

INFORMALITY

COMMON CHALLENGE

GOVERNMENT – BUSINESS

INVESTMENT COUNCIL MEETING
15 December 2015

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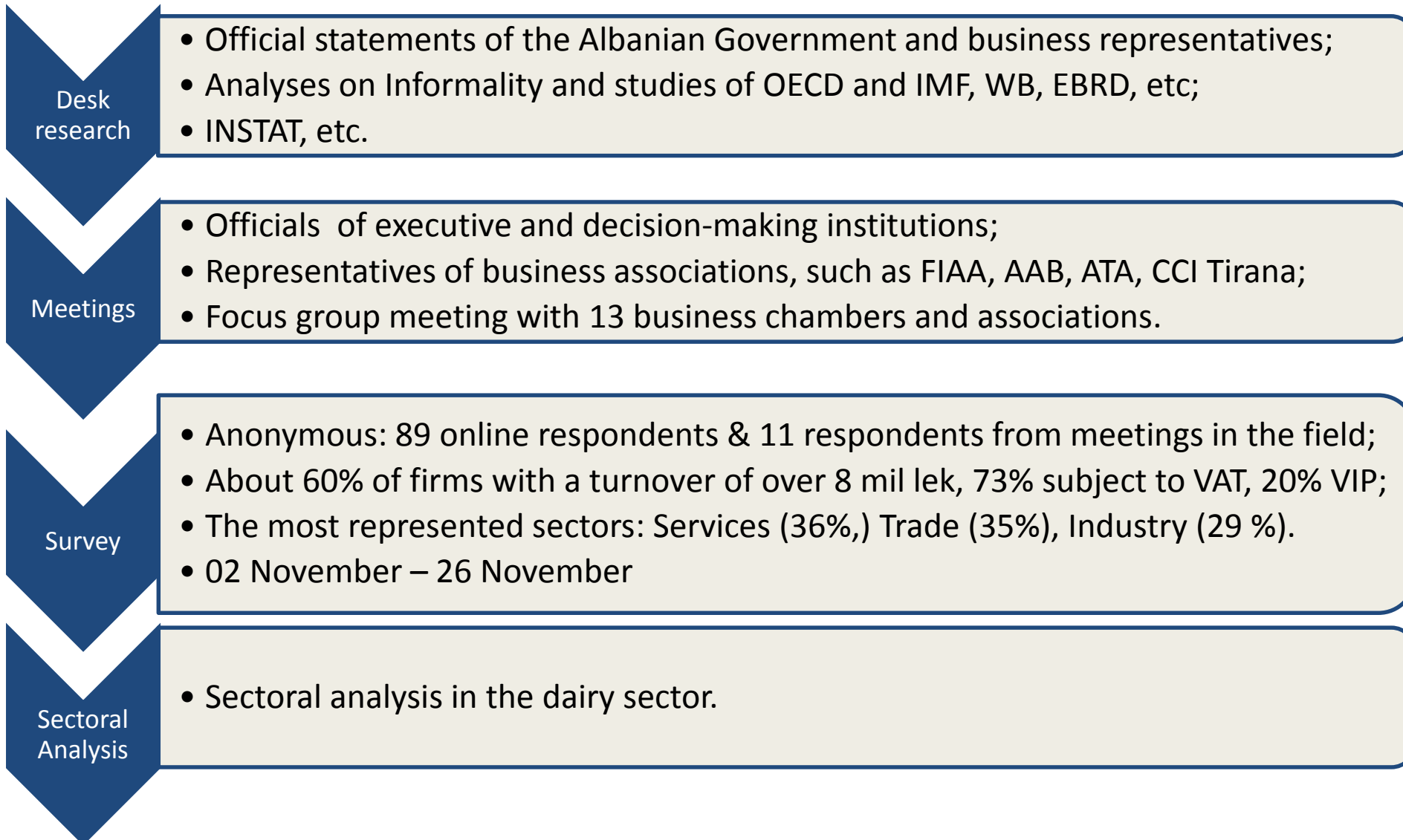
CONTENT

- I. Methodology
- II. Context
- III. Main Findings
- IV. Main Principles/Recommendations

THE OBJECTIVE OF THE ANALYSIS

1. To promote and structure the debate, consulted with the business;
2. To submit concrete and constructive recommendations (non-registration, evasion, work in black).

I. METHODOLOGY – Profiling of Problems



II. CONTEXT – Historical Timeline

2004 OECD Study

- Action Plan for the Reduction of Informal Economy 2005-2009

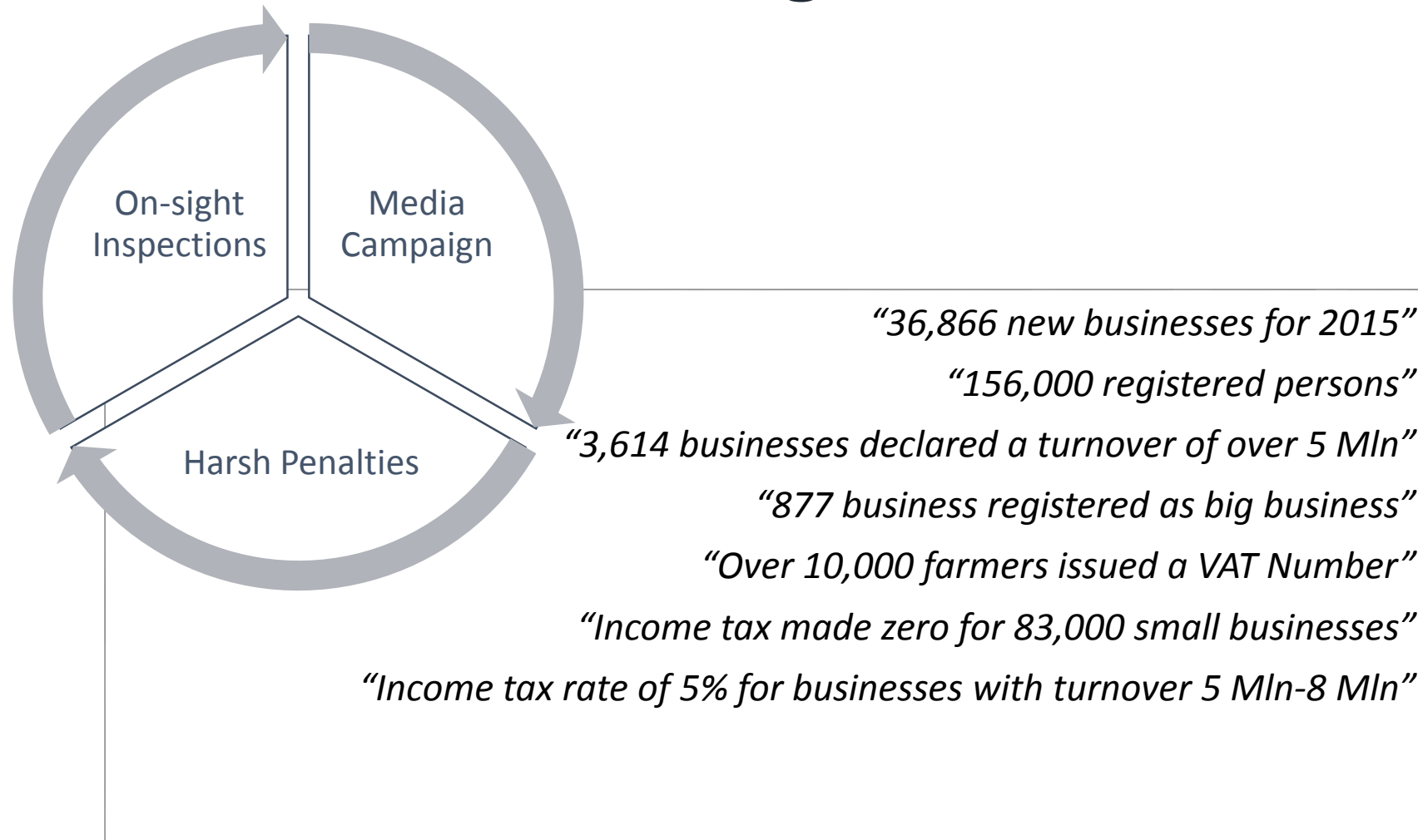
Government Targets 2014

- Economic & Fiscal Program 2014-2016
- Action Plan for “Doing Business 2015”
- Strategy “For Employment & Skills”
- Strategy “For Management of Public Finances”

Government Actions 2015

- July 2015 – Public declarations
- 31 August 2015 – Official presentation in NEC
- 1 September 2015 – The action starts
- Legal Initiatives

II. CONTEXT – Profiling of Action




II. CONTEXT – Public Statements

Experts, FIAA, CCI, AmCham, Confindustria, DIHA, IMF/WB, BoA

- ☐ ***“Incentives and improvement of the fiscal administration as a precondition for formalization.”***
- ☐ ***“Effective fight against informality, no further tax increase.”***
- ☐ ***“Tax fines are often very harsh; legislation amendments are made without prior consultation with the business.”***
- ☐ ***“No unreasonable fines and penalties to the business.”***
- ☐ ***“Reduction of the fiscal burden.”***
- ☐ ***“Aggressive action and disproportional punitive measures.”***
- ☐ ***“Fight against informality should be ongoing/beware of poverty.”***
- ☐ ***“Avoid double standards in the companies’ financial statements and balance sheets.”***

II. CONTEXT – Public Debate

	CONVERGENCES	DIVERGENCES
	<ul style="list-style-type: none">• Positive and appropriate reaction from the entrepreneurship• Agreement on the necessity for measures against informality• Protection of fair competition	<ul style="list-style-type: none">• Action and reaction to the business• Pressure through inspections• War of figures, new registrations, fines, revenues• Lack of dialogue with the business• Legal unconsulted initiatives• Panic for the businesses, street vendors and farmers from the legal amendments• Focus of the action: Small, medium or big businesses?!

III. MAIN FINDINGS OF THE ANALYSIS

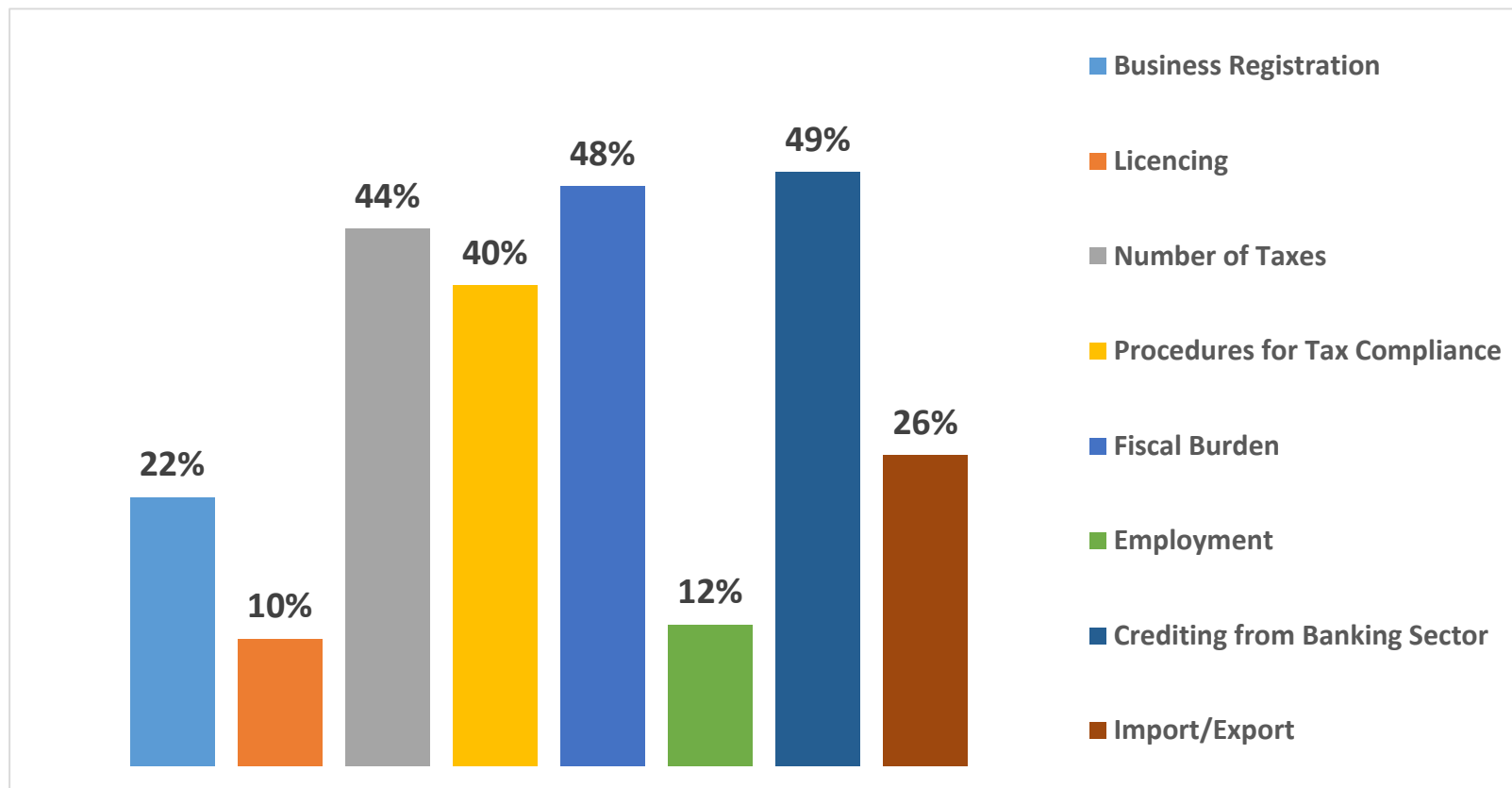
SUSTAINABILITY OF THE REFORM IN CLOSE PARTNERSHIP WITH THE BUSINESS & CONSULTATION

RESPONSIBILITY OF THE TAX SYSTEM – a precondition to success

REGULATORY SYSTEM AS A SUPPORTER TO FORMALIZATION

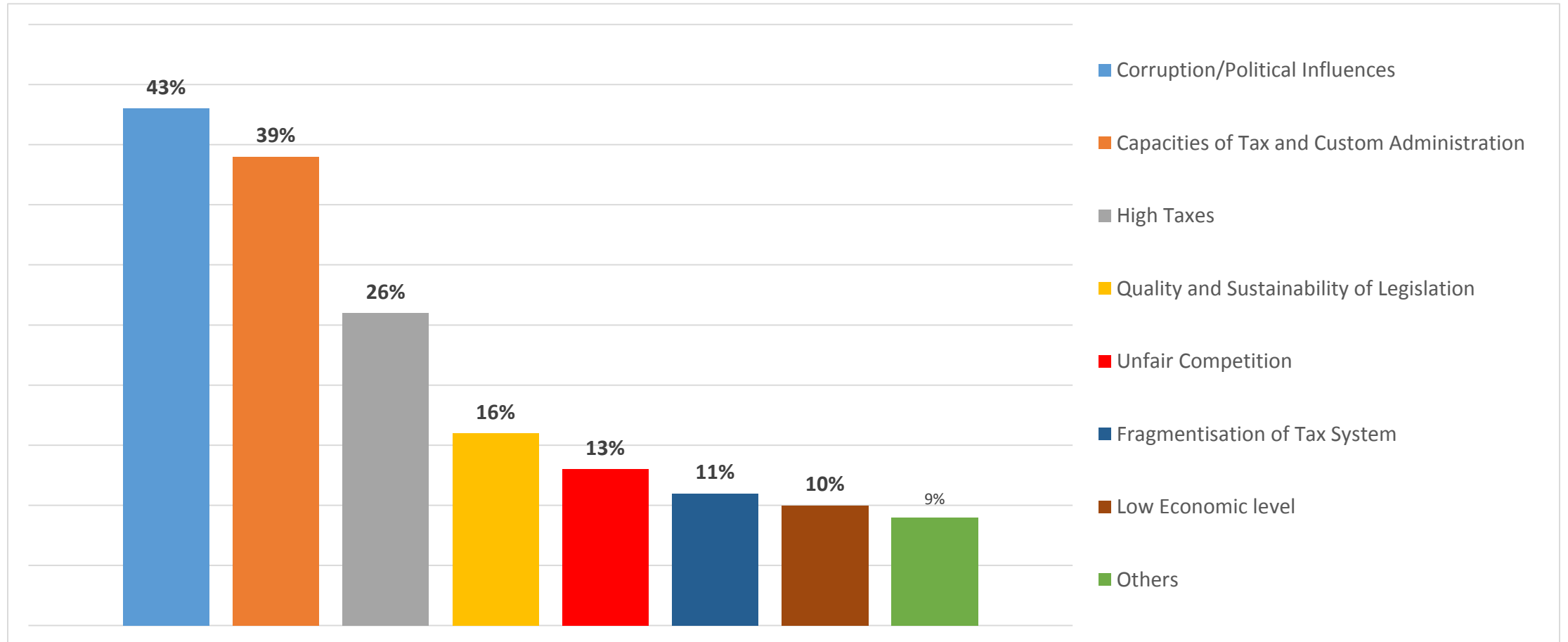
ACCESS TO FINANCE – an incentive to formalization

3.1 PERCEPTION OF THE BUSINESS – The Most Problematic Factors in Doing Business



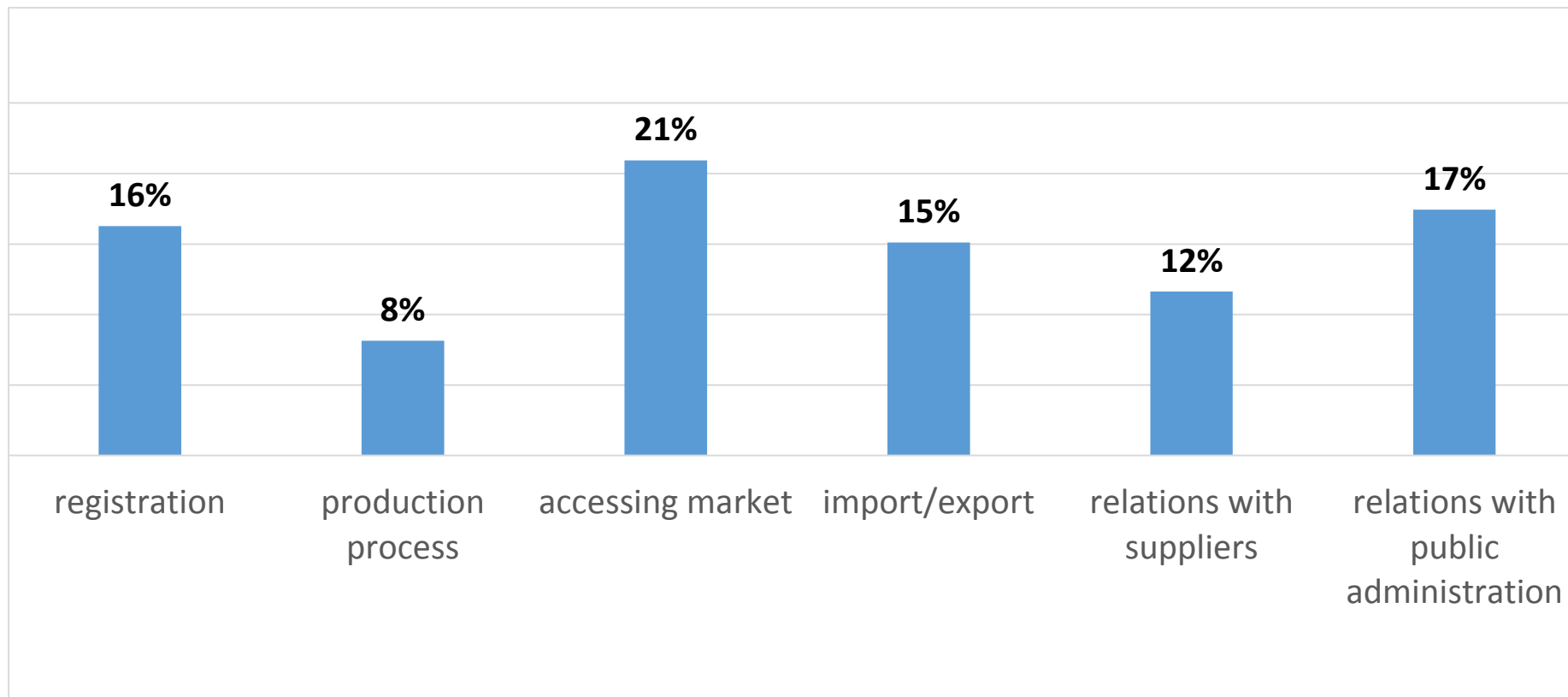
Elaboration of the Secretariat

3.2 PERCEPTION OF THE BUSINESS – The Causes of Informality



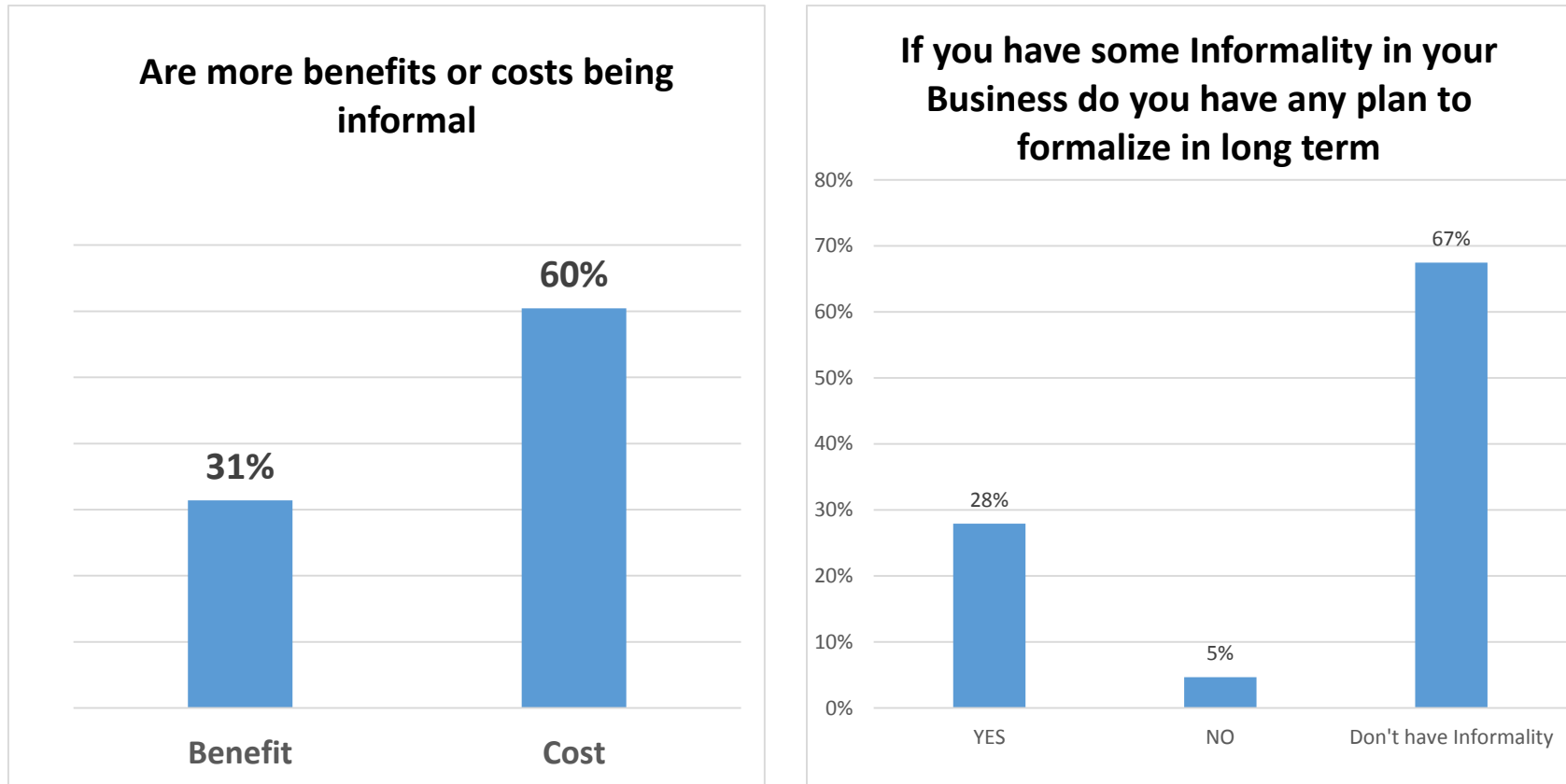
Elaborated by the Secretariat from the narrative responses of the business

3.3 BUSINESS PERCEPTION – Stage where Informality is being Displayed



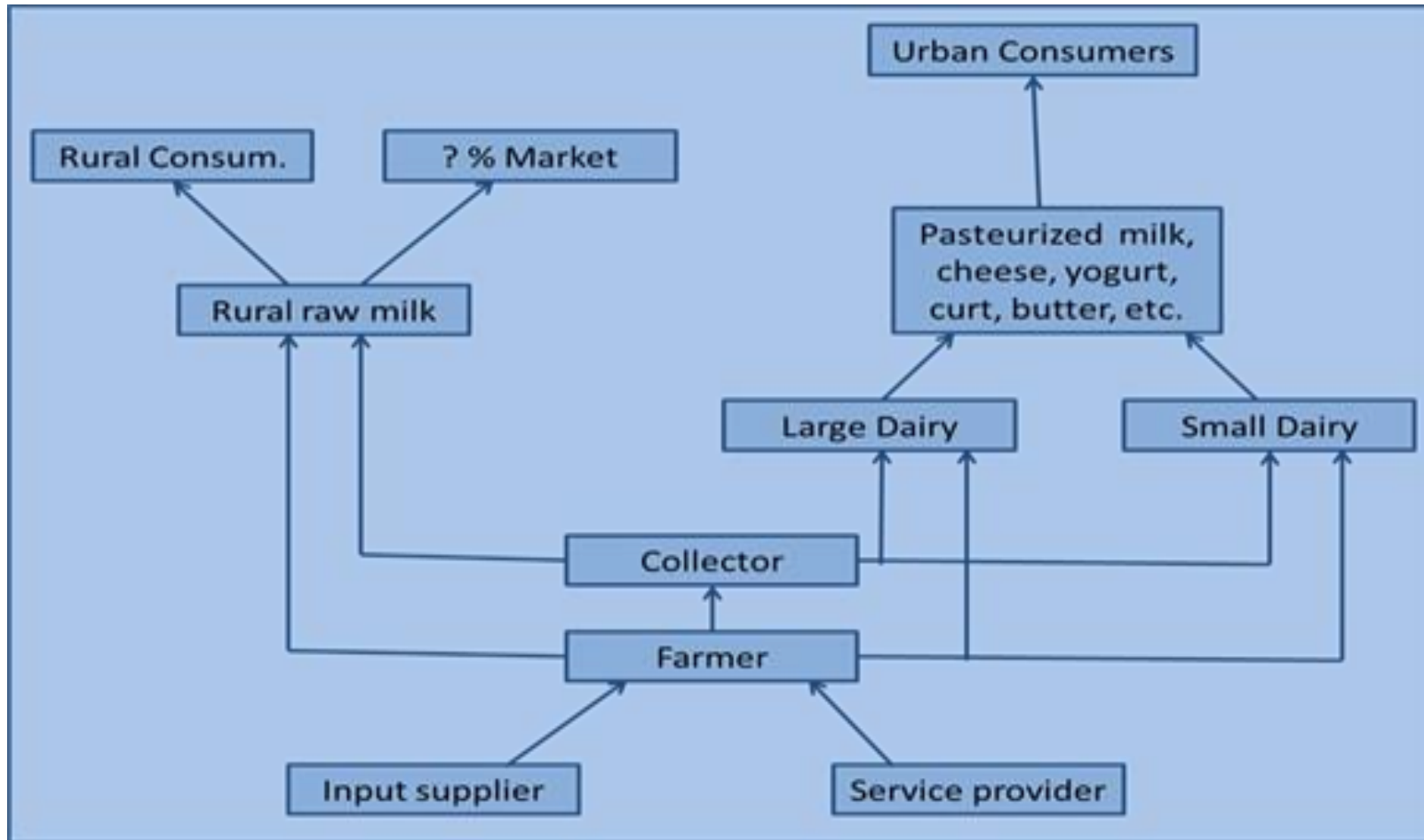
Elaborated by the Secretariat from the narrative responses of the business

3.4 BUSINESS PERCEPTION – Benefit or Cost Being Informal

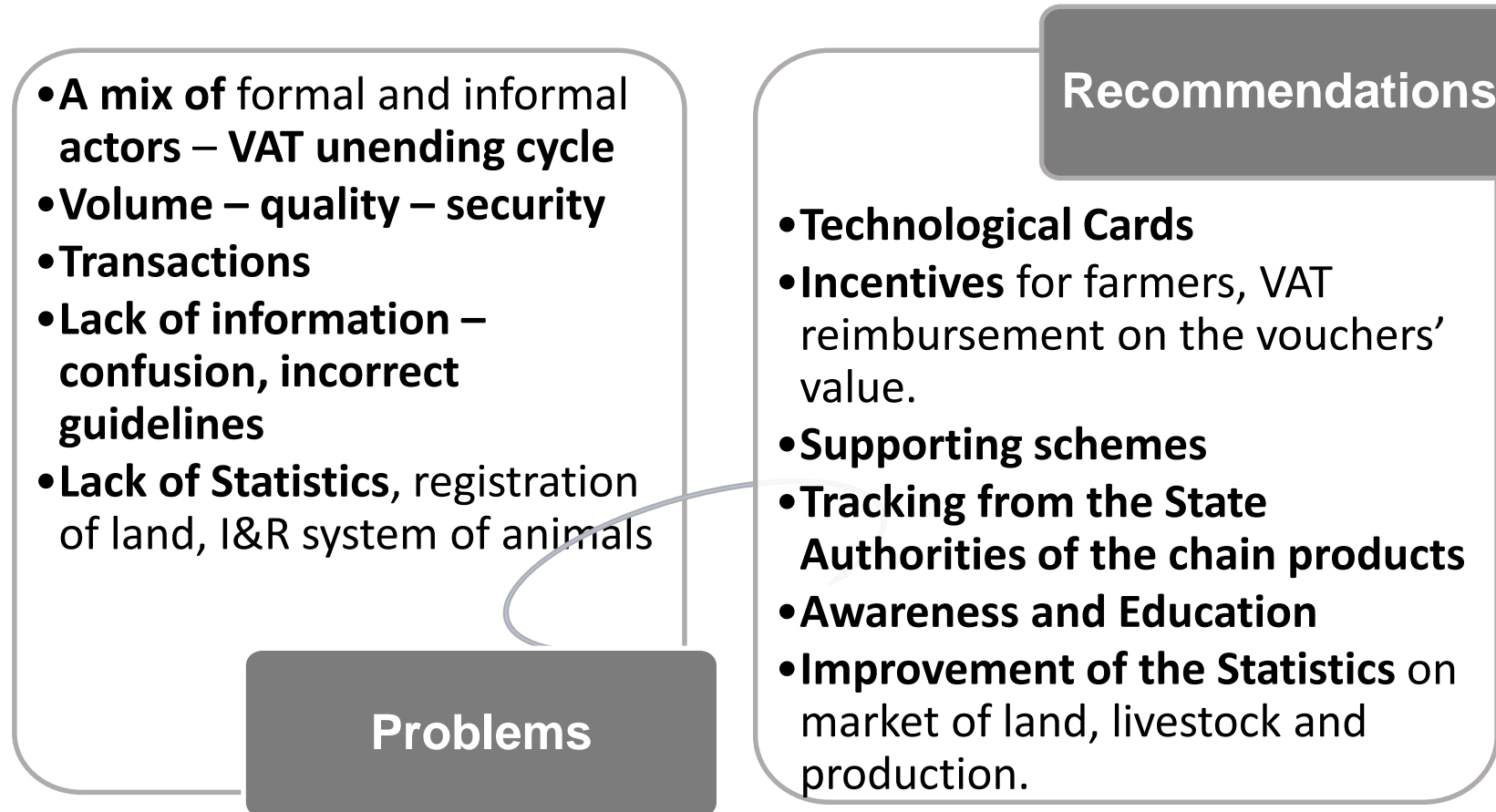


Based on the results of the Secretariat's Survey on Informality

3.5 Diagram of Value Chain in Milk Sector



3.5 SECTORIAL ANALYSIS – Dairy Sector



IV. BASIC PRINCIPLES/RECOMMENDATIONS

a) Gradual approach to formalization

b) Careful on the order of measures being undertaken. Tough rules should be proceeded after applying good rules.

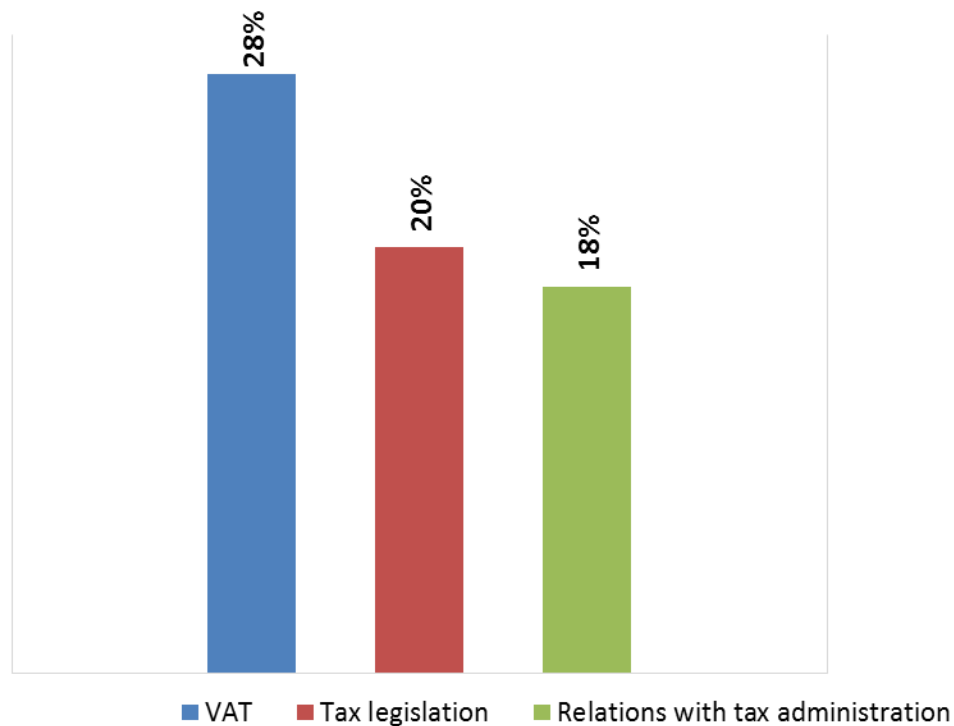
c) Build up social capital. Even the good rules may not function if there is a low participation of the social capital, lack of transparency, corruption and weak institutions.

4.1 FORMALIZATION REFORM – PARTNERSHIP WITH THE BUSINESS

FINDINGS	RECOMMENDATIONS
<p>No official strategic document</p> <p>Although there are some public statements (NEC, PSC, media, etc.) there is no official document on the platform, time terms, sectors and role of the business and other stakeholders in this process.</p> <p><u>Outputs:</u></p> <ul style="list-style-type: none"> - Action plan - Objectives - Time expansion - Measurable indicators 	<p>Preparation and approval of the Council of Ministers of a Legitimate Strategy against informal economy based on sectoral analyses, consisting in the work done up to date, establishing the image of a serious and long-term engagement.</p> <p>The documents should be accompanied by an action plan, with well-defined sectoral approach, time terms and responsible institutions, consulted and coordinated with the business representatives.</p>

4.1 TAX SYSTEM RESONSIBLE TO FORMALIZATION

What are the main factors leading to Informality from the tax system



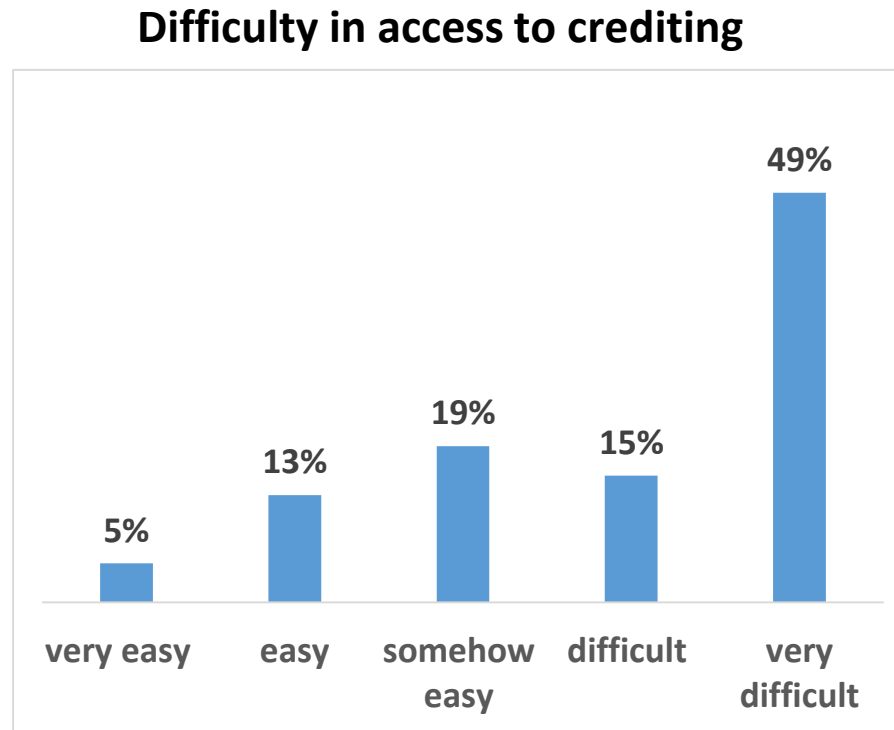
Source: Survey on Tax Inspection (September 2015)

- ✓ **Reassessment and analysis of the fiscal system:** fragmentation of the VAT chain and income tax;
- ✓ **Assessment of the incentives**, e.g. for the new businesses, subsidies in agriculture; tax receipt, etc.
- ✓ **Simplification of administrative bureaucracies**, such as procedures for SMEs, online payments, bank system;
- ✓ **Increased responsibility of administration**, such as modernization of the system, specialization of the administration, effective appeal.
- ✓ **Analysis of reference prices**
- ✓ The problematic issue of **cash registers**

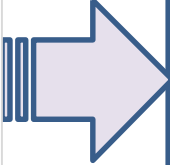
4.2 REGULATORY SYSTEM, AS A SUPPORTER TO FORMALIZATION

FINDINGS	RECOMMENDATIONS
High number of inspections – lack of institutional coordination	Coordination and exchange of information among public institutions in relationship with the business especially regulatory ones (NFA, Environment, Labour, etc.)
Unspecialized inspectors	Risk module should be replicated in all the inspectorates and coordinated with tax administration.
Administrative burden in the number of licenses (wines, medicinal plants) and procedures such as for agro – industry etc.	<p>Unification of Tax and Customs Investigation and Inspection procedures</p> <p>Acknowledgement of Technological Card</p> <p>Wholesome/retail/street markets – clear legal definitions</p>
Lack of technological cards especially in agro-industry	Electronic connection of NUIS (Entity's Unique Identification Number) with the farmers card

4.3 ACCESS TO FINANCE – AN INCENTIVE TO FORMALIZATION



Source: Secretariat's Survey on Informality

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- Collaboration with **bank sector and financial non-banking institutions** for the formalization strategy;
 - Inclusion of **microcredit institutions** in reducing informality in rural areas;
 - Definition of **threshold for farmers** who receive payments through banks;
 - **Encourage bank transactions** and definition of clear instructions for the usage of cash registers from the Ministry of Finance and GTD.

4.4 CONSULTATION, TRANSPARENCY AND AWARENESS

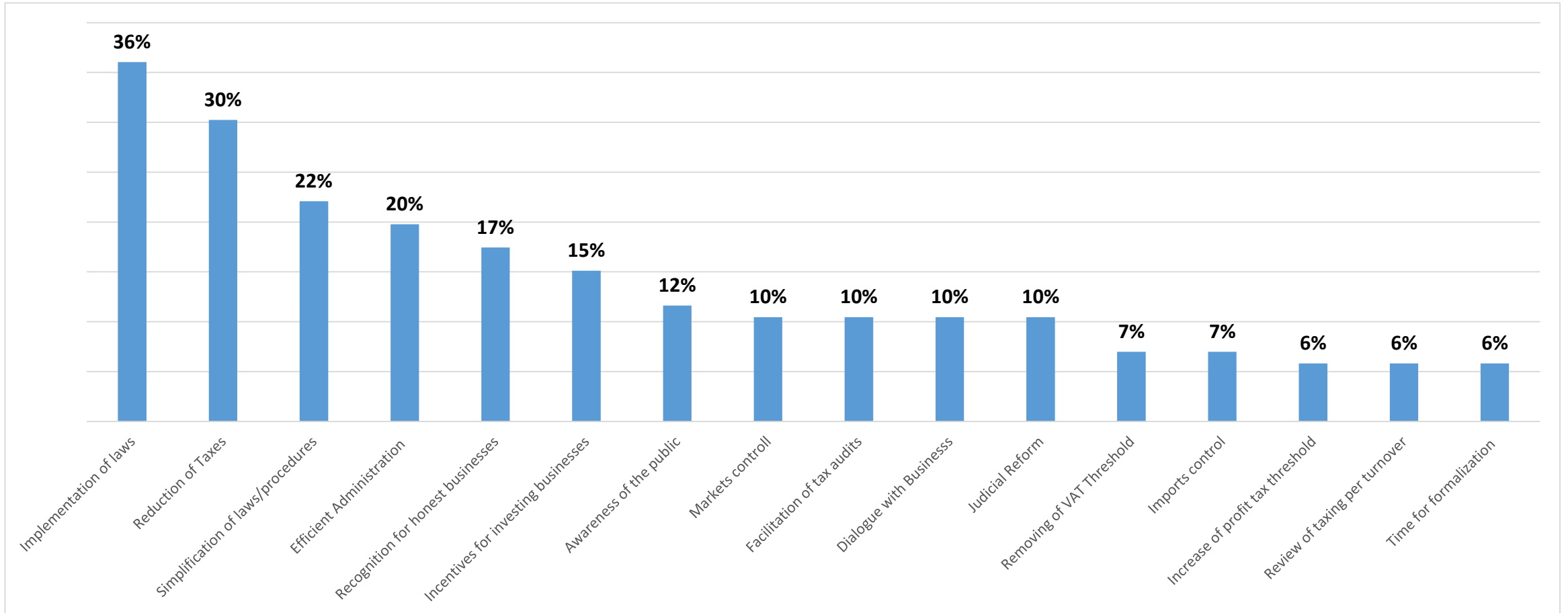
FINDINGS	RECOMMENDATIONS
<p>ACCESS TO INFORMATION</p> <p>Difficulty in finding unified, necessary data and interpretations.</p>	<p>TRANSPARENCY INCREASE – LEGISLATION SUSTAINABILITY</p> <p>Implementation of Law No. 146/2014 “On Public Notification and Consultation”</p> <p>Education, consultation and incentives to taxpayers and consumers.</p>
<p>FREQUENT AMENDMENTS IN LEGISLATION</p> <p>Businesses confused from the numerous, unconsulted and non-harmonized legal amendments taken with expedited procedure.</p>	<p>Consultation structure and assistance for raising awareness of small businesses, especially in agriculture and remote areas.</p> <p>Endorsement of Integrity Codes for Businesses</p> <p>Develop an annual communication program with the business associations on sectoral basis on the problems of legislation and tax procedures.</p>

MAIN MESSAGE FROM THE BUSINESS

YES to the fight against informality:

- ✓ **More incentives,**
- ✓ **Proportionality of penalties,**
- ✓ **Clear and sustainable laws,**
- ✓ **Transparency in the use of funds,**
- ✓ **All inclusiveness,**
- ✓ **Continuous information and education.**

Suggestion from the Businesses on Incentives for the Formalization of the Albanian Economy



Elaborated by the Secretariat from the narrative responses of the businesses

THANK YOU!

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