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Land Policy and Economic Development in Lithuania

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Land Policy and Economic Development in Lithuania

Abstract

Land reform and asset privatization are essential to the transformation of agriculture from a state controlled to privately operated sector and to its future development in a market oriented economy. Although these are necessary conditions for economic development under a market oriented regime, they are not sufficient conditions. In this paper we review the progress achieved in farm restructuring through land reform and asset privatization and the impacts of this restructuring on the structure of farming and production in Lithuania. We then elaborate the main conditions for sustainable agricultural development in a market economy.

Keywords

Agriculture, Policy, Economic Development

Disciplines

Agricultural and Resource Economics | Agriculture | Economic Policy | Growth and Development

Land Policy and Economic Development in Lithuania

Natalija Kazlauskiene and William H. Meyers

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LAND POLICY AND ECONOMIC DEVELOPMENT IN LITHUANIA

Introduction

Land reform and asset privatization are essential to the transformation of agriculture from a state controlled to privately operated sector and to its future development in a market oriented economy. Although these are necessary conditions for economic development under a market oriented regime, they are not sufficient conditions. In this paper we review the progress achieved in farm restructuring through land reform and asset privatization and the impacts of this restructuring on the structure of farming and production in Lithuania. We then elaborate the main conditions for sustainable agricultural development in a market economy.

Land Reform

The post-communist agrarian reform in Lithuania started in 1989, when under provisions of the Peasant Farm Law, more than 5,000 individual farms were established in the country, setting the precedent for introducing alternative farming forms based on economic incentives, private operations, and the right to use and inherit land. In January 1992, these farms had an average size of about 16.5 hectares and used approximately 2.2 percent of the agricultural land in the country. Starting in relatively favorable economic conditions, prior to price liberalization and high inflation, and being few in number and eligible for government support and special credit provisions to new farmers, these farms as a rule turned out to be the strongest and most viable. The next step in land reform was taken in the summer of 1990, when personal subsidiary (household) plots, used by the rural population to produce food and provide additional income, were allowed to increase from 0.5 hectare to 2 (for rural nonagricultural employees) to 3 (for agricultural employees) hectares. In 1992 these personal plots accounted for 20 percent of total agricultural land. And finally, large-scale land reform started in 1991, after Lithuania officially regained its independence as a state and took steps to re-establish true private farming.

Among the series of laws adopted to regulate reforms in the agricultural sector, the main ones were the Law on the Restitution of Private Ownership for Existing Property, the Law on Land Reform, and the Law on Privatization of the Property of Agricultural Enterprises. The first law set up the procedures for the actual denationalization of the countryside, recognizing the legal right of former (pre-World War II) owners and their heirs for their once-nationalized property, including land. The other two laws provided

the basis for fundamental changes in ownership forms, ownership relations, the creation of family farming, and the reorganization of large-scale state and collective farms into privately owned and supposedly more viable, manageable production entities.

The basic principles guiding the process of land reform were the following.

- Only private individuals and the state could own land. Legal entities were excluded from land ownership.
- Initially, land could be acquired for ownership in two ways: by restoring property rights to former owners who are currently citizens of Lithuania or by purchasing it from the state.
- Individuals or legal entities could lease land from the state or other land owners for their agricultural activities.
- For restitution purposes, the maximum area of privately owned land was set at 80 hectares, including 50 hectares of agricultural land.
- The state formed a special “fund” of land excluded from privatization and set it aside for construction of roads, expansion of cities, and similar activities.
- Former owners had priority in acquiring the land for agricultural purposes.

According to the law, the right of land ownership was restored based on the applications of former owners or legal heirs. The government could do this in three different ways:

1. Provide the same plot of land owned prior to land nationalization,
2. Provide a corresponding plot of land in the same area or in the current place of residence, or
3. Provide compensation.

In the beginning of land reform, the government imposed restrictions on farm size and land use. This significantly affected the way the whole reform was conducted. The land could not be sold or leased for a period of five years, and had to be used exclusively for agricultural production. Later, recognizing that these restrictions resulted in slowing down land reform and the whole agrarian reform, the five-year restrictions were lifted in May 1992 and local authorities were given responsibility to approve land use changes. Also, the restitution application deadline was initially December 31, 1991, but was extended to April 1992 when the list of eligible heirs was also extended to include grandchildren.

In the restitution claims, former owners were given a certain flexibility in making decisions about farming. They could start private farming right away (in the spring of 1992), lease the land to newly created agricultural companies, postpone actual farming for five years, or get compensation. Rural inhabitants who did not own land before the postwar nationalization were given the opportunity to purchase land from the state at predetermined prices, depending on location and soil quality. Farms established under provisions of the 1989 law were not directly affected by the restitution of property rights

to former owners. However, the land use rights granted under the 1989 law created tension and conflicts in the countryside, since some of this land was claimed by former owners or their descendants.

The course of the reform revealed problems which had to be resolved in order to speed up the reform. There were four main issues that contributed greatly to these problems:

1. In many cases claims were not in the original location of land property, but in the current residency of claimants. This situation resulted in a shortage of land in some regions, especially with fertile soils or close to large urban centers.
2. There was a general lack of agricultural land for restitution: 50 years of industrialization naturally decreased the area of agricultural land, and additional territory was allocated by the Ministry of Construction for future expansion of the main cities.
3. The expansion of household plots to 2 or 3 hectares with the later extension of land use rights in some cases conflicted with the restitution of land rights of former owners.
4. The reorganized state and collective farms were operating in complete uncertainty about their land size as long as the privatization of land was still in process.

These and many other conditions required amendments to the Law on Land Reform. The first amendments were introduced in the summer of 1993, offering alternate and more attractive compensation to former owners in the form of forests, monetary compensation, and land for private dwelling construction in both rural and urban areas. The amendments were aimed at clarifying the system of environmental protection and other land management restrictions. The main amendments on land reform include these described here.

- Summer 1993: Amendments to the Law on Land Reform came into force and introduced alternative, more attractive compensation to former owners.
- April 1994: A new law regulating land use in Lithuania was passed that defined the structure of land tenure and the rights and responsibilities of legal land owners.
- Summer 1995: Land in household plots became eligible for privatization by current users. They can buy it from the state with cash or compensation vouchers.

As stated in the general provisions of the April 1994 law, land has to be used in compliance with the active legislation of the Republic of Lithuania and has to be aimed toward “. . . preservation and improvement of the natural environment and rational use of land resources.” This law defined the broad structure of land tenure, the rights and responsibilities of legal land owners and users (private individuals, groups, and the state), and generally authorized the sale, lease, mortgage, and other disposition of land by owners. It also formulated the role of the government in land use regulation. According to this, the government is involved in “. . . formulation of special provisions on land use, restrictions on certain activities and land use or changes in the initial land use purposes.” Within the framework of this law, the

Ministry of Agriculture is responsible for supervising the institutions that maintain and update land registration and prepare land use plans and maps, and monitor land use assigned for particular purposes and in compliance with the law on environmental protection.

Nonland Asset Privatization

Although the principle of restitution of ownership rights to formerly owned land dominated the land reform process, this principle did not fully apply to the privatization of nonland assets. Rather, the main principle was to transfer ownership of nonland farm assets to current and former members of collective farms and employees of state farms.

The formal process of privatization of large-scale farming assets started in late 1991, when state and collective farms were abolished as an organizational unit, and was practically completed by the end of 1993. Upon their abolition they became “enterprises under liquidation” and were assigned temporary administrators to work out and implement the asset privatization and restructuring plans. These large-scale farms (about 2000 hectares of agricultural land on average) were subdivided into smaller technical production and service units on the basis of the Law on the Privatization of Agricultural Enterprise Property and the Law on Agricultural Companies.

The assets of state and collective farms were evaluated according to established procedures. This value was distributed among former and current members of the farms in the form of special agricultural investment vouchers. The individual value of assets received depended on the person’s age, number of years worked on the farm, and the individual’s property that had been nationalized during the collectivization period. After vouchers were allocated, they could be invested in a family farm or pooled with those of other investors to acquire assets, through auctions, in a production unit. These production units were then organized in a variety of combinations for joint operation to create different forms of agricultural companies. The production units’ forms of organization and management were regulated by the Law on Agricultural Enterprises. The initial reorganization process was nearly completed by the end of 1993.

Even now, the process of large-scale farm reorganization continues through the movement of shares within the enterprises, enterprise splits and mergers, bankruptcies, and changes in specialization.

Structural Changes

Number and Size of Farms

As a result of land reform and farm asset privatization, there have been significant changes in the

number and sizes of farms, in land ownership and use distribution among different groups of agricultural producers, and in the structure of production. In 1991, prior to these reforms, there were 1,212 state and collective farms with an average size of 2,535 hectares, 2,300 “peasant law” family farms with an average size of 15.4 hectares, and 465,800 household plots with an average size of 0.7 hectares (Table 1). In 1993, the first year after restructuring laws came into effect, there were 4,300 large-scale farms with an average size of 400 hectares, 71,500 family farms averaging 8.2 hectares, and 413,100 household plots averaging 2.1 hectares. The trend in structural change is continuing, as the number and size of large-scale farms declines and the land continues to move into use by family farms. By January 1996, there were only 2,600 large scale farms, while the number of family farms had increased to 165,800.

Table 1. Dynamics of number of agricultural land users and farm size in 1991-1996, January 1

Type of farm	1991	1992	1993	1994	1995	1996
State and collective	1212	1219				
Average size, ha.	2535	2040				
Agricultural companies, thou.			4.3	3.5	2.9	2.6
Average size, ha.			398.5	385.2	334.0	269.8
Family farms, thou.	2.3	5.1	71.5	111.5	134.6	165.8
Average size, ha.	15.4	14.2	8.2	7.5	7.1	6.6
Household plots, thou.	465.8	479.0	413.1	404.0	396.7	378.4
Average size, ha.	0.7	1.9	2.1	2.1	2.1	2.2

Source: *Statistical Yearbook of Lithuania* 1991, 1992, 1993, 1994, 1995, 1996, Lithuanian Department of Statistics.

The distribution of family farms by size shifted dramatically starting in 1993 when restitution was proceeding rapidly. Of the “peasant law” farms established before 1993, nearly 28 percent were larger than 20 hectares (Table 2). From 1993 onward, the share of farms in this size group was under 10 percent. The share of farms ranging from 3 to 20 hectares remained near 70 percent throughout the period. Similarly, the size distribution of agricultural companies shows the increasing importance of the smaller sized farms. By 1995, nearly 69 percent were under 500 hectares and about 20 percent were between 500 and 1,000 hectares (Figure 1).

Table 2. Distribution of family farms by size

Farm groups by size	1992	1993	1994	1995
	percent			
Under 3 ha.	3.9	20.6	20.1	19.6
3.1 - 10 ha.	19.5	48.9	48.2	48.1
10.1 - 20 ha.	49.0	22.0	22.4	22.6
20.1 - 30 ha.	17.6	5.7	6.0	6.2
Over 30.1 ha	10.0	2.8	3.3	3.5
Total.	100.0	100.0	100.0	100.0

Source: Department of Land Reform, Lithuanian Ministry of Agriculture.

Land Use and Ownership

In 1991, prior to the reforms, state and collective farms used 89.7 percent of agricultural land, 8.9 percent was used by household plots and 1 percent by “peasant law” family farms (Figure 2). By January 1, 1993, agricultural companies farmed 51.9 percent of total agricultural land, family farms used 17.9 percent, and personal household plot holders used 25.9 percent. (The increase in land used by household plots occurred mostly in 1992 due to the increase in permitted size from 0.5 hectare to 2 to 3 hectares.) As the result of continued restructuring since then, the share of land used by agricultural companies declined to 23.9 percent by January 1, 1996, while the share used by family farms rose to 37.2 percent and that of household plots remained stable (Figure 3).

Changes in land use patterns were accompanied by changes in production patterns. In the pre-reform period most grain, sugar beets, flax, and meat were produced by state and collective farms (Table 3). However, household plots produced most potatoes and vegetables as well as a significant share of milk. With the re-establishment of family farming and restructuring of state and collective farms, the distribution of production changed dramatically. By 1993, the share of crop production from family farms had increased from an insignificant level to about one-third for grain, sugar beets, vegetables, and potatoes. The family farm share of livestock numbers increased but to a lesser extent, since livestock activities require more capital investment. With the increased size of household plots, their shares in production of most major crops and in livestock number increased between 1990 and 1993. During the same period, as land, animals, and labor shifted from large-scale farms to smaller operations, the shares of crop production and livestock numbers in agricultural companies decreased.

Table 3. Shares of different forms in agricultural activities in 1990 and 1993

	1990			1993		
	State and collective farms	Family farms	Household plots	Agricultural companies	Family farms	Household plots
	percent					
Crop production						
Grain	90.6	0.8	8.6	45.4	34.7	19.8
Sugar beets	99.0	0.9	0.0	50.9	31.5	17.6
Flax	99.0	0.9	0.1	76.5	17.7	5.8
Potatoes	26.2	0.9	72.9	5.1	27.6	67.3
Vegetables	40.6	0.9	58.5	6.4	32.7	60.9
Livestock number ^a						
Cattle total	76.2	0.4	23.4	60.4	2.8	36.8
Dairy cows	60.1	0.5	39.4	34.3	14.7	51.0
Pigs	80.7	0.4	18.9	54.6	9.2	36.2

^aAs of December 31

Sources: Lithuanian Ministry of Agriculture 1996; Lithuanian Department of Statistics 1996.

The data for 1995 indicate that these tendencies continued, except for pig numbers, over half of which still remain in agricultural companies that continue to use the large pig production facilities that were privatized (Table 4). Except for pigs, small-scale farms dominated all crop and livestock activities by 1995. Although household plot production has experienced the highest rate of growth since the reforms began, their future growth potential is limited by their small land size. In order to expand production significantly, a household plot holder would have to acquire additional land and thus enter the category of family farms. The number and output of the remaining agricultural companies continues to decline. The majority of the agricultural companies have not been successful in adjusting to new market conditions and may not be viable in their present form. The existing laws provide flexibility for these farms to shed labor, choose new organizational forms and sizes, merge with other companies, or dissolve completely. Thus, the restructuring process is likely to continue with large-scale farms declining in number and family farms gaining in size and importance in aggregate production.

Table 4. Shares of different forms in agricultural activities in 1994 and 1995

	1994			1995		
	Agricultural companies	Family farms	Household plots	Agricultural companies	Family farms	Household plots
	percent					
Crop production						
Grain	39.7	39.2	21.1	34.5	29.7	35.8
Sugar beets	50.0	37.4	12.6	44.6	33.4	22.0
Flax	54.5	40.9	4.6	47.6	37.2	15.2
Potatoes	2.1	26.7	71.2	1.4	12.2	81.4
Vegetables	5.7	29.8	64.5	5.1	24.2	70.7
Livestock number*						
Cattle total	44.6	14.9	40.5	38.4	16.8	44.8
Dairy cows	28.2	17.7	54.1	23.3	19.5	57.2
Pigs	55.4	10.5	34.1	57.6	11.1	31.3

*As of December 31

Sources: Lithuanian Ministry of Agriculture 1996; Lithuanian Department of Statistics 1996.

Family farms seem to be the most dynamic and promising farming form in Lithuania in spite of their current small size and the financial and other difficulties they experience. The small farm size reported by most statistics shows that ownership is more fragmented than operational units. Data available for 1995 (Table 5) show that family farms account for about one-third of the land leased from the government and that family farms on average cultivate more than twice as much land as they own. These data indicate that the number of operating farms are about one-third of the total registered farms whose land restitution claims have been settled. For this reason the average size of operation in 1995 was about 18 hectares compared with 7.1 hectares when all registered farms are included.

On average, family farms have planted most of their land to grains and feed crops (Table 6). Most of them have one or more cows and pigs, and the average number of animals per farm has been about 2.5 cattle and 2 pigs. Most of these farms sell some produce commercially.

Structure of Production

Farm restructuring was one of the factors that contributed to a decline in aggregate production, but the main reasons for this decline were reduced domestic and external demand, lack of credit

Table 5. Land ownership and use as of January 1, 1995

Type of farm	Owned	Leased	Operated	Average size	
				Owned	Operated
		1000 hectares		hectares	
Household plots	833.8	0.0	833.8	2.1	2.1
Family farms	426.0	532.0	958.0	8.0	18.1
Peasant law farms	69.9			13.9	
Other family farms	356.1			7.4	
Agricultural companies	0.0	935.4	935.4	0.0	399.7
Other users of state land	0.0	218.4	218.4	0.0	2.7
State	1,712.4	0.0	26.6	122.6	122.6
Summer gardens	16.7	0.0	16.7	0.1	0.1
Total	2,988.9	1,685.8	2,988.9		
		percent			
Household plots	27.9	0.0	27.9		
Family farms	14.3	31.6	32.1		
Peasant law farms	2.3				
Other family farms	11.9				
Agricultural companies	0.0	55.5	31.3		
Other users of state land	0.0	13.0	7.3		
State	57.3	0.0	0.9		
Summer gardens	0.6	0.0	0.6		
Total	100.0	100.0	100.0		

Source: Department of Land Reform, Lithuanian Ministry of Agriculture 1995.

resources, and the cost-price squeeze. The largest decline was in meat production, which in 1995 was only 33.5 percent of the 1989 level (Figure 4). Milk production declined to 56.6 percent of the 1989 level (Figure 5). Grain production declined at a lower rate (to 60 percent of the 1989 level) than meat production because grain imports were partially replaced by domestic production (Figure 6). The decline in meat and dairy production was a combination of reduced animal numbers and productivity. In the case of grains, the decline was primarily due to lower average yields rather than area reductions (Figures 7 and 8). These yield declines were consistent across different types of farms. Lower yields were related to a dramatic decline in input use as well as unfavorable weather conditions in 1992 and 1994. The changing distribution of production from large-scale farms to family farms and household plots reflects the effects of restructuring on land use and animal numbers. Future output prospects will be determined primarily by

growth in domestic and external demand and government macroeconomic and sector policies.

Table 6. Main characteristics of family farms

Characteristics	1992	1993	1994	1995
	average hectares per farm			
Area planted	4.70	6.30	7.10	8.30
Grains	2.80	3.90	4.40	4.90
Potatoes	0.20	0.30	0.30	0.30
Vegetables	0.03	0.06	0.07	0.10
Sugar beets	0.06	0.09	0.09	0.10
Flax	0.06	0.01	0.03	0.08
Feed crops	1.50	1.90	2.30	2.70
	average number per farm			
Animals ^a				
Cattle	3.20	2.50	2.40	2.50
Cows	1.70	1.50	1.50	1.60
Pigs	2.00	1.70	1.90	2.00

^aAs of December 31.

Source: "Indicators of Family Farms in 1995," Lithuanian Department of Statistics 1996.

Conditions for Sustainable Development

A well functioning land market is essential to the future development of agriculture. The only remaining legal constraint to land ownership is that legal entities are not yet permitted to own agricultural land. This restricts agricultural companies' and private farmers' access to credit, reduces investment incentives while increasing risk for agricultural companies, and slows the development of the land market. The institutional structure for such things as land transactions and mortgages needs to be developed. Current land registration offices deal mainly with land ownership restitution and have limited capacity to deal with the broad range of land transfer issues. A mortgage bank is still in the process of being established.

In order to support the development and healthy functioning of private farming, a network of commercial, technical, and financial institutions needs to be developed. Such a network includes agricultural research centers, advisory services, market information systems, grade and standards systems, and competing financial intermediaries.

With the increasing international integration of the Lithuanian food and agricultural sector,

competitiveness and efficiency of the sector are crucial. Building a competitive industry requires the completion of privatization of upstream and downstream enterprises, improvements in efficiency and quality throughout the marketing chain, and a well developed marketing and quality control infrastructure. New private enterprises should also be free to enter the input supply and output processing and distribution industries. The best way to avoid the exercise of monopolistic and monopsonistic power by the large, existing enterprises is to allow free entry and exit and to minimize the protection of these enterprises from foreign and domestic competition.

Integrated rural development with a view to future integration with the European Union needs to have a high priority. At some point, there will be significant reductions in farm employment. New partnerships and privatized enterprises are not obliged to employ members or shareholders and have to shed labor in order to survive. Social safety net programs, as well as retraining and job placement programs, will be needed to help ease this adjustment. Policies that support the development of small-scale, rural enterprises would also help to absorb these displaced workers by creating new jobs in the rural areas.

A consistent and stable medium-term domestic market and foreign trade policy framework is needed to guide private and government decision makers in the food and agricultural sector. As long as future policy directions remain uncertain, it is difficult for decision makers to make consistent and well-informed short- and long-run operational and investment decisions. As farm and processing enterprises are in the process of restructuring, the current and prospective policy environment will have an effect on decisions that are made. For example, if a highly protective policy were adopted now and firms adjusted their organization and behavior to this policy, there would be another difficult adjustment if the protection measures were removed later.

Regardless of the price and trade policies selected for food and agricultural products, it is important to develop and maintain both a stable macroeconomic environment and well-functioning financial institutions. Adjustments in the food and agricultural sector will be less difficult and the policy constraints less severe if the general economic environment is more benign. As has often been the case in other countries, policies in other sectors of the economy can be of equal or greater importance than policies in the sector itself.

If policies neither preclude nor provide special incentives to develop particular types of farms, various farming forms could evolve from the large-scale farms, the smaller groups that split from cooperatives, or from individuals that accumulate land and production assets through lease and/or purchase. There is no reason why large-scale farms, small part-time farms, and full-time family farms

cannot coexist. If group farming does not prove to be viable in the long term, it is at least an important stage in the transition for most countries. These large partnerships could evolve toward corporate farms or toward one or more private farms. In any case, Lithuania is likely to have a wide range of farming forms that vary in size, ownership, and management for the foreseeable future. It is important that the government allow economic forces to direct the changing structure of farming to the maximum extent possible so that the strongest and most competitive forms develop.

In a market economy, the transition never comes to an end. In Western Europe and North America, farm size and structure continue to evolve in response to market, policy, and technological factors. While these changes are less pervasive and traumatic than those currently underway in the transition economies, they demonstrate that adjustment and transition are continuing processes.

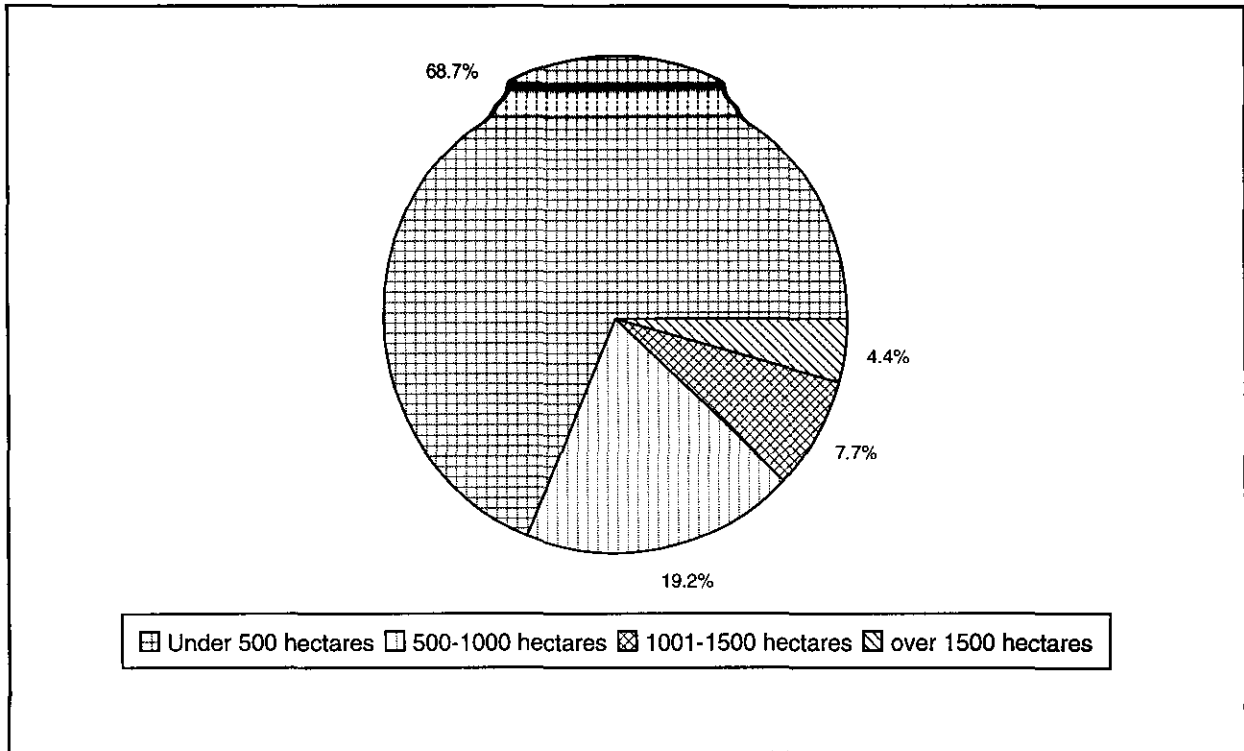


Figure 1. Size distribution of agricultural companies in 1995

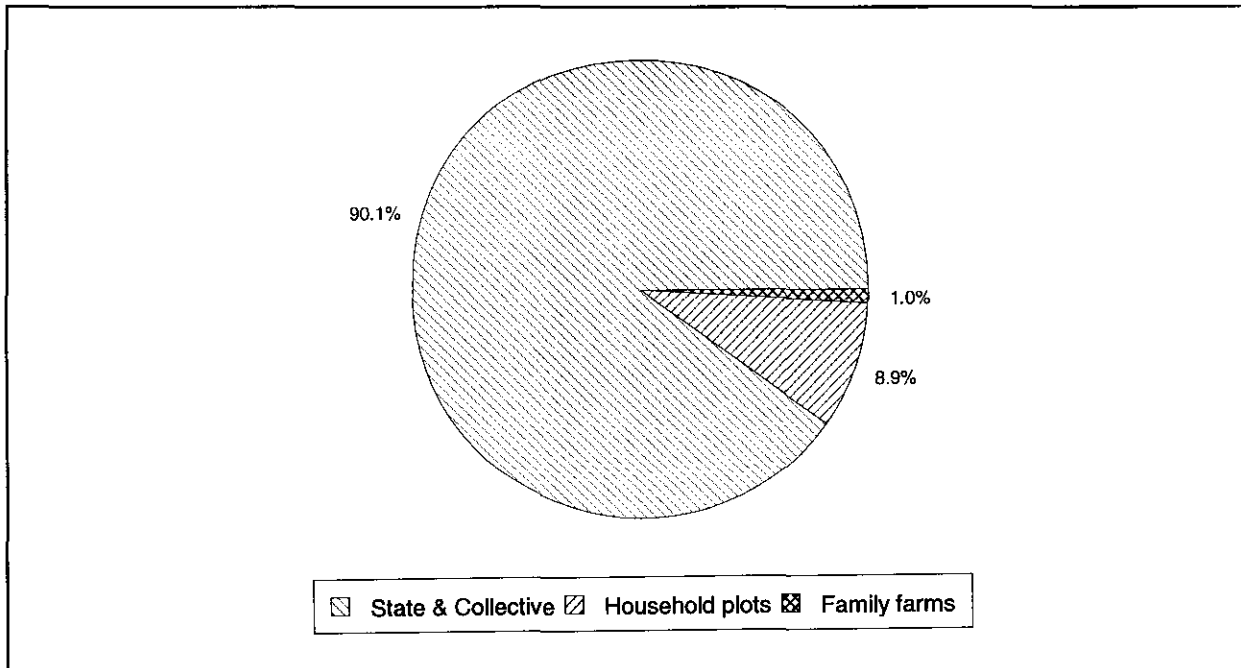


Figure 2. Distribution of agricultural companies, January 1, 1991

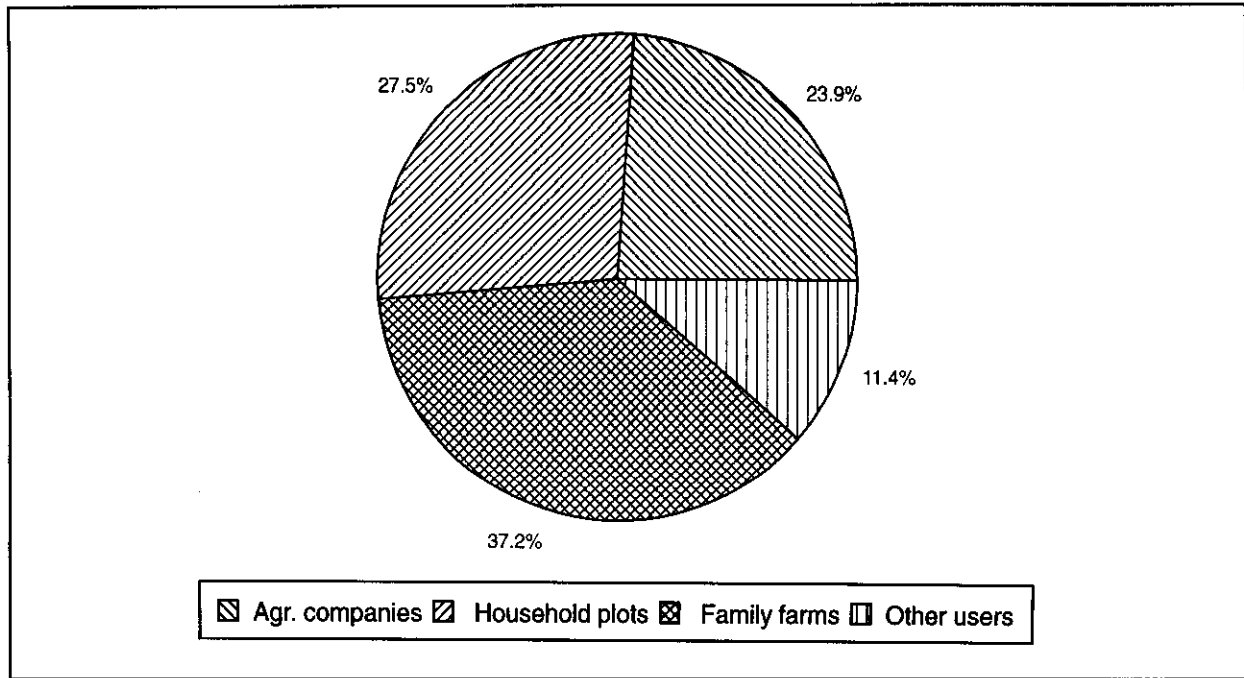


Figure 3. Distribution of agricultural companies, January 1, 1995

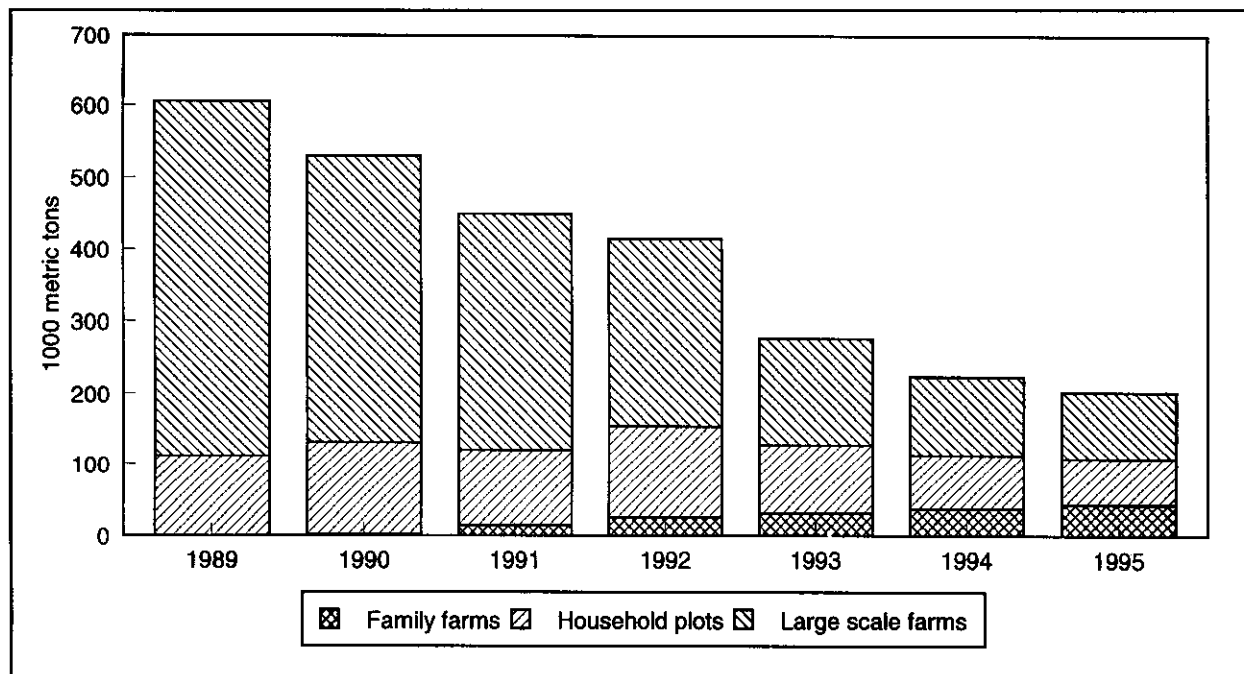


Figure 4. Meat production by farm type

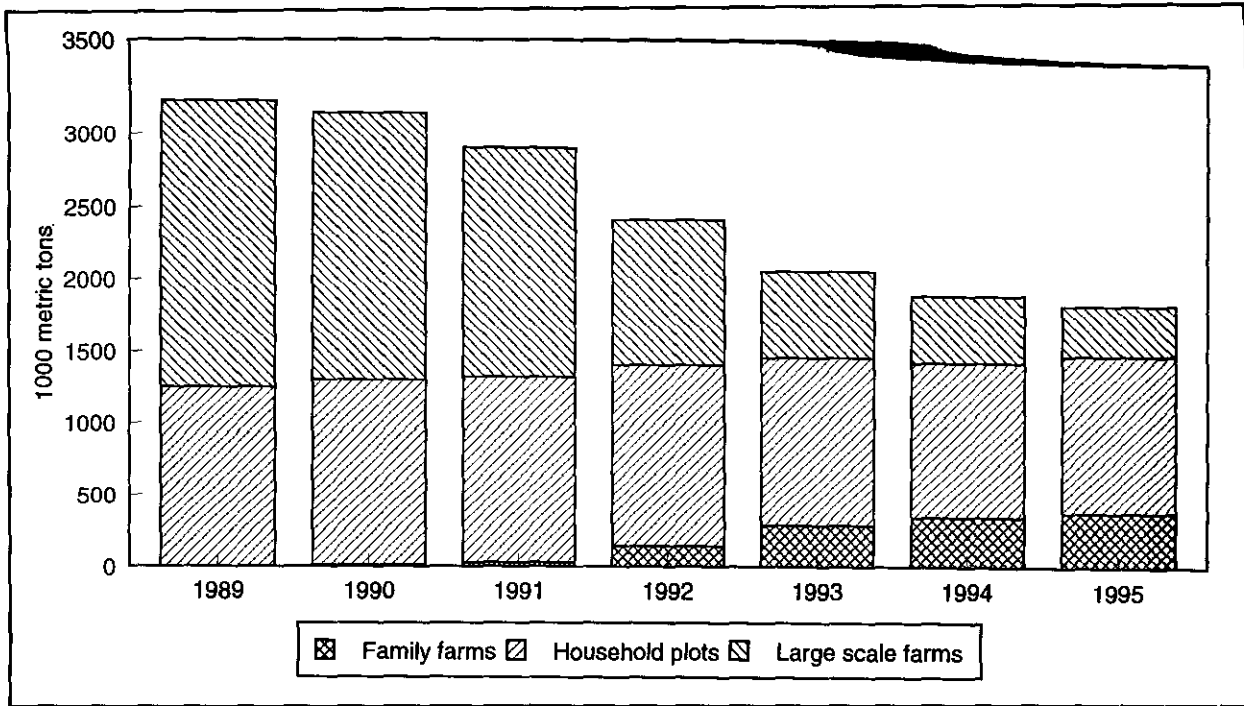


Figure 5. Milk production by farm type

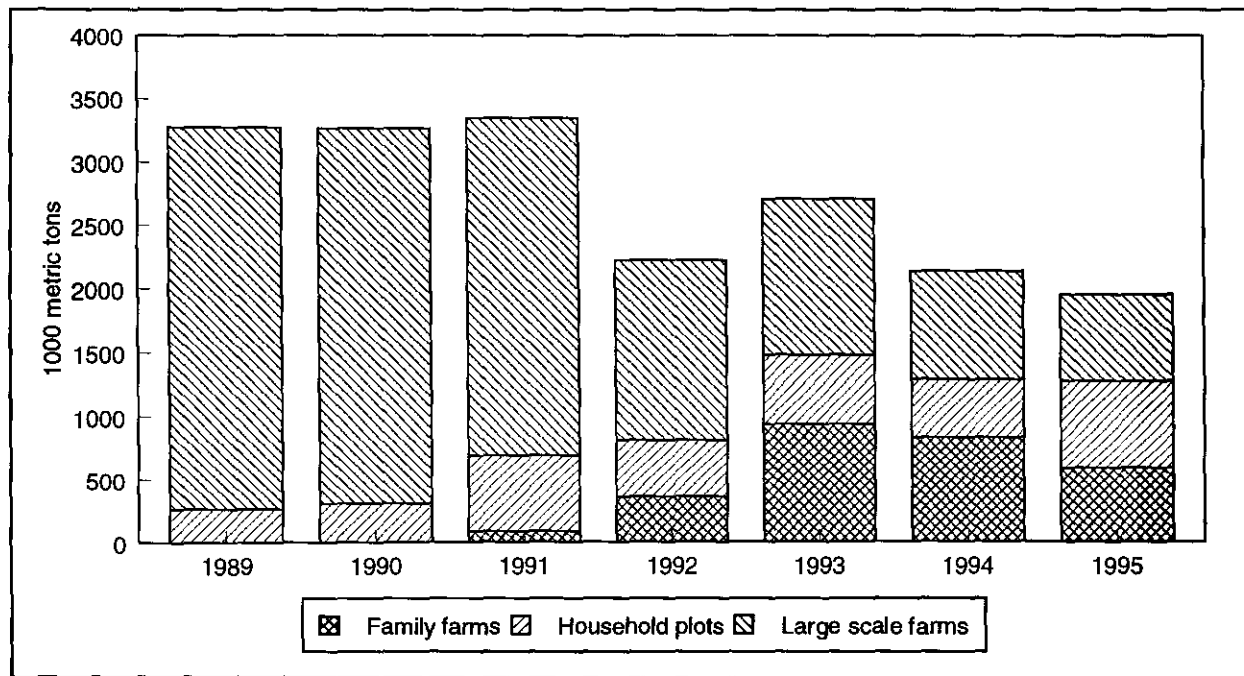


Figure 6. Grain production by farm type

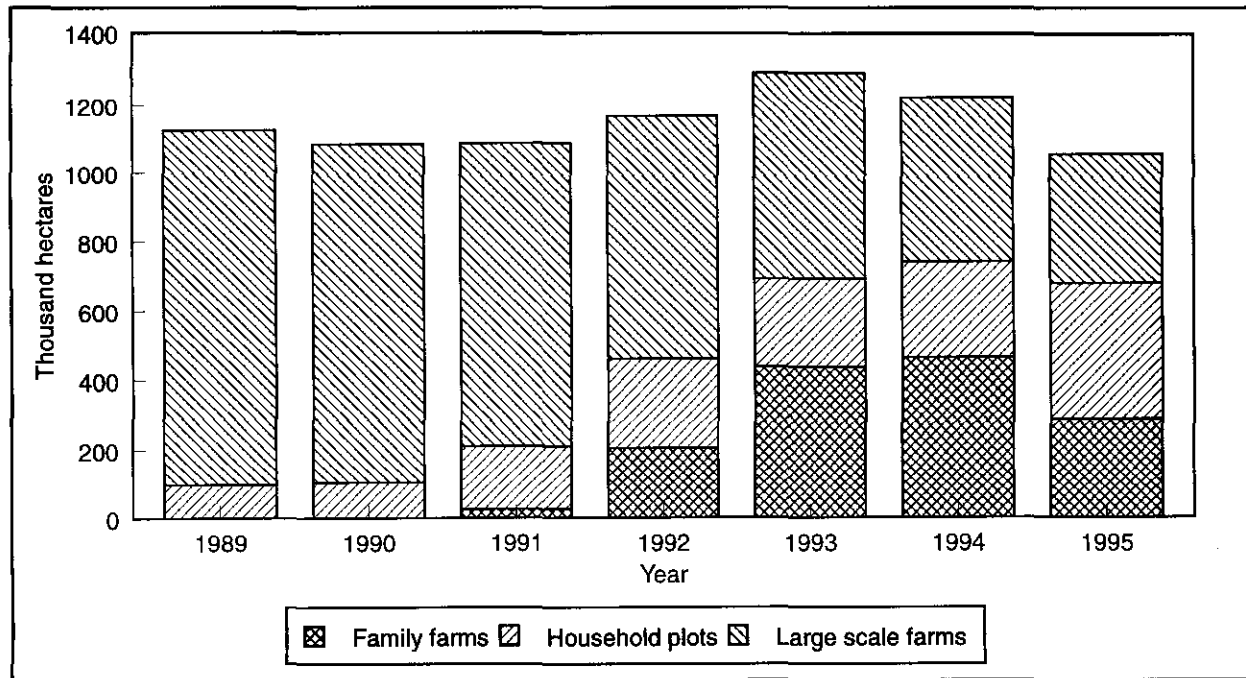


Figure 7. Grain area by farm type

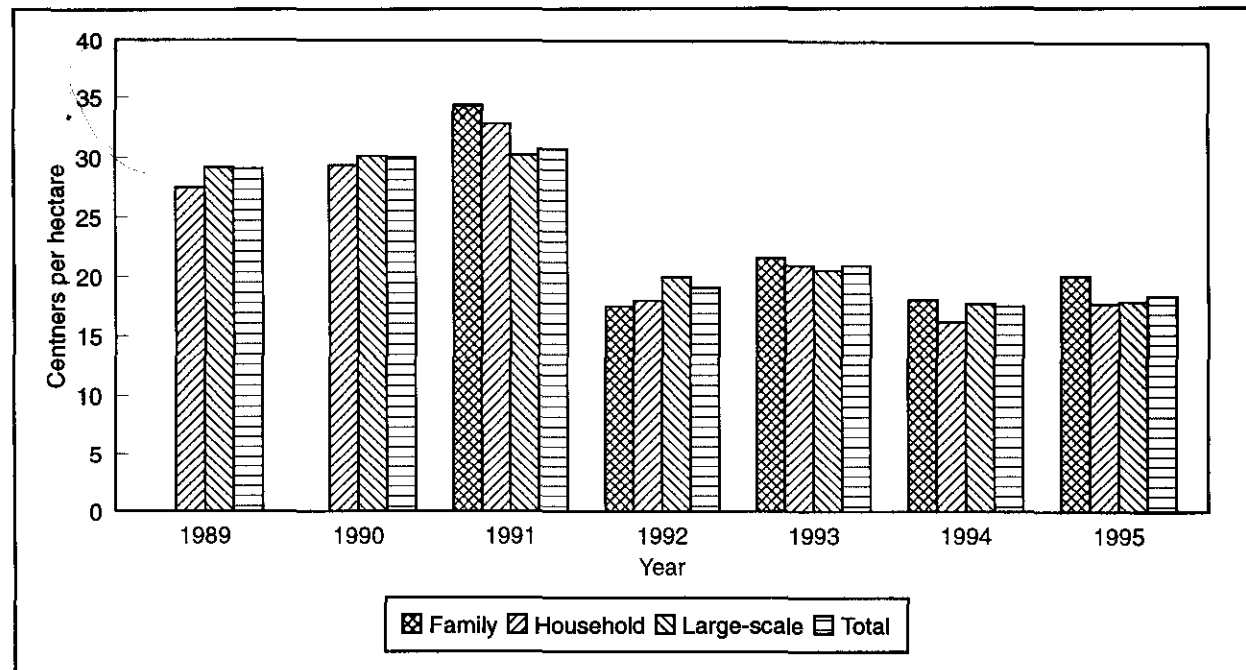


Figure 8. Average grain yield by farm type

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