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Bulgarian Retail Food Markets in Transition

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Bulgaria faces challenges in moving its food marketing system from government control to open competition. The existing food system is in flux as large state enterprises struggle for survival and smaller private competitors seek economic viability. A loss of exports, a weakened domestic market, a lack of marketing infrastructure, and poorly developed market information systems have made Bulgaria's transition particularly difficult.

Bulgaria is finding it more difficult to overcome these problems than are other Central and East European (CEE) countries. While many of its neighbors have seen a return to strong positive income growth, Bulgaria remains mired in recession. Bulgaria's food processing firms, almost totally dependent on Soviet markets in the past, are finding it difficult to adapt to the demands of new markets. The foreign investment that could finance the retooling of these plants has been slower to arrive in Bulgaria than in other CEE's or the former Soviet Union.

Bulgaria has excellent natural conditions for agriculture, and has long been famous for its high-quality

wine, fruits, vegetables, yogurt, and cheese. Eventually these sectors should be a significant source of export earnings and become attractive to Western investors. But the pace of reform has been slow, and investors continue to be wary of entering Bulgaria. In the meantime, state structures for food processing and distribution have collapsed almost completely, and new private entities are only slowly taking their place.

Bulgaria in Transition

During the Communist Era (1945 to 1990), the food production system—primary production to processing and retailing—was almost entirely under state control. Production of raw agricultural products was dominated by these state cooperative farms. There did exist a private sector, consisting mainly of half hectare plots of land (a hectare equals roughly 2.5 acres) allotted to individuals by the state cooperative farms. The contribution of these plots was significant, particularly in the production of fruits and vegetables. But these individual farmers depended on the state cooperatives for input supplies and for markets for their output.

The processing and distribution of food products were entirely in the

hands of state-owned monopolies, such as the State Grain Trust, Rastitelno Maslo (for vegetable oils, margarine, and soups), Bulgarplod (for fruits and vegetables), and others. These state entities were the sole purchasers of products from the farmers, had a monopoly on processing, and operated many of the retail outlets. The Consumer Cooperative Union controlled most other retail outlets and operated open-air markets.

The centrally planned system under the Communist regime generated inefficiencies at every level. Farm inputs were subsidized, so cooperatives had no incentive to use them efficiently. Farms were also burdened with excess labor and the costs of providing social services (housing, childcare, and healthcare) for those workers. Food processing plants were technologically outdated as a result of government investment policies that favored heavy industry. Since they produced mainly for the domestic and the Soviet markets, they were under no pressure to improve quality.

However, unlike the situation in other former centrally planned economies, Bulgarians for the most part ate well during the Communist period. Poland and the former Soviet Union were famous for the long

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lines in front of foodstuffs. But this was not the case in Bulgaria until the very end of the Communist period (about 1988). As was the case throughout the region, food prices were kept artificially low, but authorities provided sufficient subsidies to producers and processors to ensure adequate supplies. Those living in rural areas did particularly well, since they could draw on their private-plot production. It was only in the late 1980's that food supplies began to deteriorate, as mounting foreign debt forced Bulgaria to curtail imports of essential inputs to the food industry.

Bulgaria began its transition to a democratic, free-market society in 1990 with the election of its first non-Communist government in 50 years. A series of decrees enacted in 1990 and 1991—the Law on Privatization, the Law for the Protection of Competition, and others—resulted in the breakup of the food processing and distribution trusts into a number of independent, but still state-owned, companies. These companies were theoretically free to compete with one another, and all are to be eventually privatized.

Legislation passed in 1992 established procedures for the return of land to pre-1946 owners. The same legislation also called for the liquidation of cooperative farms. Liquidation Councils were appointed to oversee the distribution of the farms' assets and manage the farms until their eventual liquidations.

In February 1991, most retail food subsidies were removed. However, the Bulgarian Government sets minimum prices paid to farmers for wheat and dairy products and exerts some control over retail prices through limits on profits realized at each stage of processing for basic foods, such as bread, dairy products, and vegetable oil.

Other legislation in 1991 abolished the state trading monopoly, and all Bulgarian food firms are now free to engage in foreign trade. For most commodities, quantitative trade restrictions were replaced by instruments such as tariffs and export taxes. However, imports and exports of "strategic" commodities, such as wheat, live animals, or sunflower oil, are subject to periodic quotas or outright export bans.

A law passed in early 1992 calling for the restitution of property expropriated by the Communists resulted in an explosion of private retail outlets, such that food retailing is now largely in private hands. In the first few years of the transition, Bulgaria removed most legal barriers to the start-up of new firms, and there has been a notable increase in the share of private firms in both retailing and processing.

However, it should be noted that privatization has occurred mainly through the start-up of new, small-scale firms. "Large-scale privatization," or the privatization of state-owned firms, has proceeded much more slowly. The result is that while the retail sector is dominated by small private shops, the processing sector, particularly in the milling and baking industry, remains dominated by large state companies.

Economywide Changes

Immediately following the economic reforms, real income dropped sharply and inflation rose rapidly. Real gross domestic product (GDP) fell 9 percent in 1990 and 12 percent in 1991. Inflation reached 334 percent in 1991: most of that resulted from the February price liberalization; much of the rest was due to administrative increases in energy prices. Unemployment, officially nonexistent under Communism,

rose to 10 percent in 1991 and peaked at 16 percent in 1993, before declining to 11 percent in 1995.

The recession that hit Bulgaria in 1991 was typical of all the CEE countries at that time. However, by 1995 most of the CEE's had managed to turn their economies around. In 1995, for example, Poland achieved a 5-percent GDP growth for the second year in a row. Bulgaria, however, remains mired in recession. The country finally achieved positive GDP growth of 1.4 percent in 1994, and GDP grew only 1.5 percent in 1995. Inflation continued to rise, reaching 122 percent in 1994. Inflation fell to 55 percent in 1995, but accelerated again in 1996. Some analysts expect inflation to have reached 300 percent for 1996.

The agricultural sector was hit hard as well. Since 1990, there has been a significant drop in production in both the crop and livestock sectors (tables 1 and 2). Bulgarian farmers were hit by a four- to eight-fold increase in production costs in 1991, while prices they received for their output merely doubled. This has been compounded by the fact that land restitution and the liquidation of the cooperatives have proceeded very slowly, with the result that many of the new land owners still do not have permanent title to their land. Agriculture has also been hurt by the collapse of the former Soviet market, which was previously the main purchaser of Bulgarian fruits, vegetables, and livestock products. Roughly 90 percent of Bulgarian exports of processed fruits and vegetables used to go to the former Soviet Union.

The most dramatic adjustments have been in the livestock sector. Livestock production has become extremely unprofitable, as feed costs have risen, while government policies have combined with reduced

Table 1
1994 Production of Major Bulgarian Crops Down From 1980 Levels

Crop	1980	1989	1990	1991	1992	1993	1994
	<i>1,000 tons</i>						
Wheat	3,847	5,425	5,293	4,497	3,443	3,618	3,754
Barley	1,375	1,572	1,387	1,501	1,195	933	1,143
Maize	2,256	2,265	1,221	2,756	1,745	983	1,384
Sugarbeets	1,414	996	584	855	304	95	112
Sunflowerseeds	380	458	389	423	595	432	602
Vegetables	1,639	1,662	1,565	1,347	1,075	819	1,038
Tomatoes	838	873	846	645	444	348	477
Fruits	1,919	1,811	1,677	1,327	1,432	823	913
Apples	394	458	411	161	221	110	76
Table grapes	120	69	68	79	81	47	43
Wine grapes	745	587	563	570	616	394	380
Strawberries	22	18	19	17	13	5	6
Oriental tobacco	103	65	57	59	58	36	26

Sources: Statisticheski Spravochnik, 1992, and National Statistics Institute, Sofia, Bulgaria.

Table 2
**Production in State-Owned Bulgarian Livestock Operations Has Fallen Sharply,
 Private Production Has Increased**

Livestock operation	1989	1990	1991	1992	1993	1994	1995
	<i>1,000 head</i>						
Cattle	1,613	1,575	1,457	1,310	974	750	638
State-owned	1,293	1,293	1,057	892	679	243	129
Private	307	282	400	418	488	507	509
Cows	646	617	609	575	489	419	351
State-owned	491	472	406	338	194	98	59
Private	157	145	203	237	295	321	292
Hogs	4,119	4,332	4,187	3,141	2,680	2,071	1,986
State-owned	3,355	3,467	3,156	2,321	1,842	1,324	924
Private	764	865	1,031	820	838	747	1,062
Poultry	41,804	36,338	27,998	21,707	19,872	18,211	19,126
State-owned	24,089	22,471	15,517	11,025	7,871	5,714	5,531
Private	17,715	13,867	12,481	10,682	12,001	12,497	13,595
Sheep	8,609	8,130	7,938	6,703	4,814	3,763	3,398
State-owned	5,909	5,581	4,760	3,442	1,232	470	262
Private	2,700	2,549	3,178	3,261	3,582	3,293	3,136

Source: National Statistics Institute, Sofia, Bulgaria.

consumer demand to hold down producer prices. The declines have been the greatest in the state-owned hog and poultry complexes, which continue to depend on very expensive manufactured mixed feed. Private livestock producers have been quicker to adjust their feeding practices to the new economic reality, feeding from their own grain production.

Food Prices and Consumption

Immediately following the February 1991 liberalization of prices, food prices rose over 300 percent, faster than overall retail prices. As a result, the share of the average household budget spent on food rose to 47 percent in 1991, from an average of 36 percent during the 1980's. Food prices stabilized in 1992, and this share fell slightly to

43 percent in 1993. However, as inflation accelerated in 1994, the share rose again to 45 percent. The poorest segment of the population still spends close to 60 percent of its income on food.

As a result, per capita consumption of many foods dropped sharply after 1990 (table 3). The most dramatic adjustment in food consumption was in meat and dairy products, which were heavily subsidized during the Communist era. Per capita consumption of these products is still on a downward trend. There was a one-time drop in apparent per capita bread consumption (as measured by retail sales) in 1992, as livestock breeders ceased feeding bread to their animals. However, bread consumption has been stable since, the result of substitution of bread for meat and dairy products. Fruit and vegetable consumption have not changed much, mainly be-

cause of the prevalence of home gardens.

Since the liberalization of prices in 1991, consumers have complained that food supplies are worse than before. In fact, supplies of most foods are adequate, and there is a far greater variety available now than in the past. The problem for consumers is that high prices relative to their incomes put many of these goods out of reach. Fresh milk is the only commodity which has consistently been in short supply. Milk supplies have been severely disrupted by the liquidation of the cattle herd. Also, milk prices remain under some degree of government control, with the result that dairies realize higher profits by processing the milk into cheese, which is then exported. There have been periodic shortages of vegetable oil as well, as authorities made vain attempts to impose controls on its price.

Table 3
Rising Food Prices in Bulgaria Resulted in Declining Consumption, Except for Fresh Vegetables

Product	Unit	Per capita consumption				
		1989	1990	1991	1992	1993
Bread and pasta products	kg.	160.5	170.2	181.1	160.4	157.2
Flour	kg.	12.5	11.5	10.7	12.8	12.3
Meat	kg.	35.8	36.5	26.2	31.4	30.2
Pork	kg.	14.7	15.9	11.8	9.1	7.6
Beef and veal	kg.	2.7	2.8	1.8	1.5	1.4
Mutton, lamb, and goat	kg.	4	4.1	4.2	4.7	4.8
Poultry meat	kg.	10.2	9.1	4.3	5.9	6.6
Meat products	kg.	17.5	18	15	18.1	15.9
Milk	kg.	53	55.7	52.6	41.9	40.4
Yogurt	kg.	63.7	65.5	50	36.4	30.1
Milk products	kg.	15.5	15.2	1.2	14.1	12.9
White cheese	kg.	11.1	11	9.5	11.4	10.2
Eggs	number	170	166	154	153	148
Vegetable oil	liters	15.3	14	11.1	14	13.5
Butter	kg.	2.1	2.1	1.7	1.2	1.1
Fresh fruits	kg.	35.4	32.2	22.9	25.3	28.9
Apples	kg.	11.8	11.6	7.3	5.6	7.6
Grapes	kg.	5	4.5	4.2	5.4	5.3
Fresh vegetables	kg.	59.8	61.1	57.5	66.1	64.6
Tomatoes	kg.	18.2	19.4	18.5	21.3	21.8
Peppers	kg.	8.5	8.9	9.6	11.3	10.3
Potatoes	kg.	28.3	28.8	28.2	28.6	26
Sugar	kg.	12	9.3	7.9	10.6	9.2

Source: *Statistical Yearbook, 1994*. Republic of Bulgaria. National Statistics Institute, Sofia, Bulgaria.

Bulgaria's Retail Sector Still Undeveloped

Despite widespread privatization of the food retail sector in Bulgaria, most establishments are not customer friendly or service-oriented. Shops tend to carry an eclectic assortment of goods, which can change daily. Open-air markets are still the norm for purchasing all produce and other nonfood consumer goods. Availability and packaging of fresh foods is still highly variable. It is not uncommon to see produce arrive at the market packed in the back of cars and/or on horse-drawn carts.

Shopping for food in Bulgaria requires a great deal of time and effort. Bulgarian consumers tend to shop more often and purchase smaller quantities than does the typical U.S. consumer. This way of life has been more traditional to the habits of Western European shoppers, where open-air retail markets are frequented daily. While Bulgarian consumers do shop frequently, they do so more for economic reasons than out of preference. Merchants are reluctant to invest in attractive displays or better customer services, knowing that consumers would resist paying the higher prices such amenities would entail.

Foodstores, most of which are now privately owned, are indoors, small, and have traditionally offered only a few items. These stores generally specialize in items like meat and wine, although imported goods have increasingly found their way into these shops. It is not uncommon to see meat shops also offering beauty products and laundry soaps.

Although the retail sector is dominated by small private shops, there do exist a few supermarkets. These are mostly large, state-owned shops with a limited assortment of food and an array of goods which are not necessarily grocery items. As one

shopper said, "Supermarkets are fine, they just don't have any food." What food they have is limited to bread, meat, and nonperishable, packaged food, and more and more of the processed foods sold are imported. These state-owned stores lack the money to buy much inventory and profits are higher on non-food items. Prices tend to be higher in the supermarkets than in private shops because of the high costs still incurred by these state firms. The result, of course, is that these stores are not very popular.

With the exception of bread, wine, and meat products, it is becoming increasingly difficult to find Bulgarian-made goods in the retail shops and supermarkets. What one finds in these shops is snack foods from Greece or Turkey, Greek detergents, juices and soft drinks from Greece or Western Europe, and other imported goods. Even high-quality Bulgarian products such as jam and beer are difficult to find.

The principal retail sources of fresh produce as well as processed Bulgarian products are the open-air markets. These typically consist of several rows of stalls where individuals sell fresh fruits and vegetables. Many such markets also include a row of semipermanent enclosed structures which typically sell cheese, fresh and processed meat, canned fruit and vegetables, juices, and jams. Some of these are private, while others are outlets for Bulgarian state companies such as Bulgarpod or Rodopa.

Even less formal marketing channels are the kiosks, basement windows, and street vendors. The kiosks sell a wide variety of goods, ranging from cosmetics to packaged snack foods (mainly imported) to Bulgarian beer. A similar range of goods is sold out of basement windows. Street vendors account for a relatively small part of retail fresh produce sales. They obtain their supplies primarily from wholesalers or from central market retailers.

They also sell imported produce, acquired from wholesalers or by direct importation.

Problems in the Distribution System

Five years ago, retail sectors throughout Central and Eastern Europe were similar to Bulgaria today. Now, however, Poland, Hungary, and the Czech Republic can boast retail food shops that almost rival those in Western Europe in terms of service, availability of goods, and attractiveness of the displays. Moreover, particularly in Poland, more and more of the attractively packaged goods are produced domestically.

There are several factors that probably lie behind the lagging progress of Bulgaria's retail sector—the stalled income growth of the population, lack of capital for infrastructure improvements, the slow pace of privatization, a poorly developed wholesale network, and a poorly developed system of market information.

Consumer Income

Bulgarian consumers do not appear to value the convenience of one-stop supermarket shopping and resist paying higher prices in exchange for better service or more attractive packaging. The principal reason is the low income of most consumers. A typical salary is under \$100 a month, while prices of many foods (especially meat and processed foods) are close to those in the United States. In 1995, Bulgaria achieved about the lowest income growth of all the Central and Eastern European countries.

Given their low wages, most Bulgarians do not place a very high value on their time, and they are willing to spend a great deal of time to find goods at the lowest possible

USDA Provides Technical Assistance

In recognition of the urgent need to improve its market information system, the Bulgarian Government has been working closely with USDA and the European Union (PHARE program) to address its information needs at all levels. This cooperative effort is working toward producing better:

- **Statistics.** As more and more of the economy moves into the private sector, old methods based on obligatory reporting by state enterprises depict an increasingly distorted picture of the economy, and statisticians at Bulgaria's National Institute of Statistics have little practical experience with modern sampling methods. USDA's National Agricultural Statistics Service (NASS) assisted the National Institute for Statistics to develop statistically reliable sampling procedures and helped the staff conduct a national livestock survey.
- **Market price reporting.** USDA's Agricultural Marketing Service (AMS) has established a market information program in Bulgaria. AMS helped to develop a system for daily collection of prices for fruits and vegetables on different markets. The information is widely disseminated to public and private-sector institutions and individuals to help develop a transparent marketing system that facilitates effective and efficient trading of goods.
- **Extension.** With the return of land to pre-1945 owners, a large number of landowners are trying to set up farm operations and desperately need technical and financial advice. Advisory services were previously provided by cooperative farms and research institutes, which were ill-equipped to serve the needs of new landowners struggling to establish viable farms. In response to this need, the European Union's PHARE Program has helped the Bulgarians create a network of regional extension centers, and USDA's Cooperative State Research, Education, and Extension Service worked with some of the research institutes to help them develop training programs.
- **Commodity market analysis and reporting.** USDA's Economic Research Service (ERS) has been training economists at the Ministry of Agriculture to produce a series of commodity market reports which analyze and forecast supply, demand, and prices on domestic and international markets for major commodities. The forecasts provided in these reports can improve decision making at all levels: farmers can make more informed decisions on next year's planting; processors can use the information to plan purchases and anticipate consumer demand; and traders can compare domestic and international prices and decide whether to purchase supplies for export or to contract with foreign suppliers for imports.

price. Likewise, they are willing to invest the time it takes to cultivate a home garden and to do their own preservation rather than buy the goods in a shop. Managers and owners of retail shops know that customers will resist paying higher prices, so they do not invest in the amenities that would make shopping more pleasant. It is a circle that will only be broken through rising incomes.

Lack of Privatization in the Processing Sector

Whereas Bulgaria's retail sector is largely privatized, this cannot be said for the enterprises engaged in procuring, processing, and distributing agricultural products. The old

state trusts have been broken up, but most remain state-owned. Most also suffer desperate financial difficulties. Most processing firms are technologically outdated and as a result incur high costs. With the collapse in consumer demand, most are working at less than half their capacity, raising per unit costs still further.

However, many of these companies are still sheltered from the full effects of competition because the government has been reluctant to allow them to go bankrupt, fearing increased unemployment, instead choosing to support them with soft credit. Given the high indebtedness of these firms, potential investors have shown little interest in purchasing shares in them.

In many cases, the new subsidiaries of the old state trusts have become regional monopolies. The

only competition that has emerged are newly started private firms. However, while most legal barriers to entry have been removed, other barriers remain. The most serious problem is a lack of start-up capital. Poland and Hungary can boast a number of privatized processing firms that are thriving because of generous injections of foreign capital. But foreign investors remain wary of investing in Bulgaria, partly because of the continuing low income of the population and also because of a lack of laws clarifying the rights of foreign investors.

The Wholesale System

Many Bulgarian farmers have a deep-seated distrust of wholesalers, the

with many produce farmers piling produce in their cars, unwashed and unpacked, and driving to the markets rather than selling to a wholesaler. The view of wholesalers as unproductive parasites making profits at the expense of hard-working farmers was a strong element of Communist ideology that is hard to shake. Livestock growers tend to have a higher regard for wholesalers because they provide the specialized transportation services needed for live animals and milk.

The closest that Bulgaria had in the past to wholesalers were the state trusts which controlled processing and distribution. The role of the state companies in wholesaling is now greatly reduced—they mainly supply the few remaining state retail shops and exporters. However, these state companies still control most of the storage in the country. Thus, the private wholesalers that have emerged generally rent space from the state companies. The private wholesalers have not yet developed a solid client base nor do they have reliable sources for goods. They operate mainly on a drop-in basis and sell whatever they were able to procure that day. In turn, retailers sell whatever the wholesaler happened to have in stock.

Market Information

The Bulgarian food distribution system suffers at every level from a lack of comprehensive market information. Producers sell their output to the nearest procurement organization, unaware that a firm in a neighboring region may be offering higher prices. Alternatively, producers from the south of Bulgaria may drive their apples to a market in Sofia, 2½ hours away, on a rumor that prices are higher there, only to find that prices are lower.

The lack of price information on Bulgarian and international markets also enables traders with access to information to profit at the expense of producers. A case in point is the current “grain crisis” in Bulgaria. Most Bulgarian grain producers were unaware of the rapid rise in world wheat prices that occurred in the spring and summer of 1995. The result was a widening gap between domestic and international wheat prices. A small number of traders with knowledge of the world situation purchased large volumes of wheat for export, and exports are said to have reached 900,000 tons in the fall of 1995. The traders made large profits, but producers barely broke even, and now the country must import wheat at high prices.

There are many efforts underway to provide price information: several newspapers publish daily prices from farmers markets, and there are some fledgling firms trying to sell such information. But these efforts tend to concentrate on retail prices, providing little information on producer or wholesale prices. These reports also give no information on the quantities actually traded at the reported price.

Furthermore, there is no consistent set of grades and standards to accompany the market information. Without such information on quality, it is impossible to compare prices. Without a uniform set of standards, price differentials do not reflect quality differences, and producers often find that they are not rewarded in the marketplace for providing higher quality goods.

The dearth of market information creates inefficiencies throughout the food chain. Market signals are not transmitted back to food processors and producers to adjust production and processing techniques. Many processing firms have large stocks of unusable product as a result. For example, the Bulgarian tomato processing industry geared all of its exports of canned tomatoes and sauce

to the former Soviet Union. With the collapse of the Soviet Union, these products have no other market. The major reasons are inferior quality, poor labeling, and can sizes that do not meet consumer demands (moreover, most of the canned tomatoes are unpeeled tomatoes, for which there is almost no demand). Processors are interested in reformulating these products, but lack the market information they need to make those decisions.

Lack of information has made it difficult for Bulgaria to find new markets in the West to replace the lost sales to the former Soviet Union. Bulgaria produces high-quality hothouse vegetables (such as tomatoes, cucumbers, and kohlrabi), which can compete in Western European markets, but these exports have not expanded to reach their potential. The Western European market is difficult to penetrate. All would-be exporters to the European Union face substantial trade barriers; but Bulgarian exporters suffer in addition from a lack of detailed understanding of those markets. Produce exports tend to be on consignment, such that the exporter bears all the price risk in the transaction. Exporters cannot afford to take such risks without detailed information on the identity and requirements of potential purchasers, as well as market conditions in the destination country.

Infrastructure and Market Information Critical

For more than a generation, Bulgarians worked and were educated in an environment that was the antithesis of the entrepreneurial ethos characteristic of successful market economies. Now they are being asked to embrace unfamiliar market concepts, such as consumer sover-

eignty, and to develop business skills.

But these same challenges faced all the countries of Eastern Europe. Many of the other countries have made significant progress in overcoming them, but Bulgaria has not. Some of the reasons include the slow pace of large-scale privatization, the willingness of the government to continue to bail out loss-making state companies, and the uncertainties surrounding land restitution, which have led to production declines. These factors tend to feed continuing inflation, and low productivity keeps wages low. Bulgaria was also more dependent than other Central and Eastern European countries on the Soviet market during the Communist era, and thus faces a greater challenge in retooling

its processing industry to meet the requirements of Western markets.

There is a critical need for investment to upgrade processing plants and modernize Bulgaria's infrastructure. Equally important, however, is the clarification of property rights and the widespread availability of accurate, timely, and unbiased market information. Clearer property rights will increase the confidence of potential investors. Better information will enable new private firms to identify their markets and meet the needs of those markets. The government can facilitate this process if it recognizes that it has an important role in fostering an understanding of market economies in general, and business principles and practices in particular. Producers and retailers of agricultural products will begin to see the role of wholesalers as specialized agents that can assemble and transport fresh products efficiently, especially to the higher priced export markets. Improvement in all these areas will help create a more favorable climate for both domestic and foreign investment.

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