



**Master of Science**

**International Development and Management**

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## **Resuscitation of Wine Cradle**

*Implications of booming wine industry on smallholder viticulture and their survival strategies: Case of Georgian wine sector expansion*

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## **Abstract**

Going through the structural transformation processes since the 1990s, Georgia has opened its economy for export. This has been achieved by free trade agreements and governments' attempts at promoting and assisting stakeholders. Being a "cradle of wine", wine represents one of the most exported commodities of the country. This has been a result of partially, governments' policy implementations, and partially by strong winemaking tradition of Georgia. This thesis examines the effects of wine sector expansion on the livelihoods of smallholder viticulture in Kakheti, and strategies employed for the purpose of co-existence. The study uses qualitative data methods, and the empirical data is presented from semi-structured interviews within the case study context. The results indicated that favorable implementations do create opportunities for smallholder viticulture but at the same time threat arise due to increased competition. Some of the key challenges and gaps pertaining are: lack of physical and human assets, due to lack of skillset and the barriers to access the infrastructure; unfair competition where strategies employed are responses towards it. Availability of resources, capabilities and scope of operations effect the strategies. Despite, the differences, intensification and commercialization, diversification and long-term thinking are employed by different sector-players to co-exist in the competitive climate.

**Key Words:** agricultural development, trade, structural transformation, smallholder viticulture, livelihood, strategies, wine sector

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## List of Abbreviations

CIS	The Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Area
EFTA	European Free Trade Area
EPRC	European Personnel Recovery Centre
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Arrangement
GEL	Georgian Lari
GDP	Gross Domestic Product
IDA	International Development Association
IMF	International Monetary Fund
KPI	Key Performance Indicators
MEs	Medium Enterprises
MRDI	Ministry of Regional Development and Infrastructure of Georgia
NDC	Now Developed Countries
OECD	The Organization for Economic Co-operation and Development
PPP	purchasing power parity
PRA	Participatory Rural Appraisal
UNDP	United Nations Development Programme
RQ	Research Questions
SEs	Small Enterprises
VET	Vocational Educational Training
WB	World Bank

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## **1. Introduction**

During the last few decades views on agricultural and rural development have dramatically changed. Traditionally, agriculture was seen as an intrusion in the development process. Economists proposed neglecting the sector from the development agendas, due to its' shrinking nature. One of the main arguments for the proposition was that investments should not be made in the low-productivity sector, which gets smaller with the country's growth. Inattention towards agriculture, meant exclusion of large part of the population from the growth process. without investments in the sector it was impossible to deploy resources from rural settings to support the industrialization process, at the same time it led to decreased agricultural production, pushing food prices up, causing stagnation. Multiple countries have faced the same challenges, also the former Soviet Union nations. In contrast, during the past century, countries that achieved economic growth, emphasized on agriculture as a fundamental part of their development strategies (Huang et al, 2008).

Johnston and Mellor (1961) have identified agriculture's five contributions to economic development. Firstly, Provision of expanded food supplies intended to meet the substantially increased demand for agricultural goods. Shortage of food supply and inability of the sector to meet the growing demand, could result in rise of prices and impede economic growth. Secondly, expansion of agricultural exports, as a means of increasing incomes and foreign exchange earnings. Thirdly, Transfer of labor force from agriculture to nonagricultural sector, providing manpower for manufacturing and other expanding sectors. Fourthly, contribution to capital formation, for the expansion of secondary industry which can be achieved with the implementation of improved infrastructure. Lastly, increase in rural net cash incomes as a means to stimulate industrialization process. While agricultural optimization aids the country's economic development, it can also lead to improved rural livelihoods. That is why, in the modern world, agriculture and rural development are viewed as an integral part of long-term sustainable development of nations.

One of the biggest challenges for agriculture in development to reach the full potential of the sector is for the government to implement right policies and the reforms. Despite the thought that the agriculture is a perfectly competitive activity, there is still need for governmental intervention in order to avoid market failures. While some of the government's attempts to minimize the failures have been ineffective, some have been successful, as in Asia during its green revolution. The fundamental reason to why government has a role in agriculture is its

involvement in poverty alleviation (Todaro and Smith, 2009). Nowadays, world's majority of poor are farmers or are indirectly involved in agriculture, roughly 2.5 billion people (FAO, 2013). Agricultural growth and trade expansion have often been criticized for market failures, such as exclusion of poor farmers from liberalization of trade, disproportional benefits and unequal access to resources. Then, the government's role is to minimize those leakages and ensure that the benefits of agricultural development is shared by the poor (Todaro and Smith, 2009).

### **1.1 Problem statement and the aim of the study**

Like other Post Soviet countries, Georgia has suffered after the withdrawal of Soviet Union capital from the country. agriculture was not prioritized in the country's development agenda until 2012. Despite several attempts to implement multi-donor programs addressing the issues of credit provision for agro-industrial enterprises during the period of 1990s-early 2000s. Since 2012, elected government has prioritized agricultural development, and increased budget allocation for the sector from 0.4 percent of total country's budget in 2010 to 2.8 percent in 2012 (Ministry of Agriculture of Georgia, 2015). In 2014, Georgia has signed the DCFTA (Deep and Comprehensive Free Trade Area) as part of Association Agreement with the EU. Under the agreement, Georgia became entitled to FTAs (free trade arrangements) with given countries, aimed at enhancing role of markets in its' economic growth and development. With the reforms, the Georgian government embedded agricultural growth as one of the key priorities in the country's development agenda. The main concentration areas include: improving farmers knowledge, strengthening agricultural credit system and improving efficiency of market information collection. *(see Appendix A for full list of Georgia's FTAs).*

Currently, about 43 percent of the country's territory is designated for agricultural activities and the sector accounts for approximately 50 percent of the country's labor force. Strategy document 2015-2020 of the agricultural development targets the intensification of marketing techniques and growth of commercialization. The wine sector is one of the most concentrated areas for development, and the government has implemented short and long-term projects aimed at increased coherence of marketing strategies. The purpose is to create platform for Georgian wines and link international prospective customers to domestic wine producers. Despite the attempts, the government has been criticized for failing in addressing and targeting smallholder farmers in its programs. Leading to further marginalization of them and increased disparities between small-scale farmers and the owners of medium-sized, already well-

established enterprises. This can partially be explained by weak registration systems of farm-workers, out of which 98% are self-employed (Ministry of Agriculture of Georgia, 2015). Thus, the research aims to understand the livelihoods of smallholder viticulture farmers and wine producers, as well as their survival strategies in the context of a booming wine industry in Georgian structural transformation process.

## **1.2 Research questions**

For the purpose of the present study the main RQ and sub-questions have been designed, to guide the research process and to answer the main RQ.

Main Research Question: *How is the livelihood of smallholder viticulture effected by expansion of Georgian wine industry?*

Sub Research questions:

Sub-RQ 1: *How do the policies directed towards the promotion of Georgian wine sector effect the smallholder farmers and wine producers?*

Sub-RQ 2: *What are the strategies employed by smallholder farmers and wine producers to co-exist in the Georgian wine sector?*

## **1.3 Structure of the thesis**

The thesis is structured in 7 chapters. Chapter 1 presents the research statement and the research question with sub-questions. Chapter 2 focuses around the topic-related literature of country background and region rational, Georgia's economic structural transformation processes since its independence and overtime changes in measurements of agricultural performance, importance of wine sector for the country and the key policies implemented that are impacting the wine sector and smallholder farmers and wine producers. Chapter 3 introduces methodologies employed for the purpose of the study. Chapter 4 presents theoretical framework, constituted by theoretical lens and key concepts. Chapter 5 presents the Analytical frameworks. Chapter 6 analyzes findings in an attempt to answer the sub-research question and thesis concludes in chapter 7.

## **1.4 Country background (Current economic situation)**

Georgia is a lower-middle-income country in the southern Caucasus with a population of 4.5 million people. As a country located at the crossroads of Eastern Europe and Western Asia it enjoys the advantages of trade, be it natural trade or acting as a corridor for transportation. Inequality, poverty, unemployment and low productivity represent key policy challenges, especially in the country's rural economy. While country managed to reduce poverty levels from 21 percent in 2010, to 14.8 percent in 2012, unemployment remains high, approximately 25 percent of people aged 25-29 are unemployed. Labor force participation among females is considerably low compared to men, 57 percent to 75 percent (UNDP, 2015). Georgia's Gini coefficient of 0.4 is one of the highest in the region, income and regional inequalities affecting internally displaced persons, women, youth and rural households. While agriculture sector employees over 50 percent of country's labor force, it generates only 9 percent of GDP (ibid.). Georgian farmers face the competition on domestic-level among each other, as well as on the regional level from lower-cost producers. In order to eliminate existing disparities and to optimize the benefits of FTAs, especially of DCFTA agreement government of Georgia prioritized investing in agriculture and supporting small and medium-sized enterprises.

### *1.4.1 Rationale for choosing Kakheti region*

Kakheti region is located in the eastern part of Georgia, with the population size of over 400 000. Region consist of 9 cities and 276 villages, 80 percent of the population reside in villages. Region is characterized by agricultural production potential and the sector leads the most of the local economy; 38 percent of the country's agricultural land is located in the region. Today, roughly 70 percent of all vineyards in Georgia are concentrated in Kakheti, ranking the first in the area of vineyards (33. 585 ha). Out of 18 wine appellations throughout the country, 14 are only produced in Kakheti (MRDI, 2013). Wines produced in Kakheti appellations account for around 80 percent of total wine exports. There are many family-run viticulture and cellars in the region, most of the cellars have artisan facilities. Sales of family-run wine cellars account around 40-160 tons of wine, which greatly contributes to household income (ibid.).

## **2. Review of related literature**

This chapter focuses on introducing relevant secondary sources related to agricultural development of Georgia and the wine sector of the country, with the aim of contextualizing the perspective within which present research is positioned.

### **2.1 Overview of Georgia's Structural Transformation since its independence**

After gaining its independence from Soviet Union in 1991, Georgia has faced several economic shocks, mostly from drastic increase in energy imports and commotions in trade relations. Standards of life have sharply declined, and by the end of 1994, the country has accumulated the foreign debt of 1.0 billion USD (International Monetary Fund, 1995). In 1994, Georgia started working closely with the international development organizations (IMF and the World Bank) aimed at implementing the stabilization and structural reforms, addressing economic situation. Some of the key intended changes under the reform included liberalization of domestic and external trade. Due to heavy dependence on other former Soviet countries especially for export markets, inputs and energy, during 1991-1994 economic output of the country dramatically declined.

Despite the fact, that during the Soviet Union Georgia was a net importer of agricultural goods in the region, it was an important exporter of: wine, fruits, vegetables, and tea. Compared to other sectors, agriculture was the least effected one by the collapse of the Soviet Union, and soon became most important part of Georgian economy, standards of life of those involved in agriculture, was better (IMF, 1995). During the same period, incomplete and poor land reform was one of the set-backs for the sector. Tenants of privatized lands did not have property rights, which prevented them from using land as collaterals for agricultural credits (Ibid.). Due to lack of agricultural inputs and irrigation systems, poor transportation and inaccessible export markets, farmers moved away from high-value, horticultural production. This led to disruptions in wine sector especially in procurement of grapes, home production of low-value wine became a trend. During that time, the government did not have enough capacity to provide extension services to private agriculture, started liberalizing prices for small enterprises. Agriculture and tourism development were seen as a potential way for growth, while Industries like construction suffered.

During the early 2000s, decline in industrial output persisted, management, practices and infrastructure inherited from Soviet times remained. Shadow economy representing around 40 percent of total production. (IMF, 2003). On the household level, on average agricultural production still constituted 30 percent of total income, playing a significant role in rural employment. Most of the agricultural produce was not monetized but was for household consumption, due to difficulties in market knowledge and accession. By 2000s, under the land reform approximately 57 percent of arable land was registered as private and 27 percent leased to individuals. Some of the key issues remained: lack of inputs and adequate infrastructure, limited access to loans and credits. Lack of regulations and inputs has led to soil degradation and erosion problems. Given the limited size of domestic market, Georgian government has started developing efficient macroeconomic policies, and joined WTO in 2000. Aimed at reduced trade deficit by creating favorable business climate for investments, and enhancing exports based on free market principles (IMF, 2003).

In 2008, armed conflict with Russia has led to Georgia's economic downturn. First half of 2009, was characterized by reduction in exports, remittances, incomes and employment. Lower demand for exports for Georgian products, led to decline in revenue flows, most significant sectors were retail trade, construction and manufacturing (IMF, 2009). In order to minimize the consequences on the domestic economy, access to credits have been liberalized, through International Development Association (IDA) credits supporting the agricultural sector and rural regions of the country. In 2011, Georgia started to recover from the financial crises increasing its GDP by 6.8 percent (EPRC, 2011). By sector highest contributors were: Industry (18 percent); Trade (17.2 percent); followed by transportation and communication sector (11 percent), By partial influence of Foreign Direct Investment (FDI), manufacturing accounting for 22 percent of total investment. During the period agriculture has seen the lower increase of 6 percent, despite employing around half of the population, indicating that the country failed to create off-farm employment, attracting significantly low FDI compared to other sectors. (ibid.).

As a country with a small open economy, deepening the trade agreements on international level, can significantly contribute to country's strengthened competitiveness on global markets, diminish vulnerabilities and increase FDI mobilization (IMF, 2018a). Despite, the increase in net exports, due to Georgia's diversified and expanded export partners through FTAs, growth

remained stagnant. In 2017, trade growth rate reached to 22 percent (Ministry of Economy and Sustainable Development, 2017).

Presently, employment rates in higher productivity sectors has increased, however approximately 45-50 percent of the population still remains employed in agriculture sector, characterized by lower productivity (IMF, 2018b). Despite the government's attempts to create favorable climate for private businesses through implementation of reforms and policies, and WB ranking of the country as a top 10 countries to register and start the business, jobs are concentrated away from high-productivity sectors <sup>1</sup>(ibid.). During the last few years, country has maintained stable FDI ratios, sectors with the largest share of the investments are: Transportation and communications (35 percent), real estate (20 percent), financial sector (20 percent) and construction sector (14 percent) (Ministry of Economy and Sustainable Development, 2018).

#### *2.1.1. Overtime changes in agricultural performance measurements on country level*

Report by IMF (1995) measures agricultural growth through the rate of acreage sowing coverage, which considering country's socio-economic environment in 1995, would not translate into increased economic output. Period for the country was characterized by shortage of resources and infrastructure for effective farming, such as quality seeds and fertilizers, mainly caused by high dependence on other Soviet countries. Irrigations systems, transportation and access to private markets have also been deteriorated, making it difficult for farmers to continue high-value horticulture production. in 1995 the highest rates of acreage sowed was for grain, maize, sunflower and potato.

Compared to past years, strategy paper (IMF, 2003) takes more complex outlook on the economic growth and on the role of agriculture. Agricultural growth has been associated with the elements of livelihood, mostly for rural regions of Georgia. Emphasized agricultural elements were: Income, consumption, access to infrastructure, good health and an education. Main key performance indicators (KPIs) of the sector have also been linked to exports and distribution networks on domestic markets.

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<sup>1</sup> IMF refers to service industries, business, communications and finance activities as high productivity sectors (Gruss and Novta, 2019).

During the late 2000s and early 2010s, due to socio, political and economic climate of the country less attention was paid to agricultural development, and the sector was mostly sustained by providing access to IDA agricultural credits for private farmers. Multidimensionality of agricultural development was taken into account as credits covered: irrigation systems, agricultural research and also, aimed to support local unions. Industry (manufacturing) started to play important role in economic growth, attracting FDIs, diminishing agricultures' influence (IMF, 2009; EPRC, 2011).

Since 2013 multiple reforms and policies have been employed, that have played pivotal role in both agricultural and rural development of Georgia. Land transactions have been simplified, through the implementation of fee waiver project and now farmers can use land as a collateral for agricultural credits. In order to maintain the rational use of land for agricultural purposes, government has started project to create farmer's registry and geo-information systems. Currently, trade promotion and utilization of agricultural, tradable goods are seen as a key priority of the country. Government has implemented several projects intended at agri-business and agri-entrepreneurship development (IMF, 2018a).

## **2.2 Current strategies: towards rural and agricultural growth**

About 47 percent of Georgia's population reside in rural areas, and the agriculture produces over 50 percent of total employment, even though the productivity of the sector has not reached its potential. Despite the high rates of engagement in the sector, agriculture contributes to only 10 percent of country's GDP. Consequently, due to lack of employment opportunities in Kakheti region, most rural households have insufficient incomes and as a stable, monthly income primarily depend on state pensions. (Forkel, 2009; Kinkladze, 2015). Low productivity of the agricultural sector, has resulted in high import-dependency of the country. Study (Forkel, 2009) found the income inequalities between Kakheti small town households and rural households. Small town households were earning on average 2.5 times more than those in villages (ibid.). Since the country has cultural heritage of vine-growing and winemaking, Rural Development Strategy views rural tourism as an important aspect for development



### 2.2.1 Rural development priorities

By 2013, 63 percent of the country's employed population lived in rural areas, out of which 95 percent were small farmers<sup>2</sup>. In the same year, average annual income of the farmworker amounted 35 percent less than the national average (Kinkladze, 2015). Nevertheless, recent economic reforms have nearly halved the poverty rate of the country, from 37 percent in 2007 to 21 percent in 2016 (World Bank, 2018a:5).

The Rural Development Strategy 2017-2020 document emphasizes on the importance of: agricultural development, social safety, improvement of rural infrastructure and the improvement of access to public services for rural populations (ENPRD, 2016). Within the strategy framework, the main state programs implemented for rural economic development include: Plant the Future, Produce in Georgia, Agro Insurance, Agro Credit Program, Support for Entrepreneurship, Facilitation of Micro and Small Enterprise development (ibid.). Figure 1 below provides the description of projects.

<b>Project</b>	<b>Goal</b>
Plant the Future	Planting of perennial crops
Produce in Georgia	Creating and promoting the enterprises producing agricultural goods
Agro Insurance	Developing insurance market in agricultural sector
Agro Credit Program	Providing entrepreneurs engaged in agriculture financial resources
Support for Entrepreneurship	Supporting enterprises in agricultural sector, through increase access to infrastructure.
Facilitation of Micro and Small Enterprises	Providing financial and technical assistance to micro and small enterprises in economically vulnerable regions of the country.

**Table 1:** Rural development programs

Source: Constructed by author (based on information from ENPRD,2016)

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<sup>2</sup> On average, in Georgia small farmer owns 1.5 ha of land (Kinkladze, 2015)

### *2.2.2 Agricultural development through priorities*

Georgia's Agricultural development strategy document is concentrated around improving competitiveness of Georgian agro food sector, enhancing food security and eliminating rural poverty (Ministry of Agriculture of Georgia, 2015). Strategy document highlights seven main strategic directions, five of them are targeting smallholder farmers: enhance competitiveness of rural entrepreneurs, institutional development, regional and sectoral development, regional and sectoral development-value chain development, ensuring food security. Activities under these goals targeting smallholders include: improving farmers knowledge and access to information by improving vocational educational training (VET), supporting development of agricultural insurance market, supporting establishment of cooperatives in agriculture, creating farm registry, increasing investments in agriculture (both domestic and international) and enabling access to proper machinery (ibid.).

Low efficiency in the Georgian agricultural sector has been linked to 1990s' land reform, which led to high fragmentation of arable land. As a result, presently only 5 percent of rural households own more than 2 hectares of arable land (Kvariani and Ghvanidze, 2015). Possession of small lands and the low agricultural harvests create difficulties for households to sustain themselves. Throughout the literature, establishment of cooperatives have been viewed as a way to utilize agricultural sector in Georgia (Bezemer et al, 2005; Kvariani and Ghvanidze, 2015; Margvelashvili and Khvadagiani, 2018).

Insufficient employment opportunities and low-income rates, keep household's dependent on subsistence farming. In 2008, government of Georgia spent approximately 30 million GEL to procure farming machinery for villages, aimed at providing access to infrastructure to rural populations. Nevertheless, related studies have found the measure to be unsuccessful for Kakheti region, where rural farmers have limited access to machinery (Forkel, 2009).

Georgia's partnership framework actively engages agricultural development in its agenda. Main work of international development organizations in the country include supporting the agricultural modernization and the access to markets. Interventions intended at long-term, sustainable development of the country include: improving access to irrigation services, supporting institutions in sector and developing land registration systems (WB, 2019). Despite the drawbacks and the barriers in the Georgian agriculture, from 2006-2015, number of people

employed in agriculture tripled and the average monthly salary has also increased (ENPRD, 2016).

### **2.3 The role of wine industry in Georgia's Development**

Trade is the second largest contributor to Georgia's' GDP. Wine sector is one of the most important industries of Georgian economy and one of the most important export commodities. In 2015, export share of agricultural goods was 28 percent, where wine and hazelnut were main exported goods (ENPRD, 2016). For wine and non-alcoholic spirits, largest export markets in EU are: Netherlands, France, Poland, Lithuania and Latvia. Among CIS countries main export partners are Russia, Ukraine, Kazakhstan and Armenia (ibid.).

In addition, to optimizing wine exports, the government of the country is trying to utilize the sector as a tool to develop rural tourism in Georgia, especially in Kakheti region. Where tourists can become acquainted with the traditions of Georgian winemaking (Pareishvili et al, 2017). Government of Georgia has implemented number of projects intended to promote small-scale tourism enterprises in region. One of the most important ones, has been the project "Wine Route of Georgia" implemented in 2016. The project aims to create list of all wine producers in Kakheti region, including: companies, small enterprises and family owned wine stores. The wine route serves to create tourist attractions around the concentrated sites (ENPRD, 2016).

In 2014, Georgian government started full-scale implementation of cadaster program for vineyards, aimed at modernizing and increasing productivity of winemaking (Ministry of Agriculture of Georgia, 2015). Main Implementer of the project is the National Wine Agency, entity is established under the Ministry of Agriculture. The principal purpose of the agency is to support the development of the wine sector through: quality control and certifications, creation of cadastral registry of vineyards, promotion of harvests and execution of marketing activities.

As part of the strategy, Georgian government works at attracting international donor funding and investments in promoting cooperation's. In 2017, the European Union supported 23 wine and grape-producing cooperatives, whose produce equaled to 1.45 million GEL, (Kochlamazashvili et al, 2017). Literature criticizing above mentioned approaches, express skepticism towards the strategy and emphasize on the following issues: widening income and wealth disparities, volatility in power relations, inequalities, social isolation and degradation,

irregular production and income; all of those can lead to further marginalization of the small farm producers

### *2.3.1 Scope of Georgian wine industry on domestic and macro level*

The export price for Georgian wine has been increasing, from lower than 1 USD per liter in late 1990s to 3.2 USD in 2015 (Kvariani and Ghvanidze, 2015). Despite the progress of the Georgian wine industry, the sector is not fully utilized. Average grape and wine produced on the surface vineyard is considerably lower compared to the average of the new-world wine countries. In Georgia on average, 19hl of wine is produced per hectare, while in new-world<sup>3</sup> wine countries same average is 62hl of wine (ibid.).

Georgia's foreign trade of wine is quite diversified, yet in 2014 about 50 percent of all wines exported went to Russia. The growing share of the market could be explained by lift of trade restrictions Russia implemented against Georgia in 2006. Georgian wine rebounded soon after the lift of embargo, selling 21 million bottles of Georgian wine during second half of 2013. While growing demand for Georgian wine on Russian market represents an opportunity for the sectors development, it also creates vulnerabilities due to political relations between two countries (European Council on Foreign Relations, 2014).

### **2.4 Gaps in the research and the need for the present study**

strategy document of Georgia's Rural Development prioritizes agricultural development, followed by: tourism, rural infrastructure and access to public services. Research documents analyzing Georgia's progress towards the promotion of trade and implementation of policies, deviate from the quantitative basis analyzing exports and GDP. Little attention is paid to the complexity of livelihoods of smallholder farmers and wine producers. Moreover, research methods in existing literature lack the implementation of participatory approaches, that would allow small-scale farmers to voice their positions (Chambers, 1994).

Existing literature has been focused around the development of Georgian agriculture on country level, there is a lack of sector-focused approaches when it comes to the research. While

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<sup>3</sup> New world wine-countries refer to wine-producer countries outside the Europe like: Argentina, Australia, New Zealand, Chile and etc. (FAO, 2009)

this can act as a limitation for the present research, it further motivates the study and adds the value to the proposal.

Despite the implemented policies aimed at promoting small-scale wine producers and farmers, disparities persist when it comes to penetrating the market. According to the statistics biggest exporters and owners of market share are by few well-established companies, further marginalizing the small-scale producers.

### **3. Methodology**

In this chapter, methodological aspects of the thesis are presented. First introducing the research design and the methods, data sampling, collection and analysis processes. Chapter ends with the introduction of the validity of the data, ethical considerations and limitations of the study.

#### **3.1 Design of the study**

The research design employs the case study, gathered through multiple sources of data (Cresswell, 2007:38). While types of case studies are distinguished by their size, they can also be determined by the intent (Creswell, 2007:74). For the development of the current study both intrinsic and instrumental approaches have been applied (Stake, 2003). Research design bares Intrinsic nature, as it serves to illustrate and understand the case of wine industry promotion as a way of rural development in Kakheti, Georgia (Stake, 2003:136). While at the same time it serves to examine and provide insights into the issues local communities face and on the country level (Stake, 2003:137). Multiple research interests lead to engaging in both intrinsic and instrumental cases, especially in academia, where there is an expectation of producing generalizable findings (Grandy, 2010). Other types of case study categorization have been acknowledged, such as the classification of studies according to their purpose, such as: identity, explanation or control (ibid.).

The fundamental goal in case analysis is to find out what the case is of (Vaughan, 1992). Case as a concept is used in many ways, it is applied to refer to data categories, to theoretical categories, historical and etc. Casing as a methodological step is most commonly applied in the initial phases of the research process (Ragin and Becker, 1992). In the given context, the study aims to conduct in-depth analysis of effects of expansion of Georgian wine industry on the Kakhetian smallholder viticulture, and the strategies employed them to coexist in competitive sector.

#### **3.2 Site sampling and description**

Kakheti region was chosen for the case study, as it is considered as a hub of Georgian wine production. Region is famous for its agricultural production, especially viticulture. Kakheti region is 11 311 km<sup>2</sup> in size, so for the purpose of the proposed research areas covered for semi-structure interviews where ones covered by the project “Wine Route of Georgia”.

### **3.3 Methods**

Data collection process for the research included: personal observations, analysis of the available secondary sources including: policy and strategic documents, and semi-structured interviews, intended at employing possible, available types of information recommended by Yin (2003).

#### *3.3.1 Secondary Sources*

In order to conduct comprehensive research, secondary data has been analyzed from multiple types of sources: available academic journal articles, focusing on Georgian structural transformation processes, agricultural development, rural livelihoods and the Georgian wine; government strategic and policy documents, and the evaluation and strategic reports prepared by both local and international organizations.

#### *3.3.2 Description of primary sources and sampling*

Due to the complexity of the research topic, the primary sources for the study have been identified according to multiple factors. Firstly, areas of operations which was determined by whether the participants were engaged in cultivating vineyards or producing the wines in Kakheti region. Secondly, size of operations was used as a determinant for choosing prospective interviewees, sampling of the interviewees included smallholder farmers to medium-sized enterprises (Cresswell, 2007:75). Another key determining factor has been the willingness of participants to engage in the research. All the identified interviewees were located in the region of Kakheti, in their natural settings, targeted at the inclusion of participants voices and researcher's reflections on observations made on behaviors and actions in the local context (Cresswell, 2007:75).

For the purpose of the study, semi-structured interviews were conducted aimed at identifying the key impacts of ongoing projects and policies on: viticulture livelihood, decisions to keep operating in the sector and the availability of resources, as well as understanding the strategies smallholders and small-scale wine producer's employee to compete. This aspect included understanding of their vision and the motivations for future. In total of sixteen participants have been interviewed, sample composed of smallholder farmers and SME owners, producing wine. *(see Appendices B-D for respondent's profiles, Interview and consent guides)*

### **3.4 Reliability and validity**

As the research is limited in context and geographical scale, it is hard to generalize the findings for the whole population. Nevertheless, the purpose of the research is not to present generalizable results, but to analyze the effects of policies implemented by government of Georgia on small-scale viticulture in Kakheti region, with the aim to identify areas of improvement in sectoral- policy and strategy making of the country. Thus, the selected sample and the findings of the research can only be indicative of the broader picture of the phenomena. In order to ensure the validity and the reliability of the findings, research process employed several procedures. In order to develop in-depth understanding of the phenomena, field research has been conducted over prolonged-time, allowing for profound understanding of the local contexts and ensuring the credibility of findings. Different data sources have also been triangulated to provide coherent justification and consistency in data corroboration.

#### *3.4.1 Possible biases*

During the research and analyzing process, researcher was reflective of possible personal-biases that might have arisen due to nationality and due to social bonds established during the research period in Kakheti. Observations from the interviews concluded that biases were more prevalent, when discussing cultural, religious and personal values. Thus, reflexive of possible biases, research was based on neutral stance. Interviews have also been recorded, translated and transcribed on the basis of neutrality.

### **3.5 Ethical considerations**

Understanding of local context, norms and power-relationships on country level, fieldwork research design process has been two-fold. During the first phase of the field work, informal conversations with the community members were organized, intended to identify their perceived needs the values on local context, level. Aimed to understand the cultural values specific to Kakheti region. During the same period, list of prospective interviewees has been identified with the contact information. After the first phase, prospective respondents have been contacted to inform them about types of questions to expect and the time-arrangements of the time-schedule. Interview consent forms have been prepared in accordance to Lund University guidelines and distributed among prospective respondents. In order to minimize the risks of vulnerabilities toward the respondents, confidentiality and anonymity aspects have also been included in the consent form. This has ensured more informative and in-depth interviews as well as protection of participants from possible exploitation caused by power imbalances.



Thus, for the purpose of analysis, respondent names and sensitive information that could violate their anonymity has been discreet, instead they have been profiled. (*see Appendix C for profiles*)

In order to avoid collecting harmful information and marginalizing interviewees, semi-structured interview questions have been designed accordingly. Question-answers gave insights on personal stories and perceptions, but at the same time protected interviewees from exploitation. Participants had the right to avoid answering the questions they found inappropriate or to terminate the process any time they found necessary. Taking into account the needs of vulnerable population and due to ethical considerations, respondent partaking in the research were over 18 years, excluding the minors from the research-process.

### **3.6 Limitations of the study**

The nature of the study is limited to only given region and cannot be generalizable.

Due to the scale of the study and the micro-political environment in the country (post presidential election period) it was not possible to conduct interviews with the key decision-makers in the country's rural and agro economic policies. To measure the impacts of implemented initiatives, research relies on the interviewees and the secondary sources. Most of the reports developed in regards with the issue on the country-level are cases compiled by governmental bodies or by the recipients of the grants intended for international donors, which might raise the issue of reliability.

Primary sources, who agreed to partake in research were reluctant to give information on the financials numbers of their operations. This can be argued to limit the scope of the study, as the available quantitative data used for the research primarily depends on the data provided by the Wine Agency of the country. Which operates under the Ministry of Agricultural Development and Agriculture of Georgia.

Asset Analysis has been conducted by compiling and summarizing fieldwork findings. Interview answers have been coded and summarized to create the pentagon model of Kakheti region viticulture asset analysis. While model provides the depiction, it fails to address the differences between the households. As well as, model is based on the small sample size, and there can be variances between provided pentagon, and if the model was based on the bigger sample.

## **4.Theoretical framework**

### **4.1 Theoretical lens**

#### *4.1.1 Agriculture and poverty alleviation*

World has expended views on poverty, shifting away from measuring it primarily as a daily disposable income of \$1.90 to a more multidimensional paradigm of wellbeing. Including factors of wellbeing such: health, access to basic infrastructure, education and security along with consumption elements (World Bank, 2018b:5). Poverty is influenced by economic, social, political, institutional and cultural drivers and requires efforts in multiple spheres (Olsson et al, 2014).

Sectoral composition of growth has different impacts on the reduction of the poverty. Generally, agricultural growth is more effective in decreasing the poverty than the industrial growth (Perkins et al, 2013b:611). Partially, as a result of disproportional distribution of the country's poor population. In countries with rural poverty, agriculture accounts for large proportions of employment generation. Incomes generated can be used to invest in nonfarm activities, allowing rural households to diversify their income streams and improve access to services and resources, leading to improved rural livelihoods. Growth in agricultural productivity allows for the increased labor mobility and increased reinvestment of capital away from agriculture to industry and service sectors (Perkins et al, 2013b:617).

#### *4.1.2. Economic structural transformation*

Country's economic development, through gradual transformation of its economic structures from primary emphasis on traditional, subsistence agriculture to a modernized and diversified economy, is the grounding thinking of structural-change theory. It focuses around the mechanisms intended to change domestic economic activities to more urbanized and industrial ones, such as: diversified services and manufacturing (Todaro and Smith, 2009a). Subsistence Economy refers to the system where production is intended primarily for personal consumption characterized by low standard of life with only basic necessities: shelter, food and clothing. *Subsistence farming* is the farming, where all the farming activities are conducted for personal consumption, usually resulting in low productivity and high risks for the farmers. Nowadays, it is common for people in agriculture-based economies to work in subsistence farming (ibid.).

Todaro and Smith (2009b) identify three stages of agricultural development: first is the low productivity stage mostly driven by subsistence economic activities. The second stage is the diversified or mixed family agriculture, where small portion of production is for personal consumption, while rest for commercial purposes. The third stage is characterized by a modern farm with high specialized productivity intended for commercial markets (ibid.). Moving away from traditional agricultural model to more modernized one is a complex process and can include the changes in social and political aspects of societies.

#### 4.1.3 *Structural transformation and the neoclassical theory*

Structural Transformation implies some of the tools of neoclassical theory of resources allocation and price. According to traditional growth theory, three factors can increase the output: Capital, Labor and Technology. Where *capital* accumulation is the result of the savings and investments, leading to the expansion of capital stocks of the country. Traditional, neoclassical growth theory considers population growth as a positive factor essential for the growth, assuming that bigger *labor force* would lead to more productivity and technological progress is considered as the critical basis for economic growth (Todaro and Smith, 2009a).

While generally, the theory views rapidly growing size of the population as a positive factor, it can also negatively influence the economic growth due to the low ability of the system to absorb the available labor force, leading to high levels of unemployment effecting the economic structure. Neutral technological progress can also be achieved, by effective division of labor. In the agenda of agricultural development, rising the efficiency of small-farm production has emerged in 1970s and continues to be immensely addressed in the present time (Ellis, 2000).

According to the given theory rational farmer will always seek to choose a cost-saving method of production leading to increased output and profit maximization. Assuming that farmers possess the knowledge and the information necessary to make such decision. Theory losses its accuracy especially when the farmers are living and working in environments where access to information and resources is highly scarce. These and other uncertainties (environmental uncertainties, limited access to insurance and credits) can lead to both: increased costs that decrease the potential profit margin and further marginalization of those operating in subsistence farming (due to risks associated) (Todaro and Smith, 2009a).

## International Trade and Lewis

Lewis intended to explore the reasons to why did the price fluctuations in international trade marginalized the poor by favoring changing in favor of industrial goods. According to his theory, once the country reaches open economy, modern sector exports the produce on global markets at lower prices. As it is able to employ cheap labor force from traditional sector, and it is expected to continue as long as, productivity in subsistence sector continues to be low (Girvan, 2009:87). For the long-term, sustainable economic development, technological change is essential and the trade cannot act as a substitution for it (Girvan, 2009:93).

### 4.1.4 *Trade and open Economies*

Economic development is a long-term process, improved welfare system and the shift to export of manufactured goods take decades to be achieved. Former Soviet Union countries and Eastern European countries, started to open their economies in early 1990s. Two main characteristics of developing economies are: first, they are open economies and secondly, they are typically small. Open refers to their capital flow and the trade policies that influence the domestic economies. Small meaning that neither their import and export have a visible influence on the world market prices for the specific services and commodities. Thus, countries with small open economies are the price takers on the global-scale. One of the biggest risks in open economies, especially in a country going through the structural-transformation is the unstable global markets, leading to macroeconomic fluctuations effecting their stability (Perkins et al, 2013b).

International Organizations (World Trade Organization, World Bank and OECD) refer to open economy as a barrier free, liberal market economy, with minimal trade restrictions on capital and labor. It is associated with increased economic performance, new job opportunities, economies of scale and poverty alleviation (OECD, 2010; Love and Lattimore, 2009; Dornbusch and Helmers, 1991). Principles of open economy has been linked to technological and innovation advancements, as it allows for the freer transfer of knowledge and technology. OECD (2010) defines market openness as the capability of foreign supplier to compete on domestic market.

Chang (2003) in *Kicking away the ladder* criticizes the existing suggested policies for the developing economies. Suggesting that the now developed countries (NDCs) did not achieve their transformations, by adopting the existing recommended policies. which motivate states to implement macroeconomic policies that lead to deregulation and liberalize both international trade and investments. Due to changes in productivity gap and in purchasing power parity (PPP) since the 19<sup>th</sup> century, if the currently developing countries were to provide same degree of protection of their industries as the NDCs did, they will have to impose higher rates of tariff (Chang, 2003:27).

Since the World War II, world has seen the fastest rate of economic growth, which globalization has vastly contributed to, especially through new and emerging markets. Increase in international trade has partially been as a result of reduced tariffs and lower transportation costs. Stiglitz (2018) in *Globalization and its Discontents Revisited*, identifies trade as one of the main elements of the globalization and suggests that it has been mismanaged. Suggesting that while trade globalization generally benefited countries as a whole, by increasing their national incomes, it was not beneficial poorer populations.

#### *4.1.5 Agricultural Policies and Rural livelihoods*

A livelihood lens recognizes that people construct their lives and adapt their livelihoods in numerous ways. Adaptation of the livelihoods heavily depends on the cultural, political economic and institutional contexts, as well as on the unforeseen shocks. Broadened opportunities, better access to technology and infrastructure, diversification of assets can lead to improved livelihoods (Ellis, 2003; Hazell et al, 2010).

Macro policies, designed by the government officials shape the actual prices of production for farmers: cost of capital, availability of imported equipment and the opportunities for the distribution of the outputs. Macro-policies are developed to favor investments by keeping capital cheap, to increase the incomes of workers, to subsidize the machinery and improve accessibility all directed towards improved agricultural production (Timmer et al, 1983). Policy distortions in some countries may prioritize larger farms over smaller, family-owned farms. Especially in developing countries, while the case might be reversed in already developed country, putting primary focus on the small-scale farms (Lipton, 2010). Most of the farms in the developing states are labor-intensive and capital-poor, indicating at the need for policies targeting capacity-building for farmers (ibid.). Rapid growth in agricultural, international trade

and policies aimed at liberalization of markets, and increased competition, has led to decreased prices for agricultural goods. Which made it harder for farmers to compete on global level. Due to harsh competitive environments, rural poor have diversified their livelihood away from agricultural production as a primary source of income (Hazell et al, 2010).

Oudiz et al, 1984 raised the issue of failed existence of competitive markets, leading to overproductions of social harms and underproduction of social goods. Which leaves individuals incapable of gaining from trade. Argument indicated that some states' macroeconomic policies have no markets, leaving individuals with unexploited economic opportunities, and drifting away from their macroeconomic targets (ibid.).

## **4.2. Theoretical concepts**

### *4.2.1 Agricultural intensification*

So far, the agricultural production has been able to meet with the needs of worlds' expending population. Agricultural outputs have been increasing with the rising population (Todaro and Smith, 2009b). In order to meet with the increasing demands, agricultural intensification programs have been introduced.

Agricultural performance is dependent on the policies, but also on the decentralized decision-making of the farmers: which crops to produce and in what quantities, How much to sell and save for the purpose of household consumption. Timmer et al (1983) identify the three factors determining the agricultural output. First is the product-product decision, Farmers' decisions are more likely to be based on the incentives of the expected benefits from the change, generally opportunity cost of choosing to produce one crop over the other is also taken into account (Timmer et al, 1983). Factor –factor decision is concerned about to how to grow the chosen crops. It is directly interlinked to labor and available capital, especially in rural regions. Actual prices of factors, including: the cost of capital, equipment and the wages determine the choices local farmers take. Factor-Product refers to response of the total agricultural output to the economic environment, effecting the profitability of the sector (ibid.).

### *4.2.2. Commercialization and agricultural development*

Historically no country has been able to sustain transition out of poverty without successful structural transformation (Singapore and Hong Kong excluded). Increased agricultural

production creates food security, labor productivity and savings allowing for investments in industrialization and urbanization. At the same time process leads to decreased importance of agriculture to overall country's economy (Timmer, 2009:).

Over the decades the notion that agricultural development is the essential first step for overall economic growth and development has been deeply rooted. This has created the belief that developing countries quickly graduate from receiving aid to acting as commercial markets for agricultural exports. Nevertheless, on initial stages sector is volatile, heavily dependent on assistances. Later, by distorting public-sector support for agricultural development, interests towards the agricultural commodities also decrease, which hinders economic growth and poverty reduction processes of the country (Timmer, 2009:54).

Both, agricultural technology and commercialization are driving forces for rural economic growth. Favorable macroeconomic environment and trade policies, as well as infrastructure development act as stimulators for commercialization. While policies determine speed for commercialization process and rural economic development (Braun, 1995: 187). Agricultural trade policies can be changed anytime by policymakers according to their priorities. Rising gap between incomes of nonagricultural and agricultural sectors lead policymakers to implement emended incentives for agricultural producers (Timmer, 2009:31).

Even though the process of commercialization aims to improve welfare and conditions of livelihoods in rural areas, it fails to address the distribution of increased incomes among economic and social groups. This can have adverse impacts for small-scale producers, who are more likely to be poor (Braun, 1995).

#### *4.2.3 Moving away from dependence, diversification of economic activities*

There have been several definitions of diversification provided, it can be defined as a development of non-agricultural economic activities or a livelihood, which can contain multiple components. Diversification has been closely linked to improved welfare levels, by reducing primary dependence on agriculture, and an important sustaining factor for farmers' livelihood (Cukur, 2014).

Monofunctionality of the rural economy, creates risks for the livelihoods due to heavy dependence on the one sector and threatens the economic security of the region (Boiko, 2017).

Diversification of economic activities increases rural employment, diversifies and rises the revenues, improves the human capital as well as, it serves to reduce environmental pressures. While, diversification is essential for the development leading to structural changes, it is often slowed down by financial limitations and resistance. The process does not only lead to change in economic, but can also lead to changes in social structure. Due to improved professional skills and competencies, development of new visions, plans and ambitions and increases social responsibility (ibid.).

International organizations emphasize on the importance of governmental intervention in the process of achieving diversified rural economy, through their policies and services. Some of the key element are: provision of the technology to rural populations such as: internet, phone coverage, allowing them to get more engaged in business operations; providing trainings and information intended at encouraging entrepreneurship through increased human capital especially engaging youth and women in training programs (OECD,2010).



## 5. Analytical Framework

The analytical lens of the research arises from the indication that Many of nowadays development interventions, addressing the agricultural development and farming advancements are still leaning on the classical approaches. Which define development primarily as an economic growth. This represents only one dimension of the development, second being the capability of the government to implement activities, to reach multi-dimensional development with the sustained change (Pritchett et al 2010). Current study takes into account the need for more holistic approach into the development and employees the complexity of the livelihood and its multidimensionality as a lens for the analysis.

The concept of livelihood is widely used in the context of poverty and rural development. Different definitions of livelihood have been applied in various literature, that have made notion more holistic (Ellis, 2000:7; Dorward et al, 2009). Most commonly referred definitions of livelihoods emphasize the importance of capabilities in livelihoods (Sen, 1999; Ellis, 2000). Where, Capability component signifies the ability of a person to pursue the alternative activities and outcomes with the same economic and social characteristics. Different types of assets determine the livelihoods: natural referring to availability of natural resource base; physical referring to assets created by economic production; human capital referring to skillset, education and health of an individual; financial capital referring to access to funds that can be optimized for either production or consumption; social referring to networks and associations, that act as support systems for individuals (Ellis, 2000). Livelihood is a complex notion and consists of different types of above mentioned: assets, activities and the access to services and social relations that determine living quality gained by individuals.

International organizations commonly refer to Chambers and Conway (1992)<sup>4</sup> to provide a working definition of livelihood, taking into account that livelihoods are shaped within different contexts: social, economic and political (International Recovery Platform Secretariat, n.d.)

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<sup>4</sup> Definition by Chambers and Conway (1992): "Livelihood comprises the capabilities, assets and activities required for means of living" (Ellis, 2000:7).

Livelihood Assets (5Cs)	
Human	Knowledge, skills, ability to work, health condition
Social	Formal and informal networks, trust, cooperation for utilizing economic opportunities
Natural	Availability and access to soil, land, water
Physical	Infrastructure and equipment
Financial	Savings, credits, grants, income from trade and employment

**Table 2:** Livelihood assets

Source: Compiled by the author (based on the information from Olsson et al, 2014)

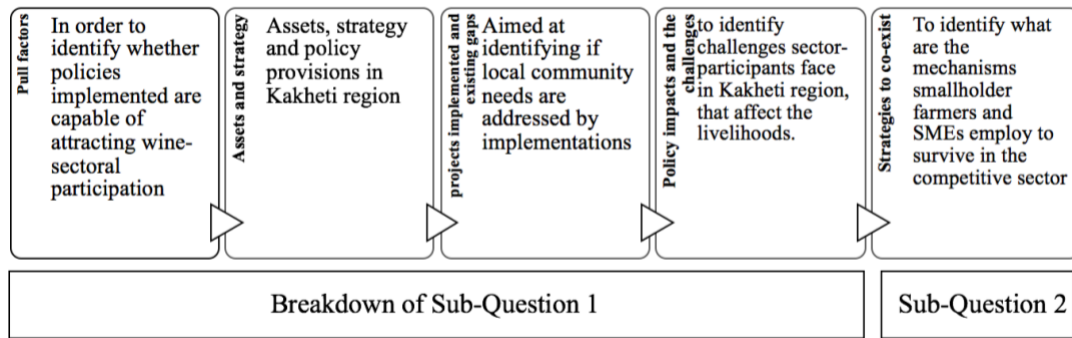
Scoones (2009) identified three types of livelihood strategies: agricultural intensification, livelihood diversification and migration. Georgian government has directed its strategy towards the agricultural intensification, by increasing the reliance on agricultural production. To achieve this, the government has established a political freedom in regards the trade and increased investments to provide economic facilities for farmers (Ellis, 2000; Sen, 1999). The government's mainstream approach is to reduce rural poverty through rising productivity in small-farm agriculture. It can lead to intensive rural labor activities that are non-farm, due to increased incomes. Dorward et al (2009) identify external factors that create uncertainties for the producers: weather conditions, animal pests and diseases, fluctuating market prices and changing policies.

In order to better understand the complexities of the rural livelihood perspectives in the given context, and for the purpose of answering the RQs, analytical framework has been developed compiling the elements and adapting from the available frameworks. Applied frames are: Framework for micro policy Analysis of rural livelihoods (Ellis, 2003:31). Sustainable Livelihoods framework: a checklist (Scoones, 1998) and from the Harris-Todaro Model of Migration, which studies economic system of rural-urban migration (Harris and Todaro, 1970). While Harris-Todaro model concludes that migrants react mainly to economic incentives and assumes that the rural-urban migration will persist, if urban wages exceed those of rural (pull factors). The purpose of applying the model in the current analytical framework is to identify

pull factors that result in wine-sectoral engagement. With the aim to find whether policy implementations of the country are capable of attracting the sectoral-participation.

### 5.1.1 Operationalization of suggested analytical framework

Analytical framework has been constructed to answer each of the sub-questions. Figure 1 below depicts the process of analysis.



**Figure 1:** Proposed analytical framework for sub-questions

Source: Constructed by author (based on the information from Ellis, 2000; Scoones, 1998; Harris and Todaro, 1970)

Proposed framework aims to on the broad-level provide complex overview and the analysis of Georgian agriculture in regards the wine sector, and the country's' progress towards reaching the economic transformation, through inclusive, sectoral development. On the fieldwork level, framework gives segments the sub-question 1 to provide comprehensive analysis of the policy impacts. This leads up to sub-question 2 of strategies employed by SMEs and smallholder viticulture farmers.

Strategies employed by market players, aims to identify current trends and how small market players co-exist with the market leaders. It also enables to conjecture future strategies that can be employed, despite the ever-changing micro and macro factor.

## 6. Analysis

Findings chapter is divided into two parts in an attempt to answer two research questions. The first part, analyses RQ 1 by building up on policy implementations and the farmer's and wine producers' perceptions on them. The second part, analyses RQ 2 by highlighting the most-commonly employed strategies of the sector-participants, in Kakheti region.

Research findings identified trends in participants' profiles, that were not conjectured prior to undertaking the fieldwork. This has provided insights and allowed for exhaustive understanding of the context. One of the main, trend observations showed that investments from urban settings in Kakheti wine sector was quite prevalent. Thus, for the purpose of analysis, interviewees have been profiled accordingly:

*Smallholder farmers*- local community members, involved in small-scale viticulture farming, only producing wine for domestic consumption.

*SEs*-small enterprises, generally family-owned businesses, involved in small-scale farming and producing wine for both household consumption and limited distribution

*MEs*-medium-sized enterprises, with distribution networks on Georgian markets, and limited exports

*Urban investors* - Characterized by middle or high income urban workers, engaged in wine production after sufficient earnings in urban settings. Generally, they are owners of MEs.

### 6.1 policy implementation effects on smallholder viticulture farmers and wine producers (Sub-RQ 1)

#### 6.1.1 *Policy implementations determining wine-sectoral participation?*

For the purpose of understanding the impacts of main policies on the livelihoods of smallholder farmers and the wine producers, pull factors for engaging into the wine industry have been identified. This had twofold motive, first, to know whether policies implemented by the government were capable of attracting small viticulture producers and second, to observe whether participation in the sector was choice-driven. Most referred themes from the interviews included: wine as an inevitable part of Georgian culture, wine as a means of survival and the possibility to diversify income streams, practicing viticulture as an inheritance of generations and the sector as a potential and an opportunity.

Wine is immensely rooted in Georgian traditions and culture. Research found that the small-scale wine producers emphasized on the importance of wine in religion, especially in orthodox traditions of communion services in church. As a country, where 85 percent of population is orthodox Christian, religion plays an important role in decision-making processes (Verulava et al, 2019). Another important driving-factor in relation to culture and traditions was the perceived threat of deculturation. Arab village located in Kakheti and increased number of Arab migrants in the region, motivate local community members to purchase land for viticulture purposes as a defense mechanism. According to the findings, participants were pressured by competitive advantages of the incomers, due to their financial stability and the volatile exchange rates on the domestic markets. Which could create barriers for locals to switch away from subsistence, household-level production into medium sized enterprises. Another perceived threat, was the expected cultural clashes. Despite the existing pressures regarding the issue, there has been little attention paid by local authorities and researchers. Media monitoring has identified that the land areas owned by Arab migrants, are arable lands used for different purposes, in most cases for housing sector (Jorbenadze, 2017). Sense of patriotism and traditions as a stimulus for engaging into the sector was most prevalent among urban investors.

*“After seeing the available arable lands with potential, that were neglected, I as a Georgian felt responsible for helping my country, these were the lands where our ancestors produced wine. So, I bought a land were grapes for one of the first wines exhibited in Europe and won a golden medal for, were cultivated”. (Interviewee 11, urban investor; Kakheti region, 2019)*

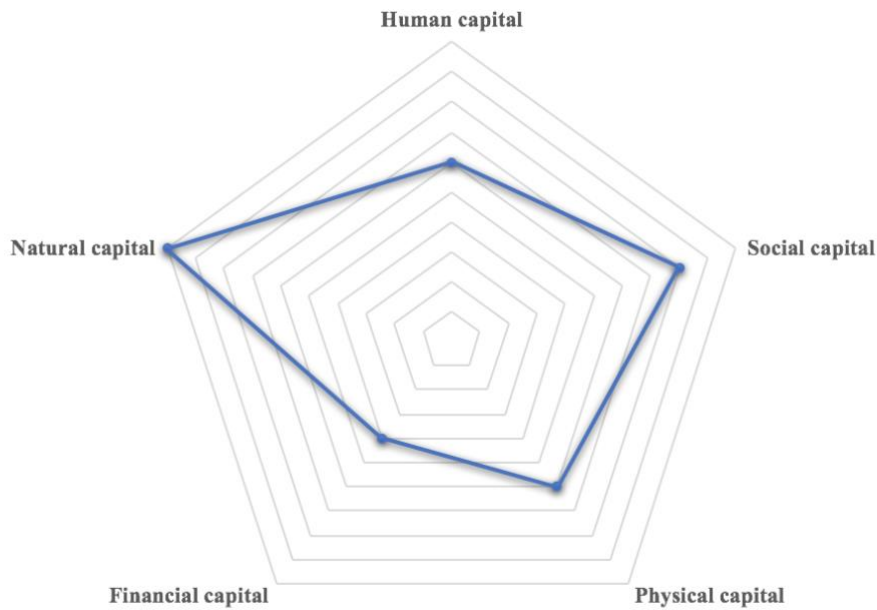
Investments in the sector have also been encouraged by the recent policies and the attention towards the Georgian wine. Newly-created opportunities for domestic and international markets, have been accentuated as determinants for choosing to operate in the sector. Sectoral development prospects, have led to cross-segmental utilization of the produce. Where wine has been utilized for the development of tourism, diversification of grape-based products and the diversification of distribution channels. According to the findings, the favorable credit policies towards the wine sector have been important in shaping the roles on household level. Female-led household have been able to diversify their revenues by supplying small, local markets with home-made, grape-based products.

Among local, smallholder farmers and family-owned SEs, most prevalent reasons for engagement in the sector have been the inheritance and continuation of family traditions. Generally, trend showed that households owned the arable land throughout the generations, and tried to expand production rates and switch away from subsistence farming their ancestors practiced. One of the key characteristics of these determinants, is the primary dependency on viticulture cultivation as a source of income and a means of survival. While in other cases policies have been found to attract the sectoral participation, in this case they are leveraged to optimize the opportunities in the sector.

According to findings, determinants of engagement into the Georgian wine sector divide into two main groups, pulling factors based on freedom of choice and those trapped in the sector by lack of choice. By trend, group of cultivators and wine producers driven in the sector by their choice, accentuated on the favorable policies, sense of traditions and patriotism, and an opportunity to diversify income streams as key factors for immersing into the Georgian wine sector. While, farmers and wine producers, who concentrated determining factors around the ways of survival, inheritance and family traditions, were most commonly driven into the wine-production by their living conditions. By trend, they view winemaking and grape cultivation as a primary source of income and a sectors' potential, as a way out of household-poverty.

#### *6.1.2 Assets and strategy and policy provisions in Kakheti region*

Rural and agro policies have been employed by government of Georgia. And the local authorities in Kakheti have been actively engaged in implementation processes, to ensure the improved availability and accessibility of prioritized assets for the sectors' development. Research has identified some of the main implementations in regards the assets in the region. Figure below depicts the asset plotting based on the summary of interview findings. According to the pentagon, average viticulture household in Kakheti region is high in natural capital in regards with the wine-sector, due to fertile soil. Moderately endowed in regards the social capital, but low in financial capital, despite existing, multiple channels that are available for accumulating finances. As well as, average household is moderately low in human capital and in physical capital, due to lack of available infrastructure. Figure 2, below depicts the average assets of Kakheti smallholder household livelihood, based on fieldwork findings.



**Figure 2:** Pentagon of Kakheti smallholder viticulture livelihood asset analysis

Source: Constructed by author, based on fieldwork Interviews, 2019

Education has been found, as one of the most valuable and most often emphasized elements in regards the human capital. Generally, education is perceived as an opportunity to extricate poverty cycle by increasing opportunities of employment and expanding the businesses. Government of Georgia, under the Ministry of Agriculture and Rural Development has implemented educational programs for farmers. They are aimed at improving the business-oriented capacities of smallholder farmers and wine producers, by strengthening the knowledge of market mechanisms and the budgeting skills. Enterprise Georgia<sup>5</sup>, agency under the Ministry of Economy and Sustainable Development, contributes to agribusiness development by providing support and assistance for SMEs operating into the sector. One of the priority projects of the agency is the training program for the export managers and specialists of SMEs. Program is specifically designed to provide skills important for entering the international markets to enterprises.

Despite existing pressures between local community members and Arab settlement residents, and the competition on the Georgian wine market, social bonds have been identified significantly strong. Bonds were significantly stronger in regards the trust and sharing of

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<sup>5</sup> Established in 2014, it is the main implementing partner of the project “produce in Georgia” which works for business support and export promotion in Georgia (Enterprise Georgia, n.d).

knowledge about best practices and among local, rural population members, compared to urban investors. Urban incomers have been described as: newcomers, competition and ignorant by local community members. Strong trust bonds are most prevalent among neighbors, and it weakens with the geographical dispersion. Central driving factors contributing to trust emphasized by interviewees were possibility to share the knowledge with each other and an opportunity to share the costs of adequate machinery for practicing viticulture. Due to limited infrastructure, community farmers come together to share the costs of purchasing the machinery, establishing small-scale cooperatives, trend is common among geographically concentrated households. While, identified bonds among local community members were strong, urban investors have emphasized on the cases of broken trust, by stealing of machinery and secret harvesting during the night.

In regards with the natural assets availability and accessibility, Kakheti region is characterized by fertile soil and the favorable climate for agricultural production. Which allows viticulture farmers to practice traditional, dry-farming. However, intensified farming, and lack of quality fertilizers have led to soil erosion and loss in production. While wine sector is directed towards increase incomes and improved standards of life, it also requires capital investments. Central channels for financial accumulation needed for viticulture and business development in Kakheti region are: governmental grants offered for SMEs, credits allowing usage of lands as collateral, international donors, remittances and family members' investments.

### *6.1.3 Policies and projects implemented and existing gaps*

Currently, in strategy documents of Georgia, wine industry is targeted as one of the main priorities for countries development. Most of the investments into the sector are under the project “Development of Viticulture and Winemaking in Georgia”, managed by Wine Agency. Despite increased attention toward the wine sector, governmental budget allocation for the project has been decreasing gradually. If in 2017, the allocation of funds for the project was 43 070 000 Gel, in 2018 it constituted to 20 060 000 Gel (Wine Agency, 2017; Wine Agency 2018). During the same period, the country government has slightly increased funding for wine laboratories. Which are essential for wine-producers, who are willing to distribute their wines on both domestic and international markets. Decrease in investment could be explained by country's growth agenda to diversify its economic activities. Nevertheless, viticulture sustained with the less financial resources, and harvest in 2018 increased compared to 2017.



Table 3 below depicts the fluctuations in approved allocated budget for the years 2017 and 2018.

2017		2018	
Costs	Early budget allocated by government	Projects' sub-goal	Early budget allocated by government
Development of viticulture and winemaking in Georgia	43 070 000	Development of Viticulture and Winemaking in Georgia	20 060 000
Project management and administration	1 720 000	Project Management and Administration	1 700 000
Wine laboratory	50 000	Wine laboratory	60 000
Promotion of Georgian wines	6 000 000	Promotion of Georgian wines	6 000 000
Event costs	100 000	Event costs	200 000
Supporting harvest activities	35 000 000	Supporting harvests activities	16 950 000
Popularization of Georgian viticulture	200 000	Popularization of Georgian viticulture	50 000
<b>Total</b>	<b>85 915 000</b>	<b>Total</b>	<b>45 020 000</b>

**Table 3.** Governments' approved budget allocation for the wine sector in 2017 and in 2018

Source: Constructed by author (based on the information from Wine agency, 2017; Wine Agency, 2018)

While focus on promoting Georgian wine has been maintained, and products of well-established brands and MEs have been represented and promoted on international exhibitions, there is little attention paid towards promoting SEs. Generally, the government's actions have been criticized for ignorance and failing to include smallholder viticulture farmers and SEs' owners in promotion and popularization activities. Fieldwork research indicated that cuts in

funding for viticulture and winemaking development has affected them, by limiting their opportunities for available resources and adequate technology. At the same time, it gives competitive advantage to already well-established, medium-sized enterprises enabling them to promote their products on international markets.

The action plan for “Kakheti Regional Development Strategy 2014-2021” targets the development of efficient water-management systems in the region, especially investments in installation of quality irrigation systems for the agricultural production (MRDI, 2013). In regards the wine sector, irrigation systems are believed to contribute to higher quality grape production. However, the common trend among the smallholder viticulture farmers is to traditionally practice cultivation by dry farming. Kakheti rural regions are characterized by poor water-management and sewage systems, effecting the sanitation and access to safe drinking water which negatively reflects on the overall standard of life and livelihood of rural populations, and increases health risks. Moreover, water-management disparities between urban and rural settings of the region, can create tensions among community members.

*“Instead of installing irrigation system for vineyard, I would have preferred having drinking water for my children” (Interviewee 5, SE owner; Kakheti region, 2019)*

Gaps in water management activities and strategies, highlight the disconnects between governments’ policy implementations; and the local norms and the actual perceived, needs of rural populations.

Even though, the budget allocation for the development of viticulture and winemaking has decreased, exports and harvests have been progressively increasing. This indicates at increased resilience of the sector on the country level. Despite the attempts to create favorable agribusiness environment for the SMEs, SEs and smallholder farmers feel the sense of neglect and marginalization. As the government puts primary focus on promoting bigger brands on international scale. Most commonly promoting products of medium-sized enterprises. This has been identified as one of the barriers for small, family owned businesses to penetrate the market.

#### 6.1.4 *Policy impacts and the challenges sector players face*

For the purpose of present research analysis, challenges are defined as the barriers, smallholder farmers and the wine producers face in reaching the full potential of Georgian wine sector. While, study findings indicated on the clear distinction between the challenges smallholder farmers and SEs face and the ones MEs face, strong similarities were also explored. While free market mechanisms and the agribusiness-friendly policies have set positive climate for the involvement into the country's wine sector, they have also attracted and engaged sector participants with insufficient and inadequate capital.

Lack of suitable skills, education and capacity have been identified as important barriers for smallholder farmers and wine producers. Due to these factors, they face challenges both in farming and management-related activities. Some of most commonly referred challenges among interviewees included: application of technologically advanced and modern methods in viticulture, management of the wine production as a business, market research and setting optimal prices for the products, suitable with the market equilibrium.

Timmer et al (1983) identify available incentives as one of the main factors for farmers decision-making, determining the total agricultural output. Available financial resources and assistance are significant decision-making considerations for smallholder farmers and SEs in Kakheti. The early planning of activities for viticulture and wine production are based on the availability of funds. Generally, viticulture farmers are aiming at increasing their agricultural production on annual basis, either by intensified farming or by extension of land. Wine producers are oriented towards the expansion of their business activities. Due to costs related to sustaining households, no financial capital surplus is available from revenues for reinvestment. Thus, they are primarily dependent on available agro-credits. Despite the responsive policies, interest rates are high for small-scale land owners and SEs, whose revenues and profit margins are low.

Seasonality has been identified as one of the main risks, especially for smallholder farmers. Risks associated with viticulture are droughts, as majority of smallholder farmers are practicing dry farming, and generally Kakheti region has poor water-management systems. In order to minimize the risk-factors associated with weather fluctuations, insurance schemes have been introduced. On Georgian insurance market, both governmental and private insurance schemes

are available. Nevertheless, according to fieldwork findings smallholder farmers, with comparably lower revenues, avoid purchasing the insurance in order to cut the associated costs.

Reduced governmental funding for subsidization of agriculture, especially on the provision of the adequate infrastructure has, has limited smallholder farmers' and SEs' accessibility to technology. This has led to increased working hours and labor costs for them. While, currently existing investments in agricultural infrastructure and technology, supporting farms and fostering efficiency are limited; they can lead to aggregated externalities and decreased poverty in rural non-farm sectors, from small-scale farmers increased income and expenditure (Mellor, 2017).

Limited availability and affordability of quality seeds and fertilizers have been found as another obstacle for Georgian wine sector. Despite, service centers located throughout Kakheti region, especially on the "Wine Route", smallholder farmers, SEs and MEs have low trust towards their services and products. Emphasized drawbacks of the centers included: high costs, low quality of services and insufficient product lines.

Rapidly increasing trend of standards and certifications in the recent years, raise the questions whether they are applied to act as non-tariff barriers for trade, they can pose the threat to social welfare (Swinnen, 2016). Process of obtaining required marking and certification for the wine for commercial purposes, was found as a prolonged process. Interviewees commonly described it as a barrier to penetrate domestic market. Despite, increased the funding for laboratories working with the wine-testing, experience of interviewed viticulture farmers, SEs and MEs has been associated with increased costs, prolonged process and in some cases even having to change winemaking technologies.

*"I have been approached by the representative of one of the biggest wine-bars in Tbilisi, but I can't distribute my wine there yet. Since the call, I have been trying to obtain the marking license for my wine, it been over 6 months. I have to travel to the capital often"*  
(Interviewee 13, SE owner; Kakheti region, 2019)

Traditionally, in Kakheti men are in charge of viticulture and winemaking, while women take care of household. Wine sector growth has challenged the existing social norms in the region. Popularization of the sector has attracted female farmers and entrepreneurs, motivated to grow wine-businesses. Barriers highlighted by female-farmers and SE owners include: stealing of

seeds, lack of attention by decision-makers and an unhealthy competition. One of the most commonly referred barrier was the limited access to distribution channels for produced grapes. As female-cultivated grapes are perceived to lack a competitive capacity compared to those produced by male.

MEs feel pressure to keep up with the promotion strategies of well-established, resourceful companies. Competition with the large market-players has been identified as a threat for MEs. Due to available resources, their capacity to diversify product lines, and easier accessibility to distribution channels. Most commonly referred challenge among MEs is the allocation of sufficient resources and eligibility to participate in international exhibitions and global marketing activities. Fieldwork findings among MEs found the perceived threat of either monopolization or oligopolization of the sector by large companies.

While identified challenges among the groups of small-holder farmers and family owned, small-scale businesses and medium-sized enterprises differed, two major barriers they shared were: insufficient capacities and barriers to entering international markets. While, farmers accentuated on the farming skills and knowledge of modern-technologies, MEs mostly stressed on the importance of strong management skills and leadership. While greater economic openness involves trade liberalization, increased FDIs and reduced barriers to trade, it can also lead to further marginalization of the poor, who can't compete on capital markets and can disadvantage from cheap exports (Perkins et al, 2013: 204). Challenge of penetrating international markets was common among all participant-groups, mostly factorized due to: Lack of capital, insufficient capacities and inadequate assistance.

## **6.2 Strategies to co-exist in the Georgian wine sector (Sub-RQ 2)**

### *6.2.1 Strategies to co-exist (mpete)*

Fast-growing pace of the Georgian wine industry has created pressures to compete. Players are employing strategies and available alternatives to remain in the sector. As a result, market economy graduates in the era of competition and the struggle for survival, employing Darwinian principles. In the competitive markets, small players are at disadvantage, due to limited resource availability and are more risk-prone, compared to large, established players who have more access to assets (Rajagopal,2012).

Free market mechanisms and competitive climate of the Georgian wine sector, has led market players to acquire strategies oriented towards the survival and the maintenance of growth. While, smallholder farmers and SE owners confined themselves to the approaches allowing them to survive and maintain capacities on the market, MEs have maintained vision to upsurge presence on international and national markets.

### *6.2.2 Intensification and commercialization as a strategy*

In the context of Georgian wine sector in Kakheti region, intensification and commercialization as strategic mechanisms are applied in different phases and segments. While smallholder farmers of viticulture employ intensification as a way of survival, MEs intensify their agricultural farming for business expansion.

Smallholder farmers turn to intensified viticulture farming as a way to commercialize their produce and to leverage their revenues by selling grapes. They create cooperatives to utilize available infrastructure for intensification, and to share market-knowledge for commercialization purposes. Commonly, smallholder viticulture farmers depend on contract-selling, where prices are negotiated by large wine-producing companies. Set prices vary on annual basis, but in all cases, they are close to equilibrium prices, thus, leaving farmers with the low profit-margins. Due to limited availability of quality resources, smallholder farmers among the interviewees, employed the low-priced, easily-available fertilizers to maximize their harvest. This was also identified as a factor weakening the negotiation-power of smallholder farmers.

Trend among smallholder farmers with higher financial capital and among SEs, identified that common strategy was to prioritize investments in quality crops and seeds. Even though they cultivate pure, Georgian grape breeds, interviewees imported the seed from Italy. Main driving force for the strategy is the higher negotiation power in pricing and the less competition to sell. These grapes are used for producing high-quality, niche wines.

*“I import my seeds from Italy, even though they are pure Georgian grape breeds, Italian company has stronger seeds, more resilient against diseases and I don’t have to use as much chemicals as others, I’d rather produce less, have my reputation and sell for higher prices, currently I have an auction for my next harvest, I will sell to the company offering higher price” (Interviewee 3, SE owner; Kakheti region, 2019)*

In most cases, MEs both farm the viticulture and search for smallholder farmers, who produce higher quality grapes for contract based procurements. Especially, as the quality of crops is essential for niche wine production. In regards the commercialization, they are oriented towards the increase in sales by optimizing distribution channels domestically and internationally. MEs are prioritizing investing in marketing and promotional activities.

### 6.2.3 *Diversification as a strategy*

#### ***Agricultural diversification***

Competitive climate of the wine sector, has forced smallholder farmers to optimize the available natural capital of the region: fertile soil and the climate, suitable for the agricultural production. Smallholder farmers and SEs started reinvesting revenues from the wine sector to expend their farming activities of grain crop commercialization. Some of the most commonly implied reasons for the diversification include: lower production costs, less available supplier, less competition and more available distribution channels. In commercialization process of grains, it is common to source the distribution channels outside Georgia, in neighboring countries. Contract-selling of grains based on foreign exchange rates benefit the farmers, due to fluctuations in Georgian currency. Allowing smallholder farmers to have higher profit margins.

Generally, diversification of small-scale vegetable and fruit production for domestic consumption, is common for households in Kakheti region. If the produce is sufficient enough for the family to have the surplus, it is sold in nearby markets. Usually, family members go to

Telavi<sup>6</sup> to sell the produce, as it has the biggest market in the region, and on weekends it is visited by customers from the capital city. Livestock farming for household consumption, has also been identified as a prevalent practice among the community members.

### ***Product-line diversification among MEs***

While smallholder farmers and the SEs are struggling to diversify their agricultural production, MEs are diversifying their product lines. Branding different wine breeds and alcohol beverages. Diversified product portfolio commonly includes: diverse wine assortments, of several breeds of white and red grapes; Chacha a Georgian alcoholic beverage, based either on grapes or on grains; and a sparkling wine. Most of the intensification and diversification activities implemented by MEs, are diverted towards the increased commercialization and optimization of the sales on the international markets.

#### *6.2.4 Diversification of economic activities as a strategy to survive*

One of the most commonly referred benefits of the project the “Wine Route” is the depiction of the businesses in the system, inclusive of small-size wine cellars. For local community members, increased online presence has been employed as a tool to attract new customers, and improve reputation for prospective distribution channels.

In recent years, Kakheti has become the popular destination for tourists. Where they have an opportunity to get acquainted with Georgian winemaking traditions. While rural tourism sector is targeted at using historical, cultural and natural resources of the region, it requires well-developed infrastructure. Big companies and some of the MEs have the means of available resources needed to succeed into tourism sector: electricity, water-management systems, gas supply, communication etc. Engagement in the tourism industry is peculiar to the Georgian wine sector especially in Kakheti (Pareishvili et al, 2017).

Generally, comparably big wine companies in the country and well-established MEs own hotels in the region. Investments in expanding to tourism is usually made after economies of scale in production is reached and wine sales are optimized. They are working on attracting both international and domestic tourists. They utilize available events’ and conference facilities to become attractive destination for event. Currently, Kakheti is a popular destination for

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<sup>6</sup> Telavi is the main city and an administrative center for Kakheti region (MRDI, 2013).



wedding venues and company gatherings. Normally these hotels are medium-size employers, creating jobs for local community members, as well as attracting talents from urban-settings of the country. Findings, indicated the trend that most management positions are occupied by professionals from urban-settings, which can be explained by better secondary-education in cities. Growth of already well-established companies' business activities, has motivated smallholder farmers and SEs to diversify their economic activities in order to maintain competitive capacities in the sector.

Due to limited resources and agri-tourism infrastructure, smallholder viticulture farmers and SEs are oriented towards establishment of guesthouses and wine cellars for creating wine-degustation experiences. International tourists, interested in peculiarities of Kakheti are usually the typical segments for these services. Wine degustation usually involves familiarizing tourists with Georgian winemaking and wine keeping technologies in Kvevri<sup>7</sup>. Usually wines offered are unmarked, produced on household level, often for domestic consumption. Smallholder farmers and SEs manage to gain revenues by selling their wines offered during the degustation. These businesses are usually managed by employing all family members, children as well are expected to help.

Market opportunities have been identified and utilized by female household members. Who are producing grape-based products for commercial purposes. One of the most common such product is Churchkhela, often referred as a Georgian Sneakers. Product is distributed in local markets, shops, wine-cellars and tourist centers for commercial purposes.

#### *6.2.5 Planning for future as a strategy to co-exist*

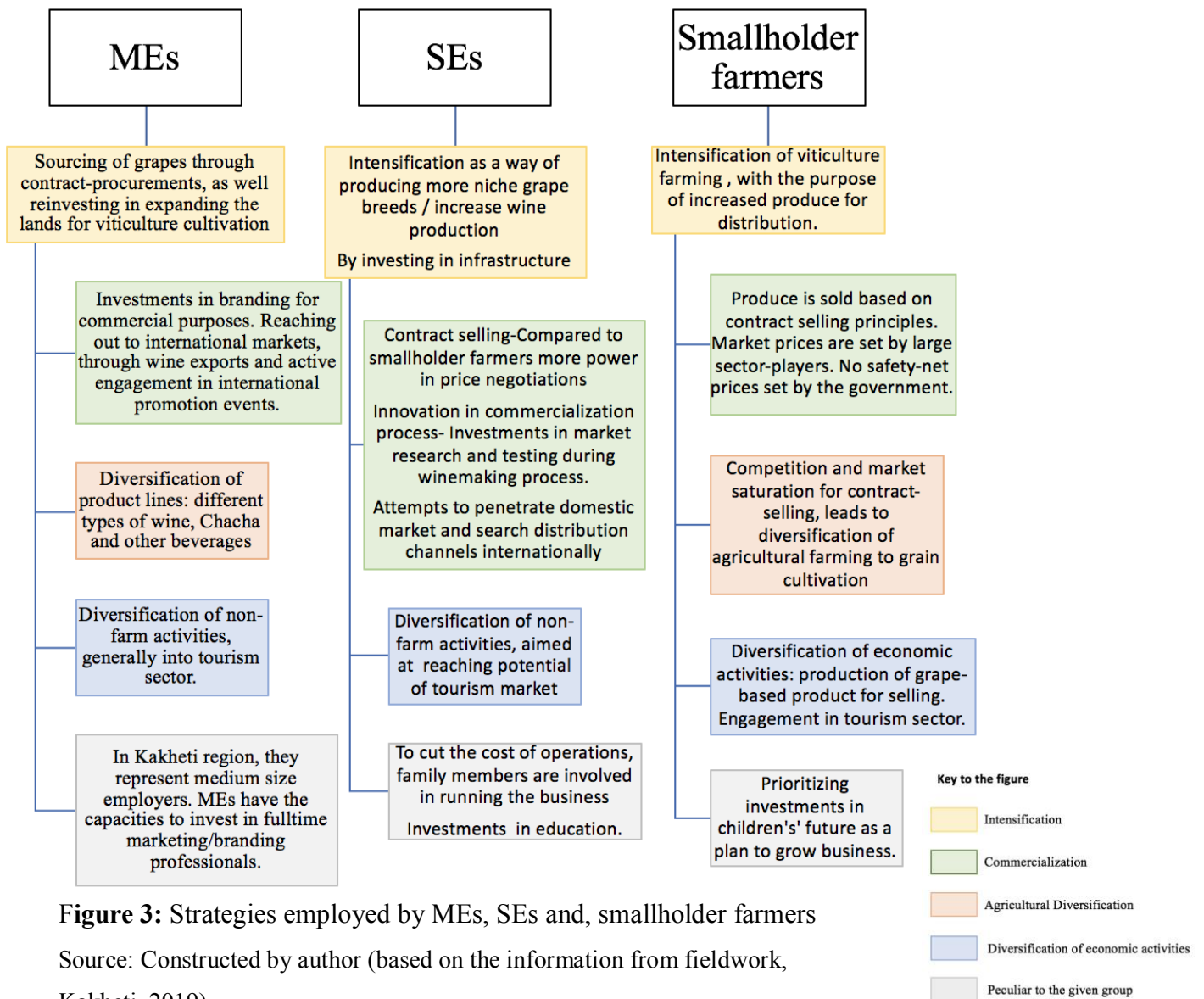
Pressures from competition to survive in the wine sector, has motivated SEs and smallholder farmers to foster long-term planning and innovative ways of thinking. Research findings identified that majority of smallholder farmers and SE owners value education, as an investment for the future. It is seen as a tool for business growth and development, and often children are sent to capital city for secondary-education. Motive behind this, is the assumption that upon completion of studies, children will return back to Kakheti and help grow family businesses.

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<sup>7</sup> Kvevri is a clay vessel, used for fermenting and keeping the wine.

In contrast, with the smallholder farmers, SEs have resources and capacities to allocate funds for market research and to invest in marketing and branding. In order to gain competitive advantage in highly saturated sector, they are employing innovative tools and winemaking techniques. Many of them have diverted away from traditional, Georgian winemaking practices to producing niche wines. Producing aroma wines for niche segments is an employed strategy among SEs in Kakheti region. Even though, aroma based wines are not favored on domestic markets, SEs are sourcing for distribution channels internationally.

Despite the policy directives aimed at increasing competitive capacities of smallholder farmers and SMEs, the findings indicate on existing gaps between the groups. While well-established companies and MEs foster the strategies to maximize potential and keep up with the large; SEs and smallholder farmers are adopting strategies to survive in the competitive environment of Georgian wine sector. Nevertheless, all above mentioned groups employ the strategies and tools to co-exist in the sector. Figure 3 below depicts the strategic trends employed by each of them.



**Figure 3:** Strategies employed by MEs, SEs and, smallholder farmers

Source: Constructed by author (based on the information from fieldwork, Kakheti, 2019)

## 7. Conclusion

The research answers two sub-research questions that fit with the overall RQ to identify how livelihood of smallholder viticulture is effected by the expansion of Georgian wine industry. Wine sectoral growth is addressed by different bodies of the Georgian government. Ministry of agriculture has established Wine Agency, which directly manages the viticulture-related projects. Ministry of regional development of the country, targets wine as a key strategy to promoting rural tourism development of Kakhети region. On the policy and strategy levels focus around the wine industry has been cross-sectoral, in an attempt of promoting inclusive growth. Nevertheless, fieldwork research has identified leakages the smallholder viticulture farmers and wine producers face.

Since the late 1990s, the country's FTAs have expanded and the price of wine exports increased from 1 USD per liter to 3.2 USD. However, smallholder farmers and wine-producers are still facing barriers in accession of the distribution channels for their products both on domestic and international markets. Expansion of the exports has attracted new market players into the sector. Research results found that business-favorable implementations have attracted more urban investors into the wine sector, who generally own medium-size enterprises. This has led to increased market-competition, which can be argued to further disadvantage smallholder farmers and SEs. Who are driven into the sector by their living conditions, and the wine sector represents main income source for them. These smallholder and SE groups are dependent on contract-selling, where prices are set by well-established companies, without any safety-net regulations.

Despite, the common interest of the government and of the local population to enhance the human capital, asset analysis has identified that the average viticulture household in Kakhети region is low in human and physical capital. Trainings have been offered to viticulture farmers, SEs and MEs involved into the sector. But lack of necessary skillset especially knowledge of market mechanisms has been referred as one of the biggest challenges. Governmental budget cut on the development of viticulture and winemaking, had its implications on the availability of the infrastructure and adequate machinery for smallholder viticulture. Decreasing the funding on agriculture is consistent with the country's agenda of economic transformation. Which requires technology, infrastructure, electricity and education. Those investments are obtained in urban sector, while rural sector and agriculture are neglected (Mellor, 2017). As a

result, per hectare wine production in Georgia is three times less than its' production in new-world countries. Disconnects have also been identified between governments' implementations and the perceived needs of Kakheti rural population.

Trade liberalization and trade expansion opportunities, along with the favorable policy implementations have created competitive climate within the wine sector. Thus, co-existence strategies have been employed by market players. While SEs and smallholder farmers are struggling to survive, MEs and well-established companies are competing for expansion of their presence on international markets. Despite the differences, all use intensification and commercialization, diversification of their produce and the diversification of their economic activities as a tool to compete and co-exist.

Expansion of wine industry has impacted smallholder farmers and wine producers by providing opportunities for growth, employment and increased incomes. However, at the same time, through the increased sectoral engagement, trapping them in an unequal competition, with more resourceful market players. Despite an attempt to implement policies, promoting inclusivity, they have not been fully effective in meeting the needs of smallholder farmers and the SEs. One of the reasons could be that, all strategy and policy papers address SMEs jointly, disregarding the differences between the two. The research has identified clear dissimilarities among Smallholder farmers, SEs and MEs. In the context of Georgian wine sector in Kakheti, MEs have been found to have more asset-related capabilities and the scope of operations. While they are engaged into the sector based on freedom of choice, smallholder viticulture farmers and the SEs are there for survival. Strategies employed by each of them are responses to the sectors' expansion and are defined by their availability of resources, capabilities and scope of operations.

## **7.1 Further Research**

Though the study is significant for existing literature, it sets the ground for further research. Gaps identified during the research, indicated on the need to conduct in-depth research for each of the identified profiles (Smallholder farmers, SEs and MEs). This can lead to creation of more coherent and responsive policies towards each segment, ensuring the fair competitive climate of the wine sector. Due to sector-specific nature of the present thesis, conduction of comparative study between the two mostly addressed and promoted sectors; would give insights on the policymaking, and on decision making levels.

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## Appendices

### Appendix A- List of Georgias' FTAs

Currently Georgia has 17 FTAs, both bilateral and plurilateral. 4 of them are proposed and under consultation, while 13 are signed and in effect (Asia Regional Integration Center, n.d)

Full List
<b>Proposed/under consultation and study</b>
Georgia-India FTA Georgia-Israel FTA Georgia-Republic of Korea FTA Georgia-United States FTA
<b>Signed and in effect</b>
Armenia-Georgia FTA Azerbaijan-Georgia FTA Georgia, Ukraine, Azerbaijan, Moldova FTA Georgia-EFTA FTA (Iceland, Liechtenstein, Norway, Switzerland) Georgia-EU Deep and Comprehensive Free Trade Area Georgia-Kazakhstan FTA Georgia-People's Republic of China FTA Georgia-Russian Federation FTA Georgia-Turkey FTA Georgia Turkmenistan FTA Georgia-Ukraine FTA Georgia-Uzbekistan FTA Hong Kong (China) and Georgia FTA

Source: Compiled from Asia Regional Integration Center, n.d.

## Appendix B– Interviewees’ profiles

Respondent	Profile (Smallholder, SME)	Activities		Sex
		Viticulture (selling grapes)	Wine Production (for selling)	
Respondent 1	Smallholder	X		F
Respondent 2	SME	X	X	M
Respondent 3	SME	X	X	F
Respondent 4	SME		X	M
Respondent 5	Smallholder	X	X	F
Respondent 6	Smallholder	X		M
Respondent 7	Smallholder	X	X	M
Respondent 8	Smallholder	X	X	M
Respondent 9	Smallholder	X		M
Respondent 10	Smallholder	X		M
Respondent 11	Smallholder	X	X	F
Respondent 12	Smallholder	X	X	M
Respondent13	SME	X	X	F
Respondent14	SME		X	M
Respondent15	SME		X	M
Respondent16	SME	X	X	M

Source: Author’s Construction, based on Field Data (Kakheti, 2019).

## Appendix C- Guiding questions for semi structured interviews

Questions for the interviews were chosen based on the interviewee profile (whether they were smallholder farmers or wine producers) and the flow of the interviews.

Below given are sample questions from interviews:

- How did you get involved in winery production and grape cultivation?
- What was the biggest challenge on initial stages?
- Did you get assistance from the government or any other organization?
- How did you accumulate capital to start the production?
- As I can see, in some of the vineyards you have used wooden poles for the balance and in some block, is there any difference?
- Have you tried diversifying your land farming activities?
- Do you produce wines or sell the grapes?
- On average how many tones of grapes do you harvest?
- When you got involved in vineyards planting did you have a knowledge or prior training?
- How did you development knowledge and skills?
- On our way to here, we saw centers for environmental protection that provide assistance for cultivators, have you approached to them for help?
- Have you faced any conditions or hardships as a woman?
- What has changed since getting involved in sector?
- How did this impact on your financial situation?
- What is the future of your vineyards?
- There is a platform in Georgia “8000 Mosavali” only for Georgian wines, both shop and Wine bar where they sell only Georgian wines, do you sell your products there?
- As I have seen from your Facebook page you are participating in tours for international visitors?
- Do you have children? What they are doing now?

## **Appendix D- Consent form**

### **Consent form to take part in research**

You have been invited to participate in the research, aimed at identifying how expansion of Georgian wine industry, effects the smallholder viticulture livelihoods and their strategies employed. Interviews are same structured, and are directed towards the understanding of personal stories and perceptions of the interviewees. The proposed research is the partial fulfilment of the masters' degree at Lund University and the information collected will be used for the development of masters' thesis.

#### ***Upon agreeing to participate in the proposed research:***

Information provided by interviewee will be confidential and anonymous

Participants can request t transcribed interviews for approval

Interviewees understand that research won't have direct benefits, but rather then add value to existing research

Participants agree to allocate 40-50 minutes for the interview

I..... have understood the purpose and conditions of the research and voluntary agree to participate.

**Date:**