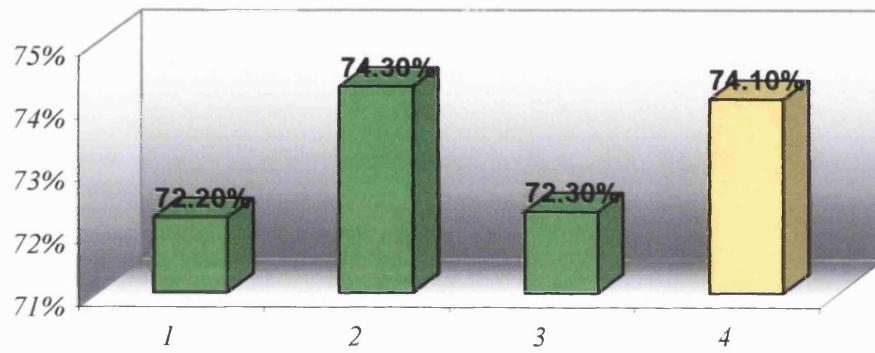
Klaipėda apskritis

Rajonas	Percentage
1) Klaipėda rajonas	72.20%
2) Kretinga rajonas	74.30%
3) Skuodas rajonas	72.30%
4) Šilutė rajonas	73.80%
5) apskritis average	74.10%



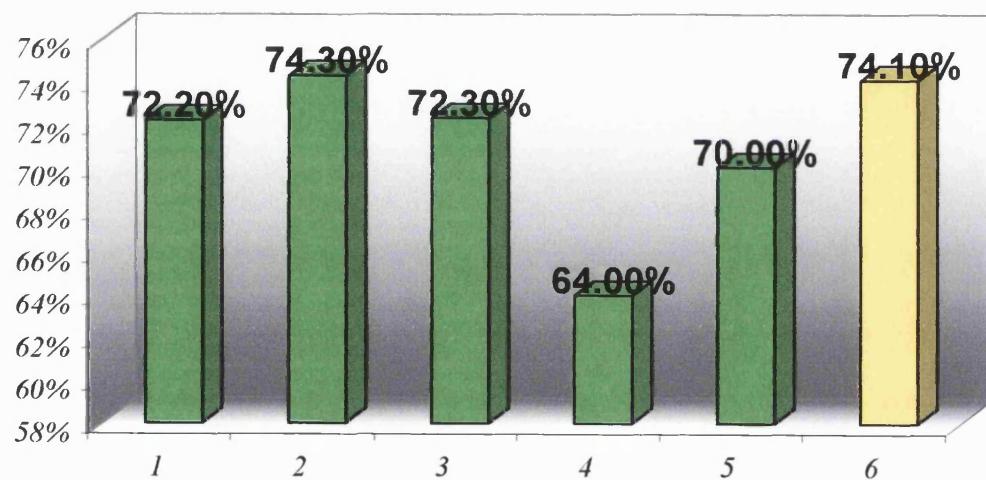
Marijampolė apskritis

Rajonas	Percentage
1) Marijampolė rajonas	72.20%
2) Vilkaviškis rajonas	74.30%
3) Šakiai rajonas	72.30%
4) apskritis average	74.10%



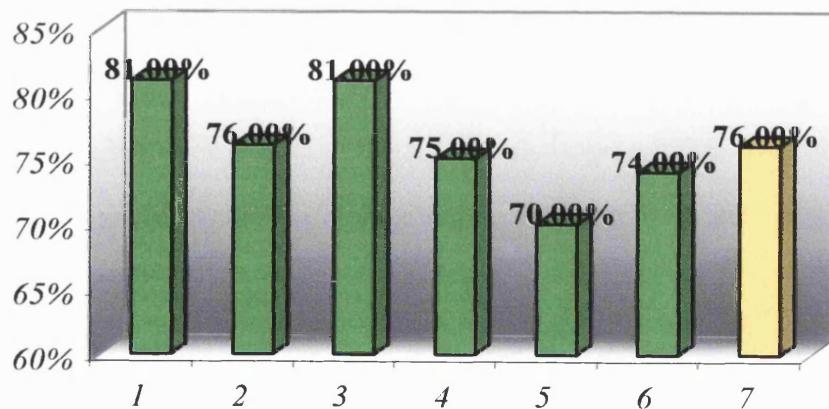
Panevėžys apskritis

Rajonas	Percentage
1) Biržai rajonas	72.20%
2) Kupiškis rajonas	74.30%
3) Panevėžys rajonas	72.30%
4) Pasvalys rajonas	64.00%
5) Rokiškis rajonas	70.00%
6) apskritis average	74.10%



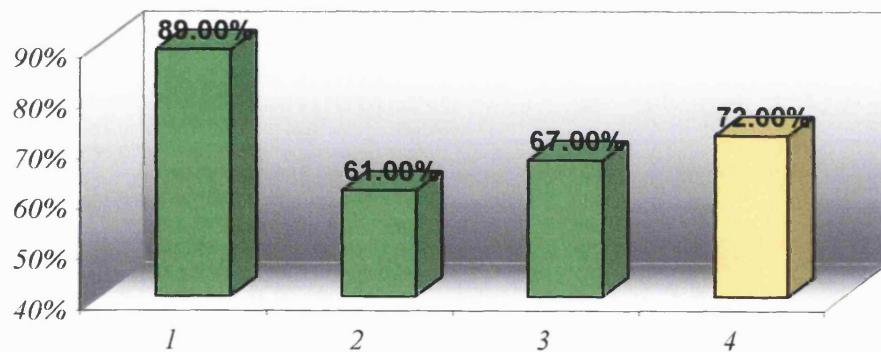
Šiauliai apskritis

Rajonas	Percentage
1) Akmenė rajonas	81.00%
2) Joniškis rajonas	76.00%
3) Kelmė rajonas	81.00%
4) Pakruojis rajonas	75.00%
5) Radviliškis rajonas	70.00%
6) Šiauliai rajonas	74.00%
7) apskritis average	76.00%



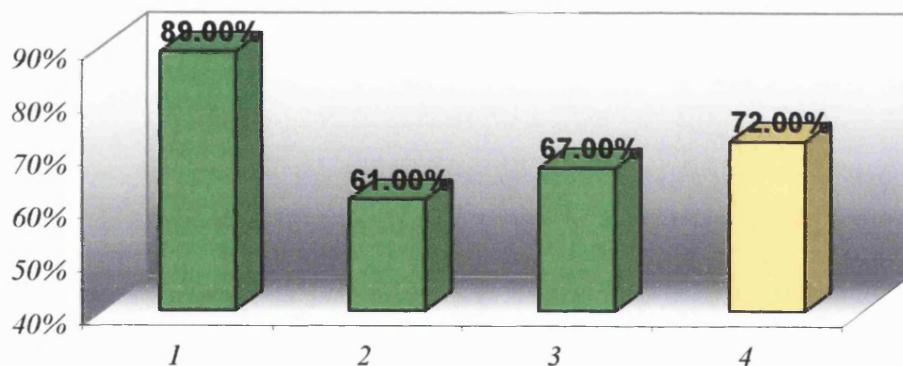
Tauragė apskritis

Rajonas	Percentage
1) Jurbarkas rajonas	89.00%
2) Šilalė rajonas	61.00%
3) Tauragė rajonas	67.00%
4) apskritis average	72.00%



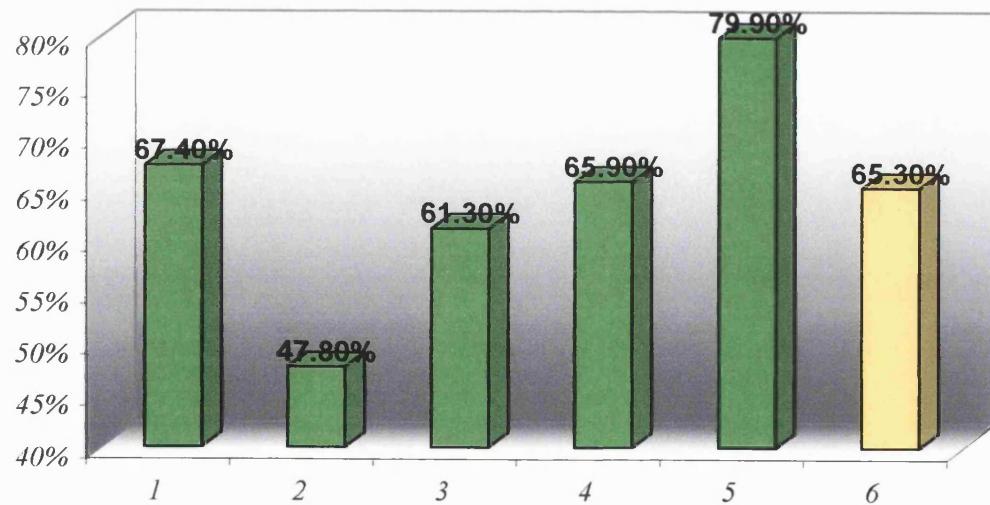
Telšiai apskritis

Rajonas	Percentage
1) Mažeikiai rajonas	89.00%
2) Plungė rajonas	61.00%
3) Telšiai rajonas	67.00%
4) apskritis average	72.00%



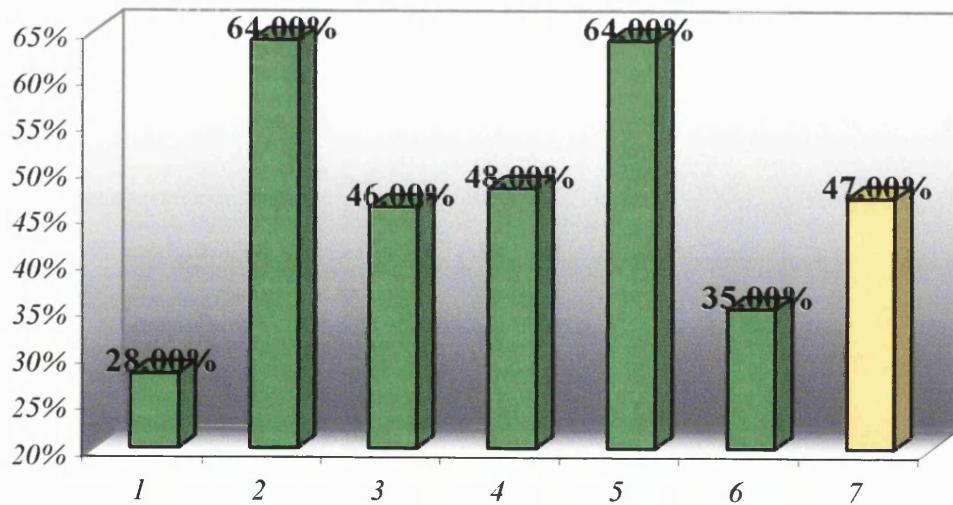
Utena apskritis

Rajonas	Percentage
1) Anykščiai rajonas	67.40%
2) Ignalina rajonas	47.80%
3) Molėtai rajonas	61.30%
4) Utena rajonas	65.90%
5) Zarasai rajonas	79.90%
6) apskritis average	65.30%



Vilnius apskritis

Rajonas	Percentage
1) Šalčininkai rajonas	28.00%
2) Širvintos rajonas	64.00%
3) Švenčionys rajonas	46.00%
4) Trakai rajonas	48.00%
5) Ukmegė rajonas	64.00%
6) Vilnius rajonas	35.00%
7) apskritis average	47.00%



IV- Apskričiai's general statistics (01/01/2000)

	Alytus	Kaunas	Klaipėda	Marijampolė	Panevėžys
Over-all <i>apskritis'</i> surface (ha.)	536,140	496,640	574,624	446,265	788,044
<i>Rajonai</i>	3	6	4	3	5
<i>Seniūnijos</i>	33	62	38	35	42
Cadastral units	87	165	98	109	184
Number of land reform workers	117	124	76	85	136
Number of petitions to restore land property rights	60,000	102,000	48,890	48,500	90,700
Land interested by restitution applications (ha.)	275,000	538,000	282,300	260,500	597,700
Percentage of land restituted in the original borders	65.00	74.10	80.75	88	72
Number of cadastral land reform plans drafted	88	101	83	67	184
Number of cadastral land reform plans implemented	53	69	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

	Šiauliai	Tauragė	Telšiai	Utena	Vilnius
Over-all <i>apskritis'</i> surface (ha.)	875,113	387,440	413,900	720,000	965,026
<i>Rajonai</i>	6	3	3	5	6
<i>Seniūnijos</i>	52	23	30	48	74
Cadastral units	197	73	82	139	153
Number of land reform workers	113	71	64	126	148
Number of petitions to restore land property rights	82,000	40,700	37,000	72,800	95,600
Land interested by restitution applications (ha.)	594,000	265,700	254,000	451,900	464,800
Percentage of land restituted in the original borders	76.00	72.00	80.80	65.30	47.00
Number of cadastral land reform plans drafted	95	73	82	39	235
Number of cadastral land reform plans implemented	<i>n.a.</i>	<i>n.a.</i>	45-59	36	17

Note: the data included in this *Annex* are taken, combined and adjusted from the 2000 *Report* of each *apskritis* published by the Lithuanian Statistics Department, which complete the *Žemėtvarkos tarybos* 1999 information on land reform implementation.

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Note on sources

In the majority of cases, the items of legislation mentioned in the course of the text are either laws promulgated by the Seimas or resolutions (*nutarimai*) issued by the government. The main source for legal texts in Lithuania is the official gazette *Valstybės žinios* (State news)- laws and *nutarimai* apply as of the day they appear in this publication. *Mokesčių žinios* (Fiscal news) is a similar publication which is concerned specifically with fiscal legislation, although in later years the scope of this gazette has been considerably widened to include guidelines as to the competence of *savivaldybės* - in addition, while *Valstybės žinios* does not publish commentaries or articles, *Mokesčių žinios* includes numerous interventions of academics or politicians discussing the impact of the fiscal sector on the economy as a whole as well as putting forward proposals for its reform.

The bimonthly publication *Verslo ir komercinė teisė* (Business and commercial law) usually collects laws and *nutarimai* related to a particular topic (such as corporate governance or restitution). Commentaries on legal matters are also published by the gazette *Litas*. Occasionally, the Seimas itself publishes edited collections of earlier legal texts (*Seimo* or *Teisės aktų rinkinys*) through the *Informacijos ir leidybos centras* (Information and publishing centre), which has also published many texts from the inter-war period. We must point out that even in official publications or academic texts there is a considerable degree of inconsistency as to the date of laws and *nutarimai*- sometimes the day of their promulgation is used, sometimes the date of its publication by *Valstybės žinios* or *Mokesčių žinios*. Further confusion arises when a text is published by both gazettes (as in the case of most fiscal legislation) or when marginally improved versions are issued under different titles, giving the impression that the earlier law has been repealed. Throughout the dissertation we tried to refer consistently to the dates of publication in *Valstybės žinios*, recurring to *Mokesčių žinios* only whenever a text was not published by the former.

Baltic Times is a weekly magazine in English published in Riga presenting a summary of the week's news and developments throughout the Baltic countries. *Lietuvos aidas* (Lithuania's echo) was the most important daily newspaper in the inter-war period. Revived in 1990, it targets the more conservative readership and has consistently supported the policies first of *Sąjūdis* and later of the Conservative coalition. Though arguably providing a more extensive and informed coverage of national events than most Lithuanian newspaper, its circulation has been steadily decreasing since 1996-97 to the benefit of the more Centrist *Lietuvos rytas* (Lithuania's morning), which has established itself as the most widely read newspaper in the country. Briefings from the news-agency *ELTA* are published both by *Lietuvos aidas* and *Lietuvos rytas*, as well as by *Lietuvos rytas*' weekly economic

supplements *Vartai* (Gates), published on Mondays. *Lietuvos žinios* (Lithuania's News) is another daily newspaper, which however does not enjoy the status or the popularity of either *Lietuvos aidas* or *Lietuvos rytas*. *Naujoji Romuva* (New Romuva) is a literary-political journal established in 1990 with the intention to revive the inter-war journal *Romuva* (named after the semi-mythological seat of a pre-historic Lithuanian dukedom)- however, while the original *Romuva* supported a stronger integration of the Lithuanian state into Western Europe, *Naujoji Romuva* has sided with the former Communists and more recently with Paulauskas' *Naujoji Sajunga*. *Rinkotyra/Žemės ūkio ir maisto produktai* is a bimonthly publication issued by the Lithuanian Institute of Agrarian Economics, including both articles and data on the development of Lithuanian agriculture against the wider background of underlying trends in European and world agriculture. *Tiesa* (The truth), which ceased publication in late 1991, was the Lithuanian version of the official Soviet daily *Pravda*- during the Soviet occupation, it was virtually the only national newspaper of any importance in the country. In 1990-1991, *Tiesa* published a number of legal texts which were then reprinted in *Valstybės žinios*, while providing a wealth of insights on the political debates of the period. *Veidas* (The face) is a weekly magazine focusing on politics and economics, known for its outspoken criticisms of the Lithuanian political establishment. *Verslo žinios* (Business news) is a daily newspaper providing ample coverage of events in the world of politics and local business.

Index of foreign terms

<i>Agroprom</i>	from the Russian <i>Agropromyshlennost'</i> - term indicating the Soviet Union's Central Agro-Industrial Committee
<i>apmokestinimo</i>	
<i>pagrindas</i>	fiscal base (cfr. <i>Section 5.3</i> for its determination)
<i>apskaičiuojamasis</i>	
<i>pelnas</i>	accounting profits (cfr. <i>Section 5.3</i> for its determination)
<i>apskaita</i>	income statement
<i>apskritis</i> (pl. <i>apskričiai</i>)	largest administrative unit in Lithuania. There are currently 10 <i>apskričiai</i> , each encompassing between three and six <i>rajonai</i>
<i>apyskaita</i>	transaction-based accounting
<i>apyvartinis kapitalas</i>	literally "turn-over capital"- term used to indicate working capital. Real capital is known as <i>neapyartiniai</i>
<i>ataskaita</i>	cash-flow accounting
<i>Atkuriamasis seimas</i>	literally "Restoration Parliament"- term used to indicate the last Lithuanian Supreme Council, elected in March 1990 and dissolved in October 1992
<i>atsargos</i>	1) reserves; 2) resources deployed to store and preserve inventory goods
<i>atsiskaitymai</i>	literally, "the settling of accounts"- over the past decade, however, this term has been increasingly used to indicate the financial arrears accumulated by processing conglomerates towards their suppliers of raw agricultural produce
<i>atskaita</i>	1) balance statement; 2) independent financial evaluation of processing conglomerates drafted by auditing firms on behalf of financial institutions
<i>Aukščiausioji taryba</i>	Lithuanian version of the "Supreme Council" or "Supreme Soviet"- the highest legislative body in Soviet Lithuania
<i>avansiniai mokeščiai</i>	advance tax payments, usually with reference to the profit tax on legal persons
<i>balai</i>	literally, "points"- measure used to assess the value of land plots in the late 1940's-early 1950's as collective farms were established
<i>baudžiava</i>	Lith. for serfdom (from the verb <i>bausti</i> = to punish)
<i>bojinx</i>	Chinese term indicating the "responsibility system" implemented in the agricultural sector of the People's Republic of China in the 1980's

<i>darbadienis</i>	from the Russian <i>trudodien'</i> , literally "workday"- measurement unit used to determine retribution in collective farms in Lithuania
<i>davinys</i> (pl. <i>daviniai</i>)	literally, "ration"- term indicating the portion of <i>talonai</i> distributed to each member of the population in 1991 to take part in privatisation auctions
<i>derlingumas</i>	measure of plot fertility used to determine the value of land plots in rural areas
<i>fondogrąža</i>	index used to measure the rate of return of the different components of real capital to over-all output
<i>gosplan</i>	from the Russian <i>gosudarstvennaya planovaya komissya</i> - term indicating the State planning committee drafting the five-year plans in Soviet Russia
<i>gubernija</i>	administrative unit in Tsarist Lithuania
<i>ikeitimasis</i>	procedure whereby agricultural units mortgage their land, assets and future crops to face their financial obligations
<i>indėlis</i>	literally, "contribution"- term indicating the assets handed over to the co-operative by a new member
<i>įšėmimo rodiklis</i>	literally, take-out coefficient (or take-out index)- expression used to indicate the ratio between the tax paid in the previous accounting year and the realisation income for the same period. It is used to determine the advance payments of the profit tax on legal persons
<i>įsipareigojimai</i>	financial obligations
<i>istatinis kapitalas</i>	literally, "legal capital"- term used to indicate the minimum amount of capital required by law to establish a new enterprise
<i>isteigimo sutartis</i>	founding agreement- contract among the parts setting up an agricultural co-operative in newly independent Lithuania
<i>isakymas</i>	see under <i>nutarimas</i>
<i>khozraschet</i>	from the Russian <i>khozyaistvennyi raschet</i> - term indicating the program introduced in 1969 encouraging partial financial independence of collective farms
<i>kintamieji (kaštai)</i>	variable costs- credit unions attempt to estimate their volume to assess potential borrowers
<i>kolkhoz</i> (pl. <i>kolkhozy</i>)	from the Russian <i>kollektivnoe khozyaistvo</i> , indicating a collective farm in the former Soviet Union, and by extension, in the former Eastern bloc
<i>kolūkis</i> (pl. <i>kolūkiai</i>)	Lithuanian for <i>kolkhoz</i> - the term is often used to indicate any type of collective farm
<i>komanditinės bendrovės</i>	so-called "mixed", or limited liability co-operatives

<i>Körungspunkte</i>	"collection points" in the former GDR where farmers would bring raw agricultural produce to be processed
<i>kvotos</i>	production quota for collective farms
<i>laža</i>	literally "stick"- from the Russian <i>barshchina</i> , indicating the compulsory tasks that serfs had to perform for free on their owners' estate
<i>Lietuvos aukščiasiasis teismas</i>	Lithuania's Supreme Court- its acronym (<i>LAT</i>) is not to be confused with <i>AT</i> , indicating the Lithuanian Supreme Council
<i>teismine tvarka</i>	literally, "by means of a judicial procedure"- expression used to indicate the only legitimate modality to deliberate on the contested property rights of restituted plots
<i>Linas</i>	literally "flax"- branch of <i>Lietūkis</i> trading in textiles in inter-war Lithuania
<i>Lietūkis</i>	umbrella organisation established in 1931 uniting processing and consumers' co-operatives
<i>Maistas</i>	literally "food"- branch company of <i>Lietūkis</i> specialising in meat and dairy distribution in inter-war Lithuania
<i>mažmeninės kainos</i> <i>mir</i> (pl. <i>miry</i>)	retail prices peasant communes established in the XV-XVI centuries. After the 1861 emancipation of the serfs, farming land was handed over to the <i>miry</i> , which in its own turn entrusted individual plots to farmers
<i>muitas</i>	import duty
<i>naudmena</i> (pl. <i>naudmenos</i>)	from the verb <i>naudoti</i> = to use -term indicating any asset or infrastructure used for agricultural production
<i>Naujoji Sajunga</i>	literally "New union"- political force started in late 1999 by former presidential candidate A. Paulauskas. Also known as Social Liberals. Together with R. Pakšas <i>Laisvės sajunga</i> (Freedom's union), it formed the <i>Naujoji politika</i> (New politics) coalition, which won the October 2000 elections
<i>negražintinės išmokos</i>	literally, "non-returnable grants"- term used whenever recipients of loans are unable to service their obligations and credit institutions retrospectively transform loans into grants to mask the creditors' insolvency
<i>nuosavybės fondai</i>	literally "ownership funds"- term indicating funds consisting of profit deductions and revenue from shares' sales used by agricultural co-operatives together with their own capital basis to service their debts with <i>lsavivaldybės</i> asset depreciation
<i>nusidėvėjimas</i> <i>nutarimas</i>	

<i>(pl. nutarimai)</i>	executive resolution, issued either by the cabinet or by a ministry under the government's supervision (in the latter case it is sometimes called <i>isakymas</i>)
<i>pajégumas</i>	literally, "capacity"- term used to indicate the ability of potential borrowers to service their obligations
<i>paslaugų išnuomavimas</i>	literally, "service lease"- term used to indicate a system whereby services on a restituted plot are leased to farmers from former collectives now landless or underemployed
<i>pajų pasirašymas</i>	literally, "underwriting of shares"- term used to indicate share subscription procedures in a share-holder co-ownership
<i>pareiškimas</i>	literally, pronouncement- term used to indicate the deliberations of governmental institutions concerning the implementation of laws and <i>nutarimai</i> - normally used in connection with the deliberations of the Supreme Court
<i>pastovieji (kaštai)</i>	fixed costs, made up largely of expenses unrelated with the volume of production. Used by credit unions to assess potential borrowers
<i>paženklinimas</i>	procedure, whereby the borders of restituted plots are made visible on the territory
<i>Pienocentras</i>	literally "the milk centre"- union of milk co-operatives in inter-war Lithuania
<i>pridėtoji vertė</i>	added value (in Lithuanian publications, <i>PVM</i> stands for VAT)
<i>rajonas</i> <i>(pl. rajonai)</i>	intermediary administrative unit. Each <i>rajonas</i> has its own municipal administration, or <i>savivaldybė</i> . In newly independent Lithuania, there are 41 <i>rajonai</i> divided into 10 <i>apskričiai</i> .
<i>rinkiminės nuostatos</i>	electoral resolutions issued by political forces at the eve of major political confrontations
<i>SAPARD</i>	EU-sponsored development program for Eastern European countries including substantial investment projects to revitalise rural areas
<i>Saulėlydis komisija</i>	literally, "Sunset commission"- commission set up by the Kubilius government in 1999 to advise the government on the dismantling of inefficient enterprises and the privatisation of utilities
<i>Saulėtekis komisija</i>	literally, "Sunrise commission"- commission set up by the Kubilius government in 1999 to advise the government on investment programs and rural development

<i>savikaino įvertinimas</i>	literally, "assessment of one's own costs"- term used to indicate the modality of evaluation of creditworthiness adopted by credit unions
<i>savivaldybė</i>	literally "self-government" - term indicating the municipal administrations of newly independent Lithuania (their inter-war counterparts were known as <i>valščiai</i>). Each <i>rajonas</i> has its own <i>savivaldybė</i> .
<i>Savivaldybinė matininkavimo taryba</i> (pl. <i>tarybos</i>)	Municipal land-surveying councils, overseeing the implementation of the guidelines of the <i>Žemėtvarkos taryba</i>
<i>Sąjūdis</i>	literally "union"- the leading political organisation in the events leading to the restoration of independence in 1990. After the March 1990 elections, it controlled the Restoration Parliament under the leadership of Vytautas Landsbergis. Its political orientation was broadly conservative and nationalistic, with a strong Christian orientation
<i>salygos</i>	literally, "circumstances" or "context"- term used by credit unions to indicate the comparative position of an enterprise against the background of its sub-sector or its geographical area
<i>Seimas</i>	Lithuania's parliament (for other countries' legislative assemblies, the term <i>parlamentas</i> is used)
<i>seniūnija</i> (pl. <i>seniūnijos</i>)	smallest administrative unit in newly independent Lithuania. There are currently 437 <i>seniūnijos</i> . Each <i>rajonas</i> approximately encompasses between five and fifteen <i>seniūnijos</i>
<i>skolintojai</i>	professional money lenders in the rural areas of inter-war Lithuania
<i>Sodyba</i>	literally "farmstead"- branch of <i>Pienocentras</i> , trading in fruits and vegetables in the late 1930's
<i>sovkhoz</i> (pl. <i>sovkhozy</i>)	from the Russian <i>sovetskoe khozyaistvo</i> , indicating a state farm in the former Soviet Union, and, by extension, in the former Eastern bloc
<i>sovarkhoz</i> (pl. <i>sovarkhozy</i>)	from the Russian <i>soviet narodnogo khozyaistva</i> , Council of the national economy- term used to indicate the regional planning committees established in the 1960's
<i>stebėtojų taryba</i>	observers' council in a co-operative (also non-agricultural ones)

<i>Steigiamasis seimas</i>	literally "the establishing parliament"- conventional Lithuanian term for the first parliament of independent Lithuania, which met in Kaunas in 1919
<i>suderintoji atskaita</i>	combined accounting- term used to indicate the joint analysis of transaction-based and cash-flow accounts
<i>supirkimo kainos</i>	buying-up or procurement prices, indicating the prices set by governmental institutions for the purchase of raw agricultural produce
<i>talonas (pl. talonai)</i>	vouchers used to acquire assets being privatised in auctions
<i>Tautininkai</i>	literally, "the supporters of the people"- main political party of inter-war Lithuania, of strongly nationalistic and populist leanings
<i>tarūkis (pl. tarūkiai)</i>	Lithuanian for <i>sovkhoz</i>
<i>Tėvynės sajunga</i>	literally, "Fatherland's union"- name taken by <i>Sąjūdis</i> after its transformation into a fully-fledged political party. Also known as <i>Lietuvos konservatoriai</i> (Lithuania's conservatives), after the October 1996 elections
<i>tikrosios (bendrovės)</i>	so-called "real", or full liability co-operatives
<i>tikslinės paskolos</i>	literally, "target loans"- credit extended by governmental institutions to agricultural co-operatives to help them maintain financial stability
<i>trys-hektarininkai</i>	term coined in 1991-92 to indicate the owners of plots measuring 2-3 hectares
<i>ukaz</i>	Russian for edict. the term is used especially for edicts issued under the Tsarist regime
<i>užginčimas</i>	literally "contestability"- a plot of restituted land is particularly "contestable" if more applications are filed for its restitution or the choice of recipient is challenged
<i>užstatas</i>	1) pawn; 2) collateral for a loan; 3) mortgage on real estate
<i>vienkiemis</i>	subsistence farming units located in isolated areas. The term refers only to the post-1990 period
<i>(pl. vienkiemiai)</i>	individual farming unit in inter-war Lithuania
<i>vienūkis (pl. vienūkiai)</i>	executive board in a co-operative (also in non-agricultural co-operatives)
<i>vikdomoji taryba</i>	literally "Unity"- political party representing the interests of the Russian and Polish minority in 1990-1991
<i>Edinstvo</i>	organ of local government established in Tsarist Russia after the emancipation of the serfs in 1861
<i>zemstvo (pl. zemstva)</i>	Lithuanian Chamber of Agriculture, established in Kaunas in 1931 and revived after the restoration of independence in 1990
<i>Žemės ūkio rūmai</i>	

<i>Žemėtvarkos taryba</i>	Land exploitation council- entity overseeing the implementation of the government's land reform plans
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Index of acronyms

AT	<i>Aukščiausioji taryba</i> - Supreme Council or Soviet- highest legislative body in Soviet Lithuania
CEEC's	Central and Eastern European countries
CAP	Common Agricultural Policy
CSE	Consumers' Subsidy Equivalent
ELTA	Lithuania's main news' agency
FAPM	<i>Fizinių asmenų pajamų mokesčis</i> - Tax on the income of physical persons
JAPM	<i>Juridinių asmenų pelno mokesčis</i> - Tax on the profit of legal persons
KP	<i>Komunistinė partija</i> - the Soviet Communist Party- the only legal political force in Lithuania from 1944 to the establishment of <i>Sąjūdis</i>
KRF	<i>Kaimo remimo fondas</i> - Village support fund. The main governmental fund for the support of rural areas
KTU	<i>Kauno technologijos universitetas</i> - Kaunas Technological University
KŽŪA	<i>Kauno žemės ūkio akademija</i> -Kaunas' Agricultural Academy. Despite being upgraded into a full University in 1998, the previous denomination is still used see under ŽŪR
KŽŪR	<i>Lietuvos aukščiausiasis teismas</i> - Lithuania's Supreme Court
LAT	<i>Lietuvos aukščiausiasis teismas-Civilinių bylų skyrius</i> . Civil Litigation Department of Lithuania's Supreme Court
LAT-CBS	
LDDP	<i>Lietuvos demokratinė darbo partija</i> - Lithuania's Democratic Labour Party. Denomination taken by the LKP in 1992
LII	Lithuanian Information Institute
LKP	<i>Lietuvos komunistinė partija</i> - Lithuanian Communist Party- political force established in 1990 in opposition to the pro-Russian Communist Party (KP), which opposed the proclamation of independence
LKU	<i>Lietuvos Kredito Unija</i> - Lithuania's Credit Federation. Umbrella organisation including a substantial proportion of Lithuanian credit unions operating in rural areas

LPG	<i>Landwirtschaftliche Produktionsgenossenschaften</i> - Eastern German agricultural co-operatives
LR	<i>Lietuvos Respublika</i> - Lithuanian Republic, added before major legislative documents (such as the Constitution or the Civil Code)
LSD	<i>Lietuvos statistikos departamentas</i> - Lithuania's Statistics Department
LSSR	Lithuania's Soviet Socialist Republic
LTSR	<i>Lietuvos tarybinė socialistinė respublika</i> - Lithuanian version of LSSR
MRSK	<i>Minimalios ribinės supirkimo kainos</i> - literally, "Minimal limit buying-up prices". This acronym indicates a system of set procurement prices for a number of raw agricultural products established over the 1992-96 period
Mž	<i>Mokesčių žinios</i> - literally "Fiscal news", official government publication including all fiscal legislation and <i>nutarimai</i> with relevant commentaries. Cfr. Bibliography, Part II
NMP	Net Material Product
NS	<i>Naujoji Sajunga</i> - New Union. A. Paulaskas' political party, started in 1999
NŽŪP	<i>Nacionalinė žemės ūkio programa</i> - National agricultural program. This acronym indicates the on-going agricultural reform strategies adopted by successive governments after 1992 to the present day
PNM	<i>Pagrindinis neapmokestinamasis minimums</i> - Basic non-taxable income (for its determination, cfr. Section 5.2)
PSE	Producer Subsidy Equivalent
PVM	<i>Pridėtinės vertės mokesčis</i> - Value Added Tax, VAT
SMT	<i>Savivaldybinė matininkavimo taryba</i> - Municipal land-surveying council
SPPR	<i>Seimo posėdžių pažodinis rekordas</i> - Word-for-word transcription of the Seimas' sessions
SSR	Soviet Socialist Republic
TS-LK	<i>Tėvynės sajunga-Lietuvos konservatoriai</i> . Fatherland's Union-Lithuania's Conservatives. Denomination taken by <i>Sajūdis</i> when becoming a party in 1992
TSR	<i>Tarybinė socialistinė respublika</i> - Lithuanian version of SSR
VMI	<i>Valstybinė mokeščių inspekcija</i> - National Tax Inspectorate, known for its <i>raštai</i> , commentaries on the content and the implementation of fiscal legislation (often quoted in Bagdonavičius, 1998)

VŽ	<i>Valstybės žinios</i> - literally, "State news". Official governmental gazette including all new legislation and <i>nutarimai</i> , which come into effect as of the day they are published. Cfr. Bibliography, Part II
ŽRS	<i>Žemės reformos skyrius</i> -Land reform department established in 1996 to simplify the lengthy legal proceedings necessary to contest ministerial resolutions on the restitution of land
ŽŪB	<i>Žemės ūkio bankas</i> - Lithuania's Agricultural Bank
ŽŪBU	<i>Žemės ūkio bendrovių unija</i> - Federation of Agricultural Cooperatives in inter-war Lithuania
ŽŪM	<i>Žemės ūkio ministerija</i> - Lithuania's Agriculture Ministry
ŽŪR	<i>Žemės ūkio rūmai</i> - Chamber of Agriculture based in Kaunas (sometimes abbreviated as KŽŪR)