

Privatisation in Lithuania

By Eduardas Vilkas

1. VOUCHER PRIVATISATION

Lithuania followed a speedy and "fair" domestic privatisation from the very beginning. In early 1991 the Lithuanian Government was firmly committed to go through primary stages of privatisation by means of investment vouchers allowing certain flexibility within this framework. After the basic law on initial privatisation reflecting these ideas was adopted in February 1991, distribution of vouchers to the population was immediately begun. Actual sales began with the establishment of relevant privatisation bodies in September 1991.

Both negative and positive implications of a rapid transfer of state property are well known. But, even under such a straightforward approach to ownership reform as voucher privatisation, it is not so easy to account for an exact combination of all gains and losses. During the early debates on privatisation issues between 1990 and 1991, only a few domestic economists and foreign experts were in favour of almost free distribution of state properties to large numbers of shareholders. More the so, even policymakers who proposed and started to implement ownership dispersion measures did not expect such high degree of competition during first public offerings and rapid ownership concentration in privatised entities. Reasonably large and concentrated private sector did emerge within a short time (private sector became dominating already in 1993), despite the egalitarian nature of the initial privatisation law.

It is not so easy to judge, whether voucher privatisation program was really well suited to benefit small domestic investors or it was more in accordance with interests of "capitalistic predators" operating on international markets. A historical factor to keep in mind is that the voucher approach, among other things, did provide a unique opportunity to invest megaprofits derived from the East-West trade transactions into state assets privatised this way. This suggests that the Lithuanian experience is not universal. Our hypothesis is that voucher privatisation results might be different in a different economic environment. In our opinion, however, Lithuania has done quite well in its privatisation.

Over the four years of voucher privatisation, the basic institutional setting remained remarkably stable relevant not only to other Baltic countries but also to other Central and Eastern European countries as well. The Central Privatisation Commission (CPC) was the leading organisation charged with the management of privatisation process until the end of voucher privatisation in July 1995. The wide network of local privatisation commissions and agencies were co-ordinated by the CPC through the Privatisation Department of the Ministry of Economics. This allowed to effectively decentralise the whole privatisation process during the first stage.

1.1. SMALL PRIVATISATION

Privatisation of approximately three-quarters of the small enterprises slated for privatisation (2,000 units from 2,727) was completed by mid 1993. 651 small business entities were privatised through the first four months of privatisation between September and December 1991, over 1200 during 1992 and about 350 in the first half of 1993. Privatisation of the remaining quarter of small entities (about 700 units) lasted until the end of voucher privatisation in July 1995. In total, domestic privatisation sold through auctions 2,727 small entities. The total sale price reached Lt 165 million (USD 41 million), which was paid in vouchers (up to 20 per cent of this theoretically could be paid in cash). Additionally, 33 small enterprises in the service sector were sold at open hard currency auctions for total USD 4.4 million.

1.2. LARGE SCALE PRIVATISATION METHODS

Lithuania's privatisation programme targeted, at least formally, to benefit small domestic investors. Therefore privatisation tenders, the so-called best business plan competitions were carried out only in cases when public subscription for shares or sale of controlling blocks of shares failed to attract buyers at auctions. Between 1993 and 1995 there were 15 large industrial enterprises privatised by tenders for nearly Lt 500 million (USD 125 million). They were sold to local investors (mostly investment companies formed by managers), which consolidated adequate amounts of domestic investment resources.

In addition, since 1993 privatisation authorities have organised hard currency open tenders where investors from Lithuania and abroad were invited to submit their bids. Within this framework, 14 international tenders were announced, each putting up for sale a single business entity - from small and average size to a monopolist in the respective field (e.g., a tobacco factory). Controlling shares in only four of these units were sold to the world famous foreign investors (for USD 30 million with investment guarantees of no less than USD 100 million) while others remained unsold or were acquired by domestic hard currency bidders. A prior formal procedure required that a limited number of enterprises selected for hard currency privatisation should be included into the list approved by the Government or by the Central Privatisation Commission (since October 1992). After completion of voucher privatisation in 1995, all further sales are open to both foreign and local buyers without any restrictions and with no priorities. To this end, the advanced methods are to be applied in order to ensure the convergence of bidding procedure to a Pareto optimal frontier.

Public share offering was the major privatisation method since September 1991. Most of privatisation deals, 51 per cent by number of privatised units and 91 per cent in terms of state capital transferred to private ownership, were concluded this way. During public subscription for shares of nearly 3,000 enterprises around Lt 5.8 billion (USD 1.5 billion) worth vouchers have been used for shares with a total nominal face value of Lt 2.6 billion (USD 0.7 billion). The principal privatisation scheme remained almost without changes until July 1995. The bidding process went as follows. Shares were initially offered at a fixed price related to a book value of the enterprise and its privatisation

degree. Both these parameters were to be approved by Central or local privatisation commissions. Bidding was over if subscription reached 80 per cent and oversubscription did not exceed 110 per cent of the number of shares offered. Otherwise, a price adjustment procedure was applied in order to equate demand and supply within the predefined range and with the same selling price for all buyers. A minimum of 5 per cent of this price was due to be paid in money, however, cash could not exceed 50 per cent of the vouchers paid.

The standard subscription scheme was applied in all basic economic sectors, except for agriculture, forestry, housing and some professional activities. Most share offerings have occurred in industry (25.0 per cent), construction (19.8) and commerce (21.0). The largest amounts of state property were also sold in these sectors: about 40.6 per cent of the total capital divested by share offerings were state properties in industry, 12.8 in construction and 7.8 in commerce. Hard currency open subscriptions for shares were organised to attract foreign investors. Seven share offerings, where a public subscription portion was limited up to 30 per cent of stock, were successful in 1994, raising revenues of about USD 2 million.

1.3. VOUCHER PRIVATISATION RESULTS

According to the figures from the former Lithuanian Privatisation Department, there were more than 8 thousand state enterprises before privatisation in Lithuania. Their assets were subsequently revaluated four times and, taking into account these adjustments, the total state assets were estimated at Lt 13.547 billion (USD 3.387 billion). Initial privatisation program involved 6644 enterprises (82 per cent of all enterprises) with Lt 9.8 billion worth state capital (72 per cent of total state assets). More than 5700 enterprises with Lt 7 billion worth state capital in book value were privatised using four basic initial privatisation methods: share offerings, auctions, best business plans competitions and hard currency sales. State properties offered through auctions (2727 enterprises with Lt 79 million in book value) and through the best business plan competitions (15 units worth Lt 499 million) both were 100 per cent privatised (in terms of their number and value). Meanwhile, the privatisation degree in those enterprises which were subject to share offerings (2920 units worth Lt 2631 million) and hard currency sales (46 units worth Lt 27.6 million) were as follows: 91 per cent and 66 per cent in terms of state capital and 99 per cent and 65 per cent in terms of the units offered, respectively.

By economic sectors, there were privatised 88 per cent of state companies by number and 91 per cent in terms of state capital in industry (excluding energy sector), correspondingly 91 and 98 in construction, 86 and 31 in transport, 77 and 30 in communal utilities, 82 and 72 in trade, 94 and 96 in consumer service, while 83 and 96 in all other activities.

In total, Lithuanian population received vouchers worth nominally Lt 10.504 billion (USD 2.63 billion). By October 1995, they were used as follows: 64.79 per cent for acquisition of shares, 19.44 per cent for residential dwellings, 4.96 per cent for agricultural properties, while 6.91 per cent remained unused. Thus the total amount of

vouchers absorbed was Lt 9.77 billion (USD 2.44 billion) in face value.

Both speed and scope of privatisation reached their peak by the end of 1992. At that time the respective figures already were outstanding: 54 per cent of enterprises and 30 per cent of assets. In short, out of all successful privatisation deals, 15 per cent by number and 3 per cent in terms of capital were concluded through the last four months of 1991, while for the following years the yearly respective figures were 39 and 27 in 1992, 22 and 31 in 1993, 15 and 26 in 1994, finally, 9 and 13 for the first half of 1995.

Two points should be made concerning the above statistics. First, as one could expect, asset valuation was largely based on irrelevant prices and inadequate accounting systems. Thus, to judge the "true" scope and coverage of the privatisation programme is rather difficult as only the book value of state assets was available in statistics. It is even more difficult to evaluate the "market price" difference between that part of state capital, which was privatised by vouchers, and that still remaining in state hands. Secondly, the voucher privatisation law meant the stage of privatisation according to that scheme until the enterprise obtains the status of joint stock company or once privatised firm; later on privatisation proceeded according to the laws on enterprises, i.e. according to general procedures of the capital market. The above data simply fixes the moment after public privatisation has been completed according to the voucher (initial) privatisation law but before other laws have been started to be effectively used by new shareholders. According to some estimations, *an additional 10 to 15 per cent of all state properties was transferred to private ownership outside initial privatisation programmes, as a result of postprivatisation.* Moreover, the state practically lost all control, legally and practically, in partially privatised enterprises where a 10 per cent stake, on average, remained state owned. Thus economy was more private than just the privatisation degree shows that.

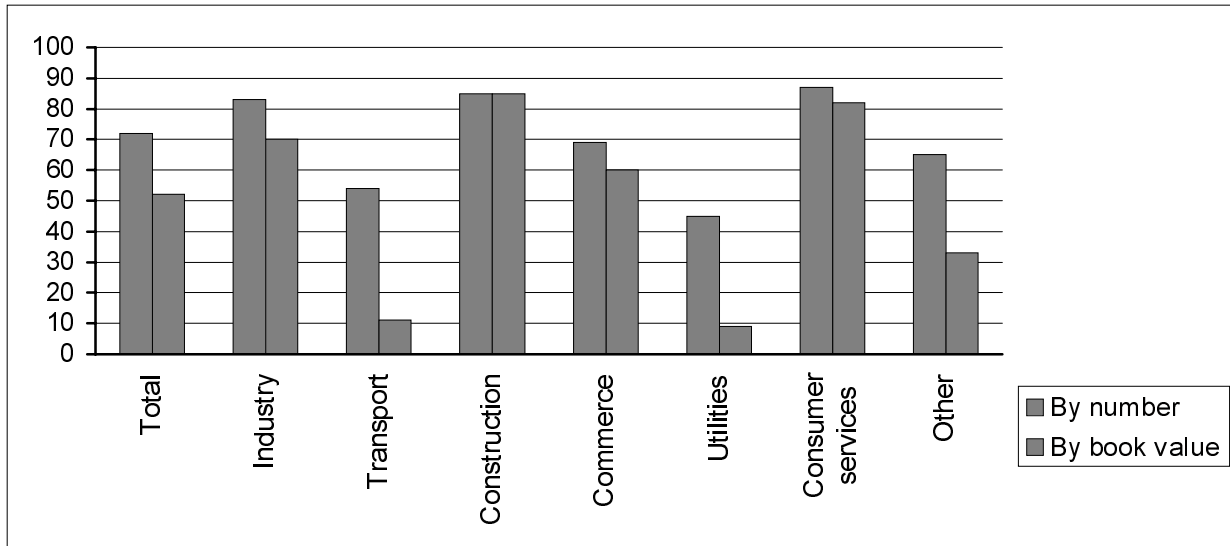
Voucher privatisation in numbers is presented in a table below. As voucher privatisation process was not ended with coming into force of new law and because classification in statistics has been changed to adjust to European standards, these numbers can differ a bit from those, which may appear in other sources.

Voucher privatisation by sectors of economy (1 September 1991 - 30 September 1995)

	Total number	Number of entities scheduled to be privatised	Number of privatised	Total book value, mn Lt	Book value of privatised entities, mn Lt
Total	8044	6644	5706	13547	7049
Industry	965	902	799	7670	5403
Transport	298	187	161	2224	237
Construction	704	656	599	562	479
Commerce	2533	2120	1741	507	302
Utilities	793	465	359	1096	97
Consumer services	1139	1051	993	85	70
Other	1612	1263	1054	1402	462

Source: Department of Privatisation

Percentage of voucher privatisation by sectors of economy



2. PRIVATISATION AND RESTITUTION OF RESIDENTIAL DWELLINGS, LAND AND AGRICULTURAL PROPERTY

In Lithuania efforts were made to clearly separate restitution issues from those of privatisation, as restitution solves mainly political ideological problems. Restitution seemed inadequate as a mass privatisation strategy also because almost all enterprises had been built in the Soviet period and never had any private owner.

The law on restitution of July 1991 declares that property rights shall be restituted regarding land, forests, survived non-residential buildings with premises, and survived residential houses with belongings for those former owners or, if the owner is deceased, for a strictly defined circle of his relatives (parents, spouse, children) who are *Lithuanian citizens residing in Lithuania*, except those people, their children and grandchildren, who were deported from Lithuania by the Soviets or imprisoned for the resistance against the occupation, for all of whom residency requirements are less strict.

2.1. PRIVATISATION AND RESTITUTION OF RESIDENTIAL DWELLINGS

The law of May 1991 defined a mechanism for privatisation of dwellings rented from the state by families in urban or rural areas. This law proved to be a rather workable and suited well the preferences of the broad masses of the population. It allowed all people permanently residing in Lithuania before restoration of the independence (not necessarily Lithuanian citizens) to acquire their apartments either for cash or for vouchers (with 20 per cent payable in cash) at fixed, almost symbolic, prices. Also, instalment options were available to all, who request them, with a minimum annual payment of 10 percent of the price and interest rate at 4 percent. Due to these liberal rules, privatisation of dwellings did not pose any nontechnical problem in case there were no restitution claims. Nearly

100 per cent of formerly state owned apartments were privatised in one year. In other words, almost all residential dwellings, 29323 houses and 503540 apartments, were privatised in 1992. Furthermore, by mid 1992, privatisation of dormitories of state enterprises, ministries, even high schools, etc. began spontaneously and ultimately was supported by the Government. Parliamentary efforts to intervene in these activities were unsuccessful since the Constitutional Court had approved in late 1993 the legitimacy of the corresponding government decrees and resolutions. Concerning other problems, it should be noted that until now communal services largely remain state or municipalities owned, and this sector certainly needs special legislation.

Since June 1991 there were received 8.5 thousand restitution claims to restore ownership rights for residential dwellings. As the dwellings are occupied, restoration process needs substantial investment and thus cannot be completed shortly. As of beginning of 1998, there were still 2.7 thousand houses demanded with a total living space of 545 thousand square meters and near to 10 thousand families residing in these apartments. Up to this point, over 2.4 thousand families left their flats moving mostly to newly built residential dwellings, which were constructed by municipalities and local governments for this sake specially. In the period of 1991- 1997 the national budget spent Lt 30.5 million to support these efforts.

2.2. RESTITUTION, COMPENSATION AND PRIVATISATION OF LAND

By January 1995, there were submitted 455,700 applications to restore ownership rights for 3.158 million hectares of agricultural and wood land. Note that the country's total agricultural land area is 3.513 million hectares, of which arable land constitutes 2.958 million hectares, while an additional stock of 2.651 million hectares is under the disposal of a state stock of land and forestry units.

During five years of agrarian reform, state agrarian planners have prepared schemes of 200 thousand plots for private farming. Total area of the plots is 1.5 million hectares. Another 0.8 million hectares are used as small individual plots. Late 1996 there were 470 thousand legally registered land owners with 1.2 million hectares of land in their possession. On average 5 thousand decisions per month are taken on restitution of land. By December 1996 about 153 thousand former owners or heirs claiming their land or wood in rural area received official confirmation of ownership as well as 73 thousand persons who applied for compensations and 11 thousand who were given plots in cities. Already in 1995 about 200 thousand persons were cultivating plots of land they demanded (those in particular or equivalent in some other areas), in total 1.5 million hectares, which makes up about 43 per cent of the total agricultural land.

Additionally, more than 62 thousand persons have submitted compensation claims for 427,800 hectares of agricultural land. About Lt 10.2 million already were paid out as compensation in the period of 1994-1995. Additional Lt 50 million were allotted to the 1996 budget for this sake. The most efficient way to resolve the problem, however, is to pay compensations out of land privatisation proceeds. According to some estimates, about Lt 350 million will be required for compensation of land.

2.3. PRIVATISATION OF OTHER AGRICULTURAL PROPERTY

Privatisation of other agricultural property, as in case of dwellings, did not take much time and effort; and it was mostly completed at the end of 1993. According to the agricultural privatisation law of July 1991, all property of agricultural enterprises, no matter that of a collective or of a state farm, had to be privatised except what was expropriated by Soviets and now claimed back by former owners (mainly houses and other buildings). Land was not treated as property of enterprises. Methods of privatisation were foreseen much the same as in industry. The main differences were as follows: a) the first stage of privatisation of enterprise's property was to be closed; only workers of the enterprise were allowed to participate as well as its pensioners and specialists (teachers, doctors, etc.) residing in the territory of the enterprise; an open privatisation procedure was applied to the what remained after the closed one; b) in addition to vouchers and cash as means of payments, special compensations to farmers, size of which was 10-30 per cent of citizen's voucher depending on years worked in agriculture, and "green" vouchers, individualised for each enterprise, could also be used.

3. STAGE OF COMMERCIAL PRIVATISATION

The voucher privatisation aimed at most speedy creation of private sector and market oriented business environment, also, at creation of national class of capitalists. It seems that the methods applied in the first stage of privatisation served these goals the best. Having in mind dangerous political situation in Lithuania in 1990-1991, privatisation of infrastructure enterprises was hardly possible alongside with privatisation of other enterprises, thus infrastructure was excluded from voucher privatisation. More so, that it would add to private business environment a little because of monopolistic nature of these enterprises. When the goals set forth at the beginning of privatisation were achieved, transition to commercial methods of privatisation became necessity, as they better agree with the targets of economic efficiency and market mechanisms.

3.1. CHANGED CONDITIONS FOR PRIVATISATION

The situation at the beginning of the non-voucher privatisation was obviously quite different from that when voucher privatisation started. Changes were seen in almost every factor influencing methods and results of privatisation. First of all, during 1991-1994 economic situation in the country worsened drastically so that financial situation of many enterprises became miserable. Some enterprises started to quickly approach bankruptcy, many had to operate at far from full capacity badly lacking working capital and other investment. They became indebted to banks, unpaid taxes and wages often reached even higher numbers. Thus the value of enterprises has deteriorated but at the same time, to acquire them now, one has to pay and invest real money instead of worthless vouchers.

Further, almost everything in industry, construction and services was privatised by vouchers. As mentioned above, it was decided at the very beginning of development of the voucher privatisation plans in 1990 that large entities of infrastructure will not go to

public privatisation for vouchers. At the end of voucher privatisation selling of large infrastructure enterprises valued at approximately Lt 3.423 billion (USD 856 million) was provisionally postponed until the year 2000. Only employees were allowed to acquire up to 10 per cent of shares in these enterprises. In addition, privatisation (again by employees only) was limited up to 30 per cent of shares in state owned enterprises sheltered from privatisation by a "special purpose enterprise" status, worth in total Lt 3.415 billion (USD 854 million). Only the remaining "nonstrategic" chunk worth about Lt 3 billion Lt (USD 750 million) in total had to be put up for cash sale at new stage of privatisation. From total number of about 3 thousand enterprises (and other properties) in this group only in about 200 of them state held majority shares while in others had less than 50 per cent of shares, on average 10 per cent. These small packages of shares did not represent too high value, as they did not influence management rights except the cases when there were competing parties needing additional shares to obtain majority vote. Therefore prospects of privatisation did not seem very good, bearing in mind that economy just started to stabilise after dramatic decrease.

3.2. NON-VOUCHER PRIVATISATION LAW

The voucher privatisation was intended to be completed in 18 months, however, it lasted more than 4 years. New law on commercial privatisation was passed on 4 July 1995 and came into force from 15 September 1995. The old law on primary (voucher) privatisation remained valid until 1 January 1997 for privatisation programmes approved before 15 September 1995, also for individuals purchasing apartments or small pieces of land. The new law was markedly influenced by experience obtained during voucher privatisation although commercial privatisation substantially differs from it.

Object of privatisation. The law said that privatised may be shares or any other property owned by state or municipality except residential dwellings owned by municipalities. Thus formally the law did not exclude from its application range nothing that was in fact excluded, namely, state commercial banks, infrastructure and land, which were governed by special laws. As mentioned before, privatisation meant selling state/municipality ownership, in particular already owned shares, while selling of newly issued shares was not treated as privatisation despite the shares emission might lead to loss of management control.

Institutions of privatisation. On state level there were two institutions: Lithuanian State Privatisation Agency (LSPA) and Privatisation Commission. LSPA was a governmental institution acting for the Government in all questions of privatisation: prepared list of entities to be privatised, elaborated programmes for each entity, carried out the programmes and signed contracts on transfer of ownership. Privatisation Commission was appointed by the Parliament and had mainly supervision role. It could approve or not decisions of LSPA pending upon conformity of them with the law, in particular with the requirement that each privatisation deal be macroeconomically efficient. It is hard to say what does it mean but nevertheless it enabled the Privatisation Commission to deviate from bureaucratic rules in evaluation of privatisation plans and proposals and take into account broad spectrum of economic factors. Privatisation Commission also temporarily

fulfilled the functions of former Central Privatisation Commission when old law on voucher privatisation was applied.

On municipality level privatisation institutions could be established but were not obligatory any more; if established, they had the same rights and duties as Privatisation Commission and LSPA thus they had to follow the same privatisation procedures as those set for national level. On its choice, municipality could delegate privatisation rights to LSPA concluding a respective contract with LSPA on the subject. In practice large cities have established their own privatisation agencies while small units made contracts with LSPA.

In the law, ministries and other state institutions, which hold state owned shares were listed among privatisation institutions. Naturally enough, they did not have interest to privatise enterprises belonging to ministry's regulation sphere since that ends ministry's influence in the enterprise and thus threatens its importance and existence generally. There was also banal reason to be slow in privatisation: ministry had to prepare evaluation and lots of other documents for the enterprise to be privatised which job needs substantial additional (unpaid) efforts. Therefore it was to some extent illogic to grant decision-making power to those institutions whose functions and interests disagree with privatisation.

Privatisation procedure. The procedure of privatisation comprised the following:

- making a list of entities to be privatised (yearly prepared by LSPA and approved by the Government; in fact, the list has been created in several steps during the year and did not end up with new year)

- elaboration of privatisation programme for each enterprise and its approval by Privatisation Commission

- announcement of the programme in special Privatisation Bulletin and maybe elsewhere, e.g. in foreign journals and internet

- public selling according to programme (organised by LSPA itself or with the help of the National Stock Exchange)

- approval of the results of privatisation contest by the Privatisation Commission

- signing of contract on transfer of ownership by LSPA with later approval of the contract by Privatisation Commission.

If attempts to privatise fail, the realisation of the programme could be repeated automatically or new programme approved or the entity removed from privatisation list.

Methods of privatisation. Differently from voucher privatisation, the new law ensured sufficient diversity of methods. The following methods could be applied:

- public offering of shares

- public auction

- public tender

- hire purchase (leasing with final purchasing)

- direct bargaining.

There were several restrictions on using the methods of privatisation. Public tender was to be used only to enterprises valued more than Lt 50 thousand (USD 12.5 thousand) if, in addition, state/municipality had majority shares there. Hire purchase applied to physical property such as equipment, buildings, but not to shares. Use of direct bargaining was restricted to cases when auction or tender failed to pick a winner, however, there was at least one potential purchaser. Auction was designed to use in selling the whole package of state owned shares of company and, in fact, to all cases of minority packages while offering of shares would take place when enterprise was large enough to be bought during one offering or when privatisation was partitioned in several stages for some other reason. If joint stock company was public, selling of its shares had, as a rule, to be transferred to the National Stock Exchange. As defined in law, the auction differed from classical one: bidding was to be made in writing before stated deadline thus bidder could suggest only one price, no price rising in public contest was foreseen.

Income from privatisation of state property was set forth to go to the Privatisation Fund while that of municipality property could be used by municipality freely. Three directions were set where Privatisation Fund money can be used:

- expenses related to implementation of the privatisation law
- restoration and compensation of population's savings
- credits for small and medium businesses and investment.

Other legal acts related to privatisation. The law instructed the Government to pass decrees on two privatisation institutions - Commission and Agency, also, every privatisation method had to be further detailed. Thus, in addition to the law, privatisation activity has been regulated by Government decrees on privatisation institutions, on each method of privatisation and on preparation of privatisation documents. The process of doing all these legal acts took more than half a year and that seems to have been the main reason why a year long delay between two privatisation stages took place.

Evaluation of objects to be privatised. According to privatisation law, the Government has approved methodology of property evaluation. Property to be privatised may only be evaluated by licensed consultant. One of the following methods or their mixture can be applied: comparative pricing (market price of similar property), price of recovery (how much would cost to build, create etc. the property in current prices), according to amount of expected profit, special methods for unique valuables, and other methods known in international practice and sanctioned by the Government. Whatever method used, experts have to take into account value of land which belongs to the property and thus will be rented (with prospects to buy it when laws on land ownership will be further liberalised).

On 4 November 1997 new law on privatisation was passed, which corrected some shortcomings of the law from 1995. The major change was an establishing of one-stop privatisation institution, State Property Fund (SPF), whose functions, besides of selling state property, include management of state shares in all enterprises and monitoring of implementation of purchase agreements. Transferring of state property from ministries to Property Fund is not completed yet. Procedures of privatisation were slightly changed to better suit privatisation of large infrastructure enterprises and to speed up privatisation of

low value shares. Privatisation Commission keeps its supervisory functions, however, the functions are shared with the Government in case of very important privatisation entities.

3.3. RESULTS OF PRIVATISATION IN 1996-1998

As it already was mentioned, to start commercial privatisation the economic situation was unfavorable: in 1996 economic growth just started and remained uncertain after dramatic fall; banking crisis, which began in December 1995, frightened foreign investors and paralysed domestic investments. Together with the earlier mentioned fact that the entities supplied for privatisation did not represent too attractive values, the process of commercial privatisation thus started sluggishly. Although the pace of privatisation has gradually increased with increasing efficiency of the work of privatisation institutions and improving of the economic situation, a real acceleration was called out later by interest of foreign investors to infrastructure enterprises as well as to other important industrial and financial entities. To complete description of the results, the following table shall suffice.

Privatisation in 1996-1998

	Number of entities included into privatisation list	Book value of them, mn LT	Number of prepared privatisation programmes	Number of privatised entities	Their book value	Privatisation proceeds, mn LT
1996	454	1089	120	47	4.8	3.2
1997	1114	2546	552	272	54.6	81.0
1998	1868	5500	554	207	689.0	2229.7

Source: Privatisation Agency and State Property Fund

It is worthwhile to mention that at commercial stage of privatisation the National Stock Exchange took active part in selling noncontrolling packages of shares; 56 such packages were sold in less than two years.

4. PRIVATISATION OF INFRASTRUCTURE ENTERPRISES

Breakthrough in final stage of privatisation was made by the Decree of the Government on privatisation of 14 enterprises in telecommunications, energy and transport through international tenders in 1997-1998 passed on 11 February 1997. Growth of proceeds in privatisations presented in the table above is, at large, due to privatisation of important infrastructure enterprises. The list was later changed to reduce privatisation rank of some enterprises from international tender to usual methods or to use direct negotiations with strategic investor instead of open tender. With these changes, the programme is near to being completed.

With respect to importance of infrastructure entities, three special commissions (in telecommunications, energy and transport) were appointed by the Government to organise international tenders for advisers, separate consultancy consortium for every enterprise, and later, together with the chosen advisers, to prepare privatisation documents and to carry out international tender itself.

Most of the infrastructure enterprises are natural monopolies, therefore their privatisation is not simply selling shares. One has to restructure them first, also, to set up the legal measures of postprivatisation state regulation or the corresponding obligations of investors in purchase documents. This kind of activity was tremendously important in case of already privatised Lithuanian Telecom. Separation of heating utilities from state owned monopoly Lithuanian Energy and transferring them to municipalities demanded a large amount of job. Future postprivatisation status of such enterprises as Lithuanian Airlines and Lithuanian Shipping Company is also not so easy to define. Need to take these measures is characteristic not only to Lithuania but to Western countries as well.

Among events related to privatisation in infrastructure, restructuring of oil sector and invitation of strategic investor to it represents an extraordinary one. Oil refinery "Mazeikiu Nafta" was among these 14 infrastructure units to be privatised by international tender. In course of its preparation to privatisation, plans have changed. It was decided to merge "Mazeikiu Nafta" with oil pipeline "Birzu Nafta" and oil terminal "Butinges Terminalas" (still in construction) and to invite American firm "Willjams International" as strategic investor with 33 per cent of shares in joint company. The Parliament passed special laws to make reorganisation and emission of new shares possible just in couple of months. Further selling of state shares in restructured oil complex is planned after completion of construction of the terminal and some upgrading of the oil refinery, when supposedly shares will attain good price.

Recent major privatisations (millions Lt)

Enterprise	Nominal value of shares sold	Investment promised	Price paid
Lithuanian Telecom	489	884	2 040.0
Sea cargo company "Klaipedos Smelte"	34	75	45.0
Shipbuilding company "Baltijos Laivu Statykla"	1.1		11.4
Ship repair company "Vakaru Laivu Remontas"		80	74.0
Cement plant "Akmenes Cementas"	9.4		35.2
Pharmaceutical company "Sanitas"	1.7		6.3
Hotel "Lietuva"	18.8	80	36.0
Restaurant "Palanga"	0.5		8.5
"Vilnius milk"	9.9	40	16.0
"Alytaus tekstile"	63.3	240	12.9

Source: State Property Fund

In several months privatisation has to be completed of the following large infrastructure enterprises: stevedoring company "KLASKO", shipping companies "LISKO" and "Laivite", also, patrol retailing network "Lietuvos Kuras". In telecommunications, privatisation of the only remaining big enterprise Lithuanian Radio and TV Centre failed to find an appropriate buyer and at this moment there are no plans to try it again. Privatisation of some remaining unprivatised industrial enterprises shall also be finalised soon, among them glass works "Panevezio Stiklas".

5. FUTURE CHALLENGES

Privatisation in Lithuania approaches its end. This and next year have to be the last ones when large enterprises will appear on privatisation agenda with majority shares. Of course, even after that, State Property Fund will be busy with selling shares in nonfully privatised enterprises, as well as majority shares of tens of small units, and with postprivatisation activities. What currently remains to privatise can be partitioned into the following three groups:

- ◆ Large enterprises in infrastructure: besides of the mentioned already, natural gas network "Lietuvos Dujos", Lithuanian Railways and electricity supply system "Lietuvos Energija", also, remaining stakes in privatised large enterprises
- ◆ Some 190 medium and small size enterprises where state still holds majority shares
- ◆ Near to three thousand minority shares packages and other low value properties, of them mostly unused premises in rural area.

As far as first group is concerned, problems of restructuring and postprivatisation regulation matter most. Electricity system, in addition, has specific problem: at the moment more than 80 per cent of energy is produced at Ignalina power station, privatisation of which one hardly can imagine. The rest (idle) capacities are not competitive with Ignalina until export of electricity is very limited. In railways only transport companies will be privatised, not rails per se. Probably, "Lietuvos Dujos" will go to further privatisation in 1999. In a few years remaining 40 per cent of shares of Lithuanian Telecom as well as of enterprises in energy (60 per cent of new "Mazeikiu Nafta") and transport (probably about 50 per cent of Lithuanian Airlines and the same amount of LISKO) shall be sold to second strategic investors or put on stock exchange. The last is highly desirable as being strong support to capital market of country and efficient mobiliser of domestic savings.

Majority shares of the second group of enterprises do not pose any other problems except demand which remains rather weak, however, can improve with restoration of individual savings in roubles (about half a billion litas every next year) and with further growth of economy. In many cases these enterprises may and do attract attention of foreign investors now looking for safe places to invest.

Procedures of privatisation of low value properties have been simplified, literally hundreds of them are offered almost every month. Large part of these privatisation units is property of municipalities who independently prepare them for privatisation and finally

sell the belongings. Therefore many privatisation institutions carry out privatisation in parallel and sufficient resulting speed should be achieved.

Privatisation of banks was slow so far. Of three state commercial banks, one, State Commercial Bank, has been abolished as insolvent. The second, Agrarian Bank, failed to be privatised in September, 1998 and now is going to privatisation repeatedly. It is decided that the last, Lithuanian Savings Bank, shall go to privatisation twelve months after privatisation of the Agrarian Bank. Despite this banking sector is privately dominated: two largest private banks have together 35 per cent of market, two branches of foreign banks and one representation have been established recently.

6. SUMMARY AND CONCLUSIONS

1. Lithuania's voucher privatisation started in September 1991 and was the speediest method of creation of private sector, at the same time, was meant to be fair and thus did not meet opposition of people. Already in 1993 private sector became predominating.
2. Privatisation started simultaneously in all sectors of economy, except infrastructure and banking, and of entities of all sizes. Most applied method was public subscription for shares.
3. Voucher privatisation was carried out during dramatic fall in economy, under very poor supply of investment money, which was badly needed in almost every privatised enterprise. Therefore positive results of privatisation were to wait 2-4 years. From two options - privatise without immediate restructuring or wait for means for restructuring and then privatise - the first proves to be economically more efficient.
4. Commercial privatisation came to scene when privatisation in all sectors of economy, except infrastructure and banking, was compleeted, at least at large.
5. Commercial privatisation intensified with more active coming of foreign capital after anoucement of privatisation of large infrastructure enterprises.
6. Selling of 60 per cent of shares of the Lithuanian Telecom to Swedish-Finnish consortium, the largest transaction in Baltic countries, was carried out in 8 months so beating all world speed records of selling telecoms.
7. Private sector produced more than 70 per cent of GDP already in 1997, before privatisation of infrastructure enterprises. To the end of 1999 privatisation will practically be completed and the share of private sector will obviously exceed that in the EU countries.