

WORKING DOCUMENT

INFORMALITY

A COMMON GOVERNMENT-BUSINESS CHALLENGE

Tirana, December 2015

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I. INTRODUCTION

This Document was drafted in the framework of the recommendations coming from the First Meeting of the Investment Council in July 2015. It is aimed at structuring and encouraging debate among experts on realistic grounds and at providing concrete recommendations generated by businesses, with a view to formalisation being effective but balanced when it comes to its social impact and for it to have as less costs as possible.

The document takes into account: a) the dynamics of the measures undertaken recently by the Government as well as the reactions from different actors, b) issues relevant to the fight against informality, c) recommendations on a sustainable reform against informality, in partnership with business. It is suggested to consider the business as a key partner of the Government in order to be successful in this Reform, which is indispensable to create a competitive economy, as it is “difficult”.

Informality is one of the main obstacles of other reforms aimed at enforcing fair competition in the Albanian economy. Fight against informality is an important precondition for a country that aims at:

- enhancing the efficiency and competitiveness of its economy;
- improving the investments’ climate;
- ensuring the application of balanced tax policy;
- ensuring a sustainable and long-term economic growth;
- fulfilling the obligations deriving from Agreements with the EU

The competition of the grey economy against registered businesses and corruptive practices were identified as the main obstacles of the business environment in Albania, according to analyses made by the European Bank for Reconstruction and Development¹ and FIAAs (2015)². According to BEEPS V, 40.2% e of Albanian firms reported being unfairly competed by informal businesses.

This document addresses the informality identified mainly in the form of unregistered businesses, fiscal evasion, and informal employment. The analysis also focuses in a sub-sector of the economy, namely milk processing, trying to shed light on the role of formalisation incentives and penalties. At the same time, it addresses the indispensable bilateral cooperation and transparency between the Government and business, as precondition for the success of reforms. *We suggest a deeper analysis is carried out in 2016, taking into account the latest study of OECD on Albania, developments up to 2015 and future challenges.*

The document is focused on five main pillars:

- I. Formalisation reform where business is a partner
- II. A tax system and tax administration that is responsible towards formalisation.
- III. Regulatory system supporting formalisation.
- IV. Access to loans and financial services, as incentives to formalisation.

¹ BEEPS IV and BEEPS V- Business Environment and Enterprise Performance Survey.

² Foreign Investors Association of Albania (FLAA) -Business Environment Survey 2015

V. Consultation, transparency, and taxpayers education.

II. CONTEXT

Few words on the concept

To date, there is no unique definition of the notion of “informality” or “informal economy.” Informality and informal economy are analysed in different perspectives and refer to a number of activities. This is the reason why not just the definition, but also its name is a matter of debate. Informal economy is also known as “shadow economy,” “cash economy,” “hidden economy,” “illicit economy,” “informal sector,” “underground economy,” etc. Informality started to become object of discussion of academic circles of economists during 1950s and 1960s³. This economic phenomenon was analysed in 1972 by the International Labour Organisation (ILO), under the term “*informal sector*”⁴. Nowadays, informality represents an identified and serious problem also for developed countries, including those of the EU⁵.

An important aspect of “*informal economy*” is “*criminal economy*,” the kind of economy resulting from the illegal production of products and services and activities forbidden by the law. The difference between the two is that in *criminal economy*, what is forbidden is the activity itself, but in *informal economy*, the activity itself is legal, but the income is concealed and avoided through illegal means⁶.

Another definition on “informality” is the one that refers to “*each legal economic activity carried out outside the government’s inspection range.*” **In this context, informality refers to economic activities that are normally subject to fees and taxes, and it excludes all activities that are clearly considered as illegal by the legislation (e.g. trafficking of narcotics, weapons, etc)**⁷. The latter is the largest shared approach towards *informality* and *informal economy* and has been used by the Secretariat while drafting this Document.

³ Klarita Gërçhani – “*Informal Sector in Developed and Less Developed Countries: A Literature Survey*”.

⁴ Klarita Gërçhani – “*Informal Sector in Developed and Less Developed Countries: A Literature Survey*”.

⁵ Policy Brief on Informal Entrepreneurship- European Commission and OECD- Countries in Eastern and South-Eastern Europe, except for the Czech Republic and Slovakia, have a lower level of informality compared to the EU average, while countries of Western and Northern Europe have informality figures below the average EU level - “The size of the informal economy in the EU-27, 2003-2012 – As a percentage of national GDP”.

⁶ The purpose of the fight against informality in informal economy is formalisation of informal activities so to have declaration of the income that have not been declared, while the purpose of the fight against informality in criminal economy (money laundering, illegal trafficking etc.) is related to the necessity to eliminate such sectors and as a results the income deriving from them.

⁷ Economic Informality: Causes, Costs, and Policies- A Literature Survey of International Experience, Background Paper prepared by Ana-Maria Oviedo for Country Economic Memorandum (CEM) – Informality: Causes, Consequences, Policies, June 2009, page 8.

A. Campaign against informality

As of the 1st of September 2015, the Government officially initiated an extensive campaign against informality in the country. This campaign was preceded by public statements during July–August 2015 on the necessity to fully establish rule of law in the economic and commercial sphere of the country. The campaign was also preceded by a series of concrete, but not published, steps by the Government, including the establishment of a working group within the Council of Ministers, discussions in the Inter-ministerial Strategic Planning Committee (SPC), and the presentation of the campaign to the National Economic Council (NEC).

The process was accompanied by a large number of on-site tax inspections (fiscal visits) aimed at scanning the informality situation, numerous media statements by all stakeholders, followed by a series of legal initiatives. *A "unique" intensity of debate and reaction was observed concerning this campaign, involving the Government, the business and its representative associations, as well as international institutions.*

You may find below a chronological presentation of the main actions undertaken by the Government and the most notable reactions of the business concerning the campaign against informality:

1. From July 2015 and on, the Government intensified public statements generally towards the public and specifically towards the business regarding the necessity of a campaign against informality, which would aim at reinstating fair competition grounds in the market as well as at protecting consumers from abusive practices of businesses. It seems that the initiation of this campaign was *considerably conditioned also by the failure to meet the objectives related to the state budget incomes during the first half of 2015.*
2. On the 31st of August 2015, during the meeting of the National Economic Council, the Prime Minister of Albania presented the campaign against informality to businesses, while the Minister of Finance explained the plan of measures.⁸ The campaign is composed of 2 stages: The short-term action plan; and the drafting of a final, inclusive, 2-year action plan. The short-term plan is composed of three components related to communication: public awareness, business awareness, and public administration awareness on the relevance of the fight against informality; legislation: toughening legal measures against those that do not abide by the law, legal measures for the taxation and customs administration, legal amendments to increase of incentives on the implementation of the law; terrain: identification of high-risk areas, sectors, and businesses, establishment of a joint task force comprising the General Directorate of Taxation (GDT), General Directorate of Customs (GDC), Sector against Economic Crime, and Labour Inspectorate.
3. For the purpose of an effective fight against informality in the country, on the 17th of September 2015, a Memorandum of Cooperation on the Fight against Evasion and Informality was signed between the Ministry of Finance, Ministry of Interior, and the General Prosecutor's Office. The Memorandum was aimed at formalising a sustainable institutional cooperation in order to investigate evasion in taxation and

⁸ Source <http://kek.al/njoftime/takim-i-keshillit-ekonomik-kombetar/>

customs and at establishing specific inter-institutional structures against informality, following the model used in 2014 in the campaign on the payment of electricity bills. Moreover, some Cooperation Agreements have been signed between the Ministry of Finance and the Ministry of Healthcare, Ministry of Environment, Ministry of Agriculture, Ministry of Social Welfare and Youth, which were aimed at the coordination of efforts for the purpose of the priority on the fight against informality.

4. The start of the campaign was accompanied by legal initiatives⁹ of the Government aimed at toughening the administrative and criminal measures against businesses that exercised economic activity without being registered, without fiscal devices in accordance with the criteria stipulated by the effective legislation, and against entities that didn't carry out real declaration of incomes or employees, etc.
5. Even though there was *tough public debate* over their proportionality, the proposed amendments to the Law on Tax Procedures and to the Criminal Code were approved by the Assembly of Albania¹⁰.
6. By the end of September 2015, the Minister of Finance and the Minister of Economic Development, Tourism, Trade, and Entrepreneurship launched the application of the ***Risk Model*** on the grounds of which the General Directorate of Taxation would select business of a high-risk category as subject of tax inspection. Moreover, the General Directorate of Taxation published the 2014-2017 Strategy in the area of taxation. On the 2nd of October 2015, the public was also presented some measures of the Government related to informality in the transport sector.
7. The campaign was accompanied by media reports and reports from businesses on added on-site tax inspections as well as by the concern that such inspections considerably penalised small business, as the defenceless category.
8. The Government has stated in several instances, to the public and during meetings organised with businesses that *the campaign would focus on large businesses*, while the on-site inspections towards *small businesses were of an awareness nature* on the necessity to exercise their activity as entities that are properly registered in the National Registration Centre. An emphasis was made on the legal obligation to be equipped with fiscal devices and to issue the tax coupon. On the other hand, farmers have been constantly called to register and equip with NUIS (Unique Identification Number) so to benefit from VAT reimbursement schemes and grants of different projects under the assistance of the government.
9. On the 16th of November 2015, The Prime Minister presented to small businesses some of the measures envisaged in the 2016 Fiscal Package, unveiling facilitations of the fiscal burden. For small businesses with an annual turnover between 0 and 5 Million, the simplified profit tax would be 0, while for businesses with an annual

⁹ Law No. 99/2015 'On amendments and additions to the Law On tax Procedures in the Republic of Albania' and the draft-law "On some amendments and additions to the Criminal Code of the Republic of Albania".

¹⁰ Law No. 99/2015 "On some amendments and additions to Law No. 9920, dated 19.5.2008, "On tax Procedures in the Republic of Albania," as amended" and Law No. 135/2015 "On some amendments and additions to Law No.7895, dated 27.1.1995, "Criminal Code of the Republic of Albania," as amended"

turnover between 5 Million and 8 Million, the simplified profit tax would be 5%¹¹. Moreover, small businesses were given the guarantee that tax inspectors would be withdrawn from on-site inspections and that inspections would be made on the grounds of the Risk Model.

10. On the 7th of December 2015, in a hearing session organised by the Parliamentary Committee of Economy and Finance, business associations presented their suggestions and comments on the amendments envisaged in the 2016 Fiscal Package 2016¹², as well as on different economy-related laws, mainly emphasizing the reduction of the fiscal burden.
11. The campaign against informality has been supported in principle by a number of international institutions and missions operating in Albania, by business associations, and economy experts, considering it an indispensable initiative for the Albanian economy.

You may find below some of the most notable comments of stakeholders:

- Different economy experts emphasise the necessity of incentives for formalisation and the improvement of fiscal administration as preconditions for the application of penalties and fines against businesses.
- Regarding the campaign, FIAA stated in a press statement on the 10th of September 2015 that: *“This is a very welcomed step for the country’s economy, and it will noticeably improve the business environment with visible benefits for the entire population. Moreover, FIAA believes that an effective fight against informality is one of the best ways of preventing a further increase of taxes, which would hamper economic growth”*¹³.
- The Chamber of Commerce and Industry of Tirana has supported the campaign against informality, but expressing reserves on the repressive measures towards businesses undertaken by the Government and on the legal amendments to Law No. 9920 “On Tax Procedures in the Republic of Albania” regarding the increase of fines in the taxation sphere, amendments which were carried out without preliminary consultation with businesses¹⁴.
- The American Chamber of Commerce has expressed its concerns regarding the campaign against informality undertaken by the Government, concluding that the toughening of tax procedures have an opposite effect and oblige businesses to go bankrupt.
- The German Chamber of Commerce has supported the campaign against

¹¹ As part of the draft-laws of the 2016 Fiscal package, these amendments are still under legislative process in the Assembly of Albania.

¹² The 2016 Fiscal Package was officially published on the 18th of November 2015 by the Ministry of Finance <http://www.financa.gov.al/all/legjislacioni/aktet-ligjore-dhe-nenligjore-per-taksat/paketa-fiskale>

¹³ Such statements were also made on the 6th of October 2015 during the presentation of the Survey performed by Foreign Investors Albanian Association (FIAA)- “Business Environment”.

¹⁴ This stance was held by the Head of the Chamber of Commerce and Industry of Tirana, Mr. Nikolin Jaka in media and different fora including the 5th of October 2015 meeting of the Investment Council.

informality, but stating that the “devil is in the detail.” It has emphasised the aggressive nature of the campaign and the proportionality of the punitive measures against tax evasion against the damage caused¹⁵.

- Konfindustria has supported the campaign in principle and has proposed concrete steps for the reduction of informality in the country, steps such as the reduction of the fiscal burden and the liberalisation of the fiscal devices’ market.
- The People’s Advocate has emphasized that the campaign against informality must be accompanied by social policies.
- The Representative of the International Monetary Fund (IMF) in Albania has expressed appreciation on the campaign emphasizing that: “*The initiative has been undertaken due to the high level of informality, lack of income, and failure to fully apply tax laws. When it comes to the application of tax laws, we support it. I have never had the impression that it is especially focused on small businesses. What the government is aiming to achieve is to fight informality wherever it is, in all economic transactions*”¹⁶.
- The Representative of the World Bank in Albania has emphasized that: “*the fight against informality must be continuous and it must be applied fairly by all segments of economy and business, which would create confidence in the eyes of the public that reforms are fair and that the application of the law is equal for all*”. Moreover, according to her “*The government would have to ensure adequate social mechanisms in order to address the short-term consequences or issues that may come to the poorest segments of the society*”¹⁷.
- The Bank of Albania Banka has supported the campaign against informality stating in a press statement that: “*The fight against informality would lead to the avoidance of double standards in financial statements and balance sheets of companies. Formalisation would also result in development of capital markets, while the effects of the campaigns are being considered*”¹⁸.

Thus, it can be concisely said that discussions and debates of different actors have focused on whether “the measures undertaken by the Government are the right ones,” regarding their proportionality, form, and content, them being often considered also as “repressive” or aimed at “penalising businesses.” Meanwhile, we notice the Government has undertaken a series of measures aimed at creating an environment of fair competition. So, what are the reasons of different actors’ perceptions mentioned above?!

¹⁵ <http://www.balkanweb.com/site/kasten-mbeshtesim-aksionin-ndaj-informalitetit-por-djalli-fshihet-ne-detaje/>

¹⁶ Source –Interview on Ora News 14th of October 2014

¹⁷ Source -<http://www.mqpo.al/2015/09/bb-mbeshtesim-luften-kunder-informalitetit-kujdes-me-te-varferit>

¹⁸ Source http://www.bankofalbania.org/web/NJOFTIM_PER_SHTYP_7325_1.php

III. METHODOLOGY

A. Documents' Research

In order to make a realistic but also comparative analysis, the Secretariat also considered numerous academic studies on informality, its measurement, its impact in economy, and how to address the phenomenon. We studied the best reforms against informality applied by governments of EU countries (Italy and Slovakia), Turkey, Moldova, Georgia, and the region (Macedonia) etc. We also analysed studies of the OECD, IMF, World Bank, IFC, EBRD. Interviews with different business actors have been organised as well as an open and inclusive consultation with representatives of 14 chambers of commerce and business associations¹⁹.

Furthermore, regarding how to address informality in the Albanian context, we carried out a research of the main official documents published and approved by Albanian governments that focus on the fight against informal economy. They are chronologically ranked as follows:

Approved and published acts and documents

1. By the end of 2003, the Ministry of Economy asked OECD Investment Compact to carry out a study on informal economy in the country, with the purpose to come up with necessary recommendations for reducing informal economy. To date, this is the most comprehensive study carried out on the informality of the Albanian economy. The study was carried out using a combination of macro and microeconomic statistics and it took into account the extent and intensity of informal activities in the trade business sector, impact of tax regimes and social insurance, as well as the relation between informal economy and expansion of unfair competition. In compliance with the findings and recommendations of this study, the Albanian Government established a Committee to prepare, draft, and implement an action plan on the reduction of informal economy²⁰.
2. In December 2004, this Committee drafted a detailed Action Plan on the reduction of informal economy. The Action Plan identified the aimed objectives, measures to be applied and their concrete timeframes, responsible institutions, and the monitoring indicators. The Action Plan envisaged the implementation of the measures during the 2005-2009 period and it was approved in April 2005²¹.
3. Following the 2005 general elections, the Albanian government approved an action plan of the regulatory reform for the purpose of improving the business climate, stating the non-qualitative regulatory framework that had been into force up to that period *had encouraged a high degree of informality in the Albanian economy*²².

¹⁹ <https://www.investment.com.al/sq/per-nje-reforme-efikase-kunder-informalitetit/>

²⁰ Order No. 180 dated 11.11.2004 of the Prime Minister "On the establishment of the Committee on the Drafting and Implementation of an Action Plan on the Reduction of Informal Economy"

²¹ DCM No. 246, dated 21.04.2005

²² DCM No. 157, dated 15.03.2006

4. The Action Plan on Reducing Informal Economy was reviewed for the 2006-2009 period,²³ again on the ground of the same main pillars, such as: 1) Improvement and regulation of statistical estimates and GDP; 2) Identification and proper collection of social contributions; 3) Improvement of the business environment and facilitation of procedures on starting and developing a business.

5. From 2014 and on, a series of other documents have been approved which have also had an impact in the reduction of informality in the economy, such as:

- a) The 2014-2016 Economic and Fiscal Program of Albania,²⁴ which identifies the main directions of the fight against informality:
 - *increase of the number of inspections by the State Labour Inspectorate (SLI);*
 - *increase of the number of inspections by the Task-Force Implementation Unit of the Tax Investigation Directorate;*
 - *higher use of fiscal devices.*
- b) Action Plan on the improvement and monitoring of indicators “Doing Business 2015”²⁵;
- c) The 2014-2020 National Strategy on Employment and Skills and the relevant Action Plan,²⁶ which identifies the issues of informality, in the perspective of employment issues.
- d) The 2014-2020 Public Funds Management Strategy,²⁷ which even though is not directly related to economic informality, is aimed at ensuring a public finance system that encourages transparency, accountability, fiscal discipline, and effectiveness of management and use of public resources in order to provide improved services and economic development.

B. Individual meetings

During October-November 2015, the Secretariat has held a considerable number of meetings with different actors involved in discussions on the campaign against informality, such as commercial companies, business associations and organisations, civil society actors, independent economy experts, representatives of international organisations and officials of the fiscal administration, etc. The meetings were aimed at collecting as many opinions as possible on the campaign, causes of informality, and suggestions on how to effectively address the phenomenon.

²³ DCM No. 430 dated 28.06.2006

²⁴ DCM No. 33 dated 29.01.2014

²⁵ DCM No. 591 dated 10.09.2014

²⁶ DCM No. 818 dated 26.11.2014

²⁷ Public Funds Management Strategy –Ministry of Finance

C. On-line Survey

Moreover, the Secretariat set up an anonymous survey on informality and launched it on the IC webpage in order to obtain direct opinions of businesses. The survey was filled in on-line by 89 businesses and by 11 companies during direct meetings. Around 60% of the companies have a turnover of over Lek 8 million and respectively 73% subject of VAT and 20% are businesses classified as VIP business by the Regional Directorate of Large Taxpayers. Foreign businesses comprise around 30% of answers. The sectors that are more represented in the Survey include Services at the level of 36%, Commerce 35%, Industry 29 %. The questions of the survey were focused on the benefits and costs of formalisation, identification of causes that lead to informality, and measures businesses think should be applied so to encourage and facilitate the formalisation of the Albanian economy.

D. Case Study – The Milk Sector

In order to identify the problems at a sector and concrete level, the analysis was also accompanied by a preliminary study of informality in the milk-processing sector. The purpose was to have a study that is more focused on the sector aspect so to concretely identify the problems in order to provide realistic recommendations for a successful reform.

The reflected findings are based on the problems raised during discussions with approximately 200 actors of the sector, mainly milk producers from the regions of Fier, Berat and Vlora, the Albanian Dairy and Meat Association (ADAMA), representatives of the largest dairy-farms in the country, and individual processors in the areas of Përmet, Fier and Vlora. It takes into account the entire chain of values with all actors and the formal/informal operations regarding production, distribution, and employment.

IV. INFORMALITY ANALYSIS IN ALBANIA

A. Starting point

Studies carried out by international organisations show that Albania has a considerable degree of economic informality. The survey of EBRD and the World Bank Group with enterprises (BEEPS V) has identified that 40,2% of the companies surveyed report competing against the informal sector, which is especially noticeable for small and medium enterprises. The Schneider (2010) study estimates Albania's informal economy during 1999-2007 at an average of 34.3% of the GDP. A later study from Boka and Torluccio (2013) has calculated that the informal economy during 1996-2012, depending on the method used, can be estimated at average between 13.6% and 38% of the GDP. *According to the Albanian Government, the degree of economic informality is over 50%.*

Informality is not a phenomenon encountered only in Albania or in countries in transition. Schneider (2010) has performed calculations about 27 countries of the EU on the informal economy during 2003-2012, concluding that Bulgaria had the highest level of informality, at 30.1% of the GDP in 2012 and that Austria had the lowest level of informality, at 7.6% of the GDP, while the European average for the same year is estimated at 18.2% of the GDP. More detailed information about EU countries can be found on **Annex 1**.

Many approaches in addressing informality are focused on Enterprises and try to identify the criteria that distinguish formalised enterprises from informal ones. Some of the main indicators²⁸ kept into account to identify informal enterprises concern: the size; registration status or recognition of the enterprise by a governmental agency; employer/social insurance contributions paid by the Enterprise; legal form of organisation of the enterprise and nature of financial accounts; legal and property rights.

However, in order to have a full analysis of factors that encourage informality, a deeper analysis is required with a multilateral legal and institutional observation of the **shortcomings** that may allow room or encourage informality, such as e.g. the labour legislation, property issue, registration and licensing of private activities, financial market, fiscal burden and tax system, etc. In fact, this Document does not claim to exhaust all issues over the causes and measures to address informality. It is aimed at encouraging the debate by structuring the reactions towards the actions undertaken by the decision-makers and to prioritise the concrete recommendations generated from businesses, with the purpose of improving the business climate.

In general, we can say there is an awareness and understanding by all actors over the necessity and benefits that can be generated in the long-term by the formalisation of economy. Thus, around 80% of businesses who answered the Survey confirm they face unfair competition because of informality. According to the results of the same Survey, the major part of businesses (around 60%) considered being informal of having more costs than benefits. Businesses consider being informal of having short-term benefits, taking into account the current legal and administrative context, while they admit that there are more costs related to bribes, business security, and fear of tax inspections.

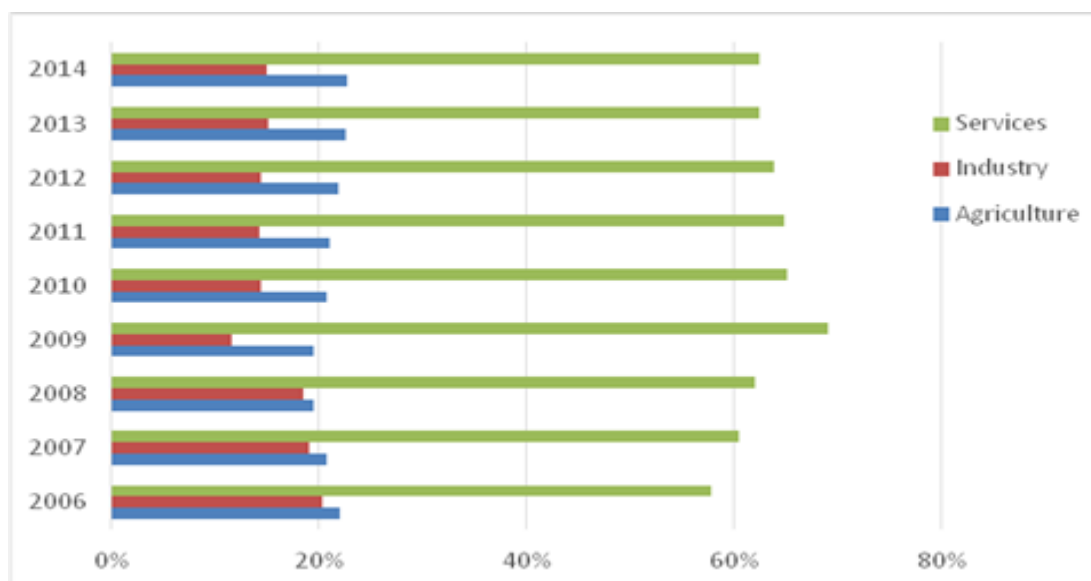
According to an ILO study²⁹ (2011) on informal employment, the reasons of informality in Albania are related to the complicated legislation and administrative regulations, fiscal burden, lack of confidence in institutions, as well as to the lack of culture and ethics to pay taxes and broad acceptance of illicit employment by the public.

The degree of informality is also a reflection of the *economic development model* of the country. The Albanian economy is mainly based on services and agriculture, where the agricultural sector has a considerable contribution to the GDP in comparison with countries of the region, but on the other hand, it also has the lowest productivity in the region. (Chart 1)

²⁸ Note: *Informality, Inclusiveness, and Economic Growth: An Overview of Key Issues*; James Heintz University of Massachusetts, Amherst, USA Political Economy Research Institute- July 2012.

²⁹ A comparative study on informal employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro. (ILO)

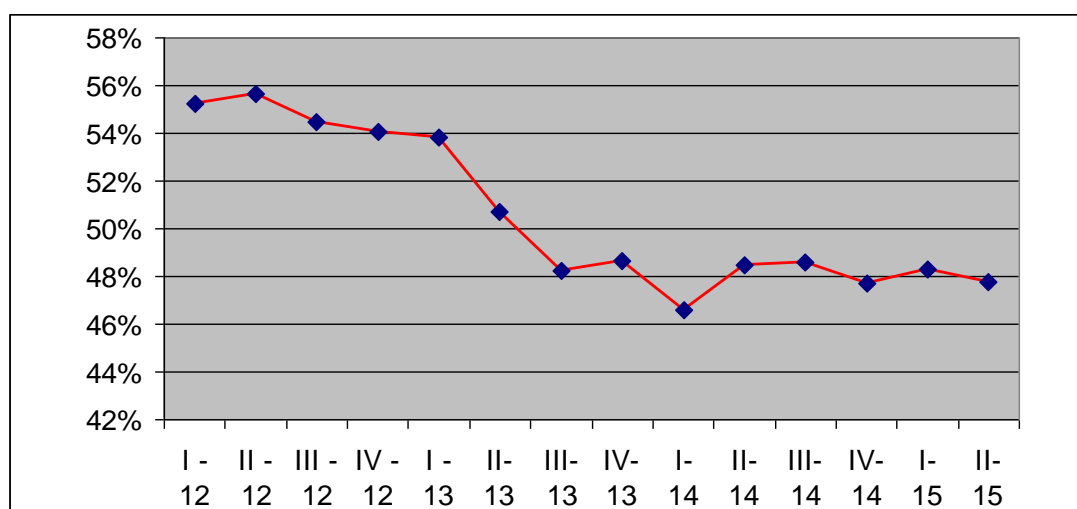
Chart 1
Contribution of Sectors in the Gross Domestic Product during 2006-2014



Source: World Bank Data

The contribution of agriculture at approximately 22% of the GDP in 2014 is even more considerable in employment where averagely 50% of the workforce during 2012-2015 declare themselves to be self-employed in this sector, according to official statistics of INSTAT³⁰. (Chart 2)

Chart 2
Self-employed in the private agricultural sector



Source: INSTAT

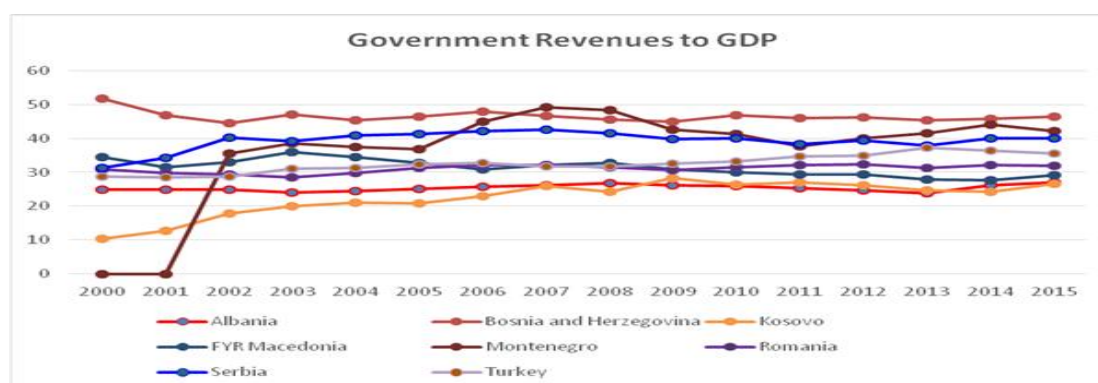
According to INSTAT again, during 2014, only 13% of registered economic activities belong to agriculture, while the largest weight of the number of enterprises is held by

³⁰ Labour Force Survey, Q-2 2015, INSTAT

commerce at 47%, which also has the largest number of physical persons, 27% of the total of registered persons. It is thought that the sectors with more informality include commerce, services, and agriculture.

Fiscal data show that the weight of the public sector against the GDP is at the lowest levels in the region, comparable with Kosovo, at 25%-26% of the GDP during 2000 – 2015. (Chart 3)

Chart 3
Government's income against GDP in countries of the Western Balkans during 2000 – 2015



Source: IMF, WEO, October 2015

The main source of government's income comprise taxation and customs income, where the VAT contribution is more noticeable and is followed by social insurance and excise, as shown in Table 1 below which includes data from 2005 and on.

Table 1
Income from a tax against the total tax income

Taxes	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	9-months 2015
From Taxation and Customs	74%	75%	77%	78%	77%	77%	77%	77%	76%	75%	75%
VAT	35%	36%	38%	41%	41%	40%	39%	39%	37%	37%	36%
Profit tax	10%	11%	9%	7%	6%	6%	6%	6%	5%	6%	7%
Excise	10%	11%	13%	12%	12%	13%	13%	12%	13%	12%	12%
Income Tax	4%	4%	7%	9%	10%	9%	9%	9%	10%	9%	9%
Social Insurance	18%	17%	16%	16%	16%	16%	16%	16%	17%	18%	17%
Health Insurance	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	3%

Source: Ministry of Finance – October 2015

According to the IFC (2013) study,³¹ the costs of fulfilling taxation obligations represent a heavier weight for smaller companies, comprising 4.7% of total income for Micro companies, 3.9% for small companies, 1.4% for medium companies, and 0.3% for large companies. The World Bank Doing Business 2016 report concludes, “Albania ranks 142nd when it comes to Paying Taxes indicator and a company has to make an average of 34 tax payments annually and spend 357 hours on preparation, filling in, and payments while paying a total of taxes equal to 36.5% of the income”.

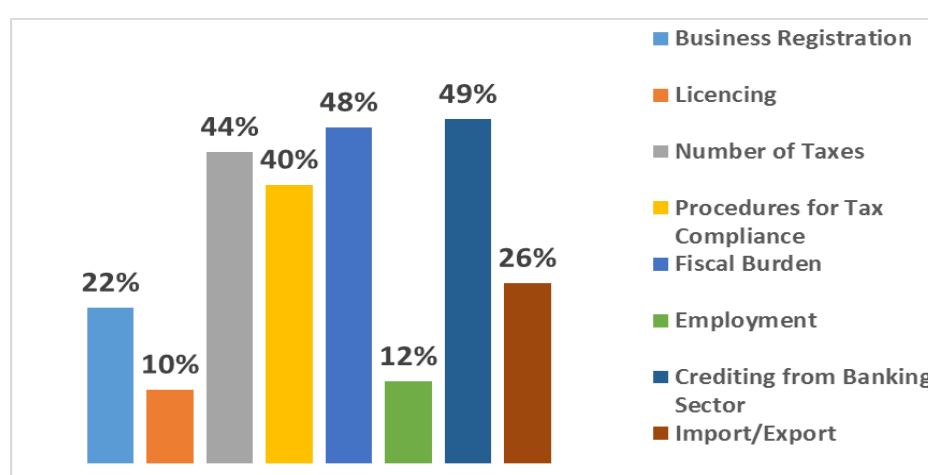
As mentioned above, informality is of a complex nature and materialisation and addressing it requires a multi-layered perspective that is in essence related also to the business climate. This Document has identified only some of the mainly mentioned causes during interviews, discussions with interested parties, and in the answers of the Survey as well as some encountered in international practices.

Therefore, the Secretariat has identified that in the case of Albania, the concrete factors that encourage informality are related to: (i) the tax system, (ii) quality of institutions, (iii) access in funding and (iv) punitive measures.

B. Findings of the Analysis

On the grounds of the results of the Survey, meetings, and the table with business representatives, conclusions have been achieved over a series of causes perceived as encouraging informality, but which can at the same time become obstacles for the phenomenon and contribute to the business climate. In their answers to the Survey, businesses say they face higher difficulties regarding the tax system (number of taxes, fiscal burden, and taxation procedures) as well as regarding access to loans. (*Chart 4*)

Chart 4
The most problematic factors of doing business according to the Survey



Source: Authors' elaboration of the answers to the Survey

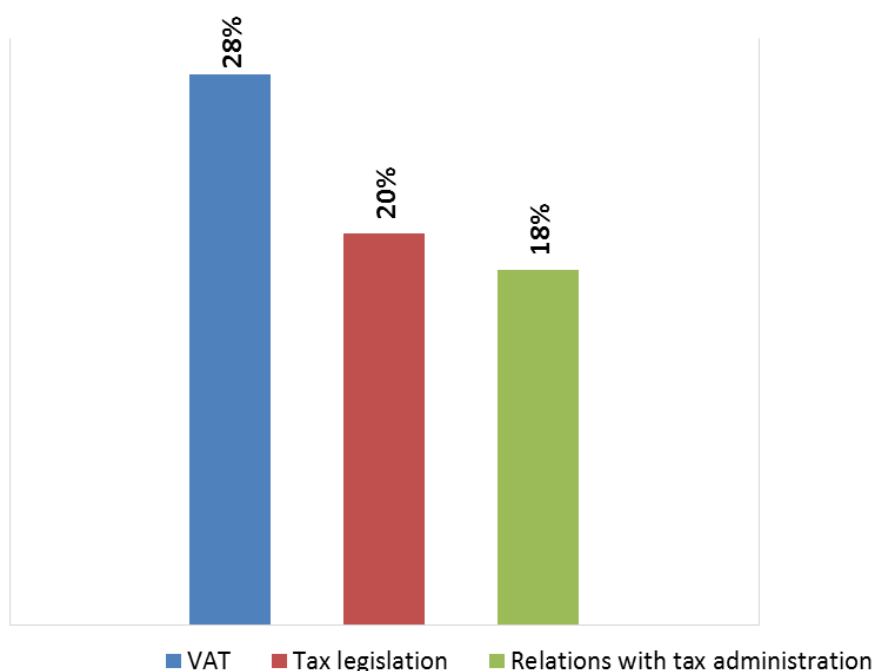
³¹ *Tax Compliance Cost in Albania IFC- IDRA (2013)*

1. Tax System

The tax system represents one of the main pillars that facilitates or impedes the formalisation of economy, also making the business climate more attractive or not. Regarding the tax system, businesses have identified the following concerns: tax burden, fragmentation of the tax system, tax administration, and tax procedures.

The administration of taxes is mentioned as an issue in different recent reports of international organisations on the business climate of Albania, but it is also an open concern businesses shared during the direct meetings and through the answers of the on-line Survey. Businesses have continuously emphasised and made different comments, generally negative ones, over the capacities of the administration, interpretation of the legislation, and frequent tax inspections. Such comments continue to be in line also with the findings and recommendations of the Working Document of the Secretariat *“Proposals on the Improvement of the Tax Inspection Process: Analysis in the framework of Improving the Business Climate in Albania,”* presented during the meeting held on the 5th of October, in which VAT, lack of clarity, and frequent amendments to the tax legislation were identified as factors that can lead to informality. (Chart 5)

Chart 5
Opinions of businesses over the main Tax System factors that lead to informality



Source: Tax Inspection Survey: Elaboration of the Secretariat, September-October 2015

There are concerns expressed by businesses over the procedures for the acknowledgement of their expenditures (e.g. acknowledgement of field losses) by the tax administration and lack of capacities of the latter to understand certain technological processes. There are numerous reactions from businesses as well as by fiscal experts

concerning the current fragmented fiscal policy that is perceived as an encouragement for informality, while they emphasize the existence of a non-professional tax administration that does not meet the intensity and professionalism required by the reform against informality.

Even though the general Directorate of Taxation has recently undertaken important steps, such as the application of the Risk Model and organisation of intensive training for the tax administration, we think there is room for changing the approach of the tax administration-business relation. *The establishment of a bilateral understanding and development would benefit from the first tax inspection to be consultative and in the event of failure to apply the instructions given by the tax administration, the second inspection could lead to the application of tough penalties.* This would avoid confusion, misinterpretation, and abuses from both parties. According to the direct answers to the Survey, corruption of the administration encourages informality and failure to pay taxes.

You can find below the issues identified:

a) Fragmentation of the tax system:

- **the VAT threshold** of Lek 5 million turnover for small businesses results in the VAT chain breaking and doesn't allow the link to the final consumer, which should be the one to pay this indirect tax. Even though it has been considered as a supportive measure for small businesses and as a means of lowering the price for consumers, a considerable number of experts and businesses consider it as an encouragement of informality and fiscal evasion. The interruption of the VAT chain is considered as unfair, as it prevents the inspection of the real turnover of businesses, the possibility to cross check VAT bills, and the verification of inventories and trade of intermediary goods. Meanwhile, there is pressure from businesses that consider themselves small not to receive VAT bills from wholesale sellers and suppliers, so to avoid inspection and keep the declared turnover under the VAT threshold.
- **profit tax and business category according to annual turnover.** In the new 2016 fiscal package, the Government has envisaged as incentive for small businesses, in the framework of measures against informality, the exemption of the profit tax for businesses with an annual turnover up to Lek 5 million and the reduction of the profit tax to 5% for the businesses with a turnover between Lek 5 – 8 million. Again, the three levels of profit tax for small businesses, 0%, 5%, and then 15%, are considered as a reason to stay under the annual turnover of Lek 5 million or Lek 8 Million.

b) Customs reference prices and customs fees on imports from non-EU countries such as e.g. from China, have often become cause of smuggling, evasion, as well a abuses with the concealment or overpricing of the real costs of products. Meanwhile, the low customs fees in the region encourage the illicit introduction of goods as personal consumables and unfair competition in markets.

c) Fiscal equipments.

There is a perception that the Government's Campaign is focused on the equipment with fiscal devices, issuance, and receipt of the tax coupon. The equipment with fiscal devices is deemed an important means for the avoidance of fiscal evasion. However, there are discussions over the price of fiscal devices, which are difficult to cope with especially by small businesses, and the timely maintenance assistance by companies providing fiscal devices. Moreover, it has been identified that the tax administration doesn't unify its practice in cases the legislation stipulates there is no need for fiscal devices – even in such cases, businesses are obliged to be equipped with fiscal devices due to the fear of penalties. There is need also to encourage small businesses to be motivated to use banking channels as much as possible, since the legal framework doesn't stipulate the obligation to be equipped with fiscal devices in cases when the business cashes in through banking channels. You may find below the legal analysis on such cases, as prepared by the Secretariat and sent to the Ministry of Finance and the General Directorate of Taxation.

Analysis of the legal obligation to be equipped with fiscal devices

Businesses and individuals that are properly registered in the national Registration Centre as commercial entities or physical persons, due to their limited commercial activity, do not make *cash* payments for the circulation of their goods or services. Such payments are regularly made through second-tier banks in the Republic of Albania, therefore documenting all the money cashed in and/or the payments made.

In these circumstances, such businesses issue proper tax bills (VAT format or simple tax bill), but are not equipped with fiscal devices in compliance with the provisions of Article 55 of Law No.9920, dated 19.05.2008 (as amended), which envisages the general rule in paragraph q as follows: ***“Taxpayers that carry out circulation of goods and services, for which payment is not made through banks, shall be obliged to install and use the fiscal system, through the use of fiscal devices, so to record cash payments and to issue, mandatorily, the tax coupon...”*** and following legal details stipulated in the Minister of Finance Instruction No. 24, dated 02.09.2008 “On tax Procedures” (as amended).

Regardless of the abovementioned legal provisions, during on-site inspections carried out by the tax administration and due to the interpretations made to this issue by Regional Directorates of Taxation, such businesses are being required to install fiscal devices, even though they make no cash payments. As a justification, such businesses are being told that the type of activity they perform is not exempted from the obligation to issue the tax coupon, in accordance with the specifications of DCM No.781 dated 14.11.2007 “On Technical and Functional Characteristics of Fiscal Devices,” paragraph 1, point 9.2.3 and paragraph III.

According to the Secretariat of the Investment Council and not only, such interpretations go against the letter and spirit of Law No.9920 and Instruction No. 24 and create confusion among taxpayers. According to the analysis of the Secretariat, ***taxpayers who do not make cash payments, but perform such payments only through banks, do not have the obligation to install fiscal devices.*** If it was otherwise, the legislator would have not expressively stipulated the phrase ***“for which payment is not made through banks”*** in Article 55.

2. Quality of institutions

Businesses indicate certain lack of trust on public institutions, generally, and on those of fiscal administration, in particular. Corruption and political influence are considered as factors that have generated the high degree of informality. In the meantime there are concerns about the smuggling of goods that are imported, as well as lack of capacities and standardization for the control of the domestic production. A summary of the main problems is provided below:

a) Capacities of the public administration

Businesses have constantly indicated concerns as regards the capacities of the Public Administration and in particular those of the Tax Administration in terms of being in line with the intensity of actions against informality. The lack of trust and lack of positive reaction on the quality of the administration are obvious in the answers to the Survey. This is also seen in the interviews held in person with the private sector. In reference to the work of the Tax Control, the capacities of the administration are viewed as limited in some aspects, such as administrative infrastructure, communication and professionalism. Businesses say that inspectors, both from the tax administration and customs administration, are not specialized pursuant to the nature of the business to provide a fair judgement which leads to conflicts, penalties and costs for them. A spirit of cooperation and partnership with the public administration is required.

b) High number of inspections

Contacted businesses report a large number of controls by different institutions of the administration, including the tax administration. A lack of coordination is noticed amongst the state inspecoriates, which creates negative pressure on the business and does not have clarity on the object of control and as to why the taxpayer is subject to control.

c) Administrative burden in licences and procedures for the agro-industry etc.

In the Survey there are comments about the high number of licences and institutions engaged in the control of a producing business in the agro-industry, such as production of wines, where it is stated that 4 (four) licences are needed from different institutions, a bank guarantee for 30% of products, payments for fiscal stamps, without calculating taxes, etc.

d) Real possibility to control production businesses in the country

Businesses say that domestic production in the agro-industry, as well as other sectors, such as clothing industry, creates premises for evasion, because for the tax administration it is difficult to control the quantity of production. This leads to unfair competition in the market, but also raises suspicions about the quality of products offered to the consumer.

e) **Lack of preliminary consultation on legislation and lack of inclusiveness**

Based on the provisions of Article No. 146/2014 “On Public Notification and Consultation” the process of public and preliminary notification and consultation, national and local strategic draft projects and also policies of high public interests, is mandatory. Executive bodies proposing law initiatives, shall fulfil their obligations in relation to providing information on the process of notification and public consultation at all stages, starting from publishing the draft act, receiving comments and recommendations for its improvement, organizing public debates and also approving the final act.

Regardless of the above, frequent legal changes become public only after the draft laws are reviewed by the Council of Ministers and when these draft laws are sent to the Assembly of Albania for approval. A concrete case lacking public consultation with group of interest, including business associations, was the approval of Law No. 99/2015 dated 23.09.2015 “On several changes and addendums to Law No.9920 dated 19.05.2008 “On tax procedures in the Republic of Albania” amended” (“Law No. 99/2015 dated 23.09.2015”). The approval of this law which harshens the sanctions against business for violation of tax nature, was accompanied by debates on the lack of necessary transparency and caused reactions of wide business community, as mentioned above.

f) **Confusion of the business as a result of continuous and poor quality legal changes**

As identified in the working document - “Proposals to Improve the Tax Control Process: Analysis in the framework of the Improvement of Business Climate in Albania” – *Frequent changes to the tax legal framework do not help businesses to consolidate their exact approach to the tax system. Frequent changes in the legislation are another issue raised, which puts at risk the stability of the business environment*³². In the conditions when the tax legislation, especially legislation related to the tax procedures, is subject to frequent changes and when the capacities of the tax administration to adapt to such changes and to update itself remain uncertain, the risk for arbitrariness in the field as a result of erroneous interpretation of the law and procedures that it sets forth is very high, it brings about uncertainty in the business community and mutual lack of trust. Also, considering the considerable lack of knowledge of taxpayers in the tax and financial fields³³, particularly as regards the small business, frequent legal changes not only do not improve the situation, but may have a counter effect regardless of their positive intention. On the other hand, hurried, inharmonious changes carried out without consultation result in confusion and contradictory juridical norms. Also, it is very necessary that secondary legislation – instructions regarding taxation – be detailed through examples and concrete cases for all norms and procedures that are set forth by Law instead of referring word per word to the provisions of the Law.

³² Law no.9920 dated 19.05.2008 has been amended 12 times.

³³ According to the report from Standard & Poors 2015: “Albania ranks penultimate globally as regards financial literacy”.

Confusion with the legislation on simplified profit tax instalments' payment

The provisions of Article 13 of Law No. 99/2015, dated 23.09.2015 create confusion regarding the deadlines for taxpayers to prepay the instalments of the profit tax and the simplified profit tax, as they clash with the provisions of Law No. 9632, dated 30.10.2006 "On Local Taxes System" (as amended) ("**Law No.9632**")

Article 13 of Law No. 99/2015 makes an addition to Law No. 9920, dated 19.05.2008. Article 114/1, entitled "Failure to pay instalments of the profit tax and simplified profit tax" is added and has the following content: The failure to meet the deadline on the payment of preliminary instalments of the profit tax and simplified profit tax, in compliance to Article 30 of Law No. 8438, dated 28.12.1998, "On income tax," as amended, shall be punishable by fine equal to 15 percent of the amount of the instalment that is to be paid".

Article 13 relates the prepayment deadlines with the provisions of Article 30 "Prepayments" of Law No. 8438, dated 28.12.1998 "On Income Tax" ("**Law No. 8438**"). Article 30 of Law No. 8438 stipulates: *"During the next tax period, taxpayers shall pay, in the tax bodies' account, the quarterly instalments of the profit tax, **within the 30th of March**, for January, February, and March; **within the 30th of June**, for April, May, and June; **within the 30th of September**, for July, August, and September and, **within the 30th of December**, for October, November, and December."*

Article 30 of Law No.8438 envisages the deadlines for the prepayment of instalments of the profit tax, and not of the simplified profit tax (7.5%) which is regulated by special law, namely Law No. 9632. Article 15 of Law No. 9632 stipulates, *inter alia*, that: *"During the next tax period, taxpayers shall pay, in the tax bodies' account or in the account of the Albanian Post Office, the quarterly instalments of the simplified profit tax of small businesses, **within the 20th of April**, for January, February, and March; **within the 20th of July**, for April, May, and June; **within the 20th of October**, for July, August, and September and **within the 20th of December**, for October, November, and December"*.

Therefore, the content of Article 114/1 of Law No. 9920, dated 19.05.2008 combined with Article 13 of Law No.99/2015, dated 23.09.2015, goes against the provisions of Article 15 of Law No.9632.

This confusion with the deadlines will create blur in the implementation of the obligation and the legal norm both for taxpayers as well as for the tax administration, and will also create conflict, taking into account that the sanction envisaged for the failure to timely pay the simplified profit tax is **a fine equal to 15 percent of the amount of the instalment that is to be paid**. Confusion goes further since the same amended article was put and reflected in point 14 of Decision No.31, dated 27.11.2015 "On some additions and amendments to Instruction No. 24, dated 02.09.2008 "On Tax Procedures in the Republic of Albania," as amended.

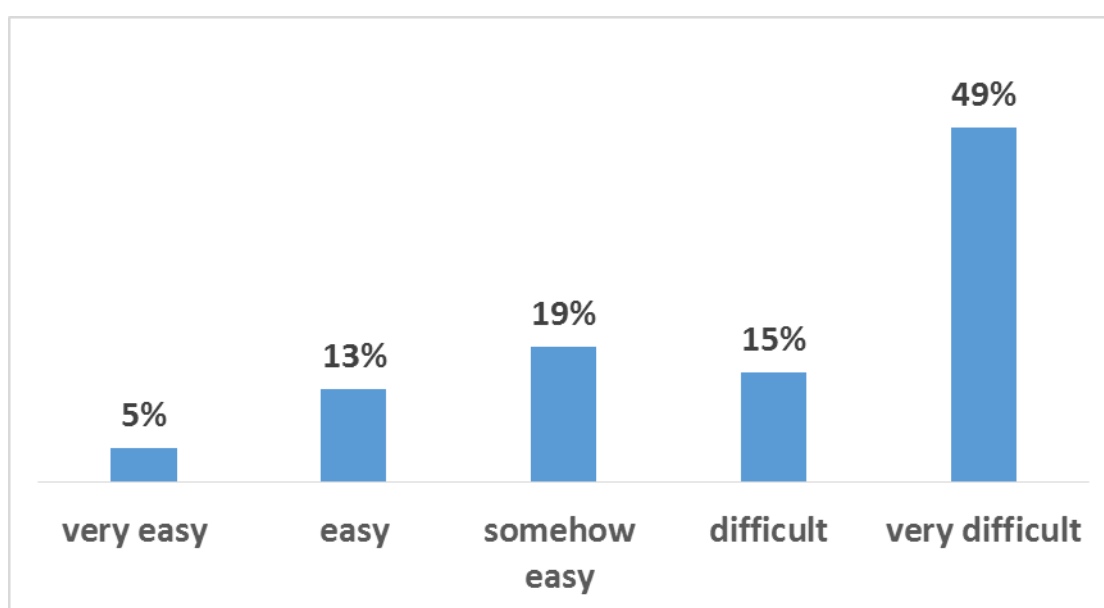
We are of the opinion that the deadlines for the prepayment of the simplified profit tax are those envisaged in Article 30 of Law No.9632, which is a special law, the provisions of which, on the legislative technique context, cannot be indirectly amended by a law that does not amend the special law, but another law namely Law No.9920, dated 19.05.2008.

It is necessary to make corrections through relevant legal interventions to Article 114/1 of Law No.9920, dated 19.05.2008, unifying the deadlines of this article with the deadlines envisaged in Law No. 9632.

3. Access to finance as an incentive for formalization

The low degree of economic growth, the decrease of the aggregate demand and options for attractive investments have led to shrinkage of funding by banks and stricter requirements for the businesses. Informal loans are another growing phenomenon which is being confirmed by the survey. Such loans bear very high interest rates and are creating a chain of debts and difficulties in making businesses formal. The results of the Survey on Informality indicate that loans have become very difficult for businesses to attain. This is shown in 49% of answers and, as a result, an incentive for formalization cannot be taken into consideration. (Chart 6)

Chart 6
Difficulties regarding Loans as a factor in the Business Climate



Source: Secretariat's analysis of Answers in the Survey on Informality

Efforts to decrease bad loans in the banking system through the plan of measures undertaken by the Government and the Bank of Albania, with the support of the IMF, as well as efforts to finalize the new draft law “On bankruptcy in the Republic of Albania”, drafted with the support of the KfN, are commendable.

On the other side there are some government and donor grant and loan programs which facilitate the situation for certain sectors such as agribusiness, exports, women as entrepreneurs, etc. from the AARD, AIDA, IPARD, EBRD, etc., which must be coordinated and must support the efforts of the Government for a successful reform.

4. Punitive measures against Informality

International experiences suggest that stronger penalties function better when adequate incentives have been created preliminarily for formalization purposes and when informal companies have a more successful transition towards formalization. On the other side, it is to be considered that penalties (such as in the case of Brazil and Argentina) may result in a counter productivity and counter employment effect.³⁴

Businesses who have participated in the Survey and those that have been directly contacted admit to the need of penalties to reduce informality and fight unfair competition. But there is also almost a unanimous stance on the irrational severity of punitive measures, assessed also in the conditions when there is a lot of scepticism as regards the quality of the Tax and Customs Administration and the ability to take the right decisions.

On the other side there are many question marks on the efficiency of the complaint system, including tax appeal procedures and complaints procedures through the judicial system. The answers to the Survey on the Tax Control of the Secretariat (October 2015) clearly pointed to the concern about the functioning of the structure of the tax appeal, where only in 4% of cases the decision taken was in favour of the taxpayers. Still, as regards this particular point, the regional tax administration had, again, the right to appeal in judicial ways.

It is also reported that Administrative Courts³⁵ are going through a paralysis as a result of workload, staff structure and limited infrastructure, as well as due to lack of transparency. None of the First Instance Administrative Courts has an official online webpage. Besides delays in trials that are extended beyond the legal timeframe of 3 (three) months, there is a problem with the quality of trials that, as businesses complain, are finalized in favour of the public administration.

³⁴ *Economic Informality: Causes, Costs and Policies A literature Survey of International Experience*, Ana Maria Oviedo

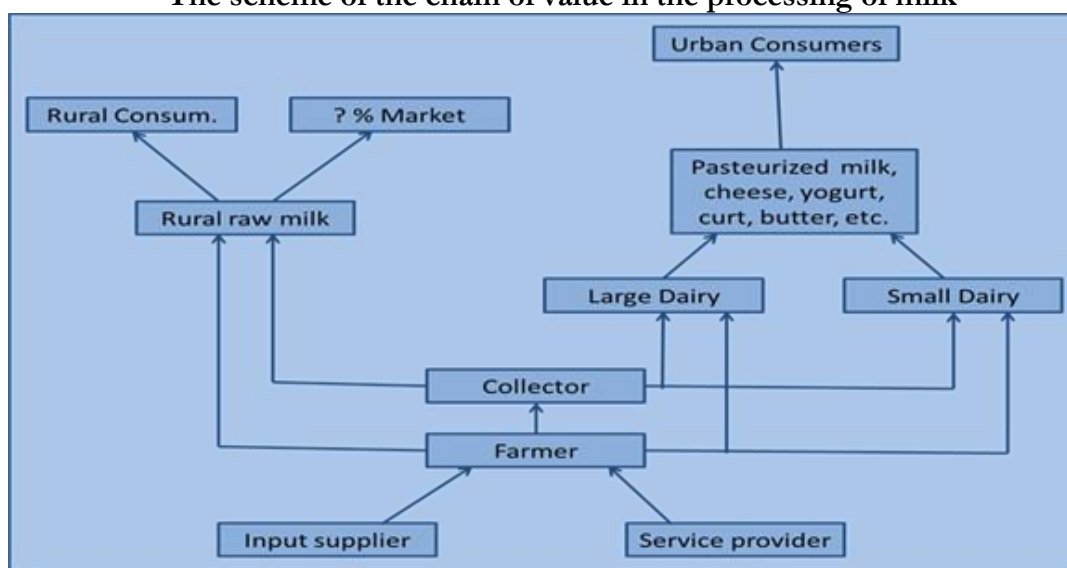
³⁵ *The Administrative Court of Appeals in Tirana alone counts 11,500 cases during 2014. These cases are to be tried by a total of only 7 judges.*

5. Case Study: Milk Processing Industry³⁶

In all the chain of the milk processing industry, there are **actors who operate in an informal way** (without the business identification number NIPT and without VAT tax invoices). Such “empty pockets” create premises for informality and lead to problematic operations for the other actors (formal ones) in this chain, as presented in the scheme below.

Particularly, informal milk collectors and informal dairies circulate immense quantities of milk and considerable capital, but not only; through their informal operations they also harm the efforts made for **quality control and safety of products**. Given that **the VAT cycle is not closed**, it can not be sufficiently efficient, as a result.

The scheme of the chain of value in the processing of milk



Transactions through the banking system for all producers are not an efficient way, moreover considering that most of them have to travel long distances to reach to banks in the towns and the sum of money earned from selling milk is too small compared to the efforts, time and costs.

There is lack of information and there are difficulties in raising awareness of farmers on tax legislation and amendmets to it, as well as on the formalization scheme. The responsible regional administrative capacities are limited and often not close to assist the farmer.

Problems regarding land registration and its market, animal identification and registration, lack of credibility of statistical data need to be tackled accordingly to enable a long-term formalization of the sector.

³⁶ The full study has been published at www.investment.com.al

A more detailed picture of the food chain is provided below. It is followed by two examples about the cost the farmer faces for bank transfers and as regards the continuation of the VAT chain.

The Albanian farming sector is and will continue to be part of the growing demand for quantity and quality in order to meet the needs of the population. Even though agricultural statistics do not provide fully credible and accurate data, some of the figures about the farming sector show that the number of farms dealing with farming is 352 315; farms that mainly deal in cattle are 214 970, those that mainly deal in goats are 23 445 and in sheep are 47 039. The quantity of milk at an amount of 1 133 000 tonnes per year are produced by 358 000 cows, 1 896 000 sheep, and 904 000 goats³⁷. Due to better management, there is a trend (even though a slow one) towards the reduction of the number of livestock and increase of milk and meat production.

Approximately 80% (equals to 170 000 cattle farms) have from 2 to 4 cows, approximately 15% (equals to 35 000 cattle farms) have from 5 to 10 cows, approximately 4% (equals to 9000 cattle farms) have from 10 to 15 cows, and only 1% (equals to 2500 cattle farms) have over 15 cows. The milk is processed in dairy farms, the number of which has been roughly estimated to 450, out of which some 35% perform formal activity (are registered, with value added tax - VAT), while 65%³⁸ perform informal activity.

A direct payment system for area (subsidy scheme), at a total value of Euro 6 million, started to be applied for the first time in 2006. Currently, the Government's support for the agricultural sector is equal to Euro 12,5 million, which, in the case of farming, is addressed to farmers that are registered in accordance with the law (have a NIPT number), according to the VAT scheme, who perform the identification and registration (I & R) of livestock.

A special regime has been designed for the formalisation of the agricultural producers and VAT compensation³⁹. On the grounds of Instruction No. 19, the buyer of agricultural products is subject to VAT and other taxes, and follows a normal VAT regime. The buyer issues a VAT invoice for each agricultural product purchased from farmers (auto-invoice), which includes the seller (producer) of agricultural products, the NIPT of the seller, and other data as required in the official invoice form. The total amount of the invoice includes the amount paid to the farmer, comprising the farmer's compensation rate of 20%. This amount of 20% is intended to cover the VAT paid by farmers for the purchase of inputs and services for the production of agricultural products.

Instruction of the Minister of Finance No. 26, dated 26.10.2015, specifies that the buyer does not have the right to charge 20% VAT in the event they do not prove the performance of compensation to the farmer through banking transactions (from the bank account of the buyer to the bank account of the farmer), or through the Albanian Postal Service.

³⁷ *Institute of Statistics (INSTAT) 2014*

³⁸ *Albanian Dairy and Meat Association (ADAMA).*

³⁹ *Instruction of the Minister of Finance No. 19, dated 3 November 2014 "On the application of the special regime of the compensation scheme for agricultural producers, for the purpose of the value added tax".*

According to the General Directorate of Taxation, farmers with an annual turnover under Lek 5 million are not considered as merchants and in this case the NIPT⁴⁰ is necessary only for the purpose of VAT compensation. Farmers with an annual turnover of over Lek 5 million have to register as normal taxpayers that use VAT invoices. Currently, only some 20 000 farmers have NIPT⁴⁰.

▪ **Chain of values and its actors**

Activities in the milk sub-products sector include goods suppliers and service providers, producers, milk collectors, milk processors, transporters, wholesale sellers, retail sellers, markets, and final users. Below, each of the actors is analysed regarding activity formality and informality. The milk production industry includes several goods suppliers and service providers, such as: seeds companies (corn, alfalfa); fodder suppliers (concentrates), minerals and vitamins suppliers; veterinary pharmacies; sperm suppliers; veterinary service; artificial breeding service; mechanisation service. Currently, the majority of suppliers and inputs are registered as VAT taxpayers, while in many cases, the veterinarians, artificial breeding technicians, and mechanic machinery operators are not registered as taxpayers. As mentioned above, to date, only 20 000 farmers have NIPT, through which they are part of the VAT compensation scheme, on the grounds of VAT invoices issued by buyers. However, the majority of farmers have not yet registered.

Milk collectors. There are two types of milk collectors; individuals that collect milk and sell it to dairy-farms (small or large factories), or directly to rural consumers; and collectors employed by dairy-farms. In many cases, the first ones work informally, while the second ones are part of the milk sub-products factories' staff.

Processors. From 450 units (small processing units, or "Dairy-farms" and factories) approximately 300 of them operate informally and only 150 are registered and operate as formal businesses. Many of the illegal units operate to supply the local rural population.

Due to the obligation to abide by the law, transporters are operating formally, especially those that transport milk and its sub-products to urban areas. Wholesale and retail sellers are becoming more and more formal in their activities, especially those wholesale and retail sellers that operate in urban areas.

⁴⁰ Directorate of Agricultural Policies. MARDWA

Example 1: Payments through bank system for farmers

The volume of milk sold out every day: 70%-80% of farmers sell up to 10-15 liters a day. The price of milk is: 38 All/liter. Daily profit: 380-570 All.

Payments made by buyers are made every 10 or 15 days, so the total sum of payment (or transaction) varies from 3800 to 5700 All (in 10 days), or 5700- 8550 All (in 15 days). The average distance of farms from city centers where the banks are located is 40-50 km. The transportation cost is about 400 All. To receive they need at least 3 hours, which if converted into All is about 400 All. Monthly bank commissions vary from 150 to 500 All.

Total expenses for every payment withdrawal are 950 - 1300 All.

Due to transaction through bank system, farm expenses in relation to income realized by selling milk are calculated to be between:

16,6% to 25% when the payment is made every 10 days and bank fees are 150 All;
11,1% to 16,6% when the payment is made every 15 days and bank fees are 150 All;
22,8% to 34,2% when the payment is made every 10 days and bank fees are 500 All;
15,2% to 22,8% when the payment is made every 15 days and bank fees are 500 All.

Example 2: unregistered Dairy

The minimum quantity of processed milk in a dairy is 500 lt./day. In the case when dairies work throughout the year, the annual capacity of processing is 500 lt. x 365 days = 182 500 lt. Buying price is: 38 All/lt. X 182 500 lt. = 6 935 000 All/milk a year.

26 071 kg of cheese are produced from this quantity of collected milk. The price of cheese is 350 All/kg (minimum possible price) Annual turnover: 9 124 850. All

Note: Taking into consideration the above mentioned argument, it is recommended that all processing units become part of voucher system with VAT, otherwise the unfair competition will increase and the quality of products remain problematic. Apart from this, regarding the operations standards, all dairies shall be inspected rigorously by competent authorities.

V. RECOMMENDATIONS

There is a broad consensus by various actors on the “need to formalize” and the benefits this process will bring to fair competition, attraction of serious investments and the economic growth in the long term. On the other hand, for the business, there are uncertainties as to the further steps and extension in time of the action undertaken and the lack of information on action plan. Word experience has shown that the approach to formalization (a summary in Annex 3) implies a structure of reforms extended in time, considering legal and institutional dimensions (including but not limited to the tax and customs administration), the provision of incentives and the gradual toughening of penalties, the protection of vulnerable groups and certain sectors that tend to be informal. Although the Minister of Finance has announced in the media the preparation of a two-year plan in December⁴¹, there is still no governmental document in relation to the platform of measures, if there is any sectorial analysis based on which those measures will be taken. More over, the groups of interest expressed the need of preliminary consultation and the necessity of partnership in this field.

According to the international literature⁴², on the reduction of informality, it is suggested to take into consideration three main principles:

- a) *Gradual approach for formalization* through preparations, discussion and implementation of integrated Strategy against informality;
- b) *Taking care of right order of taken measures.* Hard regulations should come after good rules are applied. If you fight shadow economy with repression and you have bad rules, you risk harming the economy; they might get unemployed
- c) *Building social capital.* It is important to apply measures aimed at increasing transparency and fight against corruption. Even good rules may not work if there is low level of social capital and weak institutions.

Referring to the findings of Analysis with groups of interest, the recommendations are oriented in five major pillars, detailed as following:

A. Formalization Reform – Partnership with Business

Recommendation 1:– short term

Preparation and approval by the Council of Ministers of a Comprehensive Strategy against informal economy on the basis of sectorial analyses, which takes into consideration the work done to date and creates the image of a serious and long term commitment of Government.

The document should be published and the preparation process should be transparent and all-inclusive. The formalization could be gradual and based on a platform with clear

⁴¹ <http://www.ata.gov.al/operacioni-kunder-informalitetit-cani-do-te-siguroje-rritjen-e-pagave-dbe-uljen-e-taksave>

⁴² *The shadow economy and how to fight against it (with focus on Moldova and the best Slovak experience) Peter Golias, Institute for economic and social reforms (INEKO) Slovakia, April 2013*

rules for the business. This is due to the fact that different sectors have different fiscal and social specificities which impact on the level of informality, for example, the energy sector or the banking sector are more formal and regulated compared with the agribusiness or trade, where a higher degree of informality is easily observed.

B. A Tax System Responsive To Formalisation

Recommendation 2 – mid-term

Reassessment and analysis of the current tax system (the burden and the politics) whether it discourages or encourages formalization on the basis of the following elements:

a) The discourse on the VAT /Profit Tax threshold

Some tax experts and many undertakings recommend the reassessment with a tendency to decrease the VAT threshold, in order not to cut off its chain, while others do not see the VAT threshold as a problem, but rather emphasize the improvement of the tax administration. The Profit Tax threshold, for purposes of its gradual application depending on whether being a large/small enterprise, should guarantee a fair treatment of taxpayers and avoid creating room for tax evasion. Meanwhile, the attention must be focused on simplifying the procedures for payments in tax and customs offices, the usage level and efficiency of tax register machines (in tourism, agriculture, etc.), the analysis and registration of losses or even the income tax, applicable depending on the professions. Escalation of penalties or even fines, and the perception of corruption associated with them, call for a deeper analysis, including the respective costs and benefits.

b) Incentives that may accompany the fight against informality

- Fiscal facilities for new interneurships, those who re-invest a certain amount of their profits, entrepreneurship that employ a certain number of staff and entrepreneurship that operate in underdeveloped areas. The possibility of applying differentiated taxes in certain areas of the country must be looked into.
- Assessment of the efficiency of reference prices in customs, whether they are cause for contraband and evasion. Removal of reference prices is identified by the enterprenourships as a potential incentive, such as, for example, from the importers of tiles, construction materials, coatings, etc.
- Clear incentives for the consumer related to taking the tax coupon, while enabling direct benefits from the declaration of annual income.
- The subsidy scheme in agriculture does not sufficiently incentivize formalization because it reaches only a limited category of farmers. The strengthening of the current scheme to incentivize through VAT reimbursement is suggested. The situation is more complicated and requires a deeper analysis in the wine sector, due to the large number of needed licences and permits, or in the sector of medicinal plants and milk processing.

Recommendation 3 – short term

Simplification of administrative bureaucracy with the aim of reducing the number and time for carrying out payments in particular for medium, small and micro businesses, and making available to the taxpayers innovative services such as online tax payment, etc. Viewed from the perspective that 90% of enterprises are micro, and the level of awareness and financial know-how among enterprises is very low⁴³, such measures would facilitate the tax compliance of this category.

Recommendation 4 – short-term

Enhancement of administration accountability in order to respond to the formalization reform through:

- a) investment transparency and accelerating the modernisation of information technology such as the well-functioning of the new tax system and risk system, which must precede the field actions, thus increasing the public confidence.
- b) specialized training sessions for the employees, especially those of the tax and customs administration⁴⁴.
- c) fast and effective appeal and advisory structures, and the preparation of manuals and commentaries for inspectors and enterprises regarding their reciprocal rights and duties

C. A Regulatory System, Supportive to Formalization

Recommendation 5 – mid-term

The formalization reform must also have a goal to relieve the administrative burden for taxpayers, by promoting compliance with the tax system and the regulatory system as well as a higher standard of the final goods and services in the following aspects:

- a) Improvement of public institutions' infrastructure in relation to application of online systems and enhancing the exchange of information in real time. More concretely, the online coordination of State Inspectors and online exchange of information on Inspections as well as coordinated registration of private entities, with institutions such as the NRC, Tax Office, Employment Office and other Inspectorates (e.g. NFA, the Environment Inspectorate, etc.) or the General Directorate of Customs for imports of raw materials (necessary for agro-business).
- b) Accurate categorization of professions both from legal and administrative aspects and their harmonization through NRC, Tax Office and INSTAT, to avoid

⁴³ <http://www.monitor.al/shqipëria-e-parafundit-në-botë-për-njohuri-financiare/>

⁴⁴ Please refer to the Recommendations of the Investment Council in meeting No. 2 <https://www.investment.com.al/sq/events/mbledhja-nr-2-5-tetor-2015-1600-2/>

confusion among tax payers and the difference in treating by tax administration, for instance, free lance professions.

- c) Unification of investigation and inspection units of the Tax Administration and Custom Administration in order to enable an effective control and detection of cases of tax avoidance, but also exchange of information and expertise.
- d) Recognition of the Technological Card for certain operations, especially in agro-business and coordination with the Tax Administration for the acknowledgement of the respective losses.
- e) Clear legal definition of wholesale and retail markets⁴⁵, in order to prevent switching from a certain status to another. Clear definition of the street-trader. Redefinition of the functions of inspection to such businesses by central and local institutions
- f) Enabling the connection between the NUIS of the farmer to the electronic land registry and electronic animals' registry, etc.
- g) Formalization in agriculture must be preceded by the completion of the land registration, formalization of the land market, registration of the farms and livestock and improvement of official statistics.
- h) Enhancement of the coordinating capacities and functions of responsible institutions subordinate to the Ministry of Agriculture, Rural Development and Water Administration, in charge of imposing and monitoring the quality on value added approach in agro-industry starting from raw materials, assisting ones, up to the final product.

Technological Charts and Standards in Processing Milk

It is necessary to prepare/update, approve and implement some technological charts and standards. The process should include Ministry of Agriculture, Rural Development and Water Administration, ASU, Center of Transferring Agricultural Technology, Veterinary Authorities, artificial insemination operators, input suppliers, pertinent NGO, etc. Some of the main technological charts shall include :

- Construction of garnerers
- Construction of fodder storehouses
- Construction of mechanical devices warehouse
- Construction of areas for processing milk
- Milk standards and milk processing standards
- Expected losses from technological processes
- Remains of veterinary medicaments

It is recommended that every branch of farm sector and sub-products of milk should issue a list of products, services, operations which require intervention for preparation/updating technological charts and standards for implementation, followed by proposals prepared by working groups of experts.

⁴⁵ Their definition in item 59.2.2 of the Directive of Minister of Finance No. 24 dated 02.09.2008 leaves room for interpretation and it is not clear.

D. Access to finance and improvement of financial services - an incentive in formalization

Recommendation 6 – short term

- a) Further cooperation with banking financial institutions and the non-bank financial institutions should be considered in the context of the formalization strategy and its expected benefits. For instance, the micro-credit institutions may play an important role in the reduction of informal economy, especially in rural areas where they enjoy large access.
- b) The recent changes, regarding channeling payments to farmers by the collectors through the banking system require a deeper analyses on the threshold of and the category of farmers who shall pass through the banking system, in the context where the rural population has very limited access to the banking system and such services entail considerable costs.
- c) Encouraging banking transactions and electronic payments such as through PoS, especially in trade and services. Implementation by the tax administration of the existing legal provisions, which do not pose the obligation to use the tax registration machines when the taxpayer does not collect any *cash*, shall help small enterprises by reducing costs. For this purpose, the Ministry of Finance and the General Directorate of Taxation must unify their interpretations regarding such cases.

E. Consultation, Transparency and Education

Recommendation 7 – short term

- Implementation of the Law No. 146/2014 “On Public Notification and Consultation” regulating the process of public and prior notification and consultation of bills, draft national and local strategic documents, and policies with a significant public interest

Recommendation 8 – mid-term

- Grant and crediting programs by the Government and Donors may play a key role in awareness raising and consultation on the formalization of certain private sector groups, such as supporting the Government's action during the first 2-3 years. More concretely it is suggested that the governmental subsidiary schemes on the milk sector shall be based on the volume and quality of products.
- In agriculture, it is suggested to increase the consultation and awareness-raising to the farmers. To be considered the establishment of an intermediate unit for the provision of assistance and information to farmers regarding the registration and the benefits of formalization, upon the assistance of the donors and the Government.

- Organizing targeted awareness-raising campaigns in cooperation with the business associations or other private partners such as micro-financing institutions in rural areas.
- Publicly appreciating regular businesses over years or also by exchanging experiences with other businesses, through Tax Administration.

**ANNEX 1: Size and Development of the Shadow Economy of 27
EU Countries in percentage of GDP
2003 - 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	10.8	11	10.3	9.7	9.4	8.1	8.5	8.2	7.9	7.6
Belgium	21.4	20.7	20.1	19.2	18.3	17.5	17.8	17.4	17.1	16.8
Bulgaria	35.9	35.3	34.4	34	32.7	32.1	32.5	32.6	32.3	31.9
Cyprus	28.7	28.3	28.1	27.9	26.5	26	26.5	26.2	26	25.6
Czech Republic	19.5	19.1	18.5	18.1	17	16.6	16.9	16.7	16.4	16
Denmark	17.4	17.1	16.5	15.4	14.8	13.9	14.3	14	13.8	13.4
Estonia	30.7	30.8	30.2	29.6	29.5	29	29.6	29.3	28.6	28.2
EU-27 (simple average)	22.3	21.9	21.5	20.8	19.9	19.3	19.8	19.5	19.2	18.4
Finland	17.6	17.2	16.6	15.3	14.5	13.8	14.2	14	13.7	13.3
France	14.7	14.3	13.8	12.4	11.8	11.1	11.6	11.3	11	10.8
Germany	17.1	16.1	15.4	15	14.7	14.2	14.6	13.9	13.7	13.3
Greece	28.2	28.1	27.6	26.2	25.1	24.3	25	25.4	24.3	24
Hungary	25	24.7	24.5	24.4	23.7	23	23.5	23.3	22.8	22.5
Ireland	15.4	15.2	14.8	13.4	12.7	12.2	13.1	13	12.8	12.7
Italy	26.1	25.2	24.4	23.2	22.3	21.4	22	21.8	21.2	21.6
Latvia	30.4	30	29.5	29	27.5	26.5	27.1	27.3	26.5	26.1
Lithuania	32	31.7	31.1	30.6	29.7	29.1	29.6	29.7	29	28.5
Luxemburg	9.8	9.8	9.9	10	9.4	8.5	8.8	8.4	8.2	8.2
Malta	26.7	26.7	26.9	27.2	26.4	25.8	25.9	26	25.8	25.3
Holland	12.7	12.5	12	10.9	10.1	9.6	10.2	10	9.8	9.5
Poland	27.7	27.4	27.1	26.8	26	25.3	25.9	25.4	25	24.4
Portugal	22.2	21.7	21.2	20.1	19.2	18.7	19.5	19.2	19.4	19.4
Romani	33.6	32.5	32.2	31.4	30.2	29.4	29.4	29.8	29.6	29.1
Slovak	18.4	18.2	17.6	17.3	16.8	16	16.8	16.4	16	15.5
Slovenia	26.7	26.5	26	25.8	24.7	24	24.6	24.3	24.1	23.6
Spain	22.2	21.9	21.3	20.2	19.3	18.4	19.5	19.4	19.2	19.2
Sweden	18.6	18.1	17.5	16.2	15.6	14.9	15.4	15	14.7	14.3
United Kingdom	12.2	12.3	12	11.1	10.6	10.1	10.9	10.7	10.5	10.1

Source: Schneider F. (undated), "Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2012: Some New Facts", http://www.econ.jku.at/members/Schneider/files/publications/2013/SbadEcEurope31_Jan2013.pdf

ANNEX 2: SURVEY

ASSESSMENT ON FACTORS OF INFORMALITY IN ALBANIAN ECONOMY

This Survey is undertaken by the Secretariat of Investment Council in the framework of the discussion of the subject of Informality in the regular meeting of Council of Investments in December 2015. The purpose of survey is to incite the debate on the causes of informality and to offer concrete suggestions for proper tackling of the phenomenon to improve the business climate in Albania and incite the investments in economy.

The survey remains anonymous and is filled online in the internet web page of the Investment Council. Your contribution is essential to bring into surface the concerns of business community and to address them in a professional and comprehensive manner to governmental bodies.

1. The main economic activity of your business is:

- ☐ Extractive industry
- ☐ Processing industry
- ☐ Electric power supply, gas steam and air condition
- ☐ Activities with running on hot water, sewage, waste management and arrangements
- ☐ Construction
- ☐ Service
- ☐ Whole sale and retail
- ☐ Transporting and storage
- ☐ Hotels
- ☐ Information and Communication
- ☐ Architectural and engineering activities
- ☐ Travel agencies, touristic operators
- ☐ Others (please specify_____)

2. Biggest shareholders (with more than 50% of shares) of your business are:

- ☐ Locals
- ☐ Foreigners

3. For how long are you present in the market?

4. The size of your business based on the annual turnover of the last year:

- ☐ 2 – 8 millions Lek
- ☐ More than 8 – million Lek

Are you a subject to VA?

- ☐ Yes
- ☐ No

Are you classified as a VIP Business by the General Directorate of Taxes?

- ☐ Yes
- ☐ No

5. Please specify if you face competition by informal activities in the sector you are working at?

- ☐ Yes
- ☐ No

If yes, please give your comments on what is the nature of informality in your sector (tax evasion, lack of registration, corruption, smuggling, undeclared work, etc) and at what stage of activity it appears (registration of activity, production process, introduction of product/service to the market, import/export, relations with the suppliers, etc.)?

6. Please rank from 1 to 5 (where 1 is the easiest/smallest and 5 is the most difficult/biggest) in relation to doing business in Albania, referring to the following issues:

- Registration of business (from 1 to 5)
- Licensing the activity (from 1 to 5)
- Number of taxes (from 1 to 5)
- Procedures to comply with taxes (for instance, the time spent, service costs, the way of payment, etc) (from 1 to 5)
- Fiscal burden (such as VAT limit, Social Security, tax on profit, etc)) (from 1 to 5)
- Employment of workers (from 1 to 5)

- Business crediting by banking sector (from 1 to 5)
- Importing/exporting goods and services (from 1 to 5)
- Different inspections by state administration (from 1 to 5)
- Procurement of public funds (from 1 to 5)
- Consultation (from 1 to 5)
- Others, _____

Comments and specifications on the above, if any:

7. Please give your opinion on the reasons which incite informality in your sector:

8. To your opinion, being informal in your sector has more profit of more costs (not registered / tax evasion) and if you can articulate in details:

9. If you have somehow informality in your business, do you have a strategy to formalize in long term?

- ☐ Yes
- ☐ No

10. Do you think that penalties are necessary in order to reduce informality in economy? If yes, to what level do you consider them as effective?

11. What can be some of effective incentives to reduce informality in your sector?

12. Can you suggest some incentives in formalization of Albanian economy as a whole?

ANNEX 3: SUMMERIZING MATRIX OF SOME INTERNATIONAL EXPERIENCES IN REDUCING INFORMAL ECONOMY

THE EXPERIENCE OF OTHER COUNTRIES ON MEASURES TO REDUCE INFORMALITY
<p>SOURCE: “TACKLING THE UNDECLARED ECONOMY IN FYR MACEDONIA: A BASELINE ASSESSMENT 2014 (ADAPTED FROM WILLIAMS, BARIC AND RENOY - 2013)”</p>
<p><u>Summary of Measures in 31 EU countries</u></p>
<p>Punitive measures</p> <ul style="list-style-type: none"> - Administrative sanctions for purchasers/companies - Administrative sanctions for suppliers/employees - Penal sanctions for purchasers/companies - Penal sanctions for suppliers/employees
<p>Measures to improve detection</p> <ul style="list-style-type: none"> - Penal sanctions for suppliers/employees - Workplace inspections - Registration of workers prior to starting work or on first day of work - Coordinating strategy across government - Certification of business, certifying payments of social contribution and taxes - Usage of surveillance through reporting - Coordination across governmental institutions - Exchange of data across governmental institutions - Mandatory ID in the workplace

Preventive measures

- Reduce regulations
- Simplify compliance procedures
- Technological innovations (e.g. certified cash registers)
- New categories of work
- Direct tax incentives (e.g. exemptions, deduction)
- Social security incentives
- Ease transitions from unemployment to self-employment
- Changing minimum wage upwards
- Changing minimum wage downwards
- Training and support to businesses start-ups
- Micro finance to businesses in start-ups
- Advice on how to formalize
- Connecting pension schemes to formal labor
- Introducing supply chain responsibility
- Restricting free movement of (foreign) workers

Curative measures

- Encourage purchasers to buy declared goods and services
- Service vouchers
- Targeted direct tax incentives
- Targeted indirect tax incentives
- Stimulate suppliers to formalize
- Society-wide amnesties
- Individual-level amnesties for voluntary disclosure
- Targeted VAT reductions
- Free record-keeping software to businesses
- Free advice/training on record-keeping
- Gradual formalization schemes

Fostering commitment to declared work

- Campaigns to inform undeclared workers of risks and costs of working undeclared
- Campaigns to inform undeclared workers of benefits of formalizing their work
- Campaign to inform the users of undeclared work on risks and benefits of formalization
- Use of normative appeals to people to declare their activities
- Measures to change perceived fairness of the system
- Measures to improve procedural justice of the system (i.e. degree to which people believe government has treated them in a respectful, impartial and responsible manner).
- Measures to improve knowledge of tax, social security and labor law.
- Adoption of commitment rather than compliance approach (e.g. ‘responsive regulation’)
- Campaigns to encourage a culture of commitment to declaration

Macedonia

Improving detection

- Work inspection
- Control on tax and social security payments. Establishment of ‘Centre for debt collection’, ‘Centre for seized goods’, ‘Tax Academy for training’ and a ‘forensic laboratory’ within the Public Revenue Office to tackle high-risk fraud and tax evasion;
- Strengthened administrative cooperation and mutual assistance through electronic data exchange between taxes and labor inspectorate.
- Increasing penalties and increasing perception about risk that comes with undeclared jobs

Opportunities for formalization

- Simplifying regulations on starting a business
- Decentralization of tax service payments, e.g., opening of local ‘Service Points’ (2011)
- Encouragement of electronic filing of tax returns and electronic payment of the corporate income and VAT taxes
- Electronic payments of the income of corporate and VAT

Direct Tax Incentives

- Reduction and equalization of the corporate and the personal income tax rate (‘flat-tax rate’) at 10%
- Reduction and equalization of the corporate and the personal income tax rate (‘flat-tax rate’) at 10%

- Tax relief for reinvested profit (for investments over 100,000 Euros)
- Zero corporate income tax for non-distributed profits

Incentives For Involvement In Official Employment And Business Operations

- Reduction in the cost of seasonal workers by easing the requirements for severance pay
- Lower tax base for registered individual farmers (20% of the national average net wage)
- Farmers with an annual income lower than 300000 MKD exempted from paying an income tax

Raising awareness and public campaigns

- Hotlines for reporting undeclared work and labor
- Checklist for employers and employees of their respective legal rights and obligations
- Awareness raising campaign targeted at youths to promote successful transition to decent work

GEORGIA – “MSM TAX SIMPLIFICATION REFORM: CAN IT TACKLE INFORMALITY, WORLD BANK, IFC”

- Definition of micro business, small, medium and large business
- Developing guidance for tax accounting for micro businesses
- Simplifying reporting of small businesses, payments twice a year, elective

“ECONOMIC INFORMALITY: CAUSES, COSTS AND POLICIES A LITERATURE SURVEY OF INTERNATIONAL EXPERIENCE, ANA MARIA OVIEDO”

Increasing Tax Compliance

- Reduced tax rates for low-wage earners - ***Belgium, Bulgaria, The Netherlands, and France***
- tax exemptions and reductions in sectors that rely on undeclared work - ***Hungary, Sweden, Belgium, and France***
- Reduced VAT in labor intensive sectors - ***The Netherlands***
- Targeted awareness campaigns and in cooperation with trade associations to tackle industries with a high incidence of non-compliance - ***Australia, Belgium and Sweden***
- Offering voluntary disclosure schemes, media and internet campaigns, “vouchers” for work etc. - ***UK, Belgium, and Australia***

- - Replace VAT/income tax/social security contributions of small businesses with single tax, - **Argentina, Bolivia, Brazil and Peru**
- An integrated system of for small and large enterprises unifies the collection of federal tax payments and social security contributions. All firms with revenues below US\$1,000,000 that work in services, trade, manufacturing, or agriculture are eligible, which represents 75 percent of the business register and 7 percent of - **Brazil**
- The program substitutes 6 types of taxes and 5 types of social security contributions with a progressive tax levied on gross revenues. An important feature is that it has de-linked social security contributions from the number of declared workers employed or the wage bill, instead making the contributions proportional to the firm's revenues - **Brazil**
- Establishing Business Service Centers offering a number of services to entrepreneurs, from information and business counseling to registration facilities - **Colombia**

Reducing tax burden for compliers

- Reduction of corporate income tax - **Hungary, Poland, Slovakia**
- Tax exemptions for employing underprivileged workers – **Hungary**
- Tax concessions in industries with high percentage of undeclared workers - **Sweden, Belgium, France**
- Tax relief for new employees - **Montenegro**
- Tax amnesty - **Cyprus, Turkey**
- Tax exemption on re-invested earnings – **Estonia**
- Reduce aggregate tax burden (as a % GDP) (**Most EU27 countries**)
- - Increase non-taxable income threshold/introduce tax reductions for low-wage earners - **Bulgaria, Belgium, Netherlands, France**

Increasing Tax Base

- Introduce on-line filing and payment - **Estonia**
- Harmonization of tax regulations/forms - **Austria, Greece, Netherlands, France, Portugal, Denmark**
- Simplified tax system for SMEs - **Kenya, Tanzania, Uruguay**
- Replace VAT/income tax/social security contributions of small businesses with single tax – **Countries of Latin America**
- Appreciation for honest businesses - 15 EU countries
- Increase flexibility of temporary work contracts – **15 EU countries**

“POLICY BREAFA ON INFORMAL ENTREPRENEURSHIP - EUROPEAN COMMISSION”

- Tax thresholds and exemptions, advice and training and offering social benefits for a short term till starting the business and enjoy benefits from employment – **The example of Italy with temporary periods and reduced taxes.**
- Deduction of taxes and vouchers for undeclared workers from the consumers viewpoint, for household employees – **Denmark model**

“THE SHADOW ECONOMY AND HOW TO FIGHT AGAINST IT (WITH FOCUS ON MOLDOVA AND THE BEST SLOVAK EXPERIENCE) PETER GOLIAS, INSTITUTE FOR ECONOMIC AND SOCIAL REFORMS (INEKO) SLOVAKIA, APRIL 2013”

- Hartz IV Reform in **Germany** from the year 2000. The reform introduced that the “minijobs” of a monthly wages less than €400 are not subject to social insurance contributions. And for wages between €401 and €800, the contribution rate rises gradually to the full share.
- Flat tax reform in Slovakia. Unifying direct income taxes to 19% for individuals and businesses. The reform also decreased the corporate income tax rate from 25% to 19% and cancelled the dividend tax rate of 15%.
- Increasing the indirect consumption taxes. In the old system the two VAT rates: standard rate of 20% and reduced rate of 14%, were unified in 19%
- Radical simplification of the tax code.

***ANNEX 4: LIST OF PARTICIPANTS IN THE MEETING OF THE
TECHNICAL GROUP***

Date: November 25, 2015

1. *German Chamber (DIHA)*
2. Albanian Dairy and Meat Association (ADAMA)
3. Livestock Entrepreneurs Association of Albania (LEAA)
4. American Chamber of Commerce (AmCham)
5. National Business Forum (NBF)
6. Albanian Tourism Association (ATA)
7. Albanian Agro-Business Council (KASH)
8. Chamber of Commerce and industry of Tirana (DHTTT)
9. The Union of Chambers of Commerce and Industry of Albania (UCCIAL)
10. Albanian Bankers Association
11. International Chamber of Commerce, Tirana (ICC)
12. Chamber of Commerce and industry Albania - Turkey
13. Foreign Investors Albanian Association (FIAA)
14. Chamber of Commerce Italy - Albania (CCIA)
15. LFC-Albania

ANNEX5: LITERATURE

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3. Enterprise Surveys 2013, Albania Country Profile – World Bank, IFC
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6. Policy Brief on Informal Entrepreneurship- European Commission and OECD- “The size of the informal economy in the EU-27, 2003-2012 –As a percentage of national GDP”
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8. Action Plan of Strategy for Fight Against The Informal Economy (2008-2010), Turkey Presidency of Revenue Administration , April 2009”
9. Informality: Causes, Consequences, Policies - Background Paper prepared by Ana-Maria Oviedo for Country Economic Memorandum (CEM)
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13. Tax Compliance Cost in Albania IFC- IDRA (2013)
14. Does It Pay Firms to Register for Taxes? The Impact of Formality on Firm Profitability, David McKenzie, Yaye Seynabou Sakho (November 2007), IZA DP No. 3179
15. MSME Tax Simplification – Can it Tackle Informality?, Rajul Awasthi - Global Tax Simplification Team, Investment Climate Department, World Bank Group
16. IMF Working Paper - What Causes Firms to Hide Output? The Determinants of Informality, Era Dabla-Norris, Mark Gradstein, and Gabriela Inchauste
17. OECD Economics Department Working Papers No. 896- Informality in Mexico, Nicola Brandt

18. *Informal Economy in Albania*, Merita Boka, Giuseppe Tourlucci - *Academic Journal of Interdisciplinary Studies*, Vol 2 No 8, October 2013
19. *Taxes, competition and finance for Albanian enterprises: evidence from a field study* by Holger Muent, Francesca Pissarides and Peter Sanfey – July 2000
20. *OECD Policy Roundtables: Competition Policy and the Informal Economy* – 2009
21. *OECD Economics Department, Working Papers No. 873 Policy Roundtables: Towards a Better Understanding of the Informal Economy*
22. *Discussion Paper on Economics, The Costs and Benefits of Informality* by Nicoletta Batini (IMF and University of Surrey) and Paul Levine
23. *Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment*, by Martha Alter Chen, July 2007 DESA Working Paper No. 46,
24. *Taxing the Informal Economy, Challenges, Possibilities and Remaining Questions*, Amuradha Joshi, IDS Working Paper, Volume 2013, No 429
25. *Tackling the Undeclared Economy in FYR Macedonia, a Baseline Assessment A baseline assessment*, Rositsa Džbekova, Josip Franic, Lyubo Mishkov and Colin C. Williams , 2014
26. *The shadow economy and how to fight against it (with focus on Moldova and the best Slovak experience)* Peter Golias, Institute for economic and social reforms (INEKO) Slovakia, April 2013
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29. *Media Articles (including but limited with newspapers, internet sources, business perceptions etc.)*