

SUMMARY OF THE MINUTES OF MEETING
INVESTMENT COUNCIL
MEETING XI

Findings of the Business Survey “On Some Aspects of Investment Climate”

Tirana, 06 December 2017, 15:30 – 17:00

The meeting was held at the Ministry of Finance and Economy (MFE) and was chaired by Mr Arben Ahmetaj, Minister of Finance and Economy. Present in the meeting were 13 IC Members. In addition, the meeting was attended by observers representing domestic and foreign business associations, such as UCCIAL, Confindustria Italia, Italian Chamber of Commerce, the chambers of commerce and industry of Tirana and Durrës, DIHA, etc.

I. Opening of the meeting

The IC Chair, Minister Arben Ahmetaj, opened the meeting expressing his pleasure to return at the Investment Council after almost two years. According to Mr Ahmetaj, the IC has always been the right initiative of the Albanian government and EBRD, to institutionalise the communication and collaboration between the government and investors within a concrete platform, of another level beyond the National Economic Council. *“Today, we may say that the Council has functioned as a supporting instrument for the business but also for the government to see its work reflected, where it should be improved and where it did wrong,”* said Minister Ahmetaj.

In the following, Minister Ahmetaj thanked the compliant business which in all these years has been the engine of economic development and employment in the country. But the unfair competition, tax evasion, labour in black, are still present in the economy and for the Ministry of Finance and Economy and all the institutions involved in the fight against informality, this remains a daily battle. In 2015, the action against informality targeted mainly the registration of the business, declaration of employees and equipment with fiscal devices, and the results from the first phase enabled in the second phase to take a new approach in the fight against informality, equipped with intelligent instruments, based on the information technology and risk module.

On the other hand, the role of taxpayer’s service is strengthened and it still remains an important pillar of the government’s strategy. Of course, the third phase finds the tax and customs administration, or any other administration which indirectly contributes in the fight against informality, more matured. The risk module becomes more advanced, offering the opportunity to see on another level the analysis within the big business, which remains in the focus of this phase.

Minister Ahmetaj reiterated the very positive experience related to the Law on Tax Procedures amended in the end of 2016, where most of the proposals from the business were taken into consideration. In his point of view but also of the business, this constitutes a revolution in the relationship between the administration and the business. Due to the legal and institutional restructuring, the Tax Appeal Directorate and the Taxpayer’s Advocate are considered to provide more guarantee in the protection of the business rights in the area of tax procedures, after gaining independence from the GTD and now autonomy within MFE.

Deregulation is the key reform which will characterise the second term of the government, with tangible facilities, visible in deadlines, procedures and requests for documents, to reduce at maximum the bureaucracy burden on the citizens and the business. Very soon, we will have materialised within the deregulation reform the initiative for the removal of 10 licences, translated in over 7,000 documents, requested by the citizen and the business, which is a further progress in the relationship between the administration and the citizen and the business.

In the Secretariat's survey, it is noted an improvement of the VAT Refund situation, which remains a long-standing concern of the business. Meanwhile, informality continues to impede the daily efforts of the government as well as the efforts of the business. The Minister Ahmetaj calls for a wider collaboration with the business and thanks the EBRD for all the support in the establishment and functioning of the IC.

II. Presentation of the IC Secretariat on the Findings of the Business Survey “On Some Investment Climate Issues 2017”

Ms Diana Leka, IC Secretariat, delivered a presentation on the objective of the survey, methodology and respective findings divided in 4 pillars: i) Tax Inspection, ii) VAT Refund, iii) Relationship with the Tax Administration, iv) Informality. The survey was conducted online during July – September 2017 and filled in by 146 companies, meanwhile on 25th October 2017 it was held a consultation meeting with experts in the area from the customs and tax administration as well as business representatives to consult the preliminary findings of this survey.

III. Summary of the main comments raised during the Meeting

Mr Matteo Colangeli, EBRD, thanked the Secretariat for the work done and said that the fight against informality should be continuous and it should not be considered as a temporary action. He highlighted a previous IC recommendation, that of developing a national strategy against informality, which would give a clear message to the business community that the fight against informality is continuous and it will not change with the next government or election.

Ms Hilda Shijaku, World Bank, thanked the Secretariat on the valuable analysis which will serve to understand how the business sees informality, the pillars where they demand more attention to fight informality, which fortunately it is considered by them as a cost for their activity. Some of the recommendations are very valuable and go in line with the fight against informality, for a sustainable fight not simply in the framework of gaining results within a short frame of time. Some of the positive achievements go in line with the findings of the World Bank in Doing Business such as facilitation in the payment of taxes, improvement of the transparency and communication in the area of fiscal legislation, etc. The business considers as necessary not only the facilitation of procedures, but also the sustainability of fiscal legislation which would remove even the involuntary non-compliance of the business which comes simply from illiteracy or non-alignment with the current legislation.

Mr Luan Leka, EHW, agreed on the conclusions of the survey which according to him are clear and leave little room for questions. He mentioned that in case tax coupons would be issued in all the trade sectors, in these sectors the informality would be reduced to zero. In regards to the declaration of the salary, it is first in the interest of the employee to have the real salary reported, because based on this will be calculated also his retirement benefit, and this is an already won battle as the employer will be forced to abide, with the pressure coming from bottom.

Mr Leka agreed that the action against informality should be carried out continuously. On the other hand, he said that it is necessary to use the right means of communication for raising the awareness of the society as well as the punishing force of the state against informal companies. The awareness campaign should target also the buyer, in order for him to understand that the tax coupon not issued to him, denied him one right, i.e. 20% of VAT is not paid to the state. The action should not be politicised and wrongly deformed targeting the small business. Anti-informality is a main request from the business itself, asking in many cases the support of the state to work in a formal trade, to work with regular receipts, without having to keep two balance sheets and consequently to grow itself.

Mr Leka suggested also some measures of technical character as follows:

- About 42% of big companies declare salaries below 30.000 Lek, in an effort to avoid tax on the salary and payment of the contribution at the right level. According to him, there is room also to *increase the minimal salary to have more flexibility in the system of salaries*. Currently, *part time work is not recognised*, and it is not applicable to pay partial contribution. Even for one employee working for 4 hours a day, the employer is obligated to declare the contributions as for a full time work. If all the companies declared the real salary, there would be no problem to increase the minimal salary. Our demand for the recognition of the part-time work enables the real salaries to be increased, and this comes as a demand by the current market.
- In regards to *tax procedures*, very good steps have been made toward a fair tax system. The same thing should be made also for the system of customs procedures. For example, there is a procedure which requires the company to pay in advance in order to have the right to appeal for a presumed liability. This has been adjusted in the system of tax procedures, meanwhile in the customs procedures this has not been equally addressed. There are also other elements and procedures to be reviewed for further improvement.

Deregulation reform is considered as very important by the business. It would be appropriate to listen also to the voice of the companies because there are many comments/suggestions from their side, in order to avoid overlooking many issues.

Ms Belinda Ikonomi, General Customs Directorate, confirmed that in the General Customs Directorate, the procedure for the administrative appeal is different from the one of tax procedures. It has been also a recommendation by the IC to apply a different approach in the customs appeal. We are open to collaborate with the Council and the business to make the right legal amendments in this direction, although it is more difficult in this case as we are dealing with an amendment to the Customs Code. With the entry into force of the new customs code there are many customs procedures which are facilitated. In the framework of the deregulation reform, the GCD is working to make online most of the applications for procedures of certain customs regimes. There are 6 authorisation procedures that will be finalised for 2017 and the other part of 90% of authorisations to be finalised in 2018. These procedures will facilitate the removal of corruptive actions by the administration.

Ms Enida Bezhani, American Chamber of Commerce (Amcham), expressed support to the Government's initiative in the framework of the campaign against informality and for accepting comments from the business, confirming also the engagement of the AmCham with its members to offer concrete suggestions. Ms Bezhani asked from the government a feedback when these suggestions have been taken into consideration. AmCham has supported any efforts against informality and for the improvement of the business climate. She appreciates in specific the

proposition of the Minister Ahmetaj to the business for sending comments regarding the deregulation reform. As relates to tax administration there has been a very good relationship, especially with the Department of Big Taxpayers where all the concerns of the members have been discussed in detail. There has been an open dialogue with the administration, but it remains necessary the answer of the administration on the raised issues by the groups of interest.

Ms Edlira Muka, Balfin Group, agreed on the suggestion for a long-term strategy which would give a strategic solution to the issue of anti-informality, being an aid also to the business. Perhaps, apart from raising the awareness of the business, it should be worked also for the awareness of the citizen. There should be continuous communications by the state institutions in the media to inform the society also from this point of view. Therefore, a more intensified awareness campaign for the citizen on the tax coupon would give an impact on formalisation, also in the framework of developing an anti-informality strategy.

Ms Vasilika Vjero, General Tax Director, spoke about the project of GTD in collaboration with the EBRD for the facilitation of the communication manner with the taxpayers, i.e. in the simplification of the information to be provided to businesses which is too technical. She suggested that, since the project is still at an early phase, its scope may be widened to include also provision of information on tax compliance, in the context of anti-informality, to the individuals. In addition, GTD should accentuate more in the media also the role of the citizen, apart from the usual campaigns targeting the taxpayer.

Ms Natasha Ahmetaj, Bank of Albania, mentioned two aspects in regards to anti-informality. To date, there is a higher awareness that informality is more harmful than beneficial. The Tax Administration cannot raise the awareness of the citizen all by itself, but instead other stakeholders including the education system and also the role of Bank of Albania are to be involved. The tax administration should identify the closing of the circle, while all the stakeholders should play their own role to make informality stop breathing and minimise it as a phenomenon. Since 2015, the Bank of Albania for its own purposes in analysing the financial system in the country, specifically the situation of non-performing loans, came to the conclusion that the banks in their evaluation analyses for issuing loans were based on informal balance sheets and in some cases these were inflated. In order to reduce non-performing loans, banks of the second level were notified that informal balance sheets would not be accepted, giving them a 3-year time period to consolidate the informal balance sheets in banks. The objective is that starting from January 2018, no loan requests will be accepted without a formal balance sheet. This would be a very good platform to limit informality because companies cannot make it with the support of the banks and they must have sound balance sheets. Also, the individuals who apply for a loan should declare the real salary putting pressure to the employer for the proper declaration. Therefore, it is necessary to identify, as in the case of the banking system, all the stakeholders that could play their own role in the fight against informality, as this would enable the achievement of results. The second valuable element is that desk-research should occupy most of the tax administration's work. Less onsite visits and more desk researches would be more efficient not only for the administration but also for the business to breathe and trust the administration.

Ms Alketa Knuti, Ministry for the Protection of the Entrepreneurship, said that the companies need instruments for self-correction and that the state administration should provide support in their formalisation by removing all the legal overlapping which impede the companies to implement them all at once.

Mr Arben Ahmetaj, IC Chair, supported the comment that the fight against informality should not be considered as a campaign but instead as a daily battle. This is not a campaign that has a starting and an ending point, but a new way of life not only for the entrepreneurship but also for

the administration. Mr Ahmetaj invited the EBRD to assist the Government in drafting an anti-informality strategy undisputed by the political forces in the country. Additionally, invited the Secretariat that one of the mutual activities be the Anti-Informality Strategy focused on all the basic pillars of the Government's work, starting from informing the entrepreneurs and the public, educating the taxpayers and the administration, facilitating the procedures and ultimately the punishing legal instruments as the last resort after all the above steps have been exhausted.

The Minister agreed to take notes on the comments related to customs procedures. In this context, starting from 1 February 2018, it will start the implementation of the facilitated procedure of "*unified assessment of online customs declarations*," which will save to the business a lot of time wandering around and it will definitely reduce significantly the corruption and abusing in this segment. If today a business has to declare through a customs agency a set of documents and evaluations to be made at different customs points, tomorrow via online communication and declaration the business can have a unified standard assessment. This will overcome once and for all the confrontation of the business with the customs officials. As reflected in the tax procedure law, the government needs to undertake an initiative to listen to the business about deregulation. In the case of improving tax procedures, the business shed light on some of them, while the same can be applied to deregulation. The Prime Minister himself will initiate a hearing session with the business on deregulation. We have a platform of co-governance with the citizens and it would be very valuable if the business wrote about deregulation. However, it is the duty of the government to promote it more.

Additionally, the Chair made two proposals: First, MFE to prepare an open letter to the business on deregulation; and secondly, to share with the business the current results of the campaign against informality. It is important to have a consultation event in order for the business to understand how the campaign has progressed, the existing problems and where it is needed to raise more the awareness. There is still a need for the improvement of procedures such as the VAT refund to progress toward automatic reimbursement. Minister Ahmetaj said that he felt more proud that the Tax Administration has reached around 103,900 businesses in different ways, rather than the fact that the sales in the economy increased by 12% in total compared to the same period of 2016. Also, the Minister Ahmetaj appreciated the deskwork of the Tax Administration in finding more cases of tax incompliances, e.g. scanning balance sheets, and not spending infinite time in onsite inspections. These achievements are the best way *to address anti-informality*. There is still more work to be done. Next year, we will have a new "business-to-consumer" fiscal system that will enable online real-time tracking of sales. It is imperative that MFE and relevant departments in Taxes and Customs to do more in raising the awareness of the citizen. The Minister stated that in the coming days, the Ministry of Finance will issue a press release together with the Governor of the Bank of Albania that starting from 1 January 2018 the banks will be obliged to consider only the formalized balances sheets submitted to the GTD.

Ms Diana Leka, IC Secretariat, presented the voting results for the 2018 IC Agenda, with the following ranking:

- Consultation in the IC of the New Draft-Law on Investment (8 votes);
- Informality in Tourism (7 votes);
- Inspections and the cost for the business (7 votes);
- Agriculture as a priority sector and promotion of investments (7 votes);
- Provision of a Qualified Workforce (7 votes).

Meanwhile, the Secretariat has also worked on the topic "*On the functioning of the e-permit platform and its impact on the improvement of the investment climate*," voted by the IC Members at the end of

2016, and proposes presentation of the findings and relevant recommendations at the beginning of February 2018. Topics will be sent to members along with the minutes of the meeting. For the selection of the second topic for 2018 an email will be sent to the IC members.

Mr Arben Ahmetaj, IC Chair, suggested that the conclusions drawn from this roundtable to be officially distributed as a draft to all the members for commenting and then come up with ***a final statement***. First of all, *everyone should reflect on the survey, especially on the business concerns that still persist despite improvements*. Secondly, *to think about the drafting of a more structured anti-informality strategy*. Thirdly, *to develop a plan for intensifying the communication with the taxpayers and the citizens*. Fourthly, to draft an open letter on deregulation, to urge the business as well as the citizens to use the platform of co-governance and obtain respective feedback not only from the business but also from the citizens.

IV. Follow up steps

1. Preparation of the draft-Minutes of the IC Meeting No.11 by the Secretariat and the distribution to the IC Members for potential comments and final approval.
2. Relevant stakeholders to start discussing the drafting of a National Anti-Informality Strategy.
3. The Ministry of Finance and the General Tax Directorate in collaboration with the business community to intensify the awareness campaigns for the citizens and the business related to the anti-informality measures.
4. Ministry of Finance to prepare and distribute to the business community an *open letter* for the deregulation, asking the business to provide comments and suggestions related to this reform and in the meantime to invite all the stakeholders to make use of the co-governance platform with the citizens.

Closing of Meeting - The meeting was considered closed at 17:00.

List of participation

Representatives from the Government

1. Mr Arben Ahmetaj, IC Chair/Minister of Finance and Economy
2. Ms Natasha Ahmetaj, Deputy Governor of Bank of Albania
3. Ms Alketa Knuti, Chief of Cabinet, in absence of Ms Sonila Qato, Minister of Protection of Entrepreneurship
4. Ms Vasilika Vjero, General Tax Director
5. Ms Belinda Ikonimi, General Customs Director

Business Community

1. Mr Luan Leka, CEO, EHW Group
2. Ms Edlira Muka, CEO, Balfin Group
1. Ms Enida Bezhani, CEO, American Chambers of Commerce, in absence of Mr Mark Crawford, President of AmCham
3. Mr Arben Shkodra, General Secretary of Producer's Association
4. Ms Bianka Petriti, Senior Finance Specialist, TAP

International Partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Ms Olga Anghelakis, Head of Operations Section II, European Delegation in Albania
3. Ms Hilda Shijaku, Economist at the World Bank in Albania

Not attended:

2. Mr Luan Bregasi, Chair of the BiznesAlbania
3. Ms Laura Qorlaze, Representative of IFC Office in Albania