Investing Back Home: Return Migration and Business Ownership in Albania

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Abstract

In view of its increasing importance, and the dearth of information on return migration and its impacts on source households, this study uses data from the 2005 Albania Living Standards Measurement Study survey and assesses the impact of past migration experience of Albanian households on non-farm business ownership through instrumental variables regression techniques. Moreover, considering the differences in earning potentials and opportunities for skill acquisition in different destination countries, the impact of household past migration experience is differentiated by main migrant destinations, namely Greece, and Italy. The study also tests for the hypothesis of the existence of migration cycles, by differentiating the time spent abroad based on the year of return. The empirical results indicate that household past migration experience exerts a positive impact on the probability of owning a non-farm business. While one additional year in Greece increases the probability of household business ownership by roughly 7 percent, a similar experience in Italy or further destinations raises the probability by over 30 percent. Although past migration experience for the period of 1990-2000 is positively associated with the likelihood of owning a household enterprise, a similar impact does not materialize for the period of 2001-2004. The latter finding seems suggestive of the fact that more recent migrants are yet to attain a target level of required savings and skills in order to successfully establish a new business upon return.

Key Words: Albania, international migration, return migration, non-farm business ownership, instrumental variables probit.
JEL: C25, J23, 015.

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1. Introduction

The process of transition that followed the collapse of former socialist regimes in Europe led to a transformation of their labor markets of unparallel proportions, in terms of its rapidity and intensity. Seldom, if ever before, collapsing public bureaucracies were replaced by dynamic private sectors, giving rise to rampant unemployment and underemployment, and resulting in large informal and precarious labor markets. In Albania, a bloated public sector employing of over 850,000 individuals shrank to less than a quarter of its original size between 1991 and 2001 (Labrianidis and Hatziprokopiou, 2006). Consequently, job creation became the buzzword in political platforms of parties of all denominations; and out-migration evolved to be the inevitable consequence of the inability of private sector development and government policies to create enough jobs domestically to keep up with the excess labor supply.

As a result, in the short span of a decade, more than one fifth of Albanian population is thought to have moved to live abroad, mainly to Greece and Italy. Driven by dire economic hardships associated with the transition to a market economy, and facilitated by geographical proximity and the lure of western affluence transmitted through Italian television channels, many Albanian households perceived migration, whether temporary or permanent, to be an effective strategy for sustaining and improving their economic livelihoods. This view was amply reflected in the Government's complacent position towards emigration, which was seen, at least initially, as a means of exporting unemployment and importing wealth. However, only more recently, the multiple – and possibly negative – pathways through which migration can impact source households and communities, as well as the economy as a whole, are gaining visibility in policy-making and the broader development agenda of the country.

One channel through which migration may reduce poverty and promote growth is by enhancing the asset positions and productivity levels of poor households, either via remittances from migrants, or overseas savings and human capital accumulation of return and circular migrants.[1] Households often face significant production constraints due to absent or incomplete credit markets, in which case remittances or overseas savings may relax these constraints by

[1] Permanent migrants refer to individuals who have migrated internationally and are currently living abroad and are no longer classified as household members. On the contrary, return migrants are defined as current household members with past international migration experience, who have returned to reside in Albania. We are aware that the definition is somewhat subjective, as many permanent migrants may return to Albania, while returnees may decide to migrate again. We will expand on this concept later in the text.

providing much needed liquidity. Remittances and savings from work abroad, thus, allow poor households to spend and invest in activities that may have otherwise been impossible without access to these cash flows. In addition, the skills acquired by migrants in the host countries may be put to productive use upon return.

However, the empirical evidence on the effects of migration on source households is controversial. Several studies support the view that migration contributes to relaxation of credit and insurance constraints, fostering productive investments (Woodruff et al., 2004; Dustmann et al., 2002; Murphy, 2000). On the other hand, a number of other studies take a more skeptical position, endorsing the view that the fruits of migration are primarily spent in conspicuous consumption and non-productive investments, such as housing, and may be conducive of increases in leisure among household members left behind.[2] Some evidence on Albania is suggestive of this latter view (King et al., 2003; Kule et al., 2002; Carletto et al., 2004; Germenji et al., 2004).

To date, much more emphasis has been given in the Albanian migration discourse to assessing the impact of permanent migration. Little attention has been paid, both in policymaking and in research, to a different phenomenon which is becoming increasingly important as the migration process matures: return migration. Much of the migration from Albania, particularly the flow to neighboring Greece, has traditionally been temporary in nature, whether seasonal or circular.[3] Evidence seems to suggest a "migration cycle", involving multiple migration episodes prior to settling, either in the host or source country (Labrianidis and Hatziprokopiou, 2006). Most migrants tend to stay abroad long enough to save sufficient amount of money to better their conditions at home. According to available evidence, few at the onset decide to leave for good, although many will end up staying abroad permanently (Nicholson, 2001, Labrianidis and Kazazi, 2006). Clearly, the decision to migrate (or to stay) is not irreversible: as noted in Labrianidis and Kazazi (2006), although 70 percent of the returnees interviewed reported to have returned for good, more than half also declared that they would migrate again if necessary. In today's Albania, emigration and return migration go hand in hand:

[2] The classification of spending on housing and durables as non-productive investment is strictly at the household level, since investment in housing or household durables is likely to create jobs and stimulate the local economy via positive multiplier effects.

[3] Compared to Italy, the process of obtaining legal status in Greece is more difficult for Albanian migrants, as family reunification has been discouraged and migrant regularization has been slower (Baldwin-Edwards, 2002). In this respect, it should not be surprising that particularly the flow to Greece has been more temporary in nature.

while a stable flow of individuals continue to emigrate towards increasingly more distant destinations, a growing number of returnees are establishing residence back home. A fair share of these returnees use (some of) their foreign earnings to set up low-return family businesses, often small replicas of the businesses they were exposed to while abroad (Labrianidis and Hatziprokopiou, 2006). The probability of establishing such small enterprises increases with the time they spent abroad (Kule et al., 2002).

In view of its increasing importance, and the dearth of information on return migration, this study uses data from the 2005 Albania Living Standards Measurement Study (ALSMS05) survey and assesses the impact of past migration experience of Albanian households on non-farm business ownership. We also hypothesize that such impact will depend on the earning potentials and opportunities for skill acquisition in different destination countries. For this purpose we differentiate the impact of past migration experience by main migrant destinations, namely Greece, and Italy[4]. We also test for the hypothesis of the existence of migration cycles, by differentiating the time spent abroad based on the year of return. The assumption is that earlier returns are more indicative of stability in Albania, thus being positively associated with business ownership. The impact of more recent migration is ambiguous, as migrants are less likely to have completed their "migration cycle" or to have accumulated enough savings.

The remainder of the paper is organized as follows. Section 2 attempts to establish the theoretical link between past migration and business ownership, based on a succinct literature review. Section 3 describes the data set, while section 4 presents the empirical approach adopted and the model. In Section 5, we report the regression results, before concluding in Section 6.

2. Exploring the Nexus between Return Migration and Non-farm Investments

In order to provide context for the analysis of the role of household past migration experience on non-farm business ownership, we first provide an overview of contending migration theories underlying the development of the empirical model.

The neoclassical model of migration explains the migration decision at the individual level, in a cost-benefit analysis framework, where potential risk-neutral migrants compare the

[4] An increasing number of Albanians are now migrating to further destinations, such as the United Kingdom, Germany, the United States and Canada. However, the numbers are still quite small and in this paper we combine the migrants to these countries into an "Italy and beyond" category.

expected net income at the destination with the expected net income at the origin (Sjaastad, 1962; Todaro, 1969; Harris et al., 1970). Given their productive potentials and financial resources, prospective migrants determine the location where they will be most productive. The amount of time required to find employment at the origin and destination, as well as the financial costs of reaching a destination and maintaining a livelihood throughout the process of seeking employment, are estimated. International migrants also incorporate the government regulations at the potential destination into their decisions. Similarly, illegal immigrants consider the probability of apprehension and deportation. Based on these various estimates of the costs and benefits over time, the discounted net return to each location is computed and the decision to migrate is made if the net return to migration exceeds the net return to residence at the point of origin. Similarly, in the neoclassical framework, a migrant's return decision will be made if the lifetime utility of returning home exceeds that of staying abroad. Comparable to the factors underlying out-migration from home country, return migration would also be influenced by relative earnings potentials, prices as well as social attachments and costs of adaptation in host vs. home country.

On the contrary, the perception of return migration in this section is conformable with the New Economics of Labor Migration (NELM) theoretical underpinnings. The NELM expands the neoclassical model and shifts the focus of migration theory from independent individuals to households that face labor market imperfections as well as missing or incomplete capital and insurance markets (Stark et al., 1985). According to this view, households are the appropriate unit of analysis if the individual migration decision is made jointly with household members and if the costs and returns associated with migration are shared by some explicit or implicit sharing rule within the household. According to the NELM model, the migration of a family member facilitates the pooling of risks and substitutes for formal insurance by its ability to spread risks via broadening the relevant space for income generation at the source-household level. In the event of adverse income shocks, households can rely on related migrants for financial support. While improving expected income may be one motivation for sending migrants, the household may use migration as a mechanism for diversifying risk and gaining access to capital in the presence of insurance and/or credit market failures. Thus, the duration of migration episodes or the number of migration episodes completed by each migrant household member (relevant for circular migrants) would be computed with respect to the needs of the household in terms of

insurance, purchasing power and savings (Cassarino, 2004). Migrants can also be perceived to either remit or accumulate savings in anticipation of returning home, partially fueled by their social attachments in origin country. Once a target level of overseas earnings/savings is attained, a return decision may be made.

Given the overview of contending migration theories, perception of return migration and its impact on non-farm investments henceforth is conformable with the NELM theoretical underpinnings. Microenterprises face significant credit constraints even in developed settings such as the United States and Great Britain, where mortgage and capital markets are among the world's most resourceful. This suggests that the formation and survival of small firms, in general, often depends on a relaxation of capital constraints through, for instance, the receipt of an inheritance by the firm's owner (Blanchflower et al., 1998). Entrepreneurs in developing countries face much less efficient credit markets and more frequent market failures, as the available evidence also indicates that access to credit is among their biggest concerns (Paulson et al., 2004). Therefore, in the absence of efficient credit markets, foreign savings might be seen as particularly important in overcoming liquidity constraints and promoting investment in small businesses, as return migrants, who have generated surplus capital abroad, will have the opportunity to develop new businesses in their nations of origin. Similarly, upon return, migrants may utilize the human capital that they have accumulated throughout their migration episodes to start and successfully manage microenterprises. In this context, human capital may include newly acquired management or technical skills, ideas and entrepreneurial knowledge as well as professional contacts from abroad, and its accumulation is influenced by the type of occupation (skilled vs. unskilled) undertaken abroad.

A number of empirical studies, analyzing the impact of return migration on the development processes of origin countries, have yielded an almost virtual consensus on the positive relationship between return migration and non-farm self-employment in migrant households. Woodruff and Zenteno (2004) in their study of 6,000 microenterprises in Mexico emphasize the importance of remittances for micro-enterprise development in urban areas. A similar finding is shown by McCormick and Wahba (2004) for Egypt: the proceedings from return migration promote investments in small household enterprises, with the largest share of investments going towards urban areas. Dustmann et al. (2002) develop a model where migrants decide simultaneously on the optimal migration duration and their activities after return. They

find that Turkish migrants in Germany are more likely to engage in self-employment upon their return to Turkey, relying on savings from abroad to finance their businesses. Likewise, Ilahi (1999) using cross-sectional data from Pakistan, finds that upon return, overseas savings become a critical determinant of occupational choice as migrants with high savings choose self-employment while others opt for wage employment. In addition, Mesnard (2004) also models migration as a way to overcome credit constraints in the presence of capital market failures and demonstrates that the majority of entrepreneurial projects started by Tunisian returnees were financed through overseas savings.

Furthermore, Murillo Castaño (1988) highlights how in the case of Colombian return migrants from Venezuela, savings were used to buy, establish, or expand self-employment activities, once basic needs had been satisfied. Similarly, Murphy (2000) reports that two counties of south Jiangxi in China had pursued a number of initiatives incorporating return migrants into a local state corporatism, creating the conditions for successful migrants to establish businesses within their native communities. For the author, this impetus to encourage return migrant entrepreneurship is not only a response to upper level directives in the Chinese government, but it also partially fueled by the fact that return migrants both create and salvage revenue-generating entities which augment the power-base of the local state and increase funds for local welfare expenditures.

Additionally, Arif et al. (1997) study the factors affecting the occupational composition of Pakistani workers upon their return from Middle East employment locations by utilizing the 1986 ILO/ARTEP Survey of Return Migrant Households. They estimate that 44% of those employed in the ILO sample changed their pre-migration occupations upon return from employment in production or service jobs to small business related employment; the highest level of occupational change was observed in non-irrigated areas. They add that occupational change was strongly related to duration of stay in the Middle East, ages upon return, and the level of educational attainment. It is also important to note the potential transfer of social capital by migrants to their societies, either at the point of return, or through engagement in transnational social activities during migration or after return. The relevance of social capital theory to a study of the business behavior of returning migrants is given ample justification in a recent study of Tunisian returnees, whose entrepreneurial activities in Tunisia were shown to be

supported by transnational social networks and partnerships with business contacts in France and Italy, their countries of migration (Cassarino, 2000).

With respect to Albania, limited empirical evidence exists, and what is available is mostly anecdotal or based on qualitative research or case studies. The conclusions are also ambiguous. A number of studies (Nicholson, 2001 and 2002; Labrianidis and Hatziprokopiou, 2005) provide evidence that returnees use savings earned abroad to finance micro-enterprises and purchase productivity-enhancing equipment in existing activities. In addition, work abroad appear to be providing a learning opportunity for migrants to enhance their skills so that, once back home, they can replicate businesses in which they worked abroad. Despite these positive results, return migration continues to be associated with failure among Albanians (Labrianidis and Kazazi, 2006) and no solid evidence exists to substantiate the position that sizable investments are directed towards productive activities (Barjaba, 2000).

Based on our theoretical reasoning above and the available empirical evidence, we hypothesize that past migration experience of Albanian households will positively influence the probability business ownership. In addition, this impact will be different depending on the host country, and the timing of migration. More specifically, we anticipate past migration experience in Italy and beyond, as well as earlier past migration experience, to be associated with higher probabilities of being involved in non-farm businesses.

3. Data

The data for this study comes from the 2005 Albania Living Standards Measurement Study (ALSMS05) survey conducted by the Albanian Institute of Statistics (INSTAT), with technical assistance from the World Bank, between April and November, 2005. The sampling frame for the survey was stratified into four regions – namely coastal, central, mountain and Tirana, the capital – and a total sample of 3,640 households from 455 census enumeration areas (EAs) was drawn based on a multi-stage cluster design.

The ALSMS05 includes a typical household questionnaire covering general household demographics, education levels, asset ownership, expenditures and labor market participation. In addition, the survey also provides community-level data, which include information on access to services and infrastructure in the locality, as well as price information. The household questionnaire also includes an unusually rich module on migration, both internal and

international, of current and former household members. The module provides detailed information on migration histories of all current and former household members, as well as information on the household networks abroad.

Out of the total sample, 641 households (18 percent) reported running a household business. [5] While about half of these households utilized domestic savings as a source of start-up capital, over 95 percent of them indicated using either remittances or overseas savings. Table 1 presents the basic characteristics of primary household businesses. The average *annual* self-employment income from these businesses was 1,014,965 Lek (1$ = 103.3 Lek, 12/2005 Average). The average *monthly* self-employment income per capita from household enterprises was 20,210 Lek and significantly higher than the monthly per capita consumption of 4,891 Lek, which marks the national absolute poverty line. On average, migrant households in the non-farm business sector record lower self-employment income than their non-migrant counterparts. At a descriptive level, we attempt to provide few complementary hypotheses in explanation of lower returns to migrant businesses in our sample.

We observe that the average age of primary household businesses was approximately 75 months. The figure was 82 months for non-migrant household businesses and 67 for their migrant counterparts. It is possible that more-established enterprises of non-migrant households have higher returns than newer businesses of migrant households. In addition, the majority of household establishments (64 percent) are one-man enterprises, with part of the remaining enterprises employing only family labor. Only 18 percent of businesses reported hiring any labor, and when they do, it is often in small number. Furthermore, a higher percentage of migrant businesses employ non-household members, possibly due to the simple fact that their owners might at times be migrating, necessitating them to rely more on employees that are not household members. The fact that migrant businesses employ more non-household members on average may indicate the partial erosion their profits, and serve as one of the possible explanations for their lower returns.

Complementing these findings, Tables 2 and 3 presents locational and sectoral decompositions of primary household businesses respectively. 25 percent of businesses operate from home, around 30 percent are either mobile or road-side establishments, and the remaining businesses operate from various fixed locations. In particular, the fact that a notably higher

[5] Out of 641 households that own any non-farm business, 8 percent own 2 enterprises.

percentage of migrant businesses are road-side establishments may partially elucidate their lower returns. Approximately one half of the businesses are in whole sale and retail trade, 15 percent belong to the transportation sector, while manufacturing and construction sectors host roughly 20 percent of primary household enterprises. Across an overwhelming majority of locational or sectoral definitions, the average self-employment income is lower for migrant households.

Moreover, return migration is quite a new phenomenon, taking shape only recently in Albania. In Figure 1 (in Annex), we report the trends of return migration from the two main host countries, Greece and Italy. As expected, given the different nature of the two migration flows, and partly driven by proximity, returns from Greece are more common, and the trend overtime generally steeper. As evident in Figure 2, the spike in returns of the last few years is likely to be due to the fact that a large portion of these most recent returnees have yet to complete their "migration cycle", being the most likely to migrate again in the near future. These most recent returnees are also on average worse off than earlier returnees (Figure 3), again suggesting that their "accumulation" abroad is not yet complete.

In Table 4, we provide selected descriptive statistics for variables of interest. Mean values are reported for the total sample, as well as by business ownership status. P-values for the t-tests are reported in the last column, and show that, in most cases, the differences are statistically significant at the 1 percent level. More specifically, on average, households with non-farm businesses report more months of past international migration experience, both in Greece and Italy and beyond, have younger household heads, are more educated, are more populous, and are generally wealthier. A higher percentage of households with non-farm businesses are also situated in urban areas, the coastal region, Tirana and in communities with functional infrastructures. Given that the coastal region and Tirana are central locations for manufacturing, construction, and tourism industries, these findings are not surprising.

4. Modeling the Impact of Return Migration

4.1. Econometric Considerations[6]

The empirical analysis of the effects of overseas savings of return migrants is marred by a number of potential problems associated with the methods of impact estimation. The most

[6] The presentation of this section is influenced by McKenzie, 2005.

descriptive approach of asking households about the uses of overseas savings is unlikely to identify the actual impact, since financial resources are fungible and if the overseas savings are used for a specific purpose, they are likely to free up income sources for alternative uses. A more appropriate approach to the estimation of the effects of overseas savings is to directly identify the relationship between overseas savings and an outcome variable by comparing overseas savings-recipient households with non-recipient ones, while controlling for a host of other factors. This method assumes that the systematic differences between overseas savings-recipient households and their non-recipient counterparts are captured via the inclusion of a set of observable characteristics at the household and community level. That being the case, the impact of overseas savings on an outcome of interest, Y, may be calculated using ordinary least square (OLS) on the following regression equation:

$$Y_i = \alpha + \beta * OverseasSavings_i + \theta * X_i + \varepsilon_i \quad (1)$$

where i denotes household, *OverseasSavings* is either a binary variable equal to 1 if a household has access to overseas savings through one of its return migrants or a continuous variable measuring the total amount of savings from abroad, X_i is a set of household and community characteristics, ε_i is the error term and the coefficient β measures the average impact of household overseas savings on the outcome. However, if past migration experience has other effects on the outcome variable in addition to its impact through overseas savings, the error term in equation (1) encompasses these omitted factors that are correlated with both overseas savings and the outcome variable, thereby causing the impact estimate of overseas savings, β, to suffer from omitted variable bias. This problem may be overcome by incorporating an additional independent variable in equation (1), capturing household past migration experience. In this case, the outcome would be a function of overseas savings as well as past migration, with the former being a function of the latter. Given data limitations, we are unable to estimate this recursive model. Instead, we focus on the overall impact of past migration experience, which encompasses the effects of overseas savings, by estimating the following reduced form equation:

$$Y_i = \alpha + \beta * PastMigrant_i + \theta * `X_i + \varepsilon_i \quad (2)$$

where *PastMigrant* is, again, either a binary variable equal to 1 if there is at least one return migrant in a household or a continuous variable accounting for the time spent abroad in the past by all household members, and the coefficient β includes the joint average impact of overseas savings, if any, and of other consequences of past migration.

However, since the decision to migrate in the past may depend on unobservable household characteristics that also influence the outcome of interest (i.e. ε in equation (2) is correlated with *PastMigrant*), the coefficient β in equation (2) may still be biased. One solution to this particular problem is the use of instrumental variable (IV) regressions, where the idea is to isolate the movements in *PastMigrant* that are uncorrelated with ε by finding an IV that predicts past migration but exerts no impact on the outcome variable. This in turn permits a consistent estimation of the β coefficient.

Once we adopt an IV approach, another complexity is introduced by the fact that our dependent variable is binary, i.e. equal to 1 if a household owns a non-farm business, and 0 otherwise. Consequently, the OLS estimator, i.e. linear probability model, is not preferable and non-linear limited dependent variable specifications that could accommodate the treatment for the endogeneity of the migration variable must be adopted. On the other hand, proper tests do not exist to ensure validity and strength of the instruments for this class of models. Consequently, we first run all diagnostic tests on the OLS specification and then use the selected instruments in the instrumental variables probit (IVProbit) specification.

The IVProbit procedure in Stata attempts to fit models with dichotomous dependent variables and endogenous regressors, and jointly estimates two equations via maximum likelihood, as outlined below.[7] The major difference between the IVProbit estimator and the instrumental variable estimator (as conceptualized in its traditional framework) is that the IVProbit estimates are maximum likelihood estimations of Amemiya's generalized least square estimator (Amemiya, 1978; Newey, 1987), where endogenous variables are treated as linear functions of their instruments as well as other exogenous variables. The employment of the procedure allows the researcher to predict outcomes between 0 and 1 unlike the experience with the instrumental variables linear probability model.

[7] For the case of multiple endogenous variables – i.e. when we separate the impact between destinations or the timing of migration – we fit the IVProbit model using Newey's minimum chi-squared estimator, and calculate the marginal effects via the *ivprob* procedure in Stata.

Formally, for a single endogenous regressor, the IVProbit model can be stated as:

$$Y_i^* = E_i \beta + X_i \theta + u_i \quad (3)$$

$$E_i = X_i \Pi_1 + Z_i \Pi_2 + v_i \quad (4)$$

where i = 1,…, N, E_i is a vector of endogenous variables, X_i is a vector of exogenous variables, Z_i is a vector of instruments that satisfy the requirements of instrumental exogeneity and relevance, β and θ are vectors of structural parameters, equation (4) is written in its reduced form, and Π_1 and Π_2 are matrices of reduced form parameters. The model is jointly estimated using maximum likelihood estimator and is derived under the assumption that (u_i, v_i) is independently and identically distributed multivariate normal for all observations. In this set up, we do not observe Y_i^*; instead observe $Y_i = 1$ for $Y_i^* \geq 0$ and $Y_i = 0$ for $Y_i^* < 0$. For the model to be identified, as it would be the case with the two-stage least squares regression, the number of additional instruments should be greater than or equal to the number of endogenous variables.

4.2. Instrumental Variables

For IV regressions to work, each instrument must satisfy two conditions, namely instrumental relevance and instrumental exogeneity. If an instrument is relevant, then the variation in the instrument is related to the variation in the instrumented variable. In addition, it must satisfy the exclusion restriction, i.e. the instrument must be uncorrelated with the outcome variable of choice.

The ALSMS05 provided us with a number of potential instruments to identify the migration decision. Specifically, in the first and the third model, the instrumental variables employed are: (i) *Language90*, a binary variable equal to 1 if a current or previous household member spoke any Greek or Italian in 1990; (ii) *Network90*, a binary variable equal to 1 if the head of household or his/her spouse had any family relative or friend living abroad in 1990; (iii) *MinimumDistance*, the minimum distance in kilometers between the place of residence of the household and one of the four main exit points for Albanian emigrants, namely the ports of Vlore and Durres, and the border crossings of Kakavije and Kapshice; and (iv) *AverageShocks*, which

measures the annual average number of shocks experienced by a household.[8] In the second model, in addition to *Network90*, *MinimumDistance* and *AverageShocks*, we utilize the following instruments: *Greek90*, a binary variable equal to 1 if any household member (at 1990) spoke Greek in 1990; *Italian90*, a binary variable equal to 1 if any household member (at 1990) spoke Italian in 1990; and *Satellite90*, a binary variable equal to 1 if a household owned a satellite dish in 1990.

Knowledge of either Greek or Italian – the languages spoken in the two primary destination countries – by any household member in 1990, besides making the destination country more attractive by lowering the costs of assimilation, is also indicative of affinity in culture and mentality, as well as geographical vicinity. This familiarity with the language spoken in the host country has been noted to be an important factor in determining the direction of migration in Albania (de Zwager et al., 2005). Consequently, mostly Orthodox-Christian Albanians from the southern and southeastern regions of the country, where a sizeable Greek minority has historically resided, emigrate to Greece, while Italy serves as the most preferred destination for Albanians from the central and coastal regions, where the Italian TV channels and way of life are most popular (de Zwager et al., 2005). Thus, the variation in knowledge of Greek or Italian by any household member in 1990 is expected to predict household past migration, fulfilling in principle the requirement of instrumental relevance.

Moreover, the exposure to these languages was almost uniformly dependent on location and cultural background, mainly induced by exogenous factors such as the presence of Greek minorities and exposure to Italian television channels, and not necessarily a reflection of differences in education, skills or unobserved household characteristics, such as entrepreneurial drive, that might predict business ownership[9]. Therefore, we claim that the proposed instrument does not influence the outcome variable beyond its impact through migration and thus satisfies the exclusion restriction. One may still argue that the exogeneity of language instruments may be questionable under the presumption that households with exposure to Greek or Italian in 1990 might have been wealthier. In addition to the justification given above, we further counteract this

[8] While for past migrant households the annual average number of shocks is calculated based on the number of years until the first migration episode, the entire period of 1990-2005 is taken into consideration for their non-migrant counterparts. The variable includes dispossession of land, unexpected death of income earner or of another family member, serious illness, imprisonment of income earner, job loss, and destruction of dwelling.

[9] On the contrary, knowledge of English in 1990 may be considered to be correlated with pre-transition wealth and social status, as such knowledge could be acquired though elite schooling and connections to the regime. For this reason, the variable is not considered as a potential instrument.

argument by specifically controlling for household 1990 asset position in our outcome regressions, so that the only impact exerted by the instrument on household self-employment is through its effect on past migration.[10]

Network variables are widely used in the literature to instrument for migration. We employ *Network90* as an instrument to capture the presence of household migration networks that existed in 1990, and that might have had influenced the past migration decision, fulfilling the condition of instrumental relevance. The variable refers to non-household members; thus it is less likely to bear any relation to unobserved characteristics that would be predictive of their non-farm business involvement. Even if one may claim that pre-1990 international migrant networks are likely to supply households with more connections and possibly increase their exposure to non-farm activities, it should be noted that *Network90* refers to 15 years back in time relative to the present state of household business ownership, thus making the possible link even more tenuous. With these arguments in mind, we assert that the variable would not necessarily influence a household's likelihood to engage in non-farm self-employment in 2005, meeting the requirement of instrumental exogeneity.

In the second model, we utilize *Satellite90* as a possible instrument, assuming that the ownership of a satellite dish before the legalization of international migration might have allowed Albanian households to gain access to Italian TV channels, and affected their attitudes towards migration. In this respect, the variable is likely to possess instrumental relevance. To claim instrumental exogeneity for *Satellite90,* we rely on the time-dimension argument provided in defense of the exogeneity of *Network90*. In addition, as satellite ownership may be indicative of differences in initial wealth, and thus suggestive of involvement in non-farm business activities. For this reason, controlling for 1990 household asset position in our regressions also strengthens the claim concerning the exogeneity of *Satellite90*.

Furthermore, *AverageShocks* is another instrument candidate, computed for migrant households[11] as the average annual number of household-level shocks until their first migration episode. The variable refers to a series of events that might have triggered a household's decision

[10] To control for household asset position in our regressions, we constructed a household wealth index via principal components analysis. The index accounts for the number of following items that may have been owned by households in 1990: a color TV, a black and white TV, a tape/cd player, a refrigerator, a washing machine, a sewing/knitting machine, and a bicycle.

[11] For non-migrant household, the variable is computed as the average annual number of shocks between 1990 and 2005.

to send a migrant(s) abroad for the purpose of diversifying risk and relieving liquidity constraints. Hence, it is expected to fulfill instrumental relevance. Given the time lag between the first household migration episode and household business ownership in 2005 as well as the types of shocks informing the definition of *AverageShocks*, whose occurrence is largely exogenous to household actions or characteristics, *we* claim that the variable predicts past migration without impacting household's present decision to own a non-farm business.

Finally, we argue that proximity to porous borders of Albania can be a significant determinant of migration decision. Distance can be assumed to discourage migration by raising transaction costs. Similar to the language variable, it is possible for the distance instrument to also capture affinity with the customs and culture across the border, and lower information costs. Moreover, controlling for strata and urban location of households as well as their community characteristics in our regressions, the only impact of border proximity on a household's decision to own a non-farm business should be via the instrument's influence on past migration. Test results regarding instrumental validity will be reported in section 5.1 to support the theoretical arguments made here.

4.3 Description of Variables

(i) Dependent variable:

Our dependent variable in all three models is a dummy which takes the value of 1 if the household is currently running a non-farm business, and 0 otherwise.

(ii) Instrumented Variables:

We estimate three different models, each involving slightly different instrumented variables. In the first regression, *No_Months* – i.e. the total number of months spent abroad between 1990 and 2004 by all current household members – is the instrumented variable.[12] In

[12] One might argue that the explanatory variable of interest may suffer from recall bias. Smith and Thomas (2003) show that when migration spells are more numerous in Malaysia, people tend to forget shorter spells in recall data. However, for the case of Albania, the period of recall is relatively short, and there are clearly known benchmarks of exodus from the country Albania, such as the 1991-1992 period following the dissolution of the communist state and 1997 (subsequent to the collapse of the pyramid investment schemes). Therefore, we expect the extent of recall bias in the construction of No_Months and its derivatives to be negligible.

the second model, the instrumented variable in the first model is broken into two variables defined in terms of main destination countries.

As observed in Carletto et al (2004), the demographic and socio-economic make-up of migrants differ according to destination, thus possibly implying differences in skills acquisition and earning potentials, as well as difference in occupational choice upon return. Therefore, we split the instrumented variable of the first model into *No_Months_GR* and *No_Months_ITB*, which are the total number of months spent between 1990 and 2004 by all current household members in Greece or Italy (and beyond), respectively. It is hypothesized that the coefficient of *No_Months_ITB* will be positive and greater than that of *No_Months_GR*, since Albanian migrants in Italy and in countries further afield are expected to enjoy better job prospects and higher earnings, and thereby accumulate higher levels of overseas savings and human capital, compared to their counterparts in Greece.

Lastly, in the third model, we separate, and instrument for, *No_Months_90_00* and *No_Months_01_04,* which account for the total number of months spent abroad by all current household members during the periods 1990-2000 and 2001-2004, respectively. The observed spike in return migration in most recent years (Fig 1) and the rising number of temporary migrants in the last few years with the intention to re-migrate (Fig 2) suggest that recent returnees have yet to complete their "migration cycle", and that their overseas "accumulation" of cash and skills may still be insufficient to start a own business. In this respect, we hypothesize that the coefficient of *No_Months_90_00* will be positive and statistically significant (and possibly larger than the coefficient in Model 1), while the sign and significance of the coefficient on *No_Months_01_04* is uncertain.

(iii) Control Variables:

In order to capture the age composition of a household, and thus the availability of family labor, we control for the number of household members in the age group of 0-14, and the number of male and female household members in the age group of 15-60. The differentiation of the impact of male and female adult population in our regressions allows us to explore a possible gendered allocation of household labor resources. The role of gender in enabling or restricting access to self-employment activities certainly varies across countries and cultures. It might be the case that male labor is utilized more frequently for farm-jobs due to the general physical

intensity of agricultural labor, while females undertake tasks in the non-farm business sector. The number of male adults in the household will then be negatively associated with the probability of non-farm self-employment of the household, while the opposite will be true for the female adult population in the household. On the other hand, this hypothesis may be reversed if social norms restricting female mobility and ability to work outside the household exist or male laborers are inherently more willing to undertake riskier non-farm self-employment activities. In this respect, the effect of the male and female adult population on household non-farm business ownership is ambiguous.

Moreover, we control for the highest level of education within a household as proxies for the general education level of a household. Reardon (1997) cites a number of authors who have addressed the importance of education and skills as determinants of business start-ups and wages earned off-farm. However, it might also be the case that many entrepreneurial non-farm activities, in their early developmental phases, require only low levels of schooling. In this regard, we would expect a positive relationship between modern, skilled non-farm occupations and the level of education, but a negative or no relationship between the level of education and more traditional, low-return unskilled non-farm occupations. Since our model does not provide a sectoral decomposition of self-employment participation, it is not clear how the highest educational level within a household will affect our dependent variable.

Social capital may reduce risk and perhaps increase access to (small amounts of) capital and/or labor where reciprocal relations are important, and thus is expected to be positively influential over small business development. A proxy for social capital at the household level – the number of close friends of the head of household in the community – is thus included in our regressions. We also account for the amount of land area owned by a household to indicate the household's involvement in agriculture. We hypothesize that land area will be inversely related to a household's likelihood of engaging in self-employment in the non-farm business sector (Azzarri et al., 2006; Davis et al., 2006).

Furthermore, in the context of the Albanian society, being a female-headed household is highly correlated with being a poorer, single-headed household. Considering the challenges that poorer, female/single-headed households may face while trying to make ends meet, it is unlikely for these households to engage in relatively risky ventures, such as non-farm self-employment activities, to sustain their livelihoods. To explore the effect of household female-headedship on

the probability of being involved in non-farm self-employment, a binary variable for female-headed households is incorporated in our regressions. It is expected that there will be a negative association between female-headed households and the outcome variable. Also, we control for the age of the household head. The expected sign is ambiguous: on the one hand, younger individuals may be less risk adverse and more prone to enter riskier non-farm businesses. On the other hand, younger people are less likely to possess the capital and skills required to run a business, or may be the ones most likely to be thinking of migrating again.

Location is also assumed to influence the probability of owning a family business. Urban areas are more likely to serve as important markets for goods and services provided by self-employed households, as well as to guarantee access to financial intermediation services and infrastructures that may be needed by small businesses. Proximity and accessibility to markets is also assumed to affect business formation. Thus, we control for urban residence and distance to a bus stop, and claim that residing in rural areas and being distant from transportation facilities will be negatively associated with the probability of non-farm self-employment. Furthermore, a binary variable equal to 1 if a household is located in a community with functional piped water, is also included in our regressions as a proxy for the basic infrastructure services of the community. Since small business development is likely to be dependent on some of these services, we expect a positive relationship between this variable and the likelihood of household business ownership. Finally, given the large spatial heterogeneity across Albania, three regional binary variables, indicating whether a household is located in the *coastal*, *central* or *mountain* regions, are included in our models to control for regional fixed effects, with Tirana being the default region.

5. Estimation Results

5.1 Test Results Regarding Instrument Validity

Contrary to the case of continuous dependent variable models, tests of instrument validity do not exist for limited dependent variable models. Thus, the test results reported in this section should be interpreted with caution, and taken only as suggestive given that our dependent variable is dichotomous.

In an attempt to form an econometric foundation for our claim regarding instrumental validity, we rely first on the over-identification test results provided by the ivreg2 procedure in Stata. For instrumental validity, and thereby the inability to reject the null hypothesis of the over-identification test, the test statistic should be statistically insignificant. For our case, instrumental validity is proven (at least technically) by insignificant Hansen's J Statistics, which are reported for all models and calculated under the assumption of heteroskedastic error terms, as shown in Table 3. We also provide the results of relevant tests regarding the strength of our instruments. At the outset, the p-values for the Anderson Identification/IV Relevance Tests from the ivreg2 procedure in Stata support our claim regarding the adequate explanatory power of our instruments. Complementing these findings, we present the first stage regression results for the first model as an example in Table 4 in order to substantiate our assertion regarding instrumental relevance. Moreover, referring to a common threshold employed in the literature (Staiger and Stock, 1997), we consider a value of the F-statistic above 10 from the test of joint significance of the instruments in the first stage regression as necessary to conclude that our group of instruments is sufficiently strong. As indicated in Table 3, the Cragg-Donald F-statistic estimated as part of the ivreg2 procedure in Stata for the first model is 12.56 and passes our "rule-of-thumb" test. Although the F-statistics for the second and the third model are lower than 10, in the case of multiple endogenous regressors, the use of the F-statistics may not be adequate, and it is unclear whether the same threshold rule would apply (Baum et al, 2003). In this respect, the use of the Shea Partial R^2, which account for the inter-correlations among the instruments, is instead recommended (Baum et al, 2003). The estimated Shea statistics for the models with multiple endogenous regressors are also reported at the bottom of columns (2) and (3) in Table 3.

5.2 Regression Results

In Table 5, we report the IV Probit estimates. In column (1), we estimate the model with the total number of months of past migration experience. In column (2), we disaggregate this variable based on the country of the migrant's destination. Finally, in column (3), we explore the differential impact of past migration experience before and after the year 2000. The reported coefficients are marginal effects calculated at the sample mean of all other variables. Starting in column (1), as per initial hypothesis, the impact of past migration on business ownership is positive and significant. One year increase in household past migration experience raises the

likelihood to be involved in non-farm self-employment, on average, by about 5 percent. As expected, differentiating the effect by country of migration yields still positive and significant but different coefficients. While one additional year in Greece increases the probability of business ownership by about 7 percent, a similar experience in Italy or another further destination raises the probability by over 30 percent. Moreover, as expected, while past migration experience during the period 1990-2000 exerts a positive and statistically significant effect on the likelihood of non-farm business ownership, a similar impact does not materialize for migration in the period 2001-2004. One additional year of pre-2000 migration increases the probability of owning a business by about 8 percent. This latter finding seems suggestive of the fact that *early* migrants are more likely to have accumulated greater overseas savings and skills, raising the likelihood to startup a new household business.[13] As also pointed out by Labrianidis and Hatziprokopiou (2006), it is plausible that more recent migrants are yet to complete their "migration cycles" and to attain a target level of savings and skills for them to engage successfully in non-farm self-employment activities upon return.

In Table 8 we also report the estimated marginal effects from the un-instrumented probit regressions. In general, our results consistently show that missing to account for the endogeneity of the migration variable would underestimate the impact of past migration experience on business ownership. If the unobservable characteristic of return migrant households had been superior entrepreneurial ability, which can positively influence their past migration decision as well as their likelihood to own a non-farm business (i.e. Corr(*PastMigrant*, ε)>0 in equation 2), the positive coefficient on the migration variable in Table 8 should have decreased in magnitude following instrumental variable regression. However, are results suggest the opposite: the unobservable characteristics that influence past migration decision are likely to exert a negative impact on the probability of business ownership. In this respect, return migrant households might be inferior in terms of their entrepreneurial capabilities with respect to non-migrant participants of the non-farm business sector. To partially support this claim, one should recall the hypotheses set forth in section 3, explaining possible reasons for lower returns to migrant businesses.

[13] Mesnard and Ravallion (2006) test for the presence of nonlinearities in the wealth effect on self-employment among migrants returning to Tunisia. Their findings reveal a positive and nonlinear impact of savings on the migrant's likelihood to establish a new business upon return.

Returning to the estimation results in Table 5, the probability of owning a household business increases with the number of working age individuals in the households. As described earlier, most of these businesses are small, informal family operations, heavily relying on family labor. Thus, the availability of family labor is bound to influence the decision to own a business. It should also be noted that although the coefficient of the number of male adults is greater than the one for the number of female adults, the latter effect is still positive and statistically significant, weakening the assumption that the prevailing social norms in Albania impose constraints on the involvement of female labor in non-farm self-employment activities. However, as hypothesized, the female-headed households are found to be less likely to engage in non-farm self-employment. More specifically, a female headed household is, on average, 9 percent less likely to own a business.

The probability of owning a business also increases with the age of the household head and with education, though both at a decreasing rate. Households with businesses are less likely to be involved in agriculture, as reflected in the land ownership variables. Furthermore, social capital, as measured respectively by the number of close friends of the household head, is shown to bear a positive and statistically significant relationship with non-farm self-employment decision. Not surprisingly, business ownership is more likely in urban areas, and in communities with better services and infrastructure. Finally, while being located in the coastal region vis-à-vis Tirana is positively associated with the probability of engaging in an own business, the opposite is true if residing in the mountain region.

6. Conclusion:

The reliance on the small business sector as one of the engines of growth might be an important strategy for countries such as Albania, which suffer from high unemployment and strive to attain significant reductions in poverty. To the extent that inadequate levels of start-up capital and technical know-how constitute obstacles to the development of microenterprises, returns from international migration possesses the potential to eliminate these constraints through overseas savings, skill development and the establishment of transnational social networks. Although the stakes are high, the empirical literature on the subject is scant, and more so in the Albanian case. Using data from a nationally representative household survey carried out in 2005, this paper analyzes the impact of past migration of current household members on business

ownership. Confirming widespread anecdotal evidence on the positive impact of working abroad in fostering the establishment of microenterprises back home, our findings are indicative of a strong, positive relation between past (return) migration and business ownership. The propensity of being involved in small family businesses is highest among households with migration experience in countries other than Greece. This may reflect the higher earning potentials in countries like Italy or the United Kingdom, *vis a vis* Greece, as well as differences in the type of skill acquisition and human capital accumulation in the different host countries.

It is becoming increasingly evident how the initial flood of migrants to neighboring countries is slowly generating a stream of returnees who, often after multiple moves back and forth, have decided to settle back in Albania. The importance of return migrants, particularly the financial and possibly human capital that they bring back, is grossly overlooked by policy makers and researchers alike, in part due to the fact that return migration is a still a relatively recent phenomenon. Our estimates seem to suggest the existence of a multi-episode migration cycle, with migrants investing back home only after completion of a process of accumulation of cash and skills required to successfully run a business. Pushing the argument somewhat further, it may even be that facilitating the development of new businesses could actually provide further impetus for more international migrants to return to the homeland where some of the difficulties associated with starting microenterprises could be lifted. Other factors such as location and availability of services and infrastructure also play a role in fostering business development.

Despite much debate about the undisputable importance of an active non-farm business sector, Albanian microenterprises still face significant financial, fiscal and institutional constraints that limit their development. A cursory look at the results of a recent investment climate survey (Table 6), for instance, suggests that while some features of the Albanian economy are fairly conducive to successful entrepreneurship, notable improvements can be made in several areas (e.g. the provision of basic services such as water and electricity) where Albania lags behind countries in its region or elsewhere. Taken together with the results presented in this paper, this suggests that improvements in these critical areas would also foster a better use of the capital accumulated over the last decade and a half by the numerous Albanian diaspora, and in particular by the increasing number of return migrants.

Migration can and should be seen as a resource that can be put to work to foster national development. Remittances have played a most important role in fuelling the impressive growth

of the Albanian economic since 1990. These financial flows can however be expected to decline in the medium to long term as the flow of new migrants declines, and as the ties of permanent international migrants with the homeland become weaker. Encouraging international migrants to return and set up new businesses, and fostering the integration of these businesses into the formal, high-productivity economy can generate growth, fiscal and employment benefits, and be an additional avenue to harness the development potential of migration. Based on our empirical results and thereby the possibility of returnees being relatively inferior in their entrepreneurial endeavors with respect to their non-migrant counterparts in the non-farm business sector, alternative avenues of investment of overseas savings could also be encouraged, such as investments in others' businesses especially if returnees are not outstanding entrepreneurs to begin with.

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Table 1: Characteristics of Household Businesses By Past Migration Experience

Business Characteristic	Total Non-Farm HHs (641)	Non-Migrant Non-Farm HHs (375)	Past Migrant Non-Farm HHs (266)
Average Annual Self-Employment Income	1,014,965	1,064,423	945,239
Average Months of Operation Past Year	10.44	10.57	10.26
Average Months of Existence	74.65	81.27	65.32
One-Man Enterprise	63.81%	68.00%	57.89%
Employed Non-HH Members	18.10%	14.93%	22.56%

Table 2: Locational Decomposition of Primary Household Businesses

Business Location	% of Total Businesses (641)	Average Self-Emp. Inc.	% of Non-Migrant Businesses (375)	Non-Migrant Average Self-Emp. Inc.	% of Migrant Businesses (266)	Migrant Average Self-Emp. Inc.
Other Fixed Location	29.02	1,175,248	29.87	1,248,196	27.82	1,064,841
Home	21.53	866,077	23.47	906,196	18.80	795,468
Mobile	19.66	557,733	19.20	581,444	20.30	526,119
Road Side	11.08	992,124	9.07	1,062,935	13.91	927,054
Traditional Market	8.89	1,186,218	8.27	1,150,119	9.77	1,229,260
Commercial District Shop	8.42	1,690,839	8.27	1,734,629	8.65	1,631,817
Industrial Site	1.40	1,426,956	1.87	1,740,657	0.75	329,000

Table 3: Sectoral Decomposition of Household Businesses

Business Sector	% of Total Businesses (641)	Average Self-Emp. Inc.	% of Non-Migrant Businesses (375)	Non-Migrant Average Self-Emp. Inc.	% of Migrant Businesses (266)	Migrant Average Self-Emp. Inc.
Wholesale and Retail Trade	46.65	1,317,877	48.53	1,319,877	43.98	1,314,765
Transportation	13.42	456,911	12.53	470,864	14.66	440,095
Manufacturing	9.52	710,623	9.60	817,133	9.40	557,248
Construction	9.20	521,317	7.73	652,400	11.28	394,603
Hotels & Restaurants	9.52	1,528,203	9.33	1,609,954	9.77	1,418,154
Other Service Sector *	9.05	749,631	9.60	753,694	8.27	742,982
Agriculture **	2.65	379,294	2.67	499,260	2.63	207,914

Notes: * Other service sector includes financial intermediation, education, health, social work and private households.
** Agriculture encompasses agriculture, hunting, forestry, fishing and extractive industry.

Table 1: Descriptive Statistics & Tests of Mean Differences
Among Non-Farm Business Sector Participant and Non-Participant Households

Variables	Full Sample	Std. Dev.	With Business	Without Business	P-value
Instrumented Variables					
International Migration Experience Δ	0.32	0.47	0.43	0.30	0.000
International Migration Experience in Greece Δ	0.26	0.44	0.35	0.24	0.000
International Migration Experience in Italy Δ	0.08	0.27	0.12	0.07	0.002
International Migration Experience (no. of months) *	31.3	40.2	36.3	29.7	0.048
International Migration Experience in Greece (no. of months) *	12.3	15.0	14.1	11.7	0.054
International Migration Experience in Italy and Beyond (no. of months) *	3.4	8.5	4.1	3.2	0.237
International Migration Experience 1990-2000 (no. of months) *	21.1	30.6	29.1	19.2	0.000
International Migration Experience 2001-2004 (no. of months) *	10.4	16.5	7.2	10.6	0.003
Instrumental Variables					
Knowledge of Greek or Italian in 1990 Δ	0.19	0.39	0.25	0.18	0.001
Knowledge of Greek in 1990 Δ	0.07	0.25	0.09	0.06	0.129
Knowledge of Italian in 1990 Δ	0.15	0.35	0.20	0.13	0.000
Relatives or Family Friends of Head of Household or Spouse in 1990 Δ	0.08	0.27	0.11	0.07	0.013
Ownership of Satellite Dish in 1990 Δ	0.02	0.16	0.04	0.02	0.026
Minimum Distance to Vlore, Durres, Kakavije, Kapshice	43.5	27.4	38.9	44.5	0.000
Annual Average Number of Shocks Until 1st Migration Episode	0.05	0.12	0.06	0.05	0.037
Human Capital					
Household Size	4.2	1.7	4.6	4.1	0.000
No. of Children 0-6	0.4	0.7	0.4	0.4	0.140
No. of Children 7-14	0.7	0.9	0.7	0.6	0.045
No. of Adults 15-60	2.6	1.4	3.1	2.5	0.000
No. of Male Adults 15-60	1.2	0.9	1.5	1.2	0.000
No. of Female Adults 15-60	1.4	0.9	1.5	1.3	0.000
No. of Adults 61+	0.5	0.7	0.4	0.6	0.000
Highest Year of Education in the Household	10.7	3.4	11.9	10.5	0.000
Female Headed Household Δ	0.10	0.30	0.03	0.11	0.000
Age of Household Head	51.5	14.5	49.4	52.0	0.000
Per Capita Consumption (Lek)	11020	7238	14041	10300	0.000
Natural/Physical Capital					
Land Area	5145	10746	4015	5391	0.070
Wealth Index in 1990	0.00	1.00	0.23	-0.05	0.000
Social Capital					
Number of Close Friends of Household Head	1.8	1.7	2.2	1.7	0.000
Community & Regional Characteristics					
Distance to Bus Stop	16.1	20.4	12.0	17.0	0.000
Functional Water Service in the Community Δ	0.72	0.45	0.85	0.69	0.000
Urban Δ	0.48	0.50	0.66	0.44	0.000
Coastal Δ	0.32	0.47	0.36	0.31	0.044
Central Δ	0.45	0.50	0.41	0.45	0.122
Mountain Δ	0.10	0.29	0.06	0.10	0.000
Tirana Δ	0.14	0.35	0.17	0.13	0.011
Observations	3640		641	2999	

Notes: Δ denotes a dummy variable; * Mean, standard deviation values and p-values for tests of mean differences are reported only for past migrant households.

Table 5: IVProbit (Non-Farm Self-Employment Participation) Regression Results

Regressors	1		2		3	
Instrumented Variables						
International Migration Experience (no. of months)	0.0043	***	--		--	
	0.0067					
International Migration Experience in Greece (no. of months)	--		0.0058	**	--	
			0.0029			
International Migration Experience in Italy and Beyond (no. of months)	--		0.0262	**	--	
			0.0120			
International Migration Experience 1990-2000 (no. of months)	--		--		0.0071	***
					0.0027	
International Migration Experience 2001-2004 (no. of months)	--		--		-0.0115	
					0.0104	
Human Capital						
No. of Children 0-14	0.0240	***	0.0217	***	0.0149	**
	0.0277		*0.0058*		*0.0068*	
No. of Male Adults 15-60	0.0262	**	0.0261	***	0.0484	***
	0.0505		*0.0100*		*0.0171*	
No. of Female Adults 1-60	0.0160	**	0.0144	*	0.0188	**
	0.0291		*0.0076*		*0.0074*	
Highest Year of Education in the Household	0.0622	***	0.0587	***	0.0589	***
	0.0836		*0.0126*		*0.0122*	
Highest Year of Education in the Household (Squared)	-0.0025	***	-0.0023	***	-0.0023	***
	0.0034		*0.0005*		*0.0005*	
Female Headed Household Δ	-0.0903	***	-0.0911	***	-0.0779	***
	0.1194		*0.0152*		*0.0165*	
Age of Head of Household	0.0049	**	0.0053	**	0.0049	**
	0.0084		*0.0024*		*0.0024*	
Age of Head of Household (Squared)	-0.0001	***	-0.0001	**	-0.0001	**
	0.0001		*0.0000*		*0.0000*	
Natural/Physical Capital						
Land Area (Sqm)	-0.0350	***	-0.0300	**	-0.0343	***
	0.0547		*0.0130*		*0.0125*	
Land Area (Squared)	0.0013	***	0.0012	**	0.0012	**
	0.0019		*0.0005*		*0.0005*	
Wealth Index in 1990	0.0113		0.0055		0.0083	
	0.0342		*0.0082*		*0.0070*	
Social Capital						
Number of Close Friends of Head of Household	0.0136	***	0.0137	***	0.0103	***
	0.0143		*0.0032*		*0.0036*	
Community & Regional Characteristics						
Distance to Bus Stop	-0.0018	***	-0.0018	***	-0.0017	***
	0.0022		*0.0005*		*0.0005*	
Functional Water Service in the Community Δ	0.0557	***	0.0539	***	0.0463	**
	0.0778		*0.0162*		*0.0170*	
Urban Δ	0.0590	***	0.0614	***	0.0549	***
	0.0822		*0.0184*		*0.0182*	
Coastal Δ	0.0726	***	0.0647	***	0.0664	***
	0.0888		*0.0223*		*0.0219*	
Central Δ	0.0392	*	0.0422	**	0.0481	**
	0.0865		*0.0212*		*0.0212*	
Mountain Δ	-0.0148		-0.0192		0.0082	
	0.0946		*0.0201*		*0.0265*	
Observations	3630		3630		3630	

Notes: Δ denotes a dummy variable; default region is Tirana; coefficients are marginal effects; standard errors (robust for the 1st model) italicized; */**/*** indicates significance at the 10/5/1 percent level respectively.

Table 6: Coefficients of Excluded Instruments from First Stage Regressions & Test Results Regarding IV Validity

	1		2				3			
Regressors			**GR**		**ITB**		**90-00**		**01-04**	
Excluded Instruments										
Knowledge of Greek or Italian in 1990 Δ	3.8544	**	--		--		2.9197	***	1.3847	***
	1.5775						*0.9270*		*0.4946*	
Knowledge of Greek in 1990 Δ	--		7.4057	***	-1.0808	***	--		--	
			0.6939		*0.3726*					
Knowledge of Italian in 1990 Δ	--		-1.8414	***	1.1482	***	--		--	
			0.5148		*0.2764*					
Ownership of Satellite Dish in 1990 Δ	--		1.6968		1.6664	**	--		--	
			1.2926		*0.6940*					
Migration Network in 1990 Δ	4.7963	**	1.1338	*	0.3963		3.8887	***	0.1781	
	2.2374		*0.6080*		*0.3264*		*1.2114*		*0.6464*	
Minimum Distance (Kms) to Vlore, Durres, Kakavije or Kapshice	-0.0475	*	-0.0158	*	-0.0083	*	-0.0358	**	-0.0265	***
	0.0261		*0.0087*		*0.0047*		*0.0173*		*0.0092*	
Annual Average Number of Shocks Until 1st Migration Episode	18.6129	***	7.2897	***	1.0776		16.9091	***	1.2382	
	7.1209		*1.3223*		*0.7099*		*2.6414*		*1.4094*	
Wald Test of Exogeneity (P-Value)	0.065		0.072				0.139			
Durbin-Wu-Hausman Test (P-value)	0.034		0.028				0.073			
Shea Partial R2	0.014		0.041		**GR**		0.015		**90-00**	
			0.008		**ITB**		0.004		**01-04**	
Cragg-Donald Weak Identification Test (F-Stat)	12.39		5.02				3.46			
Anderson Identification/IV Relevance Test (P-Value)	0.000		0.000				0.003			
Hansen J Statistic (P-Value)	0.109		0.174				0.321			

Notes: Δ denotes a dummy variable; standard errors (robust for the 1st model) italicized; */**/*** indicates significance at the 10/5/1 percent level, respectively.

Table 7: First Stage Regression Results for Model 1

Regressors	Coefficient	
Instrumental Variables		
Knowledge of Greek or Italian in 1990 Δ	3.8544	**
	1.5775	
Relatives or Family Friends of Head of Household or Spouse in 1990 Δ	4.7963	**
	2.2374	
Minimum Distance (Kms) to Vlore, Durres, Kakavije or Kapshice	-0.0475	**
	0.0261	
Annual Average Number of Shocks Until 1st Migration Episode	18.6129	***
	7.1209	
Human Capital		
No. of Children 7-14	-1.2713	***
	0.4530	
No. of Male Adults 15-60	3.3001	***
	0.8301	
No. of Female Adults 1-60	-0.0171	
	0.5263	
Highest Year of Education in the Household	1.5771	***
	0.5261	
Highest Year of Education in the Household (Squared)	-0.0651	**
	0.0254	
Female Headed Household Δ	0.2744	
	1.3173	
Age of Head of Household	-0.4089	**
	0.2064	
Age of Head of Household (Squared)	0.0037	*
	0.0020	
Natural/Physical Capital		
Land Area (Sqm)	0.3253	
	0.9928	
Land Area (Squared)	-0.0072	
	0.0311	
Wealth Index in 1990	1.0301	
	0.8006	
Social Capital		
Number of Close Friends of Head of Household	-0.2093	
	0.2031	
Community & Regional Characteristics		
Distance to Bus Stop	0.0183	
	0.0427	
Functional Water Service in the Community Δ	-1.3192	
	1.4012	
Urban Δ	-0.8791	
	1.2801	
Coastal Δ	0.5020	
	2.1035	
Central Δ	0.3924	
	1.8153	
Mountain Δ	0.2356	
	2.3894	
Observations	3630	

Notes: Δ denotes a dummy variable; default region is Tirana; robust standard errors italicized; */**/*** indicates significance at the 10/5/1 percent level, respectively.

Table 8: Probit (Non-Farm Self-Employment Participation) Regression Results

Regressors	1		2		3	
International Migration Experience (no. of months)	0.0009	***	--		--	
	0.0002					
International Migration Experience in Greece (no. of months)	--		0.0021	***	--	
			0.0005			
International Migration Experience in Italy and Beyond (no. of months)	--		0.0025	***	--	
			0.0009			
International Migration Experience 1990-2000 (no. of months)	--		--		0.0020	***
					0.0003	
International Migration Experience 2001-2004 (no. of months)	--		--		-0.0023	***
					0.0007	
Observations	3630		3630		3630	
Pseudo R2	0.1235		0.1283		0.1340	

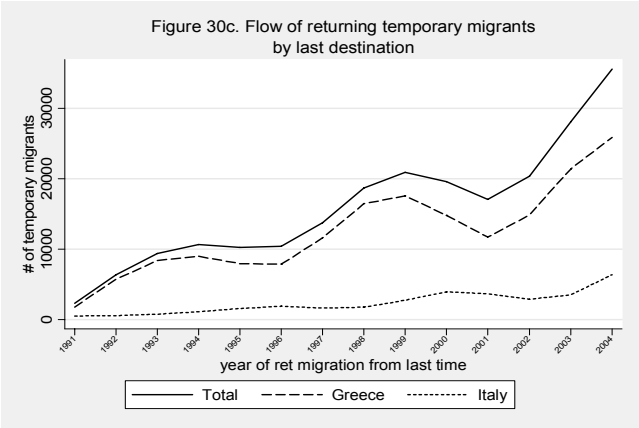
Notes: Δ denotes a dummy variable; only marginal effects for the previously instrumented variables are reported even though the regressions were run with all other exogenous regressors; robust standard errors italicized; */**/*** indicates significance at the 10/5/1 percent level, respectively.

Table 9: Business Climate in Albania, 2005

Bureaucracy	**Albania**	**All countries**
Senior management time spent in dealing with requirements of government regulation (%)	10.41	6.58
Consistency/predictability of officials' interpretations of regulations affecting the firm	60.59	49.1
Corruption		
Unofficial payments for typical firm to get things done (% of sales)	1.63	1.2
Firms expected to give gifts in meetings with tax inspectors (%)	76.65	30.41
Value of gift expected to secure government contract (% of contract)	6.15	2.22
Courts		
Confidence level in the judiciary system (%)	56.44	58.98
Time spent resolving a dispute (weeks)	18.12	12.26
No resolutions in courts for overdue payments (%)	83.58	68.83
Crime		
Security costs (% of sales)	1.81	1.34
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	0.01	0.8
Finance		
Internal finance for investment (%)	78.06	61.67
Bank finance for investment (%)	18.16	17.93
Informal finance for investment (%)	1.57	4.49
Supplier credit financing (%)	2.6	7.68
Value of collateral needed for a loan (% of the loan amount)	153.99	141.38
Loans requiring collateral (%)	96.81	81.38
Informality		
Sales amount reported by a typical firm for tax purposes (%)	77.04	82.53
Infrastructure		
Delay in obtaining an electrical connection (days)	19.02	25.82
Number of electrical outages (days)	194.23	23.46
Value lost due to electrical outages (% of sales)	10.85	3.93
Number of water supply failures (days)	90.47	11.68
Delay in obtaining a mainline telephone connection (days)	33.6	34.41
Firms using the Web in interaction with clients/suppliers (%)	32.84	44.67
Innovation		
ISO certification ownership (%)	16.67	13.95
Spending on R&D (% sales)	0.1	0.49
Jobs		
Employment growth over the last 3 years (%)	26.81	15.19
Tax		
Average time firms spent in meetings with tax officials (days)	6.29	3.46
Trade		
Average time to clear direct exports through customs (days)	1.36	4.07

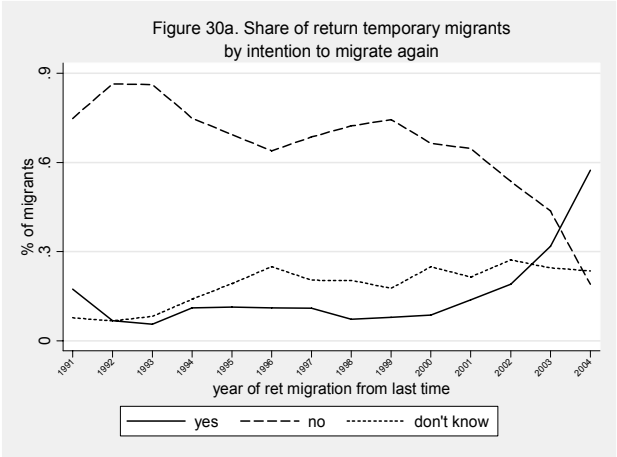
Note: Survey based on 204 firms, 91 of which classified as small (less than 20 employees).
Source: www.enterprisesurveys.org (retrieved on 2 January 2007).

Figure 1



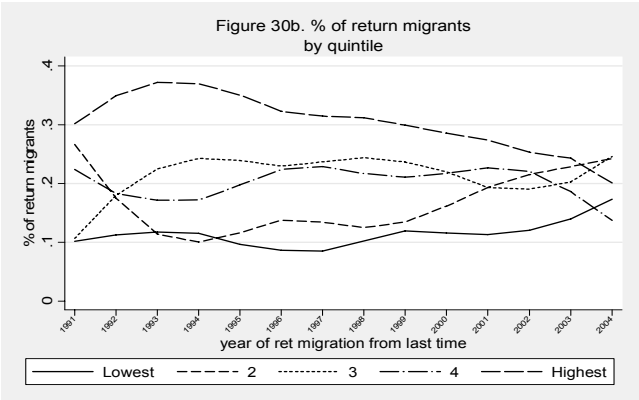
Source: ALSMS05

Figure 2



Source: ALSMS05

Figure 3



Source: ALSMS05

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