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## PRIVATIZATION IN LITHUANIA

### GENERAL OVERVIEW OF ECONOMIC REFORMS

Following the occupation of Lithuania by the Soviet Union in 1940 all industrial property and real estate was nationalized, the agricultural sector was collectivized and a command economy was introduced, leading to a heavily industrialized structure with emphasis on large - scale, highly - specialized enterprises operating under the central planing system. In March 11, 1990 Lithuania has regained independence. Since that time, the Governments ' s strategy has been to create the logical and institutional frameworks required to implement policies of privatization and restitution, establish a market price system, preserve fiscal stability, encourage the development of the financial sector, introduce a system of reemployment support, and initiate various others social and economics reforms. However, the heavy dependence of the Lithuanian economy on the republic of the Commonwealth of Independent States (CIS) as sources of raw materials and markets for produced goods, as well as continued reliance on the ruble as a medium of exchange, has created several difficulties for the transformation effort. Political and economic instability within the ruble area the USSR - imposed economic blockade in the summer of 1990, and the imposition of trade restriction have resulted in a large cumulative decline in output during recent years. The loss has been compounded since late 1991 by the shift in the prices of oil and other traded goods towards world market levels. This is causing a sharp rise in the average price of Lithuania ' s imports relative to the average price of country exports.

In 1992, the decline in real gross domestic product (GDP) accelerated, owing primarily to disruptions in trade with the CIS republics and the impact of the sharp deterioration in the terms of trade. It is estimated that real GDP fell more then 35 percent if comparing 9 months of 1991 with 9 months of year 1992. Open unemployment reached 21 thousand workers, or more than 1 percent of the labor force, as of October 1, 1992.

Lithuania has taken a series action during 1991 and 1992 to eliminate price controls from most products and subsidies for food products. As of September 1, 1992, the main prices still subject to administrative control were rents, various public charges, transportation fares, fuels, and the prices of certain goods produced or distributed with a high degree of monopoly power. From January 1991 until January, 1993 the consumer price index was 61,463. In this sense, Lithuania maintained a relatively high standard of living in comparison with some neighboring states, although imports and some goods and services that were heavily subsidized in the past became much less affordable.

From the very beginning of economic reform, the Government has stressed the importance of developing a strong private sector to support the transition to market economy. The Enterprise Law adapted in May 1991 specifies the following types of enterprises: personal, partnership, limited partnership, joint - stock company (public and

closed), state enterprises, and agricultural joint - stock companies. Subsequently, around 48.000 small private business have been requested, mostly a personal enterprises, where individual owners employ two or three employees, often family members, and a private „close stock” corporations. In additional move to stimulate further development of the small business sector in December 1991 the Supreme Council adopted a Law on Small Enterprises. This law defines small businesses as those in which employment does not exceed 100 people and offers concessions that (1) reduce by up to 70 percent, depending on the number of employees and on the amount of income which derives productions; (2) reduce taxes on the profits financial institutions derived from loans to small enterprises by 30 percent and (3) permit simplified accounting procedures for small enterprises.

Despite of these measures, obstacles to the development of small business remain. The supply of office and commercial space is highly constrained. At present, small enterprises could rent space from state enterprises or municipalities by way of auction. Prices in these auctions are too high for most enterprisers particularly for those just starting their business. Other constrains for small business development are following: (1) lack of finance to establish a business; (2) gaps in legal framework, unequal application of laws and bureaucratic inertia in the registration of business; (3) lack of marketing, financial accounting, and other management skills, and little information about basic business practises.

Everybody in Lithuania recognizes an importance of foreign investments. Legislation permits three forms of foreign investments: joint ventures, in which a foreign share holder owners part of a Lithuanian - registered joint - stock company; a Lithuanian enterprise totally established with foreign capital investment; and a Lithuanian subsidiary of foreign companies. The Foreign Investment Law provides the standard elements of protection to foreign investors and offers tax incentives to attract foreign capital. Under the new provisions, adapted in the Parliament this year, enterprises with foreign capital founded before the end of 1993 will receive a 70 percent (profit) tax relief for the first five years and a 50 percent fax for the next three years. Enterprises founded in 1994 or 1995 will receive 50 percent for six years. Repatriation of profits and dividends received on foreign investment in Lithuania are subject to tax. The procedure of creation of joint ventures was liberalized in September 1992. Earlier state - owned companies should receive permission from the founder in order to create joint venture. At present such permission is required only for establishing joint venture in which foreign investor will have majority shareholdings.

Despite of these measurements to date the country has attracted relatively modest amount of foreign investments.

Rapid development of private sector as well as attraction of foreign investments are not possible without ownership transformation. Privatization and restitution of ownership rights have become the key elements of the economic reform from the very beginning.

The main goal of ownership transformation in Lithuania is to maximally quickly restore private property rights, to reduce state property to its minimum, hence to create one of the most important precondition for the development of the efficient market

economy. Very early in the transformation program, the Government proposed a program to transfer some two - thirds of state assets into private hands with the target of completing this process by the end of 1992. It was decided that this ambitious program can be carried out only with wide spread public participation in privatization as well as with quiet transparency of the process.

Large involvement of the public into the privatization process was impossible using standard Western privatization methods.

The objectives of the privatization and restructuring programme are the:

- Development of legislative infrastructure.  
It is preparation and drafting of Lithuanian legislation including legislation for the establishment and operation of a Lithuanian Stock. Exchange and Securities legislation, Accounting and Auditing legislation, Banking and Financial legislation, Bankruptcy legislation. Law on Mortgages and Security Instruments, Law on Concessions, developing a system for the co-ordination and promulgation of new primary and secondary legislation is required.
- Development of professional standards  
It is establishment of Accountancy standards and training for the Accountancy profession, Commercial and Corporate training for Lithuanian lawyers, instruction in company and asset valuation, foreign business language training in all sectors and management skills programmes including formulation/development of business plans.
- Sectoral / Company restructurings  
This comprises operational restructuring of individual companies and entire sectors/industries to improve efficiency and profitability, competitive restructuring to eliminate monopolies and enhance competition and financial restructuring to restore financial solvency of potentially profitable enterprises and the banking sector.
- Privatization implementation  
This comprises privatization and investment promotion through a variety, of means including share sales, asset sales, joint ventures, leasing arrangements, management agreements, franchising and other forms of concession etc.
- Development of privatization administration  
The process of privatization is conducted by the Central Privatization Commission and Privatization Agencies established throughout Lithuania in accordance with the Law on Initial Privatization of 1990 and by decision of Local Municipality Organs. The Central Privatization Commission established by the decision of the Lithuanian Parliament upon the recommendation of the Prime Minister co-ordinates the progress of privatization. In practice much of the administration of the privatization programme is delegated to the Ministry of Economics.

## LEGAL AND INSTITUTIONAL FRAMEWORK

The principal laws relating to privatization and restructuring have been introduced since 1990. These are:

- Law on Enterprises approved in 1990
- Law on Partnerships approved in 1990
- Law on Joint Stock Companies approved in 1990
- Law on State Enterprises approved in 1990
- Law on Agricultural Joint Stock Companies approved in 1991
- Law on Register of Enterprises approved in 1990
- Law on Foreign Investments approved in 1990
- Law on Spheres of Business Activity wherein Foreign Investment is limited or prohibited approved in 1991
- The Initial Privatization of State Property Law approved in 1991
- The Land Reform Law of 1991
- Law on privatization of property of agricultural enterprises of 1991
- Law on privatization of housing
- Law on the order and conditions regarding the restoration of rights of ownership to the existing real property of 1991
- Law on Small Enterprises of 1991
- Law on Mortgage of 1992
- Law on Bankruptcy of 1992

More than 200 Governmental Decrees and by - laws, reglamenting the privatization process were adopted.

Taking into consideration the above, an innovative scheme was devised involving the of vouchers to all Lithuanian citizens which together with a quota of additional cash could be used to purchase a part or the whole of small enterprises sold through auctions, and in larger state - owned enterprises. Vouchers also could used to purchase housing, land and assets of agricultural enterprises.

During the period of preparation of the privatization scheme, the sharp discussion on the some fundamental privatization dilemmas took place in Lithuania. The major dispute was on the issue whether to implement commercial privatization or distributional one. Main argument of the supporters of Commercial privatization scheme was that only this scheme could provide an efficient private owners. On the other hand supporters of the voucher privatization criticized such position motivating that (1) taking into consideration the purchasing power of potential investors privatization can take very long time and inefficiency of remaining state - owned entities will be not compensated by efficiency of small amount of privatized enterprises; (2) commercial privatization will create possibility to concentrate ownership in former nomenklatura hands (3) the state must compensate for citizens the low wages which were paid for them by former Soviet regime. The second approach has had wide support in the public and Parliament has adopted it as the main principle of privatization scheme. The two other dilemmas were passed by

the Government to the Parliament for its decision: (1) whether to reconstitute property rights to former owners or not; (2) whether to privatize and reconstitute state ownership only to Lithuanian citizens or also to foreigners. The first issue was solved by the Parliament positively, i.e. it was decided to reconstitute property rights to former owners. Regarding a second one the compromise was achieved. The Parliament permitted foreign participation in privatization of state - owned entities, but only Lithuanian citizens were allowed to participate at the restitution process and land privatization. The other main privatization dilemmas were not the object of serious discussion. As far as was mentioned above the Government implemented very rapid privatization scheme. The restructuring program is separated from the privatization program and is going on sectorial basis. Therefore some enterprises are privatized before they are restructured and others - after. Evaluation of enterprises to be privatized is based on their book value. However the Central Privatization Committee has a right to increase initial price of entity (share) while approving privatization program.

Prior to the preparation of the first privatization program in August 1992, the list of enterprises and their structural subdivisions has been compiled in accordance with the Law on the Initial Privatization of State Property. This list included 3500 enterprise or their structural subdivisions. However, pursuant to the Law, the privatization process was carried out in parallel with the demonopolization process. Monopolized structures must be disintegrated into smaller self - dependent economic units (subjects). As a result of this, the list incorporates more than 7600 thousand enterprises, 4580 thousand of these enterprises or their structural units are included into the privatization programs. 3215 small enterprises or their structural units, the authorized capital of which does not exceed 1 mln. talons are foreseen to be sold by auctions. 57% from the total number of enterprises to be privatized in Lithuania, have been privatized in the period of 1 year and 6 months.

When compiling the programs, the attempts are being made to privatize all the industry sectors proportionally. However, the priority is given to the trade, social infrastructure - the service sphere. These enterprises included into the programs make up the majority, i.e. more than 90% of the total number.

By now than 3000 objects have been sold by auction for 2,5 billion talons, 1313 enterprises have been privatized by public offer for 17 billion talons. 71% of state property has been privatized in these enterprises by public offer. The average sale price of each share was 30 % higher than the nominal price of the share.

From the beginning of the privatization process 15 billion talons of state property has been privatized, and it makes 37,7% of amount which was earmarked for privatization according to the Law on Initial Privatization of State Property. We hope that by the end of 1992 the process of privatization Will approach the end.

The privatization of residences is proceeding most successfully. By February 19, 1992 501 301 of flats (houses) had been sold, being 90,3% of total amount of applications. According to the Law on Privatization of Residences, the process of privatization must be completed by March 1993.

66290 farmers have received back their land it includes about 11,3% of suitable land for agriculture. The process will continue in autumn. New farms are going to be established.

Private enterprises are being established. To date 50,000 private enterprises have been registered, and 14,000 closed stock companies.

In Lithuania, 428 foreign investment companies and several commodities exchanges are functioning. New commercial banks, private security companies are being established and some are already functioning.

## MASS PRIVATIZATION IN LITHUANIA

In most countries privatization is a very slow process. Countries having to deal with thousands of state enterprises need to find a way to speed up privatization. From the very beginning of the process of economic reforms Lithuania has decided to speed up the course of privatization by use of a voucher method: according to legislation adopted by the Parliament at the beginning of 1991 about 50 percent of state property will be transferred into private ownership not for the cash, but for investment vouchers. Voucher privatization guarantees: first, that a maximum number of Lithuania citizens are able to participate in privatization process, and second, that a large volume of state property will pass very quickly into private ownership.

The introduction of voucher system aimed at providing all Lithuanian citizens with almost equal possibilities to participate in privatization. Initial value of a voucher vary from 1 to 5 thousand talons depending upon age of a citizen (further due to inflation and indexation of the book value of fixed assets those sums were indexed twice for 2 and 4 times respectively, in total for 8 times). Vouchers can be used for privatization of industrial enterprises, housing, agricultural enterprises and land. It is the main difference from Czechoslovakia and Polish models where vouchers can be used for purchasing shares of selected enterprises. Initially vouchers were legally transferable only to relatives. Later the legislation was changed and other two possibilities to transfer vouchers appeared:

- people who had outstanding housing loans had received a right to sell their vouchers at the government,
- run auctions and to use the proceeds to reduce that debt,
- environment for the investment companies was created providing people with a possibility to purchase shares of these companies for vouchers.

Recently restrictions to sell vouchers were lifted. At present all citizens have a right to sell their vouchers at auctions mentioned above, or to transfer them to other citizens of the Republic of Lithuania.

In addition to vouchers, each citizen may use an established cash quota for acquisition of entities under privatization. This quota is equivalent to the sum of vouchers granted

by the state. No other cash may be used for privatization with three exceptions: a) housing can be purchased entirely for cash without any quota; b) limitations have been lifted for enterprises not sold in a first round of privatization; c) cash quota is not in place when enterprises are sold for hard currency. Therefore purchasing power of a citizen who acquires property under privatization is restricted to some extent hence to prevent rouble invasion from the former USSR republics. The Government intends to remove all cash quota restrictions as soon as the litas is introduced.

It should be mentioned that shares of entities or the whole entity (in case of auction) may not be purchased only for vouchers. At least 5 percent of the price (20 percent when housing is purchased) must be paid in cash as well as the whole price may be paid in cash. Therefore mass privatization in Lithuania can not be called straightly as distributional privatization. It could be called rather as combination of distributional and commercial privatization.

According to mass privatization scheme Industrial state property is privatized as follows:

- auction sale of entity under privatization;
  - announcement of public subscription for shares;
  - by announcing tenders for the object under privatization. If only one tenderer participates, then direct negotiations can be conducted.
  - other methods of privatization
    - a) organizing closed auctions and announcing closed subscription for shares;
    - b) by selling the share holding by auction for freely convertible currency;
    - c) announcing tenders for purchasing of objects under privatization, which were not privatized at the share par value by the way of public subscription of shares.
- The winner will be selected according the best business plan submitted.

Entities which book value does not exceed 1 ml talonas are sold at auctions. Entities with the nominal value exceeding 3 ml talonas are privatized by public subscription of shares. Entities with nominal value amounting from to 3 ml talonas are to be sold either at auctions or by public subscription of shares ( a choice depends upon presence or absence of private property prior to privatization process). The employees of the enterprises privatized by the method of subscription of shares have an exclusive right to purchase up to 50 percent of the equity 30% of these shares and 20% privileged shares without voting right.

**Auctions.** Legal framework of auction consists of: (1) an article 16 of the Law on Initial Privatization of State Property and (2) the Government Resolution No 174 of 06.05.1991 (renewed by the Government Resolution No 837 of 05.11.1992). The rules regulating procedure of auction are quite similar to ones adopted on privatization for hard currency. The main difference is that according to the new government resolution people willing to participate in mass privatization auction can present their bid in sealed envelope or by mail and not take part in auction directly. It was done due to the fact that more and more incidents of blackmail appeared before auctions, and people were afraid to participate therein.



Since relatively small entities are sold at auctions most of them are in the regulation sphere of municipalities. According to the law privatization programs of such entities are prepared by the local privatization committee although the entities selected for privatization shall be coordinated with Central Privatization Committee. Auctions are held by the local privatization agencies. After an auction was held, a privatization agency shall within five days furnish relevant documents to a local government and to an enterprise under privatization, as well as to a relevant privatization commission that affirms the results of an auction.

The results of privatization of small enterprises at auctions are rather impressive. Privatization of small entities was launched on September 1991. During the period of 16 month approximately 70 percent of all small state enterprises were included into privatization programs and about 77 percent of them were sold. The average selling price was more than 14 times higher than state capital of the sold entities and about 3 times higher than their initial price. The main data about privatization of small enterprises by auction technique are presented in Anexes.

The initial plan was to complete small scale privatization by the end of 1992. However, the implementation of new rules on auctions requires some time, therefore the privatization process is slowed down at the last quarter of 1992.

Public subscription of shares. Legal framework of this privatization technique consists of: (1) articles 17 and 18 of the Law on Initial Privatization of State Property; (2) the Government Resolution No 229 of 11.06.1991 (ammended by the Government Resolution No 848 of 09.11.1992); (3) the Government Resolution No 627 of 20.08.1992 and other.

Public subscription of shares is based on the following main principles:

- authorized capital of state enterprise is divided to the shares with an equal nominal value. While approving privatization program Central Privatization Committee is setting up the privatization degree of state owned capital. Usually this degree is 80 percent of state capital. However, sometimes when the Government is interested to keep a possibility to influence enterprise to be privatized, a privatization degree of state capital may be lower
- subscription for shares and terms for the acquisition of shares shall be given public notice by privatization agencies of local government not later than 15 days before the subscription for shares begins.
- subscription for shares shall be made in several stages. During the first stage which lasts for 30 days, shares shall be subscribed for at their initial price fixed by a privatization agency. The initial price for subscription for shares shall be at least 1.2 times higher than their nominal value. If more than 80 but not more than 110 percent of shares planned to be issued have been subscribed for their initial price, the subscription for shares shall be considered to have been made.
- if more than 110 percent of planned to be issued shares have been subscribed, a new subscription for shares shall be announced at the initial price increased by not less than 10 percent.

- if not more than 80 percent of shares planned to be issued are subscribed for during the first stage of subscription, then their initial price shall be reduced by 10 percent during the subsequent stages of subscription but not frequently than every 10 days, until more than 80 percent of shares planned to be issued are subscribed for.
- if not more than 80 percent of shares are subscribed for their nominal value, it is considered that the subscription for shares have not been made. in this case a relevant privatization commission shall devalue the state property held an enterprise and not later than with 10 days shall announce a new subscription.
- upon subscribing for shares, not less than 25 percent of shares must be paid to the bank account indicated by the privatization agency. Not less than 5 percent of nominal value must be paid in cash. If the relevant privatization commission has affirmed the subscription for shares, the persons who have acquired them must pay within 30 days the total issuance price of shares.
- having affirmed the subscription for shares and having paid their total issuance price the privatized enterprise shall be reorganized to joint stock company within the period of two month.

Institutional framework of the public subscription of shares is the following:

- Central Privatization Committee adopts privatization programs of enterprises which are under the Republic regulation sphere as well as coordinates the privatization programs of entities which are in the regulation sphere of the local governments. Central Privatization Committee shall also control the implementation of these programs,
- draft of privatization programs are prepared by Ministries - founders of enterprises under Republic regulation and by local privatization committees in case an enterprise is in the regulation sphere of the local governments. central Privatization Committee shall also control the implementation of these programs, are prepared by Ministries - founders of enterprises under Republic regulation sphere and by local privatization committees in an enterprise is in the regulation sphere of local government. respective Ministries and local governments are also responsible for segmenting monopolized enterprises into smaller units,
- Ministry of Economy consolidates separate privatization programs prepared by other Ministries and local privatization committees to a general Privatization Program of Lithuania and submits it to the Central Privatization Committee for the final approval,
- public subscription for shares is carried out by privatization agencies of local governments.

Privatization of large scale enterprises is not so successful as small ones. During the period from September 1991, 2076 enterprises were included into privatization program. 1313 of them or 63 percent were privatized. The capital of privatized entities amounts to 44 percent of the state capital of enterprises included into privatization programs. Such significant difference between the number of privatized enterprises and privatized

capital can be explained by the fact that most of the biggest enterprises were the so called „all union enterprises” which to a very large extent are dependant on raw material supplies from the former Soviet Union. since economic relations with the former Soviet Union are disrupted and restructuring towards the Western markets requires a great deal of investments most people prefer to participate in privatization of small and medium size enterprises which are more flexible and could give profit in a short time. Number of employees in entities privatized by the technique of public subscription for shares exceed 270 thousand and annual production amounts to 63.4 billion talons. The main data about privatization of medium and large scale enterprises by the technique of public subscription for shares are presented in Annex.

Several amendments to the Law on Initial Privatization of State Property were adopted by the Parliament in September 1992 and February 1993. First of all privatization methods were expanded. Tender method was introduced for enterprises which were not sold by method of public subscription of shares. Foreign and domestic investors were granted the right to participate in those tender. The main difference from the previous privatization methods is that investors proposals first of all are evaluated according to the presented business plan and investments that may be made into enterprise, while a proposed price is left only in the second plane. Closed auction and closed subscription of shares were introduced for pharmaceutic and medical entities under privatization. Hard currency privatization was also changed. According to that change direct negotiation with an investor may be held provided only one investor submitted an offer to a tender. Second, sale of vouchers was liberalized. At present each citizen has a right to sell his/her vouchers at the government - run auctions or to transfer these to the other citizens of the Republic of Lithuania. Third, more rights were granted to CPC making its activity more flexible. Also CPC composition was partly changed including more specialists therein and reducing a number of representatives of public and political organizations. It is expected that these amendments will speed up privatization process particularly privatization of large scale enterprises. Privatization using new methods mentioned above has not started yet therefore at present it is difficult to say what real influence they will have for the whole privatization process.

As was mentioned above mass privatization scheme was implemented not only in industrial sector but also in other spheres of the economy.

Apartments are to be privatized according to the respective Law on Housing Privatization and are to be sold to tenants - citizens of Lithuania who expressed a wish to redeem their accommodations. The term for presentation of appropriate redemption documents expired on 1 March 1992 ( according to recent amendments to the Law this period was prolonged till 31 March 1993) Until 19 February 555 thousand applications were received and 501 thousand (90.3%) apartments were sold. Price for apartments was calculated according to the prices of 1989 construction and assembling works. 80 percent of the price was allowed to pay in vouchers, and the rest in cash thus it was beneficial to purchase accommodations. According to the legislation flats purchased in such way during the period of 10 years can be sold for Lithuania citizens only. Total proceeds from privatization of flats amounts to 7.5 billion talonas was paid in cash.

A part of recently built apartments are to be privatized at auctions with the right granted to all citizens to participate therein.

Agricultural entities is subject to the so called specific privatization. The right to choose privatization way is vested with farmers who have priority right to purchase property according to the adopted legislation. Other citizens of Lithuania may present their claims on agricultural property only after it is not purchased by farmers having a priority right. Objective agricultural compensations amounting from 10 to 30 percent of vouchers depending upon a number of employment years in agricultural sphere are granted to people who either were or are employed therein. Agricultural vouchers are granted to employees of agricultural entities according to a special method. These vouchers may be used for purchase of agricultural property only.

According to Law on Privatization of Agricultural Enterprise more than 77 percent of the property of those enterprises has been already privatized. Total book value of the privatized agricultural enterprises amounts to 14 billion talonas.

The specifics character of land ownership transformation particularly in rural areas is revealed by the fact the major part of land is to be returned to their former owners. Therefore land which is subject to restitution claims falls within privatization process. Country dwellers willing to undertake farming have a priority to privatize land in rural areas. A maximum plot of land to be sold for farming is 80 ha ( forest may cover 25 ha).

land plots of the actual size are sold as household land in city areas, however the size may not exceed 0.2 ha in large cities and 0.3 ha in towns and settlements. State - owned land for new construction is sold by way of auction and for cash only.

Pursuant to land reform implementation 505 thousand of claims on restitution of property rights were registered by 31 May 1992 (the deadline for these claims). 41 thousand of these claims were satisfied and other 26 thousand are to be satisfied this autumn. Land reform is not as comparatively expeditious as reforms in other spheres.

## COMMERCIAL PRIVATIZATION

Commercial privatization in Lithuania is going on according to the privatization program of state - owned enterprises for hard currency. privatization process for hard currency is regulated by the Law on Initial Privation of State Property adopted by the Parliament in February 1991. The main goals of privatization for currency are as follows:

- to generate revenues in order establish hard currency reserves for the stabilization of Lithuania currency litas;
- to attract foreign investments to Lithuania whereby to improve quality of Lithuania products, management skills and in some case to solve environmental problems;
- to create competition between domestic and foreign entities in some sectors of Lithuanian economy.

Initially the law has set up that the list of enterprises to be privatized for hard currency must be adopted by the Parliament. This list of 114 enterprises was prepared by the Government in September 1991. Unfortunately the implementation process for hard currency was launched only on September 1992. During period from September 1, 1991 the Government has passed several amendments to the law regarding privatization for hard currency. First of all these amendments had permitted to extend the methods which can be used in privatization. Initially only two methods were allowed in privatization for hard currency - auctions for privatization of small enterprises and public subscription of for privatization of medium and large scale enterprises. After the amendments to the law adopted by the Parliament in June 1992, the possibility to privatize entity through tender procedure appeared. late in September 1992 other two methods of privatization for hard currency were adopted by the Parliament: auctions of shareholdings of enterprises to be privatized and direct trade sale of the entity to investor in case only one tenderer has submitted his offering to the tender. The procedure of including enterprises on the list of privatization for hard currency was also liberalized. At present it can be done by the Central Privatization Committee. The right to initiate privatization for hard currency is given the enterprises themselves, founders of entities and to potential investors. The Government resolution which sets up the detailed procedure of privatization for hard currency was adopted in July 1992. According to this resolution relatively small entities are sold at auctions. Both foreign and domestic investors can participate in these auctions. Most small entities are in the regulating sphere of the municipalities. It means that privatization programs of such enterprises are prepared by local privatization committees which are established in each town and region. Local privatization committees submit projects of the program to the Ministry of Economic. Privatization Department of the Ministry of Privatization prepares general privatization program and submits his program to the Central Privatization Committee for approval. After approval in the Central Privatization Committee privatization program is published in the privatization Bulletin of Local Governments. The Privatization Department of the Ministry of Economic is responsible for distribution of the privatization program abroad mainly through the embassies of foreign countries in Lithuania and Lithuania's embassies abroad. The auction can be carried out at least 20 days after publication of the privatization programs in the privatization bulletins. The auctions are organized by privatization agencies of towns and regions. Persons willing to take in auction and to acquire the enterprise to be sold for hard currency have to: (1) pay 50 Us dollar registration fee and 10 percent of the initial sale price of the entity in US dollars. (2) not later than the last day of the week before the auction is held arrive at the privatization agency and on presentation of a sealed envelope or by mailing an envelope, register themselves as participants of the auction. An auction may be held if no less than two participants (representative authorized by them) have been registered under the established order.

The participant who had offered the biggest price is considered as a winner of the auction. Within the 30 days after auction he shall pay the difference between the price of the entity set for auction and initial investment. The purchaser may settle accounts for the acquired at auction entity by installments. In this case, the purchaser not later than

30 days after that shall pay 25 percent of the price of the entity. On the request of the purchaser the payment of the rest portion of the entity price may be deferred for the period of one or two years. The results of the auction shall be approved upon the payment. the results of the entities under local industry shall be approved by the privatization commission of the respective city (district), whereas the entity under republic industry shall be approved by the Central Privatization Committee. Not later than within 30 days after the day of approval of the auction results the administration of the entity of privatization shall transfer and the purchaser shall take over the acquired state property at the auction. upon the approval of the property transfer - take over act by the founder, a respective privatization Committee shall issue the ownership certificate to the purchaser within the period of 5 days. The purchaser shall register the acquired assets at the State Inventory. Projecting and Service Bureau within 1 month after the day the ownership certificate has been issued.

From the beginning of privatization for hard currency in September 1991, about 64 of entities were put at auction. Unfortunately only 12 of them were sold. Total proceeds amount to 1370.04 thousand, the nominal value 807 thousand US dollars. All purchasers were domestic ones. The main causes of such unsuccessful results are as follows: (1) the low possibilities to distribute information abroad regarding privatization (2) relatively short period between announcement and the date of auction; (3) quite high initial price of the entities put for auction.

Portions of share holding of medium and large scale enterprises included in privatization program for hard currency are sold by the technique of tender. According to the legislation up to 70 percent of shares of enterprises to be privatized for hard currency may be sold. The employer in the enterprises, which are sold for hard currency, can acquire up to 30% of such enterprise. the concrete portion of share holding set by Central Privatization Committee while approving privatization program of the entity. The main differences of tenders and other privatization techniques are as follows: (1) preparation and evaluation of the enterprise for privatization is made in a modern way with advise of foreign consultants; (2) the price suggested by the investor is important but not a single criteria for privatization (3) negotiations with investors are possible during the period of assessment of offerings.

As far as was mentioned above, privatization programs and preparation of enterprises to be sold by the technique of tender are carried out with the advise of foreign consultants. So far the assistance of foreign adviser was founded by international organizations (USAID, PHARE, etc.). Recently we introduced success fees in order to extend possibilities to hire foreign advisers for preparation and implementation of privatization program. In case when foreign advisers are not available preparation and evaluation of enterprise should be done by the Ministry of Economy, together with founder and administration of the enterprise. Upon preparation the privatization program should be submitted to the Central Privatization Committee for approval. The documents which should be submitted to the Central Privatization Committee. Upon the approval of the program by the Central Privatization commission, the Privatization Department of the Ministry of Economy not later than within 15 days shall announce a tender in Informa-

tional Privatization Bulletin as well as shall distribute the announcement of the prospective tender abroad. Persons willing to take part in a tender, shall fill applications in writing to the Privatization department of the Ministry of Economic and ask for a collection of documents to be sold on tender enclosing a 250 US dollar bank cheque in the name of the said Ministry.

The completed offering as well as other required documents shall be filled in due time to the Privatization Department of the Ministry of Economy in sealed envelopes. The assessment of the submitted offerings is done by the tender commission approved by Central Privatization Committee. The mark system used for the assessment. Upon assessment of tender offerings tender commission shall submit its conclusions to Central Privatization Committee for approval. The Central Privatization Committee may invite the tenderer scoring the highest marks on tender assessment together with any other tenderers who scored at least 75 percent of such highest score for negotiation of their tender proposal with the tender commission. such negotiations should be completed within 15 days and the amended tender proposals, reassessed in accordance with the criteria mentioned above presented to the Central Privatization Committee for a final decision.

As one can see, institutional framework for the tenders are quite centralized. Local privatization committees and privatization agencies are fully excluded from the process. All decision making and process control functions are concentrated in Central Privatization Committee. That could be explained by the fact, that privatization process of large-scale enterprises for hard currency just started and requires high degree of control the central privatization authorities.

Until now 9 large scale enterprises are fully prepared for privatization for hard currency and tenders of these enterprises have been launched. Other 2 that are at the stage of preparation. A tender on privatization of Klaipėda Tobacco company is already announced. At present time the final negotiations with the winner of the Tender is coming to the conclusion. Central Privatization Committee plans to issue about 60 large scale enterprises for tender next year.

## CONCLUSIONS

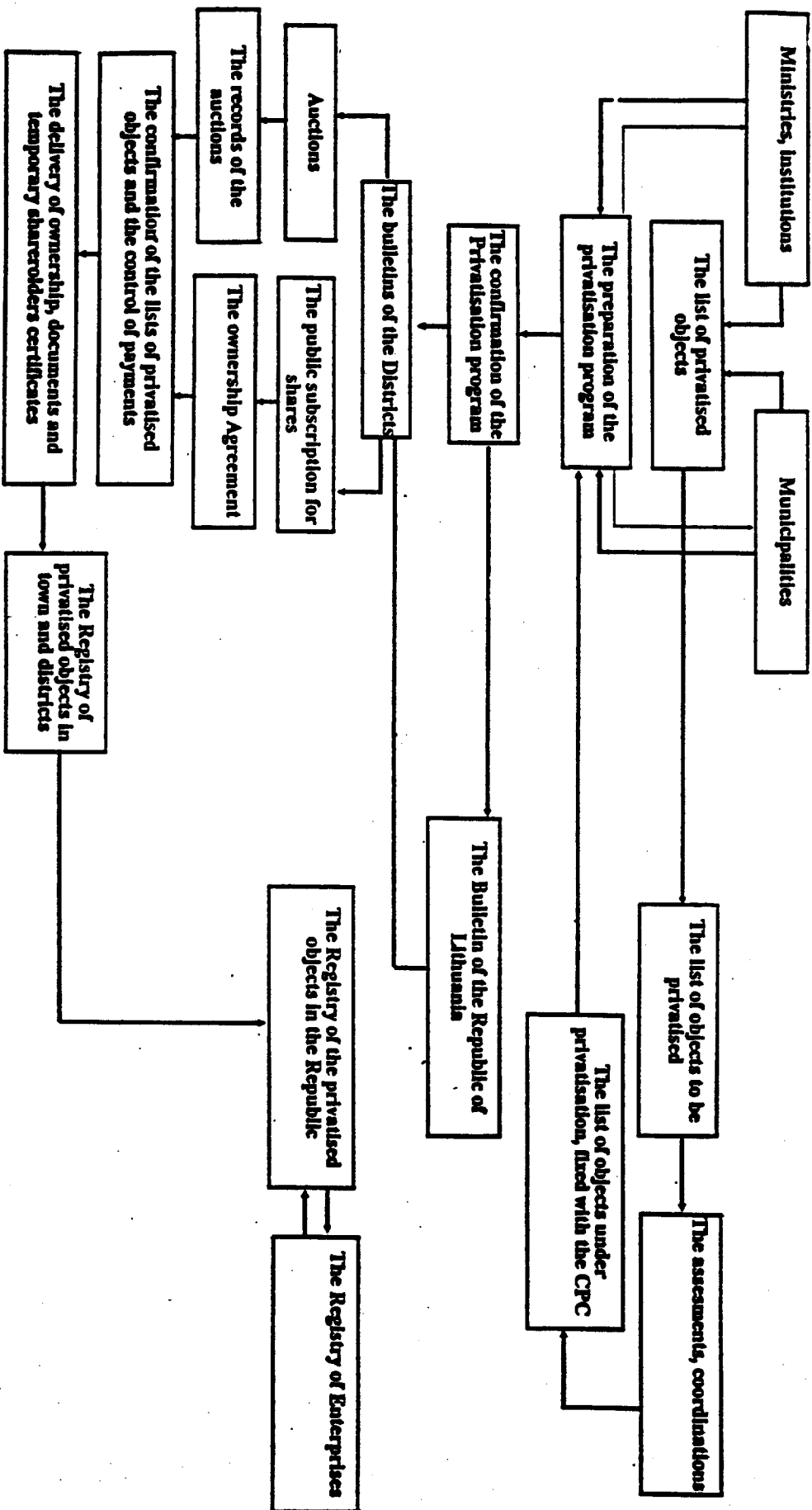
Although privatization process in Lithuania is going on very rapidly it is still too early to tell whether Lithuania's experience provides lessons to other country in transition. Certainly, the innovative mass privatization scheme which involves practically all of the economy, wide spread public participation may be interesting for some other countries. The implementation of such scheme to may mind needs simultaneous creation of strong legal framework of capital market. This process was delayed in Lithuania and has just started. It creates problems with secondary market of shares of the privatized entities and delays the process of concentration of capital and the emergence of the true owners.

# Initial Privatisation of the State Property

The municipal privatisation commission

Computer Center of the Ministry of Economics

The Ministry of Economics





Ministry of Economics  
Summary table concerning public share subscription  
Non-indexed kindred V.3.88 Rev.1 September, 1991 - 7 March, 1993

The number of enterprises to be privatised	State capital				The initial selling price of shares to be issued				The number of enterprises to be privatised	State capital				The emission price of subscribed shares				The ratio of emission price and nominal value	The number of enterprises under the process of subscription of shares				
	Total	privatised	throubles	1	Total	By public share subscription	By management/ employees buyouts	8		Total	privatised	throubles	1	Total	By public share subscription	By management/ employees buyouts	15	16	Decreased prices	Increased prices	Devaluated objects	Without applying new quotas	Miscellaneous
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
881	34568.8	22369.7	64.7	26845.3	22807.3	30038.4	652	46955.7	41381.5	67.5	14596.2	13354.2	1244.4	4.3	85	41	29	43	64				
	41280.7	7569.2	67.4	8936.4	8072.2	864.0		5353.6	3736.9	69.8	4657.2	4336.5	320.7	4.2									
946	6904.8	5005.4	72.5	6832.2	5768.8	1063.3	679	3336.0	2875.9	73.4	4446.2	3840.2	336.0	4.4	96	62	38	4	67				
	2287.4	1662.7	72.7	2485.9	1900.6	286.3		4787.6	951.2	74.5	1320.5	1233.9	86.6	4.4									
1827	44473.6	27375.4	66.0	33627.5	29576.4	4404.4	4332	20741.7	14257.3	88.6	19744.5	17464.4	1520.4	4.3	181	103	67	17	128				
	13568.4	9232.0	68.0	11122.0	9972.7	1440.3		6641.2	4696.4	70.7	5377.6	5570.4	407.2	4.3									
Industry	28387.2	17537.6	64.8	20007.9	17971.3	2036.6	350	12074.0	7942.9	65.2	9359.3	8609.4	750.2	4.2	76	32	19	42	24				
510	9426.2	6124.4	64.9	6946.5	6341.4	605.4		3844.7	2624.3	68.3	3085.9	2832.5	193.4	4.2									
Transport	1336.7	1126.9	84.3	1323.0	1169.4	153.4	16	989.7	782.5	79.4	842.8	788.0	54.8	4.4	6	2	5	4	6				
86	378.3	320.4	84.7	374.2	334.6	39.7		288.9	230.6	79.8	249.3	235.2	14.4	4.4									
Construction	5238.4	3748.8	74.6	4544.3	3772.4	738.9	332	3254.0	2480.5	73.2	2857.4	2588.5	268.6	4.2	35	11	16	3	40				
436	1604.0	1160.9	72.4	1380.3	1189.9	190.5		1079.7	768.3	74.6	911.6	842.4	69.2	4.2									
Trade	2514.8	1981.4	78.9	3374.4	2980.0	394.4	304	2445.8	1702.0	78.2	2582.8	2447.5	265.2	4.6	9	42	4	0	24				
377	925.6	700.0	75.6	1085.9	984.4	104.5		774.0	592.2	76.5	366.9	798.5	68.4	4.5									
Household economy	148.8	148.8	65.2	284.4	252.6	34.9	33	193.7	124.4	64.2	255.2	232.6	22.5	4.4	9	0	3	0	3				
48	228.3	228.3		89.7	81.5	8.2		68.4	39.4	65.2	74.9	69.4	5.8	4.9									
Public services	80.0	52.3	65.3																				
119	244.3	198.0	81.0	335.4	306.2	28.3	87	163.6	126.2	77.4	244.3	198.5	13.4	4.7	8	5	7	0	42				
95.9	77.3	80.6		117.2	108.5	8.7		11.2	47.7	78.0	72.0	68.6	3.4	4.5									
Other	3526.8	2633.8	74.7	3844.6	3324.5	720.4	460	1933.8	1278.9	65.5	2535.4	2330.4	265.3	2.0	38	14	16	4	25				
251	1058.4	799.7	75.6	1428.2	935.5	192.7		582.4	393.5	67.6	717.0	644.4	52.9	4.8									

Note: All second lines are reindexed

Inventory of Enterprises 1993, 1994, 1995

Data about auctions  
1 September, 1994 - 14 December, 1992

	The number of enterprises			State capital			Investment means received			The number of objects			Residual value			Investment means received		
	To be sold	Sold	%	To be sold	Sold	%	To be sold	Sold	%	To be sold	Sold	%	To be sold	Sold	%	To be sold	Sold	%
Total	2302	4864	90.97	23468.17	18628.04	69.54	236255.06	5271	4415	26.85	73623.71	27634.79	37.54	445733.24				

Including the branches :

Industry	160	118	73.75	22318.64	15567.14	69.75	116717.16	1231	149	11.54	18288.73	5238.16	28.64	20108.44				
Transport	8	4	66.67	1278.35	1067.76	83.53	7011.80	135	73	54.07	2433.81	1536.50	65.60	7458.04				
Construction	44	32	72.73	26024.25	7141.13	27.44	45496.50	749	237	31.64	11614.99	1267.18	28.13	14293.05				
Trade	967	827	85.52	74994.13	62479.92	84.32	1722812.58	270	83	30.73	1930.05	1147.33	69.81	5612.12				
Household economy	167	116	69.46	21553.95	14254.37	66.12	106687.71	169	127	75.15	6367.80	5081.30	84.51	52419.36				
Public services	707	620	87.69	60732.44	51157.55	84.15	253954.08	582	354	60.99	6690.83	5540.67	82.81	23087.08				
Other	251	147	58.57	13608.10	14660.15	44.29	111276.19	2145	332	15.28	26297.51	5263.64	20.02	22763.14				

	The number of enterpr. and obj.			State capital			Investment means received		
	To be sold	Sold	%	To be sold	Sold	%	To be sold	Sold	%
Total	7573	2279	42.30	312791.88	193962.83	62.01	2507988.23		

Including the branches :

Industry	1151	267	48.40	40607.36	20805.31	51.24	136617.68		
Transport	141	77	54.64	3712.16	2664.28	71.77	14463.04		
Construction	793	269	33.92	17659.24	10408.31	27.45	59789.55		
Trade	1187	910	76.66	76024.48	63827.25	83.96	1727624.62		
Household economy	106	243	72.32	27927.75	13635.67	70.31	159107.07		
Public services	1269	914	76.75	67483.27	58698.23	84.02	276441.03		
Other	2396	539	22.50	59397.61	11923.79	20.54	114039.33		

	To be privatised according to LREP										Included into privatisation programs										Privatised									
	total		%	total		1 from enterpr. to be privatised		including large enterpr.		total	1 from enterpr. to be privatised		1 from enterpr. to be privatised		large enterpr.		small enterpr.													
	enterpr.	state capital (mln. roubles)		enterpr.	state capital (mln. roubles)	enterpr.	state capital (mln. roubles)	enterpr.	state capital (mln. roubles)		enterpr.	state capital (mln. roubles)	enterpr.	state capital (mln. roubles)	enterpr.	state capital (mln. roubles)	enterpr.	state capital (mln. roubles)												
Total in production:																														
Number of objects	798	5501	70	4510	32	2965	2445	3496	58	74	4172	65	4364	76																
State capital (mln. roubles)	2602	48402		45112		44826	3285	6809	27	45	6842	45	166	58																
Industry:																														
Number of objects	4005	976	75	777	75	546	467	468	48	64	750	62	418	74																
State capital (mln. roubles)	3814	42882		40361		40166	22	3860	28	35	3935	38	18	68																
Transport:																														
Number of objects	375	423	47	407	60	37	6	70	54	66	46	68	4	67																
State capital (mln. roubles)	4400	527		414		422	1	290	56	70	29	70	1	84																
Construction:																														
Number of objects	860	673	75	544	65	446	45	364	57	67	372	67	32	71																
State capital (mln. roubles)	2808	2052		1822		1735	34	4058	48	57	1031	57	7	21																
Trade:																														
Number of objects	2932	1586	77	1371	95	443	404	443	74	79	304	73	927	92																
State capital (mln. roubles)	1263	1204		1092		1005	77	807	69	77	774	77	62	79																
Household economy:																														
Number of objects	638	780	64	258	65	57	205	449	39	58	33	62	446	57																
State capital (mln. roubles)	307	443		104		92	46	75	35	57	88	76	44	34																
Public service:																														
Number of objects	467	334	42	330	45	156	724	707	79	83	87	69	620	86																
State capital (mln. roubles)	155	174		163		102	64	412	64	68	64	60	54	80																
Other:																														
Number of objects	4760	337	51	592	66	392	284	307	34	52	480	52	447	52																
State capital (mln. roubles)	3687	1972		1302		1260	41	597	20	46	582	46	15	36																

# Summary data about privatisation process in Lithuania

Number of object

