

Bulgaria: Wholesale Market Maritza

Ex-post evaluation

OECD sector	33120/ Wholesale and retail trade	
BMZ project ID	1999 05 001 (Investment in fixed assets)	
Project-executing agency	Market company Maritza	
Consultant	BT Bau + Technik	
Year of ex-post evaluation	2004	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	08/1999	08/1999
Period of implementation	17 months	29 months
Investment costs	EUR 5.7 million, of which EUR 4.4 million for the construction of the wholesale market Maritza, EUR 1.3 million for (partial) financing of other wholesale markets	EUR 5.8 million, of which EUR 5.5 million for the construction of the wholesale market Maritza, EUR 0.4 million for (partial) financing of Pazardjik market
Counterpart contribution	EUR 1.1 million	EUR 1.3 million
Financing, of which FC amount (EUR)	EUR 4.6 million	EUR 4.5 million*
Performance rating	4	
• Significance / relevance	4	
• Effectiveness	4	
• Efficiency	5	

* The loan was reduced by EUR 83,000 in residual funds

Brief Description, Overall Objective and Project Objectives with Indicators

The design of the project was based on a wholesale market programme for Bulgaria, which was conceived at the beginning of the 1990s within the framework of German TC and was to be financed by the European Bank for Reconstruction and Development (EBRD). Originally it was planned to establish a vertically structured wholesale market system at 10 sites altogether, most of them entirely based on a greenfield approach. One of these sites was the city of Haskovo located in the Maritza Valley, a traditional centre of fruit and vegetable production. Initially, the EBRD had provided funds in the amount of USD 35 million for the overall programme. In 1997 the EBRD loan was reduced to USD 10 million. The FC/TC cooperation project, which was appraised in 1999, was designed to implement the original wholesale and producer's market concept (i.e. creation of an infrastructure for the 2 user groups of wholesalers and producers) for Haskovo within the framework of German development cooperation (DC). The task of FC was to finance the construction of a wholesale and producer's market including ancillary buildings, storage and refrigerated areas. In addition, the anticipated residual DC funds estimated at about

EUR 1.3 million at the time of project appraisal, were to be used within an open programme for the rehabilitation of the existing storage facilities in the vicinity of Haskovo and to (partially) finance further wholesale markets not yet specified at the time of project appraisal. Thus, the project was partly designed as an open programme. The TC tasks comprised the preparation of a detailed operating concept and the creation and support of producer associations, which were considered essential to ensure the project's success.

The project objective was to create a market stock company Maritza as project-executing agency that would be able to ensure a profitable and cost-efficient turnover of goods under hygienic conditions on the producer's and wholesale market.

The indicators of achievement of the project objective, measured three years after start of operation, are: (1) At least 45,000 t of goods have been sold. (2) The producer associations offer at least 70% of their products on the market. (3) The relation between operating costs and turnover is at least as good as on comparable wholesale markets in Central Europe. (4) The economic control service detects no hygiene deficiencies related to the sale of goods on the wholesale market. (5) The market company is able to meet its payment obligations under the on-lent FC loan.

The overall objective of the project was to contribute to the creation of a competitive private-sector marketing system for fruit and vegetables with market structures that are in line with EU standards. Thus the aim was to contribute to enhancing production and revenues among agricultural enterprises and private trade in order to improve the supply of urban consumers with fruit and vegetables and to increase exports of these products.

The indicators of achievement of the overall objective are: (1) A positive economic development of the commercial and agricultural enterprises. (2) An increase in the volume of sales as well as fruit and vegetable exports and also per capita consumption of fruit and vegetables.

One problem regarding the objectives is that it is implicitly assumed on the level of the overall objective that the unsatisfactory volume of sales of the Bulgarian agricultural sector is mainly due to problems linked to the marketing of agricultural products. However, it also turned out during project appraisal that there were considerable problems on the supply side, e.g. the low quality of agricultural products produced, hardly efficient production, problems regarding packaging and timely provision. These problems, however, cannot primarily be solved through an improvement of marketing. On the level of the project objective, indicator 3 seems difficult to realize.

Project Design / Principal Deviations from the original Project Planning and their main Causes

The basic approach of the project was to promote the development of the Bulgarian agricultural sector in the field of fruit and vegetable production. At the time of project appraisal agriculture accounted for 15% of GDP and about 23% of employment (2002: 12.5 % and 27.4 %). Before the political turnaround (1989) Bulgaria exported about 40% of its agricultural products to countries of the Council of Mutual Economic Aid (CMEA). Within the CMEA, Bulgaria was an important exporter of fruit and vegetables. Following the breakdown of the CMEA and the political turnaround, Bulgaria's agricultural sector experienced a considerable downturn. In relation to the year 1990 agricultural production amounted to only 62% in 1996 and has never durably increased since. At the time of project appraisal the breakdown of the public marketing structure and the difficulties small producers faced in marketing their own products on their own were considered a significant problem for agricultural development. The reasons were a lack of knowledge with regard to current market prices and the poor connection to important national (Sofia) and international sales markets for fruit and vegetables. The open markets that were created spontaneously for the main part after 1989 were not considered suitable to contribute to an efficient marketing of fruit and vegetables, as there was no clear separation of offers in

quality levels and both the demand and the supply side were very inhomogeneous (resulting in high transaction costs). Moreover it was considered that these markets posed health risks, as hygiene rules were not observed in many cases and no sanctions were applied.

A major element of the project design was to advise and support the producers of the project region in such a way through TC that they would aspire to market their products jointly and that the resulting cooperatives would be able to implement such marketing. This was to take place on the market financed from FC funds that was to offer mainly products from these producer associations (producer's market). It was assumed that the wide range of goods on offer would also make the market attractive to wholesalers, notably in light of the fact that it would be relatively easy for them to buy larger quantities of homogeneous products, as required e.g. for exports. In addition it was assumed that there was sufficient market potential in Haskovo for the creation of a wholesale market. It was also planned to improve its infrastructure in the course of the FC project. Due to the advantages of the joint marketing of products and the additional sales to wholesalers it was assumed that the producer associations would be willing and able to pay a much higher charge (originally 7% of the value of goods) to the market company, the operator of the producer's and wholesale market, compared with existing open markets. Overall, 80% of total revenues were to be earned through fees paid by the producer associations, while the user charges for the infrastructure used by wholesalers was to be comparatively low (20% of total revenues), in order to make the location of Haskovo attractive to them.

At the time of project appraisal no operating concept had been agreed yet for the producer's and wholesale market in Haskovo. The operating concept was to be prepared with the support of TC in parallel with the implementation of the construction measures, of which 75% were financed from FC and 25% from Bulgarian counterpart funds provided by the Ministry of Agriculture. The most important and largest private shareholder in the market company, the private trading company Alfacom, provided the market premises as contribution in kind. Within the framework of the provision of Bulgarian counterpart funds, the Ministry of Agriculture became a shareholder in the market company.

In retrospect, the project concept held the following problems: As a quasi greenfield approach the need for a market infrastructure could not be determined with a sufficient degree of certainty from the existing trade and sales volume on site. In this respect, the chosen project design bore a greater risk than an alternative approach that might have been conceived, i.e. successively developing existing and intensively used open markets. However the participating institutions (BMZ, KfW and GTZ) were aware of this fact and accepted it. The assumptions made within the framework of the calculation of profitability regarding the adequacy of fees, the development of revenues from fees and the turnover of goods were essentially based on a feasibility study prepared in 1992 for the EBRD. Its assumptions were modified but the plausibility of the basic concept was not reviewed by means of an extensive updated market study. The actual capacity of major users (producer associations) and the market company as operator of the producer's and wholesale market, which could not be assessed exactly enough at the time of project appraisal as they were mostly going to be newly created, was overestimated in the project appraisal report. On the basis of previous experience it was impossible to assess whether they would realistically be able to meet the high demands (organization of joint sales and guaranteeing economically efficient operation of the market). The estimation in the project appraisal report that the company Alfacom (turnover: EUR 302,000; equity: EUR 422,000) would be able to assume the role of the driving force in the creation of the market company, with the help of intensive TC support, and lead a wholesale market with investment costs in the amount of approximately EUR 5.3 million and a turnover of about EUR 8 million turned out to be too optimistic.

The technical design of the project was mainly based on the feasibility study of the EBRD. It included the construction of two producer's market halls including storage and refrigerated areas as well as social and administrative buildings and a wholesale complex with two halls and a covered intermediate area, the construction and repair of ancillary buildings (workshop, waste collection) and development measures (water supply and sewage disposal, electricity supply, road connection, circulation areas and enclosures). Changes in the design and structural planning (e.g. enlargement of the refrigerated area and circulation areas) were made either on request of the project-executing agency or due to requirements of the Bulgarian building authority. In retrospect it would have been sensible to involve local producers more intensely in the discussion of the project design within the framework of the TC component, and to thoroughly revise the project design on the basis of the results, if necessary.

During the implementation of the construction measures it turned out that major assumptions of the planned project design were not fulfilled. Thus, the TC measures carried out to create or strengthen producer associations were unsuccessful. This was mainly due to the fact that the basic idea of a cooperative was largely discredited by the compulsory pooling of farms in the time of socialism (kolkhozes). During project implementation it appeared that the degree of organization of the existing producer associations was very low. They were neither officially registered nor able, from an organizational point of view, to fulfil the tasks assigned to them in the project concept. The individual members were unwilling to market their products together. Furthermore, the producer associations have no own funds. De facto, a user and operator who had been considered essential for the project's success failed to materialize. Consequently there was no demand for an essential part of the infrastructure financed from FC funds (producer's market) and as the producer's market was to generate 80% of total revenues, the project's financial planning could no longer be fulfilled. A further consequence was that without the producer associations the location of the new market in Haskovo also became significantly less attractive to wholesalers at the beginning. In addition, the capacity of the project-executing agency, the market company Maritza, to fulfil its tasks (operation and marketing of the created infrastructure) was much lower than estimated at the time of project appraisal. A further problem was that the city administration of Haskovo did not close existing market areas in spite of the fact that they did not satisfy hygiene standards. Thus it was hardly possible to charge higher fees for the newly created wholesale market.

Deviations in the implementation of the physical investment

a) Delays in the start of construction: The tender limited to Bulgarian enterprises (spring 2000) provided offers that were much higher than anticipated and beyond available funds. Therefore it was necessary to review the specifications and to ask the three lowest bidders to submit new offers. In August 2000 (planned: December 99) the firm Sicono Building Jsc, which had submitted the lowest bid, was charged with the implementation of the construction work.

b) 12 months delay in the opening of the market Although the planned construction period (9 months) was observed the opening of the market was delayed because the public building commission issued an operating permission only in October 2001 (planned: November 2000) due to the large amount of construction deficiencies and the long time it took to remedy them.

c) Problems related to building quality: As the construction firm Sicono Building did not comply with its contractual obligations to remedy construction deficiencies even in the guarantee period that was extended to August 2003, the market company Maritza initiated court proceedings against the construction firm in April 2004.

d) Cost increases: Compared with the optimistic planning at the time of project appraisal the completion of the market in Haskovo exceeded estimates by about EUR 1.0 million (+ 23%).

Additional costs related to development and construction measures (EUR + 1.44 millions) and the assignment of the consultant (+ EUR 0.22 millions) could not be compensated by savings in the equipment of the market (- EUR 0.65 million). In light of the poor construction quality we consider that the cost of the construction measure is inadequate. The additional consulting costs were mainly due to the extension of the assignment of the consultant, due to the delays in the implementation of the construction work. In addition it was necessary due to regulations adopted in the meantime by the Bulgarian government, to assign an independent local engineer. We consider that the performance of the consultant was acceptable, also in light of the difficult project environment.

e) Lack of an operating concept for the wholesale market of Haskovo: At the time of project appraisal it was assumed that the project-executing agency, the market society Maritza, would prepare and later implement a detailed and sustainable operating concept with the support of TC. When the market was opened there was only a rudimentary business plan which had been prepared by the TC consultant AGB. It comprised a concept for the marketing of the created market infrastructure, an organizational structure and a new financial planning. As it was obvious that actual revenues would be far below estimates, given that the originally planned amount of rent and fees could not be charged, the project-executing agency requested the interest rate of the on-lent FC loan to be reduced. KfW agreed to a permanent reduction of the interest rate from initially 7% to 2.25% p.a. In order to improve the financial situation, the consultant proposed (a) to use part of the established circulation area for an open market in order to encourage trade activities on the location of Haskovo and (b) to carry out intensive marketing measures in order to convince further wholesalers to rent the space and facilities (refrigerated areas) originally planned for the producer's market. Proposal (a) was not implemented and attracting further wholesalers proved more difficult and time-consuming than originally planned.

f) Redesign of collecting points in the vicinity of Haskovo/(partial) financing of further wholesale markets: Further measures were financed only in 2002, when it was possible to determine the actual amount of FC funds needed for the construction of the wholesale market of Haskovo with an acceptable level of certainty. At this point in time the collecting points had already been redesigned/rehabilitated with Bulgarian own funds. Of the residual funds in the amount of approximately EUR 0.6 million, EUR 0.4 million were used to develop the open market in Pazardjik (construction measures and cooling units) and EUR 0.2 million for the acquisition of cooling facilities for the wholesale market of Haskovo with the consent of BMZ.

In retrospect, large parts of the project concept proved to be inadequately adapted to the actual Bulgarian context. The main problems were the insufficient involvement of the agricultural producers in the project design and the selection on an inadequate operator (insufficient experience, lacking capacity). The assumption that the establishment of efficient producer associations and the preparation of a viable operating concept within the framework of TC could be carried out in parallel with the implementation of the FC financed construction work proved wrong in the end.

Key Results of the Impact Analysis and Performance Rating

The main result of the investment in fixed assets in the market location of Haskovo was the construction of a technically operational, modern and – at least in the national context – high-quality market infrastructure (circulation, storage and refrigerated areas). However, there has been no sufficient demand so far for this infrastructure and consequently the producer's market in particular is used only very sporadically overall, although it is used on a seasonal basis. The establishment of a functioning wholesale market proved much more difficult than planned, but there have been a few positive developments in recent times. Thus, 100% of the created

wholesale market area was rented in 2003 (2002: 60%). About 55% of the storage area was rented to enterprises trading with locally produced fruit, vegetables, legumes and grains. While wholesalers initially used the rented space mainly for storage purposes, trading activities have been increasing recently, according to the market company which indicated that turnover of fruit and vegetables rose from about 3,400 t in 2002 to 9,680 in 2003. Storage accounts for about 20% - the existing refrigerated areas, for example, are occupied all year round - and actual trading turnover for 80%. The facilities are only partly used in accordance with the original project concept. However the current use suits the local economy better than the concept of marketing products through producers associations.

Due to the low willingness of the users to pay an adequate price for the created infrastructure, it is currently impossible to charge cost-covering rent fees. Every assumption concerning the revenues and the business development of the wholesale market of Haskovo has proven unrealistic. In 2002, revenues actually amount to about EUR 56,000 (planned in the project appraisal report: EUR 630,000, business plan of the TC consultant: about EUR 131,000). With expenditures of EUR 481,000, reported losses amount to EUR 370,000 even after the reduction of the on-lending conditions. For 2003, the balance-sheet shows a loss of EUR 308,000, with revenues in the amount of EUR 371,000 and expenditure in the amount of EUR 679,000.

Achievement of the project objective: According to the information of the project-executing agency about 9,700 t of goods were sold in 2003 (target fixed during project appraisal: 45,000 t). The project has not succeeded in creating efficient producer associations and they play no role at all for the use of the market. When the wholesale market was opened, the market company Maritza incurred high losses in spite of the considerable reduction of the on-lending conditions. Hygiene standards are being met.

Achievement of the overall objective: There is no recent data regarding the development of per-capita consumption of fruit and vegetables in the project region. For Bulgaria as a whole, corresponding consumption remained roughly unchanged between 2001 and 2003. The number of registered agricultural enterprises in the region of Haskovo decreased by 25% in the period between 2001 and 2003 and currently amounts to 1,015. Since project appraisal the number of active wholesalers has decreased by about 17% to 50. As the cultivation area of vegetables has decreased by 40% since 1999, it is likely that production has fallen below the level of 1999 (about 90,000 t). Market sales are likely to amount to about 10-15% of fruit and vegetables produced in the region. The contribution of the project to the creation of competitive marketing systems for fruit and vegetables, the improvement of the situation of the agricultural enterprises and private trade, the increase of fruit and vegetable exports and the improvement of the supply of the urban population appears relatively low.

At the time of project appraisal the following risks were considered to be the most important: (a) provision of sufficient local funds, in particular by the Bulgarian Ministry of Agriculture; (b) sufficient commitment of private investors; (c) identification of sufficiently large sales markets and involvement of suitable wholesalers; (d) preparation of a viable and acceptable market concept; (e) creation of producer associations cooperating with the wholesale markets. The risk stated under (a) has not occurred. The importance of all other risks (b) – (e), however, has been underestimated. Looking back, the estimation that these risks could be clearly reduced mainly through TC support proved to be wrong.

Overall, we rate the developmental effectiveness of the project as follows:

The project objectives with regard to the turnover of goods, the use of the market by producer associations and the financial situation of the project-executing agency have not been reached so far. The clear increase in the turnover of goods in 2003 shows a positive development with

regard to the use of the created infrastructure. However this has not yet resulted in positive economic effects. So far the market company has incurred high losses, which involve serious sustainability risks. If losses persist, the market company will no longer be able to finance the necessary repair and maintenance work, which is likely to increase in the future, as well as replacement parts. From the current point of view we rate the project's **effectiveness** as slightly insufficient (sub-rating 4).

We also rate the production efficiency as inadequate. This is due to the higher construction costs (about 25%) and the considerable construction deficiencies which have not yet been remedied. The project's allocation efficiency is also negative. Even after considerably reducing the interest burden it is very unlikely that the market company will be able to charge cost-covering rent fees for the established market area and the other facilities (refrigerated areas), due to the limited scope for price increases. Neither is it likely that the project will achieve a sufficiently positive internal rate of return. Therefore, we judge the project's **efficiency** as **clearly inadequate** (sub-rating:5).

The relevance of the project was mainly justified on the basis of its expected positive effects on the development of market economy structures and positive impacts on the production of fruit and vegetables and related incomes. In effect, the project's relevance is limited because the main problems concern the supply side (quality of the products) and can only partially be influenced by better marketing. In view of the results achieved on the level of the overall objective, a certain contribution has been made to strengthening market-economy structures. Given the importance of weekly markets it is rather unlikely that the project has made a significant contribution to improving the supply of the urban population with fruit and vegetables. The wholesale market is not used by producer associations and consequently the project has not had any significant effect on increasing the income of the agricultural sector. Only about one quarter of the planned quantities are being sold on the Haskovo market. The economic situation of the operator is very tight. Also regarding the improvement of the sectoral conditions in agriculture we expect gradual improvements at best. We rate the project's **relevance/significance** as slightly insufficient (**sub-rating: 4**).

Under consideration of the key criteria mentioned above, we assess the project's **developmental effectiveness as slightly insufficient overall (rating 4)**.

The project did not aim at gender-specific objectives, direct poverty reduction, environmental targets or the improvement of governance. Consequently it has had no impacts in these fields.

General Conclusions applicable to other Projects

A greenfield approach for a market infrastructure involves very high risks in an environment that has neither efficient producer associations nor a network of wholesale markets and where the general economic environment is difficult. An evolutionary approach using and developing the existing structures (open markets) would be less risky. If a greenfield approach is chosen nevertheless, the FC implementation concept should include explicit milestones and possibilities of abandoning certain measures to limit the risks incurred. A minimum requirement for the start of the project should be the existence of a project concept agreed with all parties involved (including the users).

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the project objectives reached to a sufficient degree (aspect of project effectiveness)?
- Does the project generate sufficient significant developmental effects (project relevance and significance measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the funds/expenses that were and are being employed/incurred to reach the objectives appropriate and how can the project's microeconomic and macroeconomic impact be measured (aspect of efficiency of the project conception)?
- To the extent that undesired (side) effects occur, are these tolerable?

We do not treat sustainability, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organisational and/or technical support has come to an end.