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# AGRARIAN GOVERNANCE – WHO, WHAT, WHY, HOW, WHERE, WHEN, PRICE?<sup>1</sup>

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## Abstract

The problem of adequate understanding and evaluation of system of governance, and agrarian governance in particular, is among the most topical academic and practical (policies and business and farms strategies forwarded) tasks. However, there is huge differences in understandings of the governance among scholars, practitioners, and official and business documents. Sometimes it is associated with the top management of a country, a company or organization; sometimes it is related to government agencies (public administration); sometimes it encompasses the management outside and beyond government entities; sometimes it is used as synonym of Management, in other instances it is part of the Management of an organization, while in some case it is more general than Management including a great variety of modes, etc.

The goal of the article is to adapt the interdisciplinary methodology of the New Institutional Economics and to propose an adequate definition and framework for analyzing the system of agrarian governance in Bulgaria. Based on a critical review of previous research and practical experience in this area, it is underlined that agrarian governance is to be studied as a complex system, including four principle components: agrarian and related agents involved in making management decisions; rules, forms and mechanisms that govern the behavior, activities and relationships of agrarian agents; processes and activities related to making governing decisions; a specific social order resulting from the governing process and functioning of the system.

The analysis of agrarian governance should include the individual elements for the system, different levels of governance, and the main functional areas of agrarian governance, for each of which adequate quantitative or qualitative methods of institutional approach are suggested. When evaluating the agrarian governance system, the personal characteristics of the participating agents, the institutional environment, transaction costs and benefits, the comparative efficiency of alternative governing structures, and the "time factor" must be taken into account. Further theoretical and empirical research in this "new" field is needed to better understand this complex category and refine approaches to its economic analysis.

**Key words:** governance, agriculture, definition, assessment, Bulgaria

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## Introduction

The term Agrarian Governance is widely used in official documents, management practice, and in numerous academic publications around the globe and Bulgaria (Ali, 2015; Backer, 2011; Bachev, 2010, 2014; Bayyurt et al., 2015; Bevir, 2012; Bloor, 2022; Boevski, 2020; Braun and Birner, 2017; Carbone, 2017; Chakrabarti, 2021; Chhotray and Stoker, 2009; Darjaven Vestnik, 2021; Dimitrov et al., 2014; Dixit, 2016; DFID, 2010 ; EC, 2019, 2021; Frija et al., 2021; Freidberg, 2019; Fukuyama, 2016; Ganey et al., 2020; Georgiev, 2013; German, 2018; Higgins and Lawrence, 2005; Herrfahrdth, 2006; Katsamunska, 2016 ; Kumar and Sharma, 2020; Ledger, 2016; Levi-Four, 2012; Muluneh, 2021; Morfi, 2020; OECD, 2015, 2019; Planas et al, 2022; Schwindenhammer, 2018; Rodorff et al., 2019; Shand, 2018; Terziev et al., 2018; Tleubayev et al., 2021; Torres-Salcido and Sanz-Cañada, 2018; Vymětal, 2007; UN, 2015; Weiss, 2000; World Bank, 2022). The significant academic, public and private interest in the study of the governance system is dictated by the fact that the effectiveness of the specific governance system ultimately (pre)determines the degree of achievement of the diverse goals and the type of socio-economic development of a given country, industry, region, community, ecosystem, economic organization, etc. (Ostrom and Schlüter, 2007; Ostrom, 1999; North, 1990; Williamson, 1998, 2005). The relevance of the problem is also strengthened by the numerous examples of "failure" of the existing governance system on a sectoral, national, and international scale, the major socio-economic and ecological challenges and "crises" of various types, and the strong social "pressure" towards and drive by government, professional and business organizations to "reform" and "modernize" the existing governing system.

However, the experience of Bulgaria and many other countries shows that this academic and social problem is far from being solved. One of the main reasons for this is that an adequate holistic approach to understanding, analyzing and evaluating the governance system in general and in the agrarian sphere in particular is not yet applied. The aim of the article is to adapt the interdisciplinary methodology of the New Institutional Economics (Coase, 1991, 1998; Furubotn and Richter, 2005; Ostrom, 1990, 1998; Williamson, 1998, 2005; North, 1990) and to propose an adequate definition and approach to analyze of the system of agrarian governance in Bulgaria.

In the Bulgarian language, there are no suitable words to distinguish the categories Governance from Management, and one word (управление) is used for both of them. This often causes confusion, even among experts in the field. To avoid misunderstandings (increasingly often) the "Bulgarianized" English term Governance is used in academic, managerial and everyday practice.

## Content and Evolution of the Understanding of Agrarian Governance

The content of the Governance category is constantly expanding and enriching, which is determined both by the development of theory and the evolution of the forms used in practice, and the needs for evaluation and improvement. In view of its significance, Governance represents a growing interest for independent study by scholars in multiple disciplines - political scientists, legal scholars, sociologists, historians, economists, etc. In parallel, many new (specialized) areas of scientific research and governance practices are being identified and developed depending on the subject, functional area, level or type of management: program governance, contract governance, supply chain governance, environmental governance, agricultural sustainability governance, water, land and landscape governance, e-commerce governance, global governance, etc. Individual researchers and disciplines typically apply their own definitions of this key concept. Recent decades have seen borrowing and mutual enrichment, and interdisciplinarity of approaches to understanding and analyzing Governance from scientific disciplines and social practices.

The term Governance is derived from the Greek word *kubernaein* ("to steer") and is believed to be used as far back as Plato (Malapi-Nelson, 2017). The term was later adopted from Latin, then from Old French, and from there into Medieval English, from where it gained worldwide distribution (Vymětal, 2007). In more recent history, this term was used in the sense of "the specific activity of governing the country" (Tyndale and Frith, 1831), and as distinguished from individual governance and in relation to institutional structure, originally used by Charles Plummer in *The Governance of England* (Wikipedia, 2023). After the modernization of the late 18th century, when the state became decisive for solving complex socio-economic problems, the term Governance acquired "political significance" (Vymětal, 2007). It becomes an expression of government and state policy, reflecting its form and/or the effectiveness of the intervention measures taken. This approach to understanding the category associates it solely associated with power and force, and with the government's activity of direct care, command and control "from above" through public bureaucracy.

As a result of the complexity of socio-economic processes and challenges, the development of globalization, economic integration and democratization, and the numerous "failures of the state" and the fundamental reformation of the public sector, a new understanding of governance has been developing. In this connection, the term New Governance arose, which refers to the changes in the state that began in the 1980s (BRITANICA, 2023; Higgins and Lawrence, 2005 Planas et al., 2022; Trubek and Trubek, 2007). This "broader" understanding is related to the transformation of "services" from public administration to market, private, non-governmental and network structures, increasing the role of outside and above state organizations and civil society, and (the need for) cooperation and interaction of numerous public and private institutions and organizations.

It is generally accepted that Governance is a general, complex, multifaceted concept that is difficult to define in a precise way (Ali 2015; Fukuyama, 2016; Higgins and Lawrence, 2005; Scmitter, 2018; Vymětal, 2007). Attempts to define Governance can be grouped into several directions:

First, the traditional understanding of governance as agents (individuals, agencies, organizations, etc.) who govern and/or participate in governance – President, Parliament, etc. (Fukuyama, 2016). In a narrower understanding, Governance is seen as a synonym for public administration, and in a broader sense it includes non-sovereign and informal agents outside the state system - international and non-governmental organizations, supra-national institutions such as the European Union, etc. For example, in the popular New Governance paradigm, the question of "Governance without Government" is posed, which means the transfer of many traditional functions from the state to private and non-governmental organizations - provision of public goods, services, regulations, control, (self) organization, etc. In this connection, the various agents are also identified, defined as governing units that can govern - government, formal organization, socio-political, or other informal group of people. In traditional economics, for example, the main governing units that optimize the allocation of resources in accordance with their interests are households and firms.

Second, defining Governance as a process of governING. A large number of authors accept that governance is the decision-making process and the process by which decisions are implemented (or not implemented) in society or in an organization (Ali, 2015; loG, 2003; Planas et al., 2022; UNDP, 1997; Wolman et al., 2008). This "processual" understanding of Governance makes a connection with traditional Management, which is essentially a purposeful process of making managerial decisions at different levels of governance. A large number of international organizations also define governance in this way, mostly in relation to a given country, a certain industry, etc. – “governance consists of traditions and institutions through which power in a given country is exercised” (World Bank, 1992, 2022).

Similarly, economic governance is defined as the processes that support economic activity and economic transactions by protecting property rights, sanctioning contracts, and taking collective action to provide appropriate physical and organizational infrastructure (Dixit, 2016). In the traditional economy, the market equilibrium is reached namely through a process of decentralized actions of the economic agents (individuals, firms, households) governed by the "invisible hand of the market". In the New Institutional Economics, in addition to the "public" level Public Ordering) and market management (Market ordering), an important component of the governing process is also private ordering (Williamson, 2005).

Third, defining Governance as a means (precondition) and a set of rules, means, methods, structures and mechanisms that govern people's behavior, activity and relationships (Furubotn and Richter, 2005; Scmitter, 2018; Vymětal, 2007; Williamson, 1996; 2005). "Governance has become a buzzword today describing the whole set of approaches and techniques for improving coordination between different levels of society" (Vymětal, 2007). Similarly,

economic governance refers to the policies and regulations that are put in place by governments to manage the economy, including macroeconomic management and microeconomic management (AAID, 2008). Economics is a science that explains the "miracle" of how an order of maximization of private and aggregate product (welfare) is achieved by the actions of millions of individuals who specialize and exchange the products of one or other operations. The answers in Neoclassical Economics are that this is done (directed, coordinated, incentivized, sanctioned) by the "invisible hand of the market" and/or the "visible hand of the manager". Rare cases of "market failure" are found, but all of them are easily overcome with "state intervention".

The Old Institutionalism puts on the agenda the important role of institutions (introduced "from above" or evolved "from below") to "correct" market failures and govern the behavior of individuals. The classics of the New Institutional Economics also consider Governance in this sense: "Governance is the means by which to introduce order, thus mitigating conflicts and realizing mutual benefits" (Williamson, 2005, 2009). What is new here is that the "strange world" without transaction costs is left, and the market, hybrids, firms, and bureaus are considered as alternative structures and forms of governance of transactions (Coase, 1939, 1991, 1998; Williamson, 1996, 1999, 2005, 2009). Although they do not always mention this term, Coase, North, and Ostrom also analyze certain rules, mechanisms, and forms (institutions, structures, social arrangements, etc.) that govern the activities of individual agents and ultimately predetermine economic development (Coase, 1937, 1960, 1991; North, 1990, 1991; Ostrom, 1990, 1999).

Fourth, Governance is seen as a specific social order and the result of process of management - "the state of being governed" and "getting work done by mobilizing collective resources" (Dixit 2016; Fukuyama, 2016; Scmitter, 2018; Vymětal, 2007 ). Here it is presented rather as a general order and framework that determines the conditions, harmony and overall effect of decentralized efforts - the management of the activities and relations of agents pursuing their interests. Accordingly, in a given country, regions, industry, etc. different types or models of governance may dominate - "Rule of Law", "Rule of Money", "Rule of Force", etc.

This understanding makes it possible to better distinguish specific governance systems in different countries, industries, eco-systems, organizations, stages of development, etc. The same governance structures and models are known to have unequal results in different countries. Some researchers limit governance only to the social and political order other than that of the state in view of the "new" role of the market, network structures, non-state agents and the informal sector (BRITANICA, 2023). The New Institutional Economics analyzes a different kind of principled order – market, private, public, international, etc.

This understanding is largely related to the study of the "quality of management" and the effort to improve the governance system, as "desired" states such as "good", "efficient", "honest", "sustainable", "transparent", "democratic" etc. becomes a criterion for its evaluation and a goal of development (EC, 2018; UN, 2015). Much of the Good Governance literature focuses on

'Governance as Implementation', namely the government's capacity to provide basic public goods and services (Fukuyama, 2016; Osabohien et al., 2020; Ronaghi et al., 2020). Increasingly, these characteristics are also applied to assess governance in the private (corporate, agribusiness, etc.) and non-governmental sectors (Dimitrov et al., 2014; Aguilera and Cuervo-Cazurra, 2009; Benz and Frey, 2005; OECD, 2015 ; Rodorff et al., 2019; Sacconi, 2012; Skerman, 2016).

In that "normative" direction, the definitions of international, state, non-governmental and business organizations are also supplemented - for example, the current definition of governance of the World Bank also includes "the process by which governments are elected, controlled and replaced; the government's capacity to effectively formulate and implement rational policies; and respect for citizens and the state of the institutions that govern their economic and social relationships (World Bank, 2022). Governance Economics is precisely an attempt to apply "the study of good order and working arrangements", which includes both - the spontaneous order of the market and the deliberate order of a conscious, deliberate and purposeful kind (Williamson, 2005).

There are also many definitions that combine some of the characteristics of governance described above (EC 2018; WB, 2023). It is rightly noted that "Governance is not only a characteristic, but very often a system, with some subjects, some processes, some prerequisites, causality and results" (Vymětal, 2007).

Approaches to defining Agrarian Governance, in the ever-growing literature in this field, are similar to those of Governance in general, following the common logic of development in this dynamic field. Some of the most in-depth analyzes of the agrarian governance system do not even attempt to define this category, which is taken for granted and widely known (James, Klein, and Sykuta, 2011; Sykuta, 2010; Cook, 1995; Sykuta and Cook, 2001; Sykuta and Parcell, 2003).

Agrarian Governance is the governance related to agricultural production. Therefore, it is "easy" to define the object of this "sectoral", along with industry, transport, health care, etc., governance. In order to understand the essence of the Governance category, it is necessary to answer the following questions: Who, Whom, What, Why, How, Where, When and for How Much?

It is obvious that Governance is related to people and human society, for without them there is only "natural governance" according to the laws of physics, biology, etc. In a hypothetical example of an individual farmer living alone on a remote island in the ocean, there is no governance, but simply "agronomic and technological" management or Management of "(mutual) relations" with nature. In modern agriculture, however, there are no such examples. Even for a self-subsistent farmer, far from populated areas (a mountain, an island, a desert

oasis), there is some "external" control of activity and behavior<sup>3</sup>. For example, there are "vested" and sanctioned property rights (for private possession, usage, management, etc.) over agricultural land by the state, local government or community.

In modern conditions, there are also a variety of mandatory state, European Union, local community, etc. regulations on the manner of cultivation and use of the land, standards for the protection of biodiversity and the environment, etc. For example, the use of certain chemicals in agricultural production and the production of cannabis in Bulgaria are prohibited and punishable; changing the use of agricultural land for non-agricultural purposes is inadmissible and strictly regulated, etc. In addition, there are also informal obligations and restrictions for the farmer to respect comfort of the population and guests of the area, protection of air and water, joint use of private resources (for example, free access to the territory for tourists, hunters, scientists, etc.), order for use of municipal lands, etc. With all these formal and informal rules and restrictions (social governance system) the farmer (must) comply in order not to be sanctioned by law enforcement or society.

The farmer, however, is not a passive "participant" in (object of) governance. He lobbies or engages in collective action with other agents in the political process to get new rights, regulations, norms, government support and subsidies, etc. that suit his beliefs or interests. In this way, he becomes an active participant in the governance system of a given ecosystem, region, subsector, or the country as a whole. This simple example already answers the questions Who and Whom?

In another example, with a typical market-oriented farmer in a lowland area, the presence and need for (a system of) governing relationships with other agents is much more obvious. For example, the farmer-entrepreneur must manage his relationships with landowners, labor, suppliers of inputs and services, credit, buyers of produce, etc. in order to effectively organize the production and sale of produce. For the coordination of a large part of these relations, various types of private contracts are used for supplying the necessary resources and marketing the product - contracts for purchase, hiring, borrowing, selling, provision of a loan, etc. In the conditions of developed markets, much of the farmer's activity and his relations with other agents is coordinated and "managed by the invisible hand of the market" - the "movement" of (free) market prices and market competition.

Along with this, there are also a variety of formal, informal and business rules, regulations, norms, and standards that the farmer observes or complies with - for product and service quality, specifics of technological operations, labor and product safety rules, norms for the protection of natural environment and biodiversity, animal welfare standards, etc. In addition, the farmer creates and/or joins different types of collective actions and organizations to

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<sup>3</sup> The activity and behavior of even the solitary Robinson Crusoe is "governed" by the native (English) ideology, beliefs, traditions and other "institutions" that he brought to the island and subsequently spread - Christianity, slavery, rights, etc.



coordinate and govern more effectively his relationships with other agents or authorities - registered agricultural holdings, companies, cooperatives, associations, lobbying and interests groups. He also has his own or accepts other beliefs, ideologies, views, norms, etc. – for example, for an ecologically sustainable farm, which also (self-)manage its behaviour, actions and relationships.

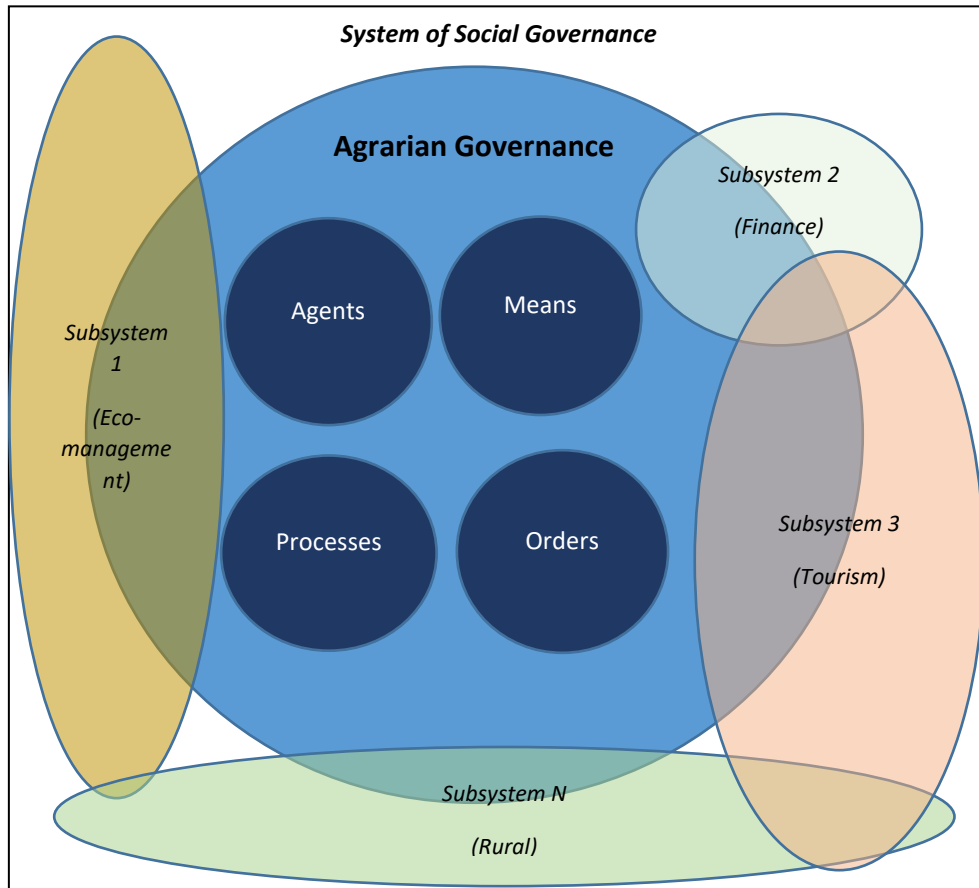
All these (management) structures, forms and mechanisms are an integral part of the governance system of agrarian production at the modern stage of development and should be analyzed. Moreover, the governance system in a given country, sub-sector, region, supply chain, ecosystem or organization is highly specific and dependent on multiple socio-economic, personal, natural, etc. factors. It is well known that the Common (agricultural, economic, environmental, etc.) policies of the European Union are applied in specific "Bulgarian way" in the conditions of Bulgaria. Identifying and evaluating these specific structures, forms, and mechanisms answers the What, Why, and How?

The process of agrarian governance takes place in different time periods and spatial-territorial, organizational and hierarchical boundaries. Governance analysis should always specify these dimensions and answer the Where and When questions to be precise. In addition, the Economists ask another question related to the analysis of agrarian governance, namely How much? Different forms and structures of governance have different advantages, disadvantages and costs for individual agents, the latter known as "transaction costs" (Coase, 1937, 1960; Williamson, 1996). Agrarian agents optimize not only production costs (related to production technology), but also transaction costs related to governing relationships with other agents. Governing structures have an important economic role - to rationalize, structure, and minimize the costs of human relations (North, 1990 ; Williamson, 2000). The "discovery" of transaction costs does not change, but only adds to the Economic science subject of optimal allocation of limited resources.

Therefore, agrarian governance is to be studied as a complex system that includes four principle components (Figure 1):

- (1) agrarian and related agents involved in the governance decision-making;
- (2) rules, forms, and mechanisms that govern the behavior, activities, and relationships of agrarian agents;
- (3) processes and activities related to making managerial decisions; and
- (4) a specific social order resulting from the governing process and functioning of the system.

**Figure 1. System of Agrarian Governance**



Source: author.

The agrarian governance system is a part (subsystem) of the social governance system and other important governance subsystems such as economy, primary industry, food, rural or urban areas, agro-ecosystem, tourism, energy, etc. The impact of and relationships with other systems of society largely (pre)determine the type of dominant system of agrarian governance and the "logic" of its development. For its part, agrarian governance is a set of different governance subsystems, differentiated depending on the type of production (plant breeding, animal breeding, fruit growing, agro-ecosystem services, etc.), the type of resources (land, water, technology, lab

The agrarian management system is a part (subsystem) of the social management system and other important management subsystems such as economy, primary industry, food, rural or urban areas, agro-ecosystem, tourism, energy, etc. The impact of and relationships with other systems of society largely (pre)determine the type of dominant system of agrarian governance and the "logic" of its development. For its part, agrarian management is a set of different management subsystems, differentiated depending on the type of production (plant breeding, animal breeding, fruit growing, agro-ecosystem services, etc.), the type of resources (land, water, technology, labor, finance, etc.), the functional area (inputs supply,

innovation, marketing, risk management) etc. All of them should be studied in order to identify their specificity and role for the development of agrarian governance in general. Agrarian governance consists of (carried out at) different levels (farm, collective organization, ecosystem, subsector, national, transnational, European, global), which are to be analyzed in order to understand the functioning and development of agrarian governance in Bulgaria.

## **Framework for analyzing and assessing agrarian governance in Bulgaria**

In a traditional closed subsistence economy, transaction costs do not exist because there is (almost) no division and specialization of labor, and therefore no need for exchange (transactions) between agents. In modern agriculture, however, agrarian agents specialize in certain productions and/or activities and trade products or services, thereby increasing productivity many times over (economies of scale and scope, and production costs, improving quality, increasing production volume, etc.).

In an unrealistic world of "zero transaction costs", the optimization of the allocation and use of agrarian resources is achieved quickly and costlessly according to the "marginal rule". Here, there is only one mechanism (the market and market competition) that effectively governs the individual and overall activities of agents. The farm, firm and household are studied as a "black box" that adapts instantly and costlessly to market price dynamics. With zero transaction costs, the form of governance has no economic significance, since agricultural activity is equally well (most efficiently) coordinated through the market (adaptation to changes in free market prices), and through mutual private bargaining between agents (special contract), and through cooperation (collective decision-making), and in an internal organization (direction by a manager), and in a single national private or state hierarchy/company (Bachev, 2012).

In a real agrarian economy, however, there are significant costs associated with transactions between agents: for finding the best prices and markets, paying commissions and fees, finding a reliable partner, negotiating terms of exchange, writing and registering contracts, controlling of opportunism before signing and in the process of implementing agreements, adapting contracts to changes in production and exchange conditions, dispute resolutions, including by hiring lawyers, arbitration, court, etc., failed deals, fraud, etc. Agrarian agents also pay significant (transactional) costs for studying and implementing formal regulations related to resource use, production, technology, trade, nature conservation, etc. Farmers also have significant costs for formal registrations, certifications, licenses, applying for public support, paying fines, bribes, etc. Many agrarian agents also have coalition costs (partnership, cooperative, firm, corporation) related to the need for more efficient joint supply and use of resources, marketing, protection from monopoly, lobbying for government intervention in their favor, etc. The creation and development of these formal and informal organizations is associated with significant costs of initiation, negotiation, formation, organizational enhancement, information, management decision-making, controlling the opportunism of coalition members, reorganization and closure, etc.

The positive transaction costs often limit efficient farm expansion to a sizes that allow exploitation of possible technological economies of scale and scope. In other cases, high "external" transaction costs necessitate excessive intra-firm integration to overcome serious transactional difficulties and/or extract additional transactional benefits. Very often, high

transaction costs even block an otherwise mutually beneficial exchange of resources, products and services, and lead to low productivity and under-utilization of resources on an enterprise and societal scale. Therefore, instead of "the first best", in practice we usually have "second best", "third best", etc. allocation of resources and governance of aggregate agrarian activity.

Agrarian economy is a Transaction costs economy and the question is to optimize the total production AND transaction costs of the farm. This is a trade-off between transactional and production costs and benefits. Following the logic of Coase, the farm integrates additional transactions, increases its size and profits from internal integration of resources and activity, while the transaction costs of this are less than or equal to the costs of organizing these same transactions in the market or by another organization (Bachev, 2012). Governance "matters" and "rational" agents select the most efficient form of governance for each transaction among practically possible alternatives (Williamson, 2005). In the New Institutional Economy, the transaction and related costs are the "basic unit of economic analysis", and the criterion for choosing the most effective form of governance of agrarian transactions and activity is the minimization of transaction costs and the maximization of transaction benefits<sup>4</sup>.

Moreover, the "problem of social costs" that has troubled traditional economists does not exist in a setting of zero transaction costs and well-defined private property rights (Coase, 1960). The state of maximum efficiency is always achieved regardless of the initial distribution of rights between individuals through cost-free private negotiations - "internalization of externalities" without the need for state intervention. In a world of zero transaction costs, the definition (redistribution) of new rights and rules by individuals, interest groups, and society, and the effective sanctioning of these rights and rules, would be also easy (costless). However, when transaction costs are significant, the initial distribution of property rights among individuals and groups, and their well-defined and sanctioned nature, are critical to overall efficiency (Coase, 1960). For example, if the "right to a clean and preserved natural environment" is not well defined and enforced, it creates great difficulties for effective eco-management - costly disputes between polluters and affected agents; significant environmental issues and challenges; disregarding the interests of certain groups or generations, etc. (Bachev, 2020).

Imperfect institutional arrangement (undefined and/or poorly defined and enforced by the state authority rights and obligations), creates additional transaction costs for individuals and society, and leads to inefficient agrarian development. In Bulgaria, for example, the restoration of private rights to agricultural land after 1989 lasted more than 10 years, which greatly deformed the development of agriculture during this period - lack of incentives, destruction of assets, dominance of short-term leases, preference for annual crops, primitive and unsustainable structures (farms for self-sufficiency or in the process of privatization), degradation of agro-ecosystems, etc. There are numerous examples of private rights not protected by the state even now, which lower the efficiency and hinder the development of the

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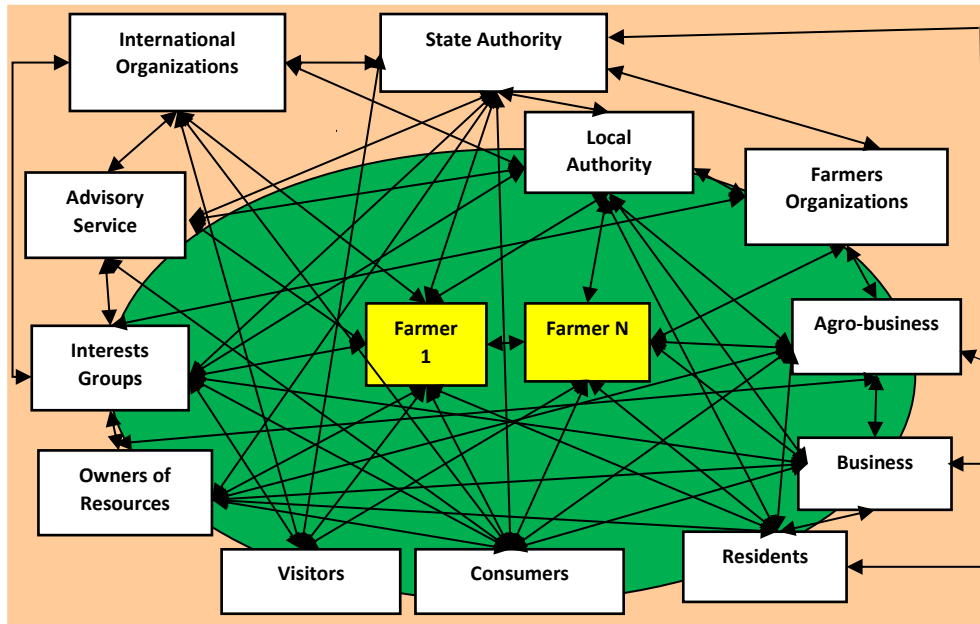
<sup>4</sup> Eventually, the choice of governance form is predetermined by the logic of minimizing not technological but transactional costs (Williamson, 2005).

sector - non-compliance with the laws, ineffective legal protection, direct encroachment (theft) of agrarian property, etc.

Therefore, institutions are an important means of (agrarian) governance by creating a certain social order, structuring human relationships, increasing predictability, reducing uncertainty, predetermining (increasing or decreasing) the amount of transaction costs, and ultimately determining the possibilities, type and extent of socio-economic development (North, 1990; Williamson, 2000). Given a certain institutional environment, the market often "fails" to effectively govern agrarian activity and resources. However, this does not necessarily mean "state intervention", as is the rule in Neoclassical Economics. Agrarian agents develop a variety of private forms, mechanisms and "institutions" to overcome market imperfections and to effectively govern their behavior, activities and relationships. The correct approach in the New Institutional Economics is to make effective choices between various alternative modes of (market, private, and public) governance, all of which have their own disadvantages and costs.

The analysis of the country's agrarian governance system is to include several stages. First, it is necessary to identify the various agents of agrarian governance and the specific nature of their relationships, interests, goals, opportunities, power positions, dependencies, effects, conflicts, etc. The farm entrepreneur or farmer is the main figure in agriculture who manages resources, technology and activity, and therefore the "first" component in the analysis of agrarian governance (Figure 2).

**Figure 2. Agents of Agrarian Governance in Bulgaria**



Source: author.

Other agents also directly or "indirectly" participate in the governance of the agrarian sphere by negotiating and/or imposing relevant conditions, standards, norms, demand, etc. These are the owners of land, labor, material, financial, intellectual, etc. resources that are interested in their effective agricultural use and preservation. Often, they participate in various coalitions with the farmer entrepreneur (informal partnership associations, formal firms, cooperatives, etc.) to realize more benefits. In turn, individual farmers form a variety of professional (business, not-for-profit, etc.) organizations and collective actions (initiatives, professional standards, lobbying, etc.) to better realize their goals and profit from joint activity.

This is the agriculture-related business (suppliers of materials, equipment, finance and technology and/or buyers of agrarian products) and end users. These agents impose socio-economic and environmental standards, specific support and demand for farming activities and services. For example, a large number of large processors and food chains implement (voluntary and/or mandatory) standards for "quality", "eco-friendliness", "fairness", etc., which are their initiatives, generally accepted industry "codes of conduct" or the result of consumer pressure to "contribute" to socio-economic and environmental sustainability.

Next, it is the residents, visitors to rural areas, and the various interest groups that "set" the conditions (pressure, demand) for environmentally friendly, socially responsible and economically viable agrarian activity and areas. Finally, it is the state and local government, international organizations, etc. that support the agrarian sustainability initiatives of the various

agents and/or impose mandatory (social, economic, environmental, etc.) production and consumption standards.

At this level of analysis, special attention is to be paid to the "personal" characteristics of individual agents involved in governance, since transaction costs have two "behavioral" origins - the bounded rationality and tendency of individuals for opportunism (Williamson, 2005). Agrarian agents do not have all the information about the economic system (price differentiation, demand, trade opportunities, development trends) because collecting and processing such information is very expensive or impossible (multiple markets, future events, partner's intention to cheat etc.). In order to optimize decision-making, they incur costs to "increase their imperfect rationality" - data collection, analysis, forecasting, training, consulting, etc.

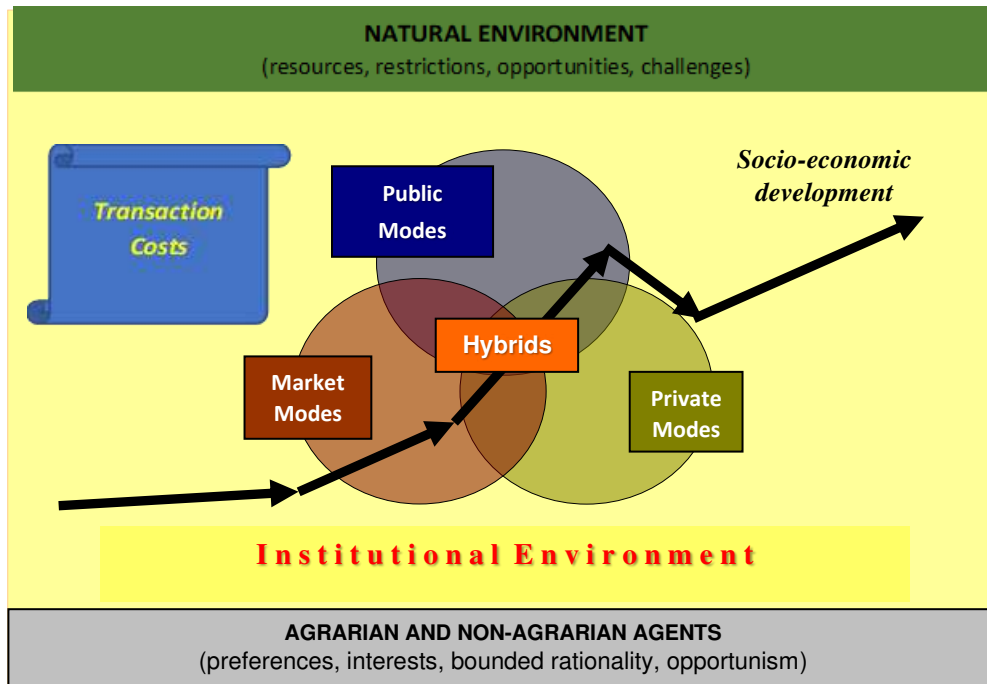
Besides, agents are also "opportunistic", and if there is an opportunity to obtain additional benefit with impunity from using institutions, contracted or market exchange, they are likely to take advantage. Agrarian agents are to protect rights, investments and transactions from the risk of opportunism by: ex-ante efforts to find a secure partner and design a form of effective partner cooperation; and ex-post investments to prevent (by monitoring, controlling, incentivizing cooperation) possible opportunism at the contract implementation stage (Williamson, 2005). The analysis has to distinguish the all possible types of opportunism: pre-contract (Adverse Selection), when a partner takes advantage of the "information asymmetry" and negotiates better terms of exchange; post-contractual (Moral Hazard), when a partner takes advantage of the impossibility of fully controlling his activity (by the other partner, a third party) or receives a "legitimate benefit" from unexpected changes in the terms of exchange (costs, prices, regulations); and "free riding" type inherent in the evolution of larger organizations – since individual benefits are not proportional to individual costs, there is a tendency for each to expect others to invest in organizational development and to benefit in case it is successful.

It is also necessary to analyze other significant factors of individual agents such as personal preferences, "discipline", ideology, knowledge, capabilities, propensity to take risks, reputation, trust, "contracting" power, etc.

Second, it is necessary to identify, distinguish, characterize and evaluate the principal mechanisms and forms that govern the behavior and activities of individual agents. These include (Figure 3):



**Figure 3. System of Agrarian Governance**



Source: author.

- *The institutional environment or the "rules of the game"* - this is the distribution of rights and obligations between individuals, groups and generations and the system for enforcement of these rights and rules (North, 1990; Furubotn and Richter, 2005). The spectrum of rights may include tangible and intangible assets, natural resources, activities, working conditions and wages, social protection, clean nature, food and eco-security, intra- and inter-generational justice, etc. Sanctioning of rights and rules is carried out by the state (administration, police, court, etc.), public pressure, trust, reputation, private forms, or is self-sanctioned by the agents themselves.

Part of the rights and obligations are determined by formal laws, normative documents, standards, court decisions, etc. There is usually strict government regulation of ownership, use, trade, etc. of agricultural lands and other natural resources, mandatory standards for product safety and quality, working conditions, protection of the natural environment, animal welfare, etc. There are also important informal rules and rights established by tradition, culture, religion, ideology, ethical and moral norms, etc., which are to be analyzed. In Bulgaria, many of the formal rights and rules "do not work" well and the informal "rules of the game" predetermine ("govern") the behavior of agents in society, and there is also a huge informal ("gray", "black") sector.

Institutional development is initiated by public (state, community) authorities, international politics (agreements, assistance, pressure) and private and collective actions of individuals. Bulgaria's membership in the European Union is related to the adaptation of modern European legislation (Acquis Communautaire) and better enforcement (external monitoring and sanctions in case of non-compliance by the Union). In the modern stage, many of the institutional innovations are also the result of the pressure or initiatives of certain interest groups – eco-associations, consumer organizations, etc. In the analysis, a qualitative characterization of the formal and informal institutional arrangement in agriculture is to be made, the effectiveness of the system for its sanctioning is to be assessed, and the incentives, limitations, costs and impact for a certain type of behavior and actions of the various agents is to be specified.

Institutional "modernization" is a long historical process, and individual components of the institutional environment have their own "logic" of development and life cycle lasting decades and centuries. In short periods of "normal" development, however, the institutional environment is usually "stable" because individuals can have little influence on institutions and institutional change. This is a major advantage because there is stable order and predictability, and therefore low transaction costs for agents. On the other hand, it is a significant drawback in the case of poor institutional arrangements, when the situation does not improve as "quickly" as the majority expects.

It is necessary to highlight and analyze the main elements of the institutional framework and their compliance with the European ones, take into account informal rules and restrictions important for the sector, assess the aggregate or (if possible) particular influence on the behavior, actions and relations of the agents, and effect in terms of transaction costs, and highlight the driving factors of institutional modernization (such as the Green Deal of European Union, reforming CAP, etc.) during the period.

- *Market forms or the "invisible hand of the market"* - these are the various decentralized initiatives governed by the movement of "free" market prices and market competition: spotlight exchange of resources, products and services, classic contract for purchase, rental or sale, trade with special high-quality, organic, etc. products and origins, agrarian and ecosystem services, etc. Individual agents use (adapt to) markets, profiting from labor specialization and mutually beneficial exchange (trade), while their voluntary decentralized actions "direct" and "correct" the overall distribution of resources among different activities, sectors, regions, ecosystems, countries etc.

However, there are many examples of lack of individual incentives, choice and/or unwanted exchange, and unsustainable development in the agrarian sector - missing markets, monopolistic or power relationships, positive or negative externalities, disparity in income and working and living conditions in rural and urban areas, etc. Therefore, the free market "fails" to effectively govern the overall activity, exchange and investment in the agrarian sphere and leads to low socio-economic and environmental sustainability. The analysis is to establish whether markets for agrarian resources and products work "well" (many sellers and buyers),

ascertain the costs and benefits associated with market forms for different agents, and identify cases of "market failure" in contemporary conditions.

- *Private and collective forms or "private or collective order"* - these are various private initiatives and special contractual and organizational forms: long-term supply and marketing contracts, voluntary eco-actions, voluntary or mandatory codes of conduct, coalition (family, company, corporate, etc.) farms, partnerships, cooperatives and associations, trademarks, labels, etc. Individual agents take advantage of economic, market, institutional, and other opportunities, and overcome institutional and market imperfections by choosing or designing new (mutually) beneficial private forms and rules for governing behavior, activity, and relationships. Private forms negotiate their own rules or accept (enforce) an existing private or collective order, transfer existing or grant new rights to the partner, and protect the absolute (provided by the institutional environment) and contracted (given or exchanged by the participants) rights of agents.

At the modern stage, much of the agrarian activity is governed by voluntary initiatives, through private negotiations, the "visible hand of the manager", collective decision-making, or complex hierarchical internal management structures. However, there are many examples of the "failure" of the private sector to govern socially desirable activities - for example, preferred eco-conservation, preservation of traditional family farms and productions, preservation and renewal of rural areas, etc.

The analysis is to identify and evaluate the advantages and disadvantages of the various private forms of governance dominant in Bulgarian agriculture - main types of farms (individual, family, cooperative, firm, company, etc.), special contractual forms (purchase, hiring of assets, borrowing, insurance, sale, interlinked transactions, etc.), collective organizations outside the farm gates, etc. For some of the transaction costs of these forms, there is available (statistical, reporting, etc.) or it is possible to collect reliable information from farm managers.

However, for much of the transaction costs lack the necessary information and it is necessary to apply qualitative Discrete Structural Analysis (Williamson, 2005) to determine the comparative efficiency of alternative governance forms. This is done on the basis of determining the "critical dimensions" of transactions<sup>5</sup> - these are the factors that determine the changes of transaction costs in the specific economic, institutional and natural environment. Since transactions have different critical characteristics and the governance forms have different comparative advantages it is to "align" transactions (which differ in their attributes) to governing structures (which differ in terms of costs and competence) in a discriminating (mainly transaction cost-saving) way" (Williamson, 2005). Depending on the combination of the specific characteristics

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<sup>5</sup> frequency of transactions with the same partner, uncertainty associated with transactions, specificity of assets to support a particular transaction (Williamson, 2005), and appropriability of rights associated with transactions (Bachev, 2010) have been identified as four critical dimensions of (agrarian) transactions and activities.

of each activity/transaction, different most effective modes of governance of this activity will be efficient – market, contract, internal, trilateral, etc.

While examples of “good” institutional environment evolution are few (in a small number of highly developed democracies with prospering populations), examples of “successful” modernizations in “institutions of governance” are numerous (Williamson, 2000). In the specific institutional, market and natural environment, agents usually choose or design the most efficient private forms for governing their relationships and activities. Therefore, the identification of the dominant forms of private governance in the agrarian sphere or its individual areas, gives a good idea of the (most) effective forms for the specific stage of development.

- *Public forms or "public order"* - these are diverse public (community, government, international) interventions in the market and private sector such as: public recommendations, public regulations, public assistance, public taxation, public financing, public provision, public modernization of the institutional environment (rights and rules), etc. The role of public (local, national, European, etc.) governance is growing along with the intensification of activity and the exchange, and mutual (inter)dependence of socio-economic and environmental protection activities.

In some cases, it is possible that the effective governance of individual activity and/or the organization of certain activities through market mechanisms and/or through private negotiation may take a long period of time, be very expensive, fail to reach the socially desired scale, or may not be possible to be accomplished at all. Then centralized public intervention could reach the desired state faster, with less cost and more efficiently. However, there are many cases of poor public involvement (inaction, improper intervention, excessive regulation, corruption), leading to significant problems for sustainable agrarian development in Bulgaria and around the world.

The analysis of the agrarian governance in the country is to establish whether the "needs" for public intervention (the identified cases of market, private and collective failure) are effectively filled with the necessary public interventions, whether the most effective form of public intervention has been chosen among (politically, administratively, financially, etc.) feasible alternatives, and also to identify the cases of dominant public failures at the modern stage of development of the sector.

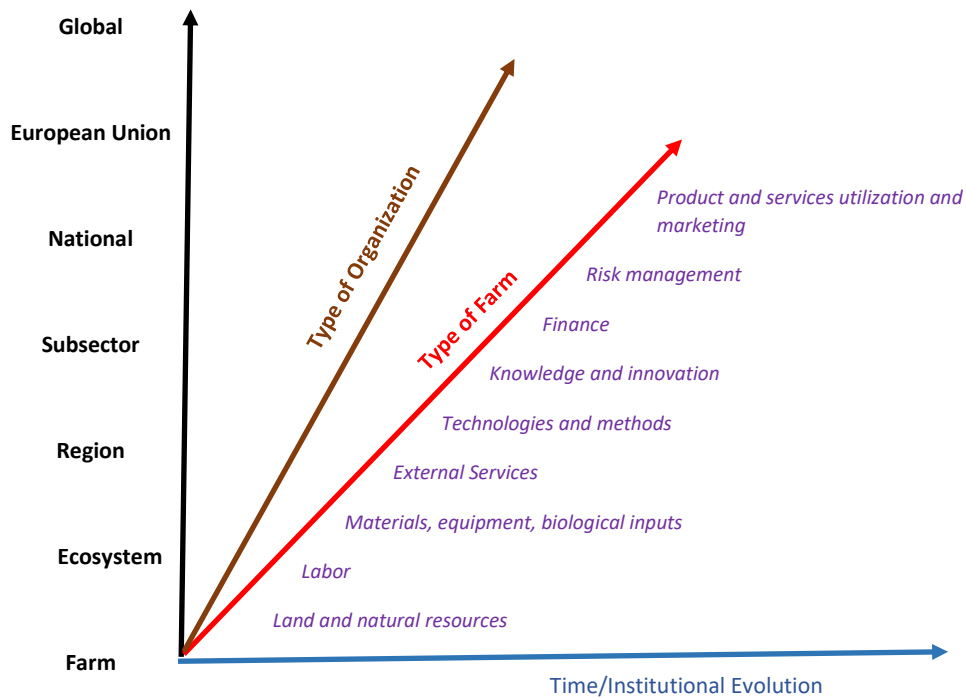
- *Hybrid forms* – some combination of the above three, such as public-private partnership, public licensing and inspection of private bio-farms, etc.

In the long term, the specific system of governance of agrarian sector (pre)determines the type and nature of socio-economic development (Figure 3). Depending on the effectiveness of the established agrarian governance system, individual farms, sub-sectors, regions, agro-ecosystems, and countries achieve unequal results in socio-economic development, with

various challenges in the economic, social and ecological sustainability of individual farms, sub-sectors, regions, ecosystems and agriculture in general.

Third, like any economic process, agrarian governance is a complex, multi-layered, polycentric and multi-dimensional process that takes place over time and involves numerous agents who develop and use diverse forms and mechanisms of governance. A detail analysis of this process is to be done in relatively distinct governance subsystems - different levels (from farm level to national and European), functional areas (supply of labor, land, capital, etc.), farm types and organizations etc., establishing their specificity, needs and efficiency (Figure 4).

**Figure 4. Framework for Analysis of the Agrarian Governance System**



Source: author.

Particular attention is to be given to the identification and assessment of the dominant (most frequently used) forms of governance in the main functional areas of different types of farms, and which are related to: supply and use of labor, land and natural resources, services, material assets, equipment and biological inputs, knowledge and know-how, innovation, finance, insurance and risk management, and realization (utilization, processing, marketing, etc.) of agricultural products and services. In addition, the diverse "collective actions" (organizations) in which farmers participate to induce private and/or public intervention in the market and private sector in their own interest are to be analyzed. In this way, all forms of internal and external economic integration in the agrarian sphere will be identified, analyzed and evaluated. In addition, other organizations in agrarian governance are to be analyzed - state, international, non-governmental, etc.

It is necessary to take a snapshot (short video) in order to be able to thoroughly analyze the diverse structures and processes in agrarian governance at the current stage. Where reliable information is available, comparisons is to be also made with previous assessments of governance at the farm level to see the dynamics during the period of the country's integration into the European Union and implementation of the Union's Common Agricultural Policies.

The identification of applied and other realistically possible forms of governance of transactions in different types of farms is to be the subject of a special micro-economic study. For this purpose, primary information is to be collected from farm managers and farmer organizations (including through the official agro-statistics) about the employed or preferred governing modes, factors for managerial choice, costs related to the governance of the main types of transactions, and the efficiency of governance of farming enterprise.

Fourth, the analysis of the agrarian governance system is to end with an assessment of the (final) result of this process - the state of the system and the final efficiency of the functioning of the agrarian system. If the welfare of the farmers is growing and the shops are full, there is "agrarian governance", otherwise there is "no governance". At this stage, depending on the scope of the analysis, a variety of data characterizing various aspects of the state of the agricultural sector and its subsystems are to be used - farm competitiveness, product and productivity dynamics, quality of lands, agrarian ecosystems, etc.

However, this approach allows seeing only the aggregate "current" (static) effect of diverse (governance) mechanisms and forms, and long-term (governing) processes and activities of numerous agents. An important methodological issue is taking into account the "time factor", since many effects are the result(s) of old governance system(s), while many new and promising forms have not yet realized their potential effect(s)<sup>6</sup>. One of the directions for overcoming this problem is an assessment of the level of agrarian sustainability, which by definition is "future-oriented" (Bachev, 2010). Another direction is an "immediate" assessment of the compliance of the country's agrarian governance system with the principles of "good governance" - for example, those in the European Union<sup>7</sup>. A third approach seeks a solution in extending the period of analysis – for example, the Programming Period for the implementation of the European Union Common Agricultural Policy. None of these approaches, however, solves the challenge arising from the time factor in the analysis of socio-economic processes. Agrarian governance is a multi-layered dynamic system, and any "one-sided" assessment in "short" periods of analysis cannot claim to be inclusive.

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<sup>6</sup> Usually before any major crisis there is "normal governance", and conversely, a quick exit from the crisis requires "good governance".

<sup>7</sup> A holistic approach for a multi-criteria assessment of the compliance of agrarian governance in Bulgaria to the principles of good governance in the European Union is presented by Ivanov and Bachev (2023).

## Conclusion

In this paper, we have tried to prove that agrarian governance is a complex system that includes agrarian and related agents involved in management decision-making; rules, forms and mechanisms that govern the behavior, activities and relationships of agrarian agents; processes and activities related to making governance decisions; a specific social order resulting from the governing process and functioning of the system.

Adapting the methodology of the New Institutional Economics allows to better understand, analyze and evaluate this complex system and its individual components. The analysis is to include the individual elements for the system, different levels of governance and the main functional areas of the farming, for each of which appropriate quantitative or qualitative methods of the institutional approach are to be used.

Systematic theoretical and empirical research in this "new" field should be expanded to better understand this complex category and refine approaches to its economic analysis. For a better distinction and a more complete definition, a wider use of the term Governance in languages like Bulgarian (where there is no specific term to distinguish it from Management) is necessary, as is already the practice both in scientific circles and in colloquial speech.



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