



# CLUSTER DEVELOPMENT IN MONTENEGRO

An EU-funded project, co-funded & implemented by UNIDO  
in partnership with UNDP for the Ministry of Economy of Montenegro





## THE PROJECT

Small and Medium Enterprises (SMEs) are key to the development of a competitive private sector. However, due to their small size, these firms often face considerable barriers to growth. Individually, they cannot achieve economies of scale in production, have limited bargaining power in the purchase of inputs and are unable to take advantage of market opportunities that require the delivery of large stocks of standardized products.

In 2009, within the context of a One-UN project, UNIDO introduced the concept of cluster development in Montenegro in order to support SMEs to overcome these barriers. More specifically, UNIDO provided support to the Ministry of Economy in building local capacity on cluster development, conducting a mapping of existing SME clusters in the country and in developing a national cluster strategy.

A follow-up project entitled “Enhancing the Competitiveness of Local SMEs in Montenegro Through Cluster Development” was launched in 2014, with the objective of strengthening the competitiveness and market access of selected clusters and networks in Montenegro. Ultimately, this EU-funded project contributes to the implementation of the National Strategy for Sustainable Economic Growth through the Development of Business Clusters (2012-2016). The project focuses on:

- Technical assistance to the Ministry of Economy and relevant business support institutions on the implementation of the national cluster strategy’s action plan.
- Training and coaching of local self-government units on how to develop and implement cluster support programmes.

- Direct assistance to the following 4 clusters in formulation, implementation and monitoring of joint action plans and the creation of market linkages:

- Trout Breeding Cluster
- Olive Oil Cluster
- Metal Production & Processing Cluster
- Wine Production Cluster

**Objective:** To strengthen the competitiveness and market access of selected clusters and networks in Montenegro, with a special emphasis on the more disadvantaged Northern region as well as on less developed municipalities.

**Implementing Agencies:** UNIDO (in cooperation with UNDP)

**Counterpart:** Ministry of Economy of Montenegro

**Duration:** 2 years (2014-2016)

**Donor:** European Union (5% co-funding by UNIDO)

**Budget:** €525,000

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## WHY CLUSTERS?

Clusters are defined as “geographical concentrations of inter-connected enterprises and associated institutions that face common challenges and opportunities”.<sup>1</sup> Firms in a cluster are located in spatial proximity, produce similar or related goods or services, and are supported by a range of dedicated support institutions.

Clusters are promising environments for the development of linkages for competitiveness. Within clusters, firms can overcome isolation and take advantage of collective efficiency gains, which primarily derive from the organization of joint actions among firms (e.g. joint bulk purchase of inputs, joint advertising, or shared use of equipment) and between firms and their support institutions (e.g. provision of technical assistance by business associations or investments in infrastructure by the public sector). By engaging in joint actions, cluster firms can achieve results that are beyond the reach of individual enterprises.

## TARGET BENEFICIARIES

The project supports national target groups with a focus on (but not limited to) the Northern and less developed regions of Montenegro, including:

- Staff of municipalities/local self-government units, educational and training institutions, regional development agencies, NGOs and business associations.
- SMEs, producer groups and business support institutions relevant to the selected clusters.
- Government institutions relevant for the implementation of the National Cluster Strategy.

## DONOR

The project is funded by the Delegation of the European Union to Montenegro (DEU) which, amongst others, is in charge of managing an EU financial assistance portfolio in the country. Currently the DEU is managing more than 60 EU assistance projects. These projects underpin Montenegro’s reform efforts on its path to EU accession.

## IMPLEMENTING AGENCIES



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

### United Nations Industrial Development Organization (UNIDO)

UNIDO is the specialized agency of the United Nations mandated to promote sustainable industrial development for poverty reduction, inclusive globalization and environmental sustainability. The Organization draws on four mutually reinforcing categories of services: technical cooperation, analytical and policy advisory services, standard setting and compliance, and a convening function for knowledge transfer and networking. UNIDO’s vision is a world where economic development is inclusive and sustainable and economic progress is equitable.

[www.unido.org](http://www.unido.org)



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### United Nations Development Programme (UNDP)

In promoting sustainable human development, UNDP Montenegro supports the country’s European Union accession priorities, building on its global development network, access to innovative solutions, knowledge, experience and resources. We do so by (i) advancing democratic society and accountable institutions with greater citizens’ participation, (ii) building an inclusive society with equal opportunity to all citizens to reach their full potential and (iii) promoting green future through market transformation toward a low emission, resource efficient and resilient economy.

[www.undp.org](http://www.undp.org)

<sup>1</sup> “The UNIDO approach to Cluster Development”, 2013

## TROUT BREEDING CLUSTER

The Trout Breeding Cluster of Montenegro comprises of 5 freshwater fish producers that are actively growing rainbow trout and, in smaller quantities, brown trout. The maximum annual production capacity of the cluster is 364.5 tons, of which only about 30% is currently operational.

The cluster's territory is characterized by a high quality of water. Rivers flowing down the mountains to the fishponds are rich in oxygen, which is necessary for growing trout. As a result, the fish produced in the cluster is considered high quality.

However the cluster faces many challenges, mainly related to outdated production technology, which has significant consequences on the volume and quality of the produce, especially in smaller ponds. Inappropriate facilities for growing young fish result in unfavorable air and water temperatures. In addition, producers lack automatic or semi-automatic feeders which leads to unequal allocation of feed amongst fish. Sales channels are also not well developed and a large proportion of sales still go via middlemen to the open markets in the capital. Rainbow trout imports from neighboring countries benefit from a lower VAT rate compared to locally produced fish – a business barrier which needs to be overcome.

More recently, some producers have started to prepare for investing in technological upgrading. They also hope to tap into value-added opportunities, such as the production of smoked and filleted fish. The project will assist the cluster in the development of a joint brand strategy, thereby adding value to the locally produced trout. It will also provide support in improving local market access and creating linkages to potential buyers in other regions of the country.

At the same time there is a need to establish a national forum/council/body representing the interests of freshwater fish producers vis-à-vis governmental institutions and to foster joint activities. The project will also explore opportunities for joint purchase of inputs at lower prices, shared equipment/facilities, group trainings and technical assistance (e.g. for the introduction of standards).

Capacity building through direct support from an independent cluster broker and improving business skills are other important areas of the intervention. This will be supported by the dissemination of knowledge of trout farming practices, value addition activities and marketing strategies applied in other countries in order to improve the competitiveness and efficiency of this cluster.

**Total number of registered producers in Montenegro:** 24

**Location:** Bijelo Polje, Berane and Andijevica

**Number of registered producers in the Cluster:** 5

**Number of people employed in the Cluster:** 24

**Product:** Rainbow trout, brown trout

**Strengths:** Good quality products, entrepreneurial spirit (investments planned for value addition), cooperation amongst 3 producers already started; plans for joint branding of cluster products.

**Weaknesses:** Weak institutional support (sub-sector specific); regulatory barriers (VAT scheme penalizing local producers), environmental threat from mini-hydropower plant project in the region, non compliance with HACCAP standard, limited market access.

## OLIVE OIL CLUSTER

Over 1700 olive oil producers operate in the Olive Oil Cluster of Bar and Ulcinj in Montenegro. There are currently 12 large mills within the cluster and a number of traditional producers that have a very small turnover. One of the key problems facing the cluster is that producers are unable to compete on the basis of scale or price with imports. Only the upmarket segment is one where local producers could increase sales in the local market (particularly to tourists) and exports in the medium term.

One of the key strengths of this cluster is the fact that there are approximately 7,000-10,000 olive trees that are more than 1,000 years old growing in the region. These trees were put under state protection in 1957 and represent a major branding opportunity for the cluster to position their products in more lucrative niche and export markets.

The cluster also has the potential to produce organic olive oil in the medium term. Many orchards in Montenegro have been abandoned and left unattended and are ready to be revived through organic practices.

The project will assist the cluster in developing a joint niche marketing strategy, focusing on the high-end product segment and drawing on the traditional heritage of the Montenegrin olive trees. It will also promote key investments that are needed to foster collaborative action between cluster stakeholders (orchard owners and oil producers), for a census and mapping of old trees, the development of a marketing strategy including the

design of a label, joint purchase of inputs, eventual formation of a joint company for packaging, technological upgrading and a joint waste management strategy.

**Location:** Bar and Ulcinj

**Number of registered producers:** 17

**Number of people employed in companies:** 102 (35% women)

**Number of olive growers:** 1700

**Product:** Olive oil

**Strengths:** A large number of very old olive trees as a good platform for joint niche marketing and cluster branding, local associations existing, cooperation between producers in certain areas, linkages with international research bodies partially established, autochthonous olive tree species (zutica) in the region.

**Weaknesses:** Hardly any cooperation between producers of different municipalities, lack of quality assurance, lack of joint positioning/marketing strategy vis-à-vis cheap imports which benefit from scale economies.

## METAL PRODUCTION & PROCESSING CLUSTER

Metal Cluster Montenegro is a group of 5 SMEs focused on metal production and metal processing. The metal companies produce various types of steel and ingots, whereas the metal processing companies mainly produce parts for metal construction structures and spare parts for machines.

The cluster is located in Nikšić, an important industrial centre in north-central Montenegro that is renowned for its steel and iron works. In the period 2001 – 2007 companies from Nikšić recorded an average annual growth rate of about 23%.

This cluster employs over 50 workers and its annual production value in 2013 was estimated at around 8 million EUR. The main strengths of the cluster are the manufacturing of high quality products and the flexibility to increase production levels. The cluster also benefits from good transportation links that allow goods to be easily shipped by road, rail, sea or air.

One of the main weaknesses of the cluster relates to the high dependency of the companies on large steel works and aluminum plants, which are currently not operating. Other weaknesses are outdated equipment and a lack of investments into environmental protection.

Due to the low-level of operations these companies are also unable to implement investments and the necessary standards in production, limiting their competitiveness

**Location:** Nikšić

**Number of registered producers:** 5

**Number of people employed in companies:** over 50 (10% women)

**Product:** Ingots and steel

**Strengths:** Quality, price, delivery time; Flexible production; Production of the spare parts for different branches; Qualified employees with experience in metal processing.

**Weaknesses:**

Lack of business; Mechanical and thermal treatment with low capacity utilization; Old production equipment.

## WINE PRODUCTION CLUSTER

The Wine Production cluster encompasses vineyards of 3,900 ha on the territory of four municipalities: Podgorica, Cetinje, Bar and Danilovgrad. There are different categories of producers in this cluster: Company "Plantaze" (a large producer), 34 private wineries (medium and small producers with a license to sell wine), and numerous unregistered micro producers. The 34 registered producers encompass 14 wineries operating as companies and 20 independent entrepreneurs. Their vineyards cover areas in the range from 0.5 to 5 ha. The number of wine stocks generally ranges from 5,000 to 20,000 bottles.

There is a National Association of Growers and Winemakers of Montenegro, which was established in 2007 and has a current membership of 200 grape growers and 30 wine producers at the national level. In addition to this National Association there are around 14 local associations.

Small and medium wine producers face a number of problems. The main weakness and limitations of small producers is a lack of financial resources, which mainly results from low production volumes and high costs for the required investments for individual firms.

Additional challenges are inadequate marketing practices and product positioning strategies. Vranac is a local wine originally from Montenegro (although it is also produced in Croatia and Slovenia). Kristac is a Montenegrin specialty for which Plantaze owns the geographic indication and only very small quantities are available to small vine producers as they find it difficult to obtain the seedlings and to change their existing vineyard species.

Linkages with the tourism sector are still weak as opportunities often require significant investments into plantations, and the construction of wine cellars and tourist catering facilities, which SME producers individually cannot afford.

At present approximately 10 wine producers have small restaurants/eating places for tourists but only one of them can host up to 50 people. Apart from Plantaze statistics, there is a lack of information about viticulture in Montenegro available. There is a need to collect data on existing plots, producers and vineries and to analyze information about grape harvest, wine production and wine stocks of SME producers.

**Location:** Podgorica, Cetinje, Bar and Danilovgrad  
**Number of registered producers:** 34 (+one large firm)  
**Number of people employed in companies:** (15% women)  
**Number of wine growers:** 200  
**Product:** Wine  
**Strengths:** already existing cooperation amongst cluster firms and a well-established association; good quality products and investment into individual brands.  
**Weaknesses:** Weak linkages with the tourism industry, inadequate marketing practices and product positioning strategies.

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