

## **Informal Sector in the Sun-and-Beach Segment in Albania**

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**Abstract.** This paper analyses the causes and consequences of the informality in the sun-and-beach segment in Albania. It makes use of both secondary and primary data, collected during the period November - December 2011, with focus to Durres coast, which is the major destination of this segment. The analysis indicates that the main causes regard the chaotic political, social, economic and legal situation created after the fall of communism in Albania in 1990. The negative consequences include environmental and economic damage, negative image of the destination, unfair competition and conflicts about the land ownership. The paper suggests that informal tourism should be replaced by sustainable tourism because the latter may yield higher profits and Albania may become an important tourism destination in the region.

**Keywords:** informality, tourism industry, hotels.

### **1 Introduction**

For many developing countries, in particular the less developed countries, tourism is an important economic sector, which provides concrete development opportunities. As in other Mediterranean countries, tourism is one of the most important industries in Albania, where recently the number of foreign visitors have significantly increased. According to the latest statistics of the Ministry of Tourism, Culture, Youth and Sports (MTCYS, 2011) and the Institute of Statistics (INSTAT, 2011), the sun-and-beach segment represents the most developed sector within the industry. More specifically, since 2006 the number of foreign visitors has more than doubled, from 926.056 in 2006 to 2.302.899 in 2010.

Notwithstanding its large potential and continuous progress, tourism in Albania is still facing some important problems (such as an undeveloped infrastructure, the poor environment, high prices and poor management and distribution of information on Albanian tourism), which result in a low level of product quality in general. In addition, the number of foreign tourists visiting Albania is lower compared to other neighbour Mediterranean countries. The main concern, however, is the development of an informal sector particularly in the sun-and-beach segment, which impedes significantly the tourism and country development (Gorica, 2005). This implies the construction of many illegal constructions in many parts of the country and particularly the coastal areas. These are not legally built and operate in the informal economy representing an obstacle for the operation and survival of legal hotels (Kushi, 2010, p.83).

Although some efforts have been recently made in order to minimise this problem, the situation is still difficult. Mullai (2005) also emphasises the existence of uncontrolled hotel and restaurant buildings in Albania, which are mainly focused on the sun-and-beach segment. This phenomenon is particularly problematic in the Durres coast. However, until recently, the literature on informal economy and especially the sun-and-beach segment seems to have received little attention by previous researchers.

Therefore, the main aim of this paper is to provide an analysis of the informality in this sector in Albania and identify the main causes and consequences of this problem with focus to Durres area. This analysis is very important in order to give some policy implications for different stakeholders in the tourism industry and ensure that this problem is not repeated in other coastal areas in Albania.

In particular, this paper tries to address four objectives: first, to analyse the situation of the informal sector in the holiday hotels sector in Albania with focus to Durres coast; second, to identify the main factors that caused the informality in this sector; third, to evaluate the most important negative consequences of this problem; and fourth, to derive policy proposals about informality problems for the sun-and-beach sector in Albania, including policy makers, hotels managers, local authorities, etc.

In addressing these objectives, the paper is structured in three further sections of discussion. Section 2 explains the research methodology and data used to achieve the objectives of the paper. In Section 3, the analysis provides the problematic of the informality in the sun-and-beach sector in Albania, with particular focus to Durres coast. It explains initially the main causes and then the consequences of this problem in Albania. Finally, Section 4 offers the conclusions and recommendations.

## **2 Research methodology**

As considered by Kushi (2010), one of the main issues of the sun-and-beach sector in Albania is the insufficiency of data and statistics at the national level. In addition, the literature on this topic is limited. There are only few studies on informal economy particularly in this sector and more generally in Albania (for example, Shuteriqi, 2011). Given this situation, the study makes use of both secondary and primary data, which are presented in this section.

The main secondary sources are the official publications and documents of MTCYS, Bank of Albania, INSTAT, IMF, as well as several papers or published articles. The primary data was collected during the period November – December 2011 in Durres. Given the limited time and resources, this investigation covered only Durres coast because, according to MTCYS (2011), it represents the major sun-and-beach segment in Albania. Durres is located in the West coast of Albania. It is nearly 39 km from Tirana and 30 km from Tirana International Airport. It is one of the biggest and oldest towns as well as the biggest port in Albania.

Initially, there was no complete list of hotels in any local agency, national office or ministry. As discussed in Section 1, there are many unregistered hotels on the Albanian coast that are not legally built and they operate in the informal economy. In fact, the lists of hotels provided by various sources for this study were different from each other. Besides the informality problems, this is because some of the hotels included in the lists had closed down, become bankrupt or been destroyed, while some others were built just a few months before the investigation.

Given the lack of official data, effort was made initially to conduct a field survey to collect the necessary information through the use of questionnaires for hotels representatives. However, many difficulties were faced at this stage because it was not possible to interview several hotels in the area. Particularly those hotels that were still operating in the informal market had concerns about giving information. Therefore, the study is concentrated on the information provided by local officials and authorities of Durres District, Chamber of Commerce in Durres, Taxes Offices, as well as representatives of MTCYS and INSTAT. The face-to-face interviews with some hoteliers also helped to understand their difficulties and the causes of the existing informal sector in this segment.

An important objective of this study is the identification of the negative consequences of informality. To achieve this objective, besides the information obtained from the above-mentioned sources, several deep interviews were made with environment specialists from the local authorities and particularly the Ministry of the Environment, Forestry and Water Management in Albania. They provided this study with very fruitful information and arguments, which will be explained in Section 3.2.

### **3 Informal Sector in Durres area: causes and consequences**

According to the information provided by the local authorities in Durres region, more than 40 per cent of firms operating in the tourism industry (including bars, restaurants, and holiday hotels) are not registered and have no licence. It means that the main problem is their licensing and operation respecting the legislation. In addition, even the majority of the registered hotels and restaurants operating in this area do not report fully their workforce and the activity in order to reduce their tax burden. This section is focused on the main causes and consequences of the informality in the tourism sector in this area.

#### **3.1 Causes**

Before the democratic changes of 1990, the former communist regime did not allow the tourism industry in Albania to become established. While the country has a tradition of domestic visitation, its venture into international tourism has only been possible since the fall of communist regime in 1990. However, the number of international tourists was low and Albania still had the image of a “less developed” country with pollution difficulties in some ex-industrial areas, such as the heavy metallurgical industry in the centre of the country. Heusinger (2005) argued that Albania suffers strongly from its negative image abroad and at the same time, foreigners and international tourism seem to be largely misunderstood inside the country. The need for development and the free labour market gave the opportunity to small or medium entrepreneurs to invest in the tourism industry. However, those investments were not based on any development plan.

Because of the undefined landownership, there was the growing phenomenon of illegal land possession and construction of houses and hotels in and around the big cities as well as beach areas. Gorica (2005) found that one of the biggest obstacles for the tourism development is the construction, mainly by Albanian investors, of many unofficial holiday hotels operating in many parts of the country and particularly on the Adriatic coast, including Durres.

In addition, during that period the tourism industry was facing some serious problems caused by the weak legal system. An important reason of the informal sector was the easiness offered by the Law 7665 on 21 January 1993 (For the development of the areas, which represent the tourism priorities). This Law facilitated the investments in tourism by considering investors and tourism activities as respectively “stimulated persons” and “stimulated activities”. A development agreement had to be made between the stimulated person and the Ministry of Tourism in order to specify the specific conditions of the activities during a certain “development period”. The deadline of this agreement was the moment when the stimulated activity started to generate income. More specifically, the law offered tax reduction at about 40% for the new investors, exclusion from the import tax, exclusion from the tax for a 5 years period, etc. However, many investors exploited in a bad way the opportunities offered by this law. In many cases, they changed the object of the agreement with the Ministry, such as the sale of the building or the use of their houses as holiday hotels during the summer season, which caused a high level of informality in the tourism industry.

Another important cause for the informality is the continuous lack of control in this area. According to the law, the main objective of the Council of the Tourism Development was to organise the control for the application of the city planning criteria in different projects and construction permits from the authorised institutions as well as to verify whether the specific activities respected the main aim of the specific area for the tourism development. However, this council did not create any “task force” for the monitoring of all the investments. In addition, the law did not include measures for the specific cases of irregularity and abusing activities for profits reason. The lack of control or monitoring, which was also accompanied by the corruption, brought serious problems related to the informality and had negative effects in the tourism development. The majority of the investments (restaurants, bars, etc.) deviated from their main object of the application. For example, people in Durres very often “construct

and sell” by not considering the aspects of the sustainable tourism development.

The unregulated number of hotel investments on the coast was also possible because erroneous investment behaviours committed in Greece and Italy years ago were imitated, instead of reflecting seriously about profitability and the best benefits.

### **3.2 Consequences**

The high level of the informality in Durres has brought many negative consequences in environment, economy, image as a tourist destination, etc. This subsection tries to analyse these consequences with focus on holiday hotels, which represents the main sector of the tourism industry in Albania.

#### *a) Environmental damage*

According to MTCYS (2011) and the environment specialists, Durres area is considered as one of the most polluted beach destinations in Albania. An important weakness of Albanian hotels sector, particularly in coastal areas such as Durres, is the lack of efficient sewage treatment and disposal. Currently, there is no wastewater treatment facility in Albania. This is becoming an issue for big urban centres and coastal cities in particular and for tourism industry revenue generation. Pollution from sewage that goes straight into the sea from nearby houses and hotels is alarming for the future of tourism in Albania. The urbanised areas in Durres and particularly the newly built areas close to the beach, which have recently become overpopulated because of uncontrolled migration and illegal constructions, have almost no sewerage system (Kushi, 2010). In addition, pollution caused by solid waste, sediments and untreated chemicals often leads to the deterioration of coastal ecosystems and thus harms their value for tourism. Also, relatively high levels of energy consumption in hotels, including energy for air conditioning and cooking, as well as fuel used by tourism related transportation can also contribute significantly to local air pollution in many host countries.

The currently fast urbanisation process in Albania was certainly having adverse effects on the natural resources and the environment particularly around the coastal areas because in most cases it is not accompanied by planned housing development or the construction of appropriate infrastructure and services. Besides pollution, another important negative consequence in Durres is the reduction of green areas because some of the holiday hotels were constructed within natural parks or forests and in many cases by cutting pine trees or poplars. In sum, intensive tourism development and recreational activities in Durres coastline lead to beach destruction and coastal degradation.

#### *b) Economic damage*

As considered above, the large size of the informal economy in Albania implies that many firms operating in tourism industry (such as hotels and enterprises) do not report fully their workforce (both full-time and part-time) in order to reduce their tax burden. This informal economy in Albania is estimated by the International Monetary Fund to be 30 - 40 per cent of Albanian GDP in 2010. Many unofficial holiday hotels do not respect the minimum standards and avoid the control from both local and national authorities and institutions, including their obligations to the state. Therefore, this brings a considerable economic damage by minimising the income in the state budget.

#### *c) Unfair competition*

Competition is generally greater in trade and services because of the lower start-up cost compared to the production sector. Although the presence of competitors in the tourism industry is positive from the welfare point of view (more hotels may imply lower prices in the market), it becomes a major concern when some of the hotels engage in unfair competition. The high degree of unfair competition is a high obstacle for the holiday hotels. Practices such as the avoidance of, or non-compliance with regulations and hiding profits create a discriminating environment in which the honest hotels will suffer. In some cases, unfair competition may lead these hotels to bankruptcy.

As previously considered, there are many unofficial holiday hotels operating in Albania and particularly in Durres area. However, another threat is the construction of many informal blocks of apartments for hire in the main tourist areas, which generally charge lower prices, compared to authorised holiday hotels. These unofficial hotels and private accommodations have a direct influence on the operation of legal hotels and their future success in the market. The presence of these hotels is a serious obstacle and also a considerable threat to the activity of legal hotels.

*d) Low level of service quality*

The presence of informal sector has also an important impact on the service quality among all internal and external stakeholders. Service quality has been increasingly identified as a key factor in differentiating service products and building a competitive advantage in tourism. Delivery of a quality service in tourism requires cooperation from employees, management and customers. An important problem arising from the informality is the current lack of a fully trained and flexible labour force. The management of hotels and other tourist businesses is not effective and efficient, resulting in poor presentation and lost potential revenues. Moreover, in some areas, besides the poor quality of hotel accommodation, there is a shortage of some tourist products such as shops, museums, national parks, and other attractions.

Travel Industry Deal (2007) found that besides the overall low level of service quality, the holiday hotels sector in Albania is characterised by high prices. It was found that a visitor occupying a hotel room in the Durres coast area is likely to face blackouts or dry water taps owing to infrastructure problems and illegal construction, but would still pay EUR 50-60 a night. Gorica (2005) emphasises that the high prices charged for the tourist products impede dramatically the tourism development in Albania.

*e) Negative image as a tourist destination*

Currently, considering the environmental damage and other abovementioned problems, Durres has the image of a polluted city. This has a major impact on the quality of the beaches, which may not meet the European “Blue Flag” standard. This is usually awarded only to the beaches with the highest water quality, outstanding services, cleanness, and safety. This gives a bad image for this destination to national and international visitors.

In addition, the information provided by MTCYS indicated that in Albania there is no standard system or institution for categorising hotels according to star ratings. Some hotels may have defined this attribute but this is not official but just based on the hotel’s own assessment. However, the self-starring may not be informative or may even misinform in the case where some hotels and resorts find it profitable, at least in the short term, to falsely communicate high quality service to prospective tourists.

*f) Conflicts about the land ownership*

Another consequence arising from the informality is the problem of conflicts about the land ownership. In many cases, this has negatively affected the progress of investments in the Durres area. Thus, the informal sector and illegal constructions have brought many problems and conflicts between people and institutions at different levels.

Considering all the above-mentioned negative consequences of the informal sector in the tourism industry of Durres, it can be underlined that this area has changed from an area with high potential for tourism development into a “business” area. In addition, the development in this area has not been according to the Law 7665 for the increase of tourist capacities in Albania.

#### **4 Conclusions and recommendations**

This section concludes and puts forward some policy implications for stakeholders in the tourism development in Albania, particularly the government, public institutions, local authorities and the private sector. The improvements in tourism activities and appropriate policies may not only contribute to increasing the number of the international visitors but also induce the interest of Albanian people who spend their money abroad because they do not find a good quality tourism product in the country.

This paper shows that one of the main problems impeding the development of the tourism industry in Albania is the presence of the informal sector and one of the tourist zones with the highest level of informality is Durres coast. In order to minimise this problem it is important first to fight the causes and then try to work on negative circumstances of informality and improve the tourism industry in Albania.

The analysis finds out that the main causes of the informal sector regard the chaotic political, social, economic and legal situation created immediately after the fall of communist regime in Albania in 1990. Therefore, this paper suggests initially that government should give priority to the clarification of ownership of land and buildings together with the national and regional tourism law and regulations. It is also important to get an update on legislation affecting tourism in Albania. Since, it is identified a continuous lack of control from responsible authorities in the area (including Taxes Office, Labour Office, etc.) another recommendation regards the enforcement of the existing law, especially in the field of construction such as regulations, building permissions and pollution, reporting the workforce and activities. Government in cooperation with local authorities should elaborate an action plan for the rehabilitation of all coastal areas and to start its implementation especially in areas such as Durres, where the unofficial buildings are massive. Local authorities and the people should be aware and more active towards these development initiatives and plans.

The paper indicates that the negative consequences of the informality are the environmental and economic damage, negative image of the zone, unfair competition and conflicts about the land ownership. In particular, the analysis underlines the problems related to some of the basic components of infrastructure, such as water supply and sewerage. Measures should be taken to specifically target improvements in the sewerage system and water supply in coastal areas. If government and local authorities are not able to undertake or finance such activities, the private sector in the area may collaborate and contribute to sponsor several local and small-scale projects and invest for their future business. In addition, considering the main objective of the Albanian tourism to develop as an international tourist destination it is noteworthy to underline the need for establishing a star rating system by Government or MTCYS.

Nowadays the development of tourism must be considered as tightly connected with environment protection, which means the protection of the basic values of the tourism destinations. Neto (2002) argues that while tourism provides considerable economic benefits for many countries, regions and communities, its rapid expansion can also be responsible for adverse environmental impact. The management of natural resources to reverse this trend is thus one of the most difficult challenges for governments at different levels. Kushi (2011) argues that the main environmental impacts of tourism and especially informal tourism are: first, pressure on natural resources; second, pollution and waste generation; and third, damage to ecosystems. Furthermore, it is now widely recognised that not only uncontrolled tourism expansion is likely to lead to environmental degradation, but also that environmental degradation, in turn, poses threat to tourism. Therefore, the informal tourism in Durres, as for all Albanian tourism, should be replaced by the sustainable tourism. This refers to tourist activities leading to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems (Neto, 2002). The sustainable tourism development will bring higher

profits and this city as well all Albanian destinations will develop as important tourist destinations in the Mediterranean.

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