

# The Development of the Tourism Sector in Albania

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*Through this paper I have made a general overview of the tourism sector in Albania. The reason for choosing this topic is increasingly important, taking in consideration the role that this sector is taking on our nation's economy. In this paper I have discussed some of the current issues that the tourism sector is facing today, such as: the challenges and difficulties, as well as the growth opportunities and its development in the future. I substantiated the overall of the sector by studying the case of Durres. Referring to the methodology, it was derived from the secondary data, but there is also an econometric model, which explains the effect of incomes from tourism on the economy of our country. Limitations of this model are presented in relation to the paper. The result of the paper concludes in the fact that the tourism sector in our country, despite the great challenges which faces is promising to contribute even more to the economy.*

**Keywords:** tourism, Albania, development, economy, sector

Tourism is one of the sectors with the fastest growing in the global economy and each developing country is trying to invest specifically in expanding its tourism industry. During the first years of transition in Albania, tourism has been a priority for the development of its economy and the country. During these years, Albania has made numerous attempts to develop this industry in various regions within the country and fortunately it really has opportunities for a successful tourism. The country has a considerable potential for tourism development, it provides security and stability, but on the other hand has deficiencies in management issues and environmental protection, investment conditions have very lack nesses and there are problems with the property issues and infrastructure. All of these problems contribute to the competitiveness in the international tourism markets.

Through this paper I intend to present a more realistic picture of the development of tourism, so will clearly identify what are the main problems facing the sector and what are the causes and consequences of these problems, more specifically before following the coastal tourism sector in Durres. This analysis is important to point out the challenges facing the sector today and why this sector has a strategic importance recently.

The objectives to achieve through this paper are: firstly to identify key statistics to determine the development of tourism in our country. Secondly to determine certain requirements and priorities for the development of tourism.

Thirdly, to identify the challenges facing the sector today in Albania by analyzing specifically the development of the informal economy in Durres. Finally, there is a theoretical and mathematical analysis of the impact of tourism on economic growth and there are given some conclusions about the development of the tourism sector.

### *Literature review*

Tourism is a social, cultural and economic phenomenon, related with the movement of people to destinations outside the country where they live, being driven particularly by the motive of satisfaction. Tourism affects the economy, natural environment and the local population of the countries visited and its visitors (Memaj, 2009). The development of the tourism sector has been a major component of the Albanian public policy. Steadily public institutions have seen the tourism sector as one of the only elements that can affect economic growth and increase employment level (Stone, 2009). Like all other Mediterranean countries, Albania shows growth potential in this sector. This is clear from the publications of the Institute of Statistics (2011) or those of the Ministry of Tourism, Culture, Youth and Sports (Chus & Caca, 2010). According to these data the number of visitors who frequent our country for tourism reasons is experiencing an increasing trend year by year.

To make an analysis of the tourism sector, beginning from the period of the communist regime (1945-1990) in which the country was isolated from the rest of the world. After the fall of the communist regime, the tourism sector began to take prominence in the economy. The opening of the economy in Albania after 1991 brought among others the possibility that Albania would join the map of the tourist destinations in the Mediterranean (Chus & Caca, 2010).

Only in these decades great changes have taken place: increased rate of urbanization of space, modern technology in manufacturing techniques built in tourist complex, and also residential spaces and living conditions have undergone numerous transformations. In this sense, the report underwent changes between work and rest, in favor of the vacations. This process has made possible to expand tourism, including plenty of layers of the population (Bello, 2009). According to the latest data from the Ministry of Tourism, Culture, Youth and Sports (2011) and Institute of Statistics (2011), coastal tourism sector is the most developed in the tourism industry.

To be more specific, the tourism sector has more than doubled, ranging from 926,056 foreign visitor in 2006 to 2,302,899 visitors in 2010. It should be emphasized that the tourism sector in Albania is still facing some serious problems such as underdeveloped infrastructure, polluted environment, high prices and poor management of the distribution of tourist information in Albania. All this has led to a low level of products offered in general. However it should be noted that Albania is the last in Mediterranean for the number of tourists who wait, compared with the countries of the region. When we mention the problems in the sector of tourism, also we should add the high levels of informality, where specifically in the coastline are enough hotels built without construction permits. Consequently, this has contributed to incomplete information disclosed by those

that offer tourist services. It should be emphasized that despite the measures taken to minimize these problems, the situation on the ground appears difficult. Also it's worth noting that the previous research work has very little attention on the informal economy in relation to the tourism sector (Chus & Caca, 2012). It is important to note that the Albanian tourism and its development is seen as a strategic sector and a priority for the economic growth in the country. So the growth and development of the tourism should bring money in the economy. Seen in this light, there is a theoretical basis that the incomes from tourism affect long-term economic growth in a developing country. Besides the theoretical side, there are statistical analyzes that measure the effect of incomes from tourism on the economic growth of a developing country (Christo, 2009).

During 2012, Albania was estimated by the international media as one of the most recommended tourist destinations. It is worth mentioning the most famous tourist guides in the United States of America, Frommer's, which puts Albania in the first place in the world to visit for 2012. While the British "The Guardian" identifies Albania as one of the most rare values of hospitality and natural beauty and ranks Albania in the second place in its list for 2013, after the islands of Santa Maria, pointing to lower prices, heritage and panoramic coastline.

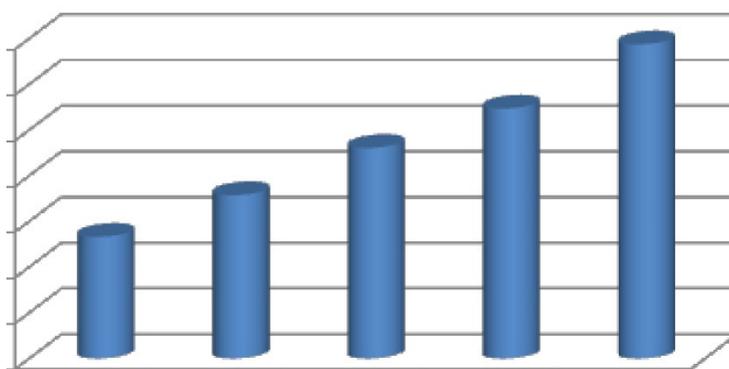
### *The development of tourism in Albania*

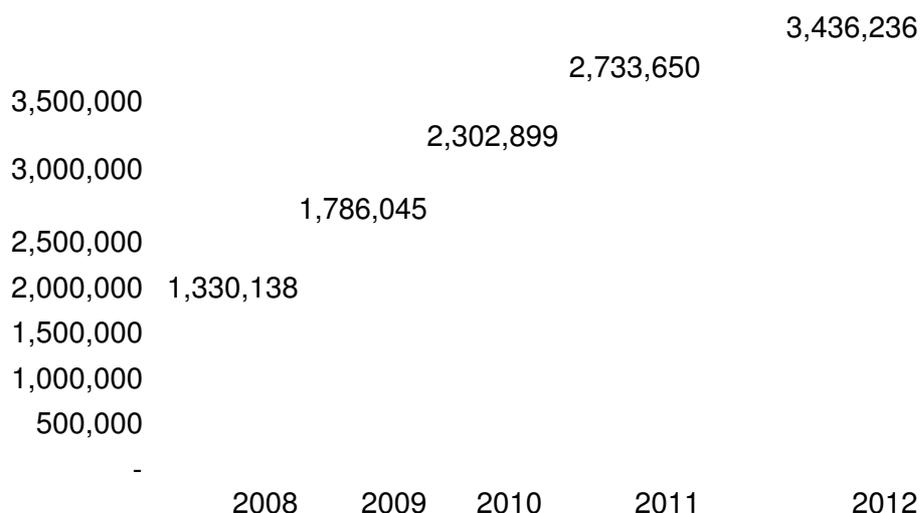
According to the data published by the Ministry of Tourism, Culture, Youth and Sports (2012), in the period January-December 2012 entered a total of 4 million 736 thousand visitors, of which:

- 3.4 million foreign visitors non-residents, and
- 1 million and 300 thousand visitors resident of Albanian nationality.

In 2012 marking the highest rate of growth of non-resident visitors with a number of foreign visitors 702.586 non-residents or 26% more compared to 2011.

Figure 1. Increasing foreign visitors non-resident in the last 5 years. Comparing 2008-2012





Source: Ministry of Tourism, Culture, Youth and Sports (2012)

Based on the tourism strategy of the years 2012-2013, we can do a brief overview of the current situation where our country is compared with those of the region.

Table 1. Ranking of Albanian Tourism Sector

	General index	Framework	Environment and Human Resources Infrastructure	Human, Cultural And Natural Resources
Countries	Ranking	Ranking	Ranking	Ranking
Albania	90	94	114	43
Macedonia	83	114	82	44
Serbia-Montenegro	61	79	80	13
Kroacia	38	58	40	11

Source: Ministry of Tourism, Culture, Youth and Sports (2012)

The largest number of visitors of Kosovo constitute 48% followed by 12% Macedonian Montenegrin 5%, 7% Greek, Italian 4%, 2% German etc. Has increased the number of visitors from western Europe and the US, kahas increasing number of visitors from the region. In 2012 they entered:

- 78 539 British visitors or 2.5% more than in 2011
- Greek visitors 225 175 or 49% more than in 2011
- Italian visitors 147 018 or 10% more than 2011
- Swiss visitors 42 546 or 30% more than 2011
- 58 621 visitors from the US, or 5% more than in 2011

### *The prerequisites for development of tourism*

Referring to the Ministry of Tourism, Culture, Youth and Sports (2012), specifically to its strategy for the tourism development, we can see that the preconditions for tourism development are:

1. The implementation of the principles of sustainable development at all levels of planning, decision making, management, as at the central and local levels and in the private sector.
2. Completion of legal framework in tourism.
3. Effective organization of public and private sector in order to achieve the vision and strategic objectives.
4. Infrastructural development: development of transport by land, water and air. The improvement and establishment of efficient management systems and solid waste treatment, as well as of the systems of wastewater treatment.
5. Telecommunications and internet.
6. Review and establishment of standards for the design of land use with potentials for tourism development.
7. Ownership: One of the prerequisites for the development of tourism and sustainability in tourism investment is to resolve as soon as possible the legal settlement of land ownership and construction facilities.
8. The increase of funds for the preservation and maintenance of natural and cultural assets, in order to improve management systems in the areas of cultural and natural interest, human resource development and improvement of the image. Albania must invest in several critical human resources so that the tourism sector is effectively developed.
9. The system of collecting and processing data. It is necessary to organize the efficient collection and to analyze data, according to international standards at the national, regional and local levels. Albania will need to make significant investments in data collection and in the management of the systems in place to monitor and analyze tourist visits, spendings, behavior, profiles and other features. Tourism planning without this data becomes impossible.

### *Strategic Priorities*

Based on the tourism strategy for 2013, the Ministry of Tourism, Culture, Youth and Sports drafted guiding principles for the future of this sector.

1. *Stable improvement.* Future management of natural, cultural and human resources are critically important for long-term sustainability of the tourism industry. Developments that adversely affect the environment and that have short-term benefits with large expences, should be avoided. Key aspects of a policy for sustainable tourism, including: land use; management of the physical environment; preservation of natural and cultural significance; product development and investment in human resources. Three main sub-principles are:

- Ecological sustainability - to ensure that development is consistent with the maintenance of essential ecological processes, biological biodiversity and biological resources.
- Social and cultural sustainability - to ensure that development increases people's control over their lives, that is in line with the culture and values of the people that affects, and maintains and strengthens community identity.
- Economic sustainability - to ensure that development is economically efficient and that the resources are managed to create space for future generations.

2. *The benefit of local communities.* Tourism should bring benefits to communities or to the people living in close proximity to areas of natural and cultural interest, affecting the growth of living standards and the use of financial mechanisms and initiatives to support the activities of the preservation and improvement of resources income in rural areas.

3. *Partnerships.* In terms of rapid market changes, national partnerships and international levels are needed to be successful in order to be competitive ("collaborate to compete"). These partnerships result in benefit to all participants involved. In the international experience of successful destinations are those that have built partnerships between the public and private sectors. This partnership should extend issues of planning, development, marketing, and promotion.

4. *Quality.* The improvement of standards of services and the quality of the workforces in the tourism industry, as well as, by offering consistently appropriate products with value and quality, Albania can compete successfully in international markets.

## *The informal economy in Durres*

According to the data published by the local authorities in Durres, more than 40% of the firms operating in the tourism sector (including bars, restaurants and hotels) are not recorded and do not have a license. This means that the main problem is the registration and licensing under relevant legislation. Therefore in this section I'll focus on the causes and consequences of the informal sector development tourism in Durres as a major problem.

### *Causes*

Before the democratic changes of 1990, the former communist regime was a major obstacle to the development of tourism in Albania. Albania had the image of an underdeveloped country with huge problems of pollution. Heusinger (2005) argues that Albania suffers a very negative image in the foreign countries. The need for growth gave the opportunity for entrepreneurs to invest in the tourism industry. However, these investments were not based on a concrete plan development.

Unresolved property issues prompted the illegal occupation of land and the construction of numerous homes and hotels. Gorica (2005) emphasizes the fact that this is one of the biggest obstacles to the development of tourism, especially in coastal areas.

Another important cause of informality is the continued lack of control in this area. Lack of control and monitoring, accompanied by high levels of corruption, have led to serious problems and adverse effects on the development of the sector of Durres.

### *Consequences*

The high degree of informality in Durres has impacted negatively on the environment, on the economy and the image of the area as a tourist destination. Among the main consequences there are:

1. *Environmental destruction.* According to the Ministry of Tourism (2011) and environmental specialists, the area of Durres is one of the most polluted areas in Albania.
2. *Economic damages.* The informal sector in Albania constitutes in 30-40 percent of GDP, estimated by the International Monetary Fund. Most hotels do not compile even the most minimal standards and always avoid local control and local authorities, including obligations to the state. All these destroy the country's economy by reducing incomes to the state budget.
3. *Unfair competition.* The high unfair competition constitutes in a major obstacle for the hotels. In some cases, unfair competition may also lead to bankruptcy.
4. *Low quality of services.*
5. *Bad image.*
6. *Land ownership conflicts.*

Considering all the negative consequences of the above-mentioned informal tourism sector in Durres, we can say that this area is being transformed from an area with high development potential in a "business area".

### *The effect of tourism on economy growth*

Based on the thesis conducted by Christo (2009), there are at least four ways in which the incomes derived from tourism impact on the economic growth. Firstly, in our country, generally revenues from international tourism are expressed in the form of currency of a foreign country, usually in Euros or US dollars. These incomes affect the growth of domestic production, as of the individuals or through the banking system following the incomes translated into a funding source for the purchase of goods or services. In this way, there exist a net purchasing power, which means that the Albanians will consume more than before. This high consumer demand must be accompanied by an increase in the supply of production, if there enough manufacturing capacity. In the event

that these capacities are not there, then take the income from tourism fund loan growth and production.

All this leads to increased employment and more specific development of various sectors of the economy. Secondly, the incomes from the international tourism may not remain in place for a long time and this is the other side of such income. It is already known that Albania has not developed much manufacturing capacity, at least not to the extent that they respond in real time to the rapid growth of consumer demand. Consequently, the pressure that was caused by high demand for consumption, placed on the imports will increase. All this will be translated as a retrieval of incomes from tourism in their countries of origin in the form of money used to buy imported goods. As seen, the incomes from tourism on one hand can finance domestic production, but on the other hand they can finance foreign imports, thus will not allow foreign capital to return to productive capital. According to various studies for developing countries, is noted that most of the revenue from abroad, such as remittances or incomes from tourism, goes as consumer spending and a tiny fraction of them manages to put it into the banking system in the form of deposits. So obviously, financing incomes from tourism is a double-edged sword which can help us, as well as harm us.

Thirdly, international tourism is generally a form of intercultural communication between foreign countries and Albania. During the process of the exchange of information and the transfer of knowledge achieved from individuals tourist or organizations with high experience in this sector, individuals or organizations in Albania can profit. This comprised a positive effect on the tourism sector and the Albanian economy in general. On the other hand, greater openness in international exchanges brings higher level of competitiveness for albanian firms versus foreign ones, which are characterized by higher levels of productivity and successful business models. In the short term these negative effects will be translated into increased competition and improved behavior of domestic firms in the market.

Fourth, the increase in income from international tourism, can affect the growth and development of small- and medium-sized, mostly family businesses. It is known that these businesses, manage to employ a significant number of employees. Referring to the case of Albania, we can say that half of the workforce is employed in one of these forms of entrepreneurship.

### *Econometric model, the basic assumption*

The study conducted by Jonel Christos (2009), will present an econometric model which confirms the GDP dependence on revenues from tourism and the real effective exchange rate of the currency. So the scope is to prove quantitatively that tourism development affects economic development. Econometric model is built considering some assumptions:

- 1) Firstly, the model and predictions are based on the assumption that Albania will experience general political durability for a long run time, which promotes behavior in support of economic growth and political aid.

- 2) Secondly, given that the tourism sector is considered a priority sector in the country, respectively according to the economic growth, a second assumption is that international tourism incomes will be at least constant, without significant adverse fluctuations.
- 3) Thirdly, administrative and executive policies of the government and state institutions do not change and are applied equally to all enterprises in the tourism sector.
- 4) Fourth, it is assumed that the tourism sector will not be subject to major natural acts or wars.
- 5) Fifthly, to any other prediction that can not be taken into account by the model, the formula used includes an additional variable epsilon, which summarizes each other indicators that may affect the validity of the model and is not considered by the above assumptions.

### *Construction of econometric model and methodology used*

Lack of a tradition of developing econometric and lack of necessary data have been the main constraints that do not allow the development of dynamic analysis of different situations. However, through data that are collected by the Bank of Albania, the International Monetary Fund and World Bank World Development Indicators, are managed to set variables that are included in the model. On the mathematical side, the final model is as follows:

$$\log PBB = \beta_1 + \beta_2 + \beta_3 * * \log Receipts \log AYEER + \varepsilon$$

The variables in this equation are logarithms, what is in our interest is the difference in percentage between them. The dependent variable is GDP, measured in net national income. This depends on the variable log Receipts, which are the revenues from international tourism in Albania since 1995, and by log AYEER, which is the real effective exchange rate of the currency. While the term epsilon is the error term. The only variable that is worth clarified is the variable log AYEER. This variable is introduced in the model to measure the level of international competitiveness in the country overall, compared with the outside world, and is an index that weights the exchange rates of the domestic currency against the currencies of industrialized countries (which in this case are Euro and US dollar). The time period for this research begins in 1995 and ends in 2008, because until this year, there have been provided the necessary data. It's important to emphasize the fact the this study avoids taking in consideration the year 1997, because doesn't complete with the assumptions. The data of this variable are taken from the Central Bank of Albania, Central Bank of Bulgaria, World Bank and the International Monetary Fund and analyzed to create an index. The results of the statistical analyses are as follows:

Table 2.

Variables	Koeficient $\beta$	P	Standart Error $\epsilon$	Stat- T
Constant	0.903	0.000	0.162	46.01
logReceipts	0.102	0.000	0.017	6.164
logAYEER	0.587	0.001	0.128	4.586

Source: Individual calculations

R<sup>2</sup>=0.981; Observations=12 years

The hypothesis that we want to prove by means of this model is that tourism can be considered as a factor of economic growth, or not. From the third column of Table 2 we see that for two variables and a constant term, the "p" value is less than 0.05, what is usually regarded as the limit of statistical validity. Values less than this limit are statistically sustainable and that the data collected can obtain sufficient evidence to accept the hypothesis posed above. If we move a column below, we see that the standard error fails to capture even half of the coefficients in the second column, what also proves the viability of variables and statistical model. Also, R<sup>2</sup>- statistical indicator has a value very close to 1 (0,981), which ideally means that 98.1% of the change in GDP, according to this model is explained by the change in income from international tourism and international competitiveness.

To see if there is a mathematical relation between income from tourism and economic growth, the correlation coefficient is calculated as follows:

Table 3. Correlation coefficient

Variables	Log GDP	Log Receipts	Log AYEER
Log GDP	1		
Log Receipts	0.968	1	
Log AYEER	0.950	0.878	1

Source: Individual calculations

The data of this table shows that there is a very strong and positive relationship between these variables. Our coefficients are positive and very close to the maximum value that indicates whether a variable increases by 1 unit, the other variable increases by 0,968 units (if taken log GDP about log Receipts), and so on. Finally, we get the following equation:

$$\log \text{ GDP} = 0903 + 0102 + 0587 * * \log \text{ Receipts} \log \text{ AYEER} + \epsilon$$

From this equation we arrive to do a simple calculation that if the increased revenue from tourism is with 5%, and the real effective exchange rate of the currency is kept unchanged, the net income in the economy will be increased by 1.9% in the long term (0.903 + 0102 \* 0587 \* 5 + 1 = 1987).

## Conclusions

Referring to the performance of the tourism sector in Albania can say that its journey has been a growing tendency curve, despite not as expected, or more accurately as it can. Problems encountered in this sector are the most numerous, starting from road infrastructure, and finishing with plans in coordination between local government and central institutions. It should be emphasized that despite the many opportunities that our country offers in the Balkan region, again the development of our tourism sector is far behind from the countries in the region. However the premise of the development of tourism in our country remain high.

By identifying the main pitfalls that this sector is facing today, to proceed further with the identification of causes and consequences that have brought these problems we can have a brighter look inside the problem. This paper leaves open road other future research on the challenges and opportunities of tourism development in general.

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