

TECHNICAL NOTE

**ON FORMALIZATION AND COMPETITIVENESS
IN THE TOURISM SECTOR**

Shortened Version

Tirana

October 2018

Table of Content

I.	INTRODUCTION.....	4
II.	CONTEXT.....	5
III.	METHODOLOGY.....	6
IV.	FINDINGS.....	7
V.	RECOMMENDATIONS.....	13
A.	Anti-Informality Measures for unregistered economic operators in the sector.....	14
B.	Anti-Informality Measures for Informality as Tax Evasion.....	15
C.	Anti-Informality Measures for Undeclared Employment.....	17

ABBREVIATIONS

CoM	Council of Ministers
GoA	Government of Albania
GTD	General Tax Directorate
IC	Investment Council
IMF	International Monetary Fund
MARD	Ministry of Agriculture and Rural Development
MoFE	Ministry of Finance and Economy
MoTE	Ministry of Tourism and Environment
NBC	National Business Centre
NUIS	Unique Number for Identification of the Taxpayer
TAD	Tax Appeal Directorate
VAT	Value Added Tax

I. INTRODUCTION

The Albanian government, has undertaken important reforms to support sector development. Legal framework and strategic visions are adjusted to the sector dynamics, while infrastructure investment packages to support tourism are being implemented. Private investments in the sector are also very dynamic, for example only during 2017, were issued in total 53 construction permits (INSTAT, May 2018). These new investments add 89,000 m² room surface in the accommodation structures at national level. The growth rate of crediting for tourism sector was reported to be the highest compare to other sectors, credit to tourism sector grew by 6.5% (yoy) during the first half of 2018 (Bank of Albania, 2018).

Despite improvements, Albania still needs to address the concerns of regulating tourism sector and introducing standards, reduce informality, tackle land ownership issues, as well as improve infrastructure and human resources. The sector has to upgrade from labour-intensive toward technology driven as a cost improvement path (IMF, 2018). In addition, previous Investment Climate Surveys (2015-2017) as well as consultations with businesses have identified informality as a serious concern of investors, especially in the tourism sector.¹ Informality is perceived by business community as widely spread and single actions are not enough to fully address it.

This technical note intends to provide evidence on the degree to which economic activity in tourism is hampered by informal activity and tax evasion. Apprehending and measuring informal economy in the sector remains challenging due to the sector being based on the shared economy and its interrelations with other value chains. For the purpose of this study, the informal economy in tourism sector will refer strictly to economic activities that involve **monetary transactions but represent legal economic activities, incur tax evasion or tax avoidance**. Efforts have been made to evaluate the impact of tax incentives on formalization and explore the relation between informality and sector competitiveness. The results of the analysis remain relevant to policy discussion, mainly in the fiscal policy area, legal framework and institutional coordination to support sector expansion.

The Secretariat, in fulfilment of its mandate to address business concerns is bringing into the attention of IC the challenge of formalizing economic activity in tourism. The analysis has also taken into consideration issues from several businesses reported to the Secretariat during 2015-2018, as related to the tourism sector in general and more specific informality of the sector.

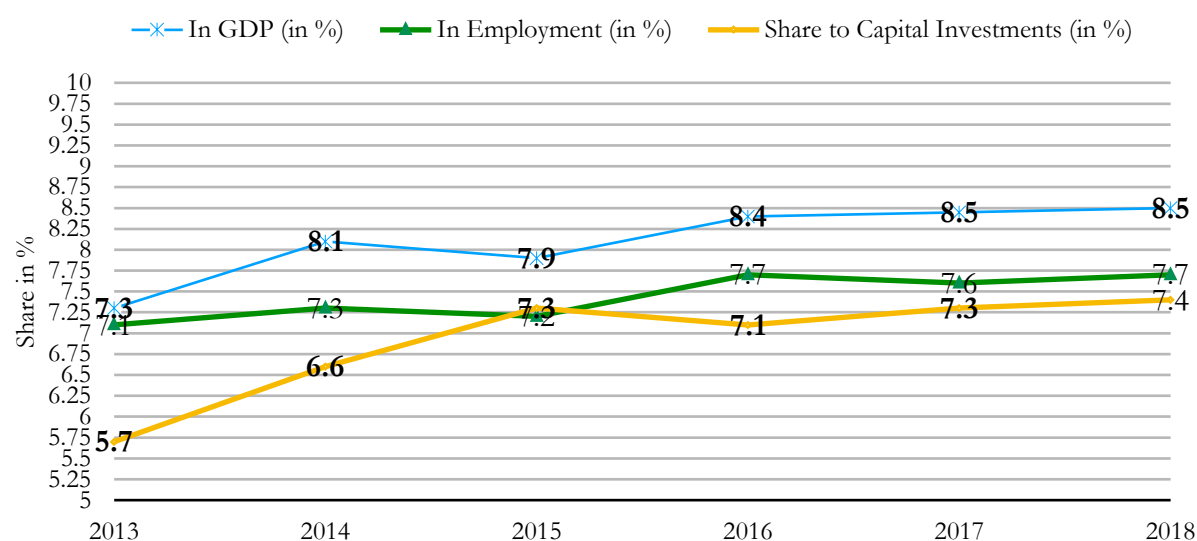
This document is a shortened version of the technical note, which contains full technical data and analysis on the topic. The full technical note is organized in five parts: (i) context of the challenges of the sector and business concerns, (ii) methodology is described for transparency and reference to robust the results in second part, (iii) legal and institutional framework in tourism; (iv) informality, fiscal measures and investment climate followed by an analysis of survey results; (v) main findings and policy recommendations.

¹The collected information, served to the Secretariat to elaborate and further detail the issues and questions for discussing with stakeholders during Focus Group Meetings and interviews. On the above basis, Secretariat prepared structured and tailored questionnaires for public institutions, businesses, associations and experts in the sector of tourism.

II. CONTEXT

Contribution of tourism sector to the national economy is important, especially **in terms of employment and export income**. The high contribution of the sector in employment is result of the labour-intensive nature of the sector (EU Progress report, 2018). **Tourism and travel industry was reported to have a direct contribution in GDP of 8.5%** (in 2017), while indirect and multiplicative contribution of the sector to GDP is estimated to reach 26.2% (WTTC, 2018). The sector generated 7.7% of the employment as direct employment in 2017, which converts to 93,500 jobs. The sector induced employment, or indirect employment is estimated to represent 24.1% of total employment. The sector is expected to generate around 110,000 jobs as direct employment and 344,000 jobs as indirect in 2018.

Figure 1: Contribution of Tourism sector in GDP, Employment and Capital Investments



Source: World Travel and Tourism Council, 2018

Tourism remains crucial to restoring the balance of the current account given the contraction of remittances and FDIs. Tourism exports represent 54.2% of total exports, with a value of USD 1,974.1 Mio, in 2017. In 2017, investment in the sector increased by 7.5% and valued USD 269 Mio. The dynamics of investment in the sector are expected to prevail in years to come, investments in 2018 are expected to grow by 4.4%, while in over 10 years they expect to reach approximately half a billion USD (WTTC, 2018).

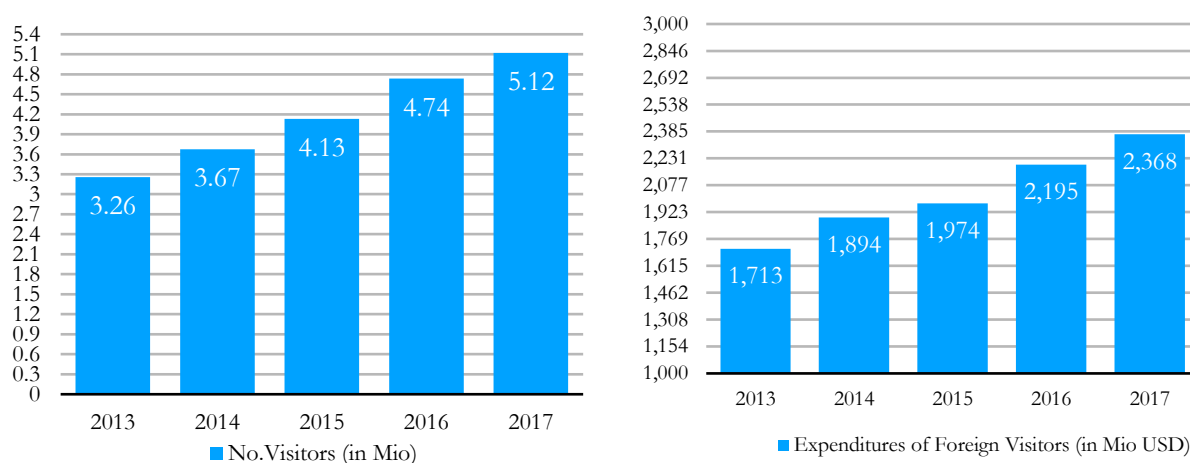
MTE reports that nationally, there are 3,800 accommodation structures which supply 29,000 or 67,000 beds to visitors on daily basis. The highest number of available beds are reported in Shkoder (19,000 beds), Vlorë (18,500 beds), Tirana (11,000 beds), and Durrës (4,500 beds).

The emerging cultural and historical destinations such as Korca, Gjirokastra and Berat report bed capacities lower than 2,000 beds (National Strategy of Tourism, 2018). Accommodation structures are nationally dominated by hotels, 65% of accommodation capacity is offered through hotels or similar structures, resorts provide only 1% of the accommodation capacities, guesthouses 3%, private houses, private rooms renting in private houses or apartments are reported to supply around 30% of the beds at national level. Accommodation structures and other services offered

to tourist are channelled through a network of around 46 tour operators and 154 travel agencies (National Strategy of Tourism, 2018).

Tourism sector is moving very fast toward maximization, during 2018 tourist season, 4.4 Mio foreigners have visited Albania, and compared to 2017, the number of visitors increased by 12%. The share of foreign visitors that choose Albania as a vacation destination is 49%. **Among visitors, the most dynamic group are those staying in Albania for a day visit,** this group represented 10% of visitors and almost doubled in 2018 if compared to 2017 (INSTAT, 2018).

Figure 2: Number of foreign visitors and value of their expenditures, 2013-2017



Source: INSTAT, 2018

Visitors reach Albania as a destination mainly through road connections, 81.1% of visitors reach Albania through road transport. Visitors coming through air transport represent only 11.3% of visitors, while the remaining 7.5% of visitors use maritime transport. Air and maritime transport improvement represent an opportunity for tourism sector, as they are used under potential and cost improvement policies could improve the tourist usage of alternative transport.

Capitalizing on the touristic resources, the main product niche that Albania is planning to support strategically includes costal and cultural tourism, health, bicycle and eco-tourism, rural and mountain tours combined with culinary and tradition. Despite developments in the sector, **Albania remains a relatively new tourist destination, with the challenge to position in the world market.** The dynamics observed among visitors (vacation, and daily visitors), represent an opportunity for the sector from the demand side, however these dynamics need to be matched with supply side quality and competitiveness.

Understanding peculiarities of the sector from the supply side, remains crucial to investors, since many challenges that the sector faces are supply side rooted.

III. METHODOLOGY

The steps undertaken by the Secretariat to identify business challenges as related to the informality of the sector and the impact that its formalization would have on the competitiveness of the sector were as follows:

- **Desk research** on the national legislation covering the tourism sector in terms of regulatory and institutional framework, national strategic documents, regional countries strategic

documents on tourism, other studies and reports on tourism from national and international organizations.

- **A national scale survey was implemented** as source of primary information. The survey aimed to gather information on three broad areas of business and investment climate being, tax compliance and tax controls, investment climate of the sector and informal tourism economic activity. The survey was based on a standardized, closed questions questionnaire, previously implemented by IC Secretariat. The questionnaire was reviewed to accommodate questions on informality. Reviews and suggestions from relevant stakeholders were reflected in the final form, which became available online. The survey timing was selected to be during the tourist season in order to get feedback on daily matters affecting business and investment climate in the sector. The survey was designed to be at national scale, with around **156 respondents companies (44% accommodation & hospitality, 39% travel agency & tour operator, 17% food and drink services) operating in tourism sector had a random chance of being selected of 5.2% ensuring statistical confidence of 94%**. Sample size was determined using population size, sample proportion and accuracy of results as measured by the confidence level². Tourism sector consists of businesses in accommodation and hospitality, food and drink services, tour operator and travel agencies. The questionnaire was sent to sampled companies by e-mail. Survey data were used to understand the degree to which tourism economic activity is intoxicated by informal activity and tax evasion. The analysis was also focused on identifying factors driving informality and particularly exploring the impact of fiscal measures on formalization. A two-stage least square regression was used to estimate the impact of informality on investment climate which is used as a proxy of the competitiveness in the tourism sector.
- **In-depth interviews with stakeholders:** Direct interviews took place during the period July - September 2018 with representatives of the tourism business associations, public institutions, fiscal experts, tour-operator and travel agencies. In total, the Secretariat held 15 face-to-face interview meetings with relevant stakeholders (government, companies, associations, and donors).
- **Consultations with business focus groups:** During September 2018, Secretariat organized in close cooperation with CCIs, three regional focus group meetings in Durrës, Gjirokastër and Korça with 65 businesses operating in the tourism sector. A final focus group meeting was held in Tirana (September 26, 2018) with participation of 20 representatives (from MoFE, MoT, GTD, NTA, Tourism Associations, other Business Associations and experts) to discuss in advance and validate the most important findings and recommendations to be presented at the plenary IC Meeting.

IV. FINDINGS

1. **Although the Strategy of Tourism and its Action Plan (draft) have been subject of consultation, they have not yet been officially endorsed by the GoA.** Additionally, although it acknowledges informality as one of the main threats in the tourism sector, it sets 2022 as a milestone for the registration of the 80% of the shared accommodation (rooms, apartments, houses)³. The objective for formalization of accommodation

² $n=1/\{1/N+[(N-1)/N]*(1/PQ)*((k/Z_{\alpha-2})^2)\}$

³ Page 31 of the Draft-strategy

structures is not addressed through any clear measures or actions, it rather stands as a statement.

2. **The peculiarities of the business model per tourist destinations are to be considered as a driver in public policies and strategic approach (anti-informality measures, distribution of public investments, etc.).** Businesses capacity to digest and intake different policy measures is strongly affected by the business model. The diversification of policy intervention in fiscal area based on the business model is a desirable intervention, however administrative capacities of tax authorities need to be improved. The business model in tourism varies depending on the tourist destinations, with the following pattern were confirmed by administrative data and survey results:
 - Coastal areas are dominated by small and medium businesses, with large companies are emerging.
 - Cultural/historical and not-traditional tourist destinations are dominated by micro family-owned businesses, while small and medium enterprises are emerging.
 - Tirana region reports a larger share of corporates and medium companies operating in the sector.
3. **Tourism sector is characterized by a systemic informality.** Businesses perceive that 70% of their competitors have informality, while 33% of businesses reported to have informality in their own businesses. A higher prevalence of informal activity at national level is reported by large companies and in emerging historical/cultural tourist destinations. Informality is manifested in the form of informal employment (56% of business confirm that informality at their competitor consists of undeclared employees), while 54% declare that informality appears mainly in the form of tax evasion. There are often corrupted practices of doing business and informality and unregistered economic activities as part of the informality of the sector. **Price competition and deterioration of the destination quality are perceived as the negative impact of informality. Informality becomes a reason for more informality, since firms report the unfair competition from businesses that operate in informality, in the same market and locality as the main factor that generates informality.** Businesses are aware of the negative effects of informality, but only 11% report to have strategies at firm level to correct this market distortion. **Businesses during consultation process, longed for policies that improve regulatory framework of the sector and enforce fair competition.**
4. **Tourism sector formalization through adjustment of fiscal policies, incentives and enforcement of tax compliance actions is improved, but there is still to be done.** Consolidation and formalization of the sector is becoming challenging mainly because of the sector's nature and dynamics including here the innovative tourism services offered through shared economy, diversification of touristic services and their distribution channels. **Tax authorities could have limited instruments in identifying informality in the sector.** An important part of informality emerges in the form of unregistered businesses, unidentified by tax authorities, underestimate informality. Many countries have used different data, including those from online booking platforms, to improve formalization of the sector. Identification of economic operators by tax administration in tourism sector and their registration remain crucial to reduce informality.
5. **Central National Register defined as the main instrument/database of the consolidated list of the tourism entrepreneurs is not yet published nor is it comprehensively finalized.** During consultation with municipalities (for example Korca), it came out that the Register is supplied with data from municipalities which refer

only to the registered entrepreneurs in NBC. The register does not contain all businesses which in fact exercise economic activity in tourism. Also, it came out that a significant number of accommodation structures (most of them guesthouses, apartments and small “hotels”/villas) are not at all registered as economic activities although they offer accommodation services during all the year or during the whole tourism season. **In this perspective there is a lack of coordination between the national and local government for identifying all accommodation capacities for tourists and as a result reduce informal activity in tourism sector.** According to some municipalities, the above identification of economic activities remains an obligation of the tax offices. On the contrary, according to the Law No.9632 date 30.10.2006 on “Local Taxes System” (as amended) local authorities are eligible to administrate the *hotel accommodation tax* which could be of importance for their budget, therefore incite them to identify the tourism activities.

The above situation seems to be also related with a legislation gap. While Law 93/2015 included “*guesthouses*” in the categories of tourist accommodation, it did not make any specific reference to apartments/villas in the category of “accommodation structures.” Lack of legal reference creates difficulties for identification and registration of those accommodation structures.

- In some destinations, such as Durrës and Vlora, building blocks of apartments were re-designed as accommodation structures for tourists with significant undeclared turnover.
- While in other destinations such as cultural and historical ones (i.e. Gjirokastra, Korca), private houses or apartments leased to tourists, represent the category of traditional houses that are converted into tourism accommodation structures due to the recent demand for accommodations. Although “informal”, such structures help somehow the economies of the towns rather than damage the state budgetary needs. In this perspective they need to generate more income for families through shared economy and self-employment.

Other countries for example Greece have already included self-catered accommodation-touristic furnished mansions and self-catered accommodation-touristic furnished residences under the category of Secondary Touristic Accommodation as per the provisions of the Law No.4276/2014, the main law for tourism. Recognizing these accommodation structures obliges the individuals conducting such economic activities to register for tax purposes.

6. **Classification of accommodation structures has not yet been performed by the MoTE as per the obligations deriving from the Law 93/2015 and Regulation “On The Conditions, Criteria, Tariffs, Terms and Procedures for Classification of the Accommodation Structures” as approved via CoM Decree No.730 date 20.20.2016.** The electronic portal to facilitate such registration and classification is not yet active. The uncompleted process of classification of accommodation structures has caused a chaotic situation in the market especially among accommodation structures in general and for hotels in particular. Several accommodation structures use distinctive signs (stars) of classification which do not conform to the real standards of the structure or the level of the service they provide.
7. **Although Law 93/2015 has addressed the licensing process of the tour-operators and tourism agencies,** there are still concerns that operators in the distribution chain embark in high informality, posing risk to tourists of not being provided with the required services.

8. No “agro-tourism activities” have so far been certified as per the provisions of the CoM Decree No. 22 date 12.01.2018 “On the approval of the criteria for certification of agro-tourism activities” (CoM 22), and which by 2019 should be subject of the fiscal incentive, reduced 6% VAT.

While CoM Decree no. 22 in Part II has set the criteria for such certification, MoTE and MARD through a regulation have set additional criteria beyond what the above decree authorizes. Through this Regulation the entrepreneurs should also submit the property document of the farm/land where the activity is run or the lease contract valid for 5 years. It is important to bring to attention that such types of activities are organized in rural areas where the land property is not yet fully registered for several reasons. Therefore, there is a high probability that while the incentives exist into papers, only few entrepreneurs might be subject of eligibility criteria. For a larger impact of the fiscal incentive, it would have been preferred that certification as “agro-tourism activity” was linked with the activity rather than with the property of the land.

9. **Implementation of reduced VAT 6% for accommodation structures as of June 2017 was subject of contradictory interpretations into practice and it was associated with struggles.** VAT reduction took place after the entry into force of the *Law No.71/2017 “For an Addition to the Law No.92/2014 “On VAT”* as amended. Further clarities on the implementation of the reduced VAT to 6% for accommodation services were made in the CoM Decree no. 953 dated 29.12.2014 (as amended) according to which 6% VAT should be applied only to the “accommodation” or “accommodation + breakfast” supply in the cases of packages.

Additionally, this Decree states that for the purpose of applying the reduced VAT rate, taxpayers, which in addition to the activity in the field of *accommodation structures as per the legislation on tourism⁴, conduct other activities, should registered at the National Business Centre as separate taxpayers by reorganizing their economic activity*, as defined in Law No. 9901, dated 14.4.2008, “On Entrepreneurs and Commercial Companies” within 3 months of the entry into force of this decision. **The above provision was not clearly transmitted to the entrepreneurs and they were not sure if they had to register as separate activities and with separates NUIS, the bar-restaurant, hotel, beach-bar, although these elements were part of the same accommodation structure.** As confirmed to the Secretariat, few entrepreneurs have done so, others have continued to apply 20% VAT to the accommodation service waiting for a final procedure to be communicated, while some others have not had any issue, by applying via the same fiscal equipment, 6% VAT for accommodation service and 20% for the rest. Based on the consultations the Secretariat had with entrepreneurs, some of them pointed the finger toward the Regional Tax Offices for lack of guidance (for example in Korça) or for misleading them during the information sessions (for example in Durres).

This issue was definitely cleared by GTD through a Memo⁵ in early September 2018, stating that: **reorganization of the economic activity, thus the segmentation as per the type of activities via separate NUIS should be done only in the cases where a company additionally to accommodation structures performs commercial activity**

⁴ *Law No.93/2015 gives a clear definition of what an accommodation structure is. More specifically: “Accommodation structure” means the facility that makes available to tourists, domestic or foreign, individuals or grouped, for an indefinite period of time, but not more than one year, accommodation services (lodging, food, drinks and other services), in accordance with the standards defined by its classification and categorization.*

⁵ *Due to several questions raised into practice by the businesses.*

which do not fall under the scope of tourism such as commerce, energy, construction etc. Therefore, in the cases of resorts and/or hotels which offer as part of their accommodation services, additional tourism services, such as bar, beach-bar, restaurant, leisure activities etc. there is no need for any reorganization.

10. **Some provisions of the by-laws (MoFE Instruction No.24 dated 02.09.2008 “On Tax Procedures” and CoM Decree No.96 dated 17.02.2010) related to the issuance of the fiscal coupon for accommodation and restaurants and managing of fiscal printers, can be improved in order to fit better to the model of accommodation structures (i.e. hotel/resort). This could reduce the confusion created in some cases⁶.** During the consultation meetings with several entrepreneurs in tourism sector and with business associations operating in the sector, they argue that provisions of the Instruction that imposes issuance of the coupon for any order in bar, restaurant, and for each night of stay in hotel, it is outdated and leaves room for arbitrary actions especially by the tax administration. Sometimes they have been subject of fines for non-issuance of the coupon even when the client had not made the check-out yet. It is worthy to underline that such cases (i.e fiscal coupon, fiscal printers etc.), are the main issues that lead to disputes and tax appeals to the TAD, although their minor importance.
11. The Secretariat mapped geographically the impact of the latest VAT tax reduction in reducing informality as a way to measure sensitivity of informal economic activity to fiscal policies. **VAT reduction from 20% to 6% for accommodation and hospitality services had an immediate impact on reducing informality as confirmed by 26% of companies responding.** Big companies and those operating in Tirana region confirm a stronger impact of the VAT policy on formalizing accommodation services. This impact is reported at lower propensity among small companies and those operating in cultural and historical touristic destinations, where the dominated business model are small and micro enterprises, not impacted by the VAT policy intervention. **The analysis showed that VAT reduction did cause contraction of the informality, but it also gave some space to companies to invest or improve employment.** Coastal and seaside businesses as well as big companies have reported a higher propensity in inducing investment because of VAT tax reduction, 42.9% of companies in coastal areas and 40.4% of large companies have reported to use VAT reduction funds in investment and quality improvement. Large companies as well as companies operating in Tirana area have benefited from the VAT reduction to increase employment, or probably to formalize employment. The VAT tax cut was used in cultural and historical destinations or non-traditional tourism destinations to afford cost of registering or formalizing their activity.
12. **Businesses call for diversified fiscal interventions to support formalization, in compliance with business model and destination. Businesses ask for coherence among fiscal stance and the public investment agenda.** Public investments that capitalize on large international investments such as TAP Pipeline and enable the access of local businesses to alternative energy sources were required by business representatives (Korca) in order to support their tourism sector to gain cost efficiency. Need for public investments in the promotion of destinations, roads, clean environment, green and sustainable alternative energy was posed in all consultation with business representatives.

⁶ For example there is a confusing situation related to the selling documents for tourism packages of tourists groups, when accommodation structures are still required to issue a fiscal coupon on their own for the incurred selling activity, despite the payment made in the end of the service by the tourists.

- 13. Analysis confirmed the positive impact that fiscal policy could have on the level of informality, however interestingly, it seems that frequency of tax visits or tax controls impact on informality is modest. What affects significantly informality is the soft side of tax authority intervention - such as professional inspections, clear and very accurate reporting from any inspection and information sharing between tax authorities and businesses.** Inspectors are perceived to have ethics, however when it comes to professional skills, businesses show criticism. Large companies have a better perception on inspectors' professionalism and behaviour, most probably because they are served by the big taxpayer office and not by regional tax inspectors. Businesses are modestly satisfied with recommendations, references and conclusions of the reports delivered by tax inspectors. Small enterprises or companies operating in non-traditional tourism mountain areas report to perceive the findings reported by tax inspectors as unclear, and as a result they face more difficulty in trying to address them.
- 14. Tax compliance education, information and awareness is reported to be weak among companies operating in tourism sector, with the weakest level reported in the most dynamic touristic destination as coastal and seaside destinations.** Given the low rate of businesses reporting to have received trainings (at national level 14.1%) the need for intensifying communication of tax authorities with business community, from formal exchange of official notes, sometime authoritative visit to platforms of dialog, information and knowledge transfer would be necessary.
- 15. Although there are positive perceptions regarding tourism investment climate (registering, licensing, etc), still the sector is hampered by low quality of human capital and access to access to finance.** Regulatory reforms have improved noticeably the investment climate, businesses perceive as favourable registering, licensing and establishing a relation with the tax authorities while undertaking a new investment. Complexity of legal framework, transparency on legal framework and investments incentives to new investors is perceived moderate. The lowest level of clarity of information was reported among businesses in the coastal areas, and among small companies (which for the sake of this report are those with turnover less than 8 Mio ALL).
- 16. Access to finance for the sector was also considered a barrier to new investments.** The perception contradicts with the availability of credit at second level banking system. It is for some time now that banks have tighten the conditions for crediting in order to reduce the risk, however the system is very liquid and there are available funds. Ownership of land, viable business plans and informality in declaring financial indicators (profit and cash flows) are main reasons of constraint to access financial resources.
- 17. During the consultation meetings with different actors in tourism sector it was underlined the low prevalence of transactions with debit/credit cards in tourist areas. This is perceived as an issue more from the tourist point of view, rather than from the owners of accommodation structures/restaurants/bars etc.** Owners confirmed that they were equipped with POS terminals that allow debit/credit card payments and they use them on the customer request, while tourists have experienced lack of such facility, performing therefore cash payments. Several studies have confirmed a direct correlation between the level of informality and low level of transactions via electronic means such as POS' Terminals⁷ or mobile phone payments especially in sectors of trade and services. Since cash payments leave no electronic trace, it is relatively easy to avoid reporting them. Cash payments can therefore be the cause of shadow economy of activities operating

⁷ *Reducing the Shadow Economy through Electronic Payments-Ernst &Young/ MasterCard (2016)*

in tourism, as they provide an incentive not to report the transaction and evade tax payment, “helping” owners to “control” the turnover declared for tax purposes as well as the VAT to be paid. On the other hand, there are no fiscal incentives for customers (tourists) while using card payments, to increase somehow the need for using POS terminals. Additionally to that, tourism services (i.e. accommodation) remain still organized on spontaneous basis and there are not imposed any significant restrictions on the use of cash-payments to change somehow the trend. Referring to the official data from BoA⁸, total number of POS terminals in Albania by 2017 was only 7,294 out of which 6,269 in Tirana region. By T1-2018 the total number of POS terminals increased to 8,157, but still the lowest in the region.

- 18. Lack of trained staff to support the development of tourism services.** Businesses during consultations pointed out the difficulty in hiring well trained staff, in Gjirokastra a representative from businesses quoted ...“We have tourists but we cannot find waiters”. Demographic changes and migration have strongly impacted some of the regions, posing constraints on availability of qualified staff. In some regions lack of professional schools or training programs was identified as main concern regarding quality of human resources (e.g. in Gjirokastra). In Korça region, businesses identified a rigid cooperation between the sector and education institutions such as university or VET schools. The difficulty to attract interns from abroad to work during the season was also mentioned as a barrier to fulfil the need for English speaking staff or tour guides.

V. RECOMMENDATIONS

The recommendations are designed in a way that they tackle informality in different ways, as per its forms of materialization. The Secretariat has been very careful in drafting them in alignment with legal framework and strategic development, contextualizing them into practical and able to be implemented actions. Endorsement of this recommendation remains subject to further discussion in the Investment Council.

Recommendation 1

Finalization and the approval of the Strategy of Tourism. Aligning the objectives between MoTE and MoFE with regard to the actions, concrete measures and responsible Agencies to tackle informality in the sector. The issue of identification and registration of accommodation and other services in tourism sector needs to be addressed. Establishing clear milestones for formalization, actions and modalities that address the identified problems, could make the goal of the strategy realistic.

Recommendation 2

⁸ <https://www.bankofalbania.org/Pagesat/Statistika-te-sistemeve-te-pagesave/>

There is a clear need to strengthen the governance of the tourism sector at local level. Tourism is a strategic sector at national level, however it remains a local shared economy. Considering this, such local government need to be more active in monitoring the sector development, better fulfil their obligations, establish dialog with businesses in order to bring their voice to policy making.

Recommendation 3

The business model and features of informality are diversified per typology of tourist destinations. Therefore formalization strategies could be tailored accordingly and grouped as following:

- Group 1 - formalization/registration + tax controls for cases where the construction industry is to a certain level converted into a “touristic” one by leasing massively apartments to tourists. The impact in budget losses from this informal activity is significant (main cities like Vlora, Durrës, Shëngjini, Saranda etc.)
- Group 2 - simple registration of small accommodation structures (which do not exercise pure economic activity) only for touristic purposes and not for fiscal ones (e.g. historical destinations such as Gjirokastra, Berat, Korca). However, these kind of “microbusinesses” should be subject of local or national authority’s inspections regarding compliance with the hygiene and sanitary standards and subject of assistance to gradually shape into sustainable businesses.
- Group 3 - formalization of the activities promoted via online platforms such as Airbnb in main cities like Tirana, Durrës etc. through self-declaration as already declared by GTD.

Anti-informality agenda has to tackle the informality in compliance with the forms it manifests itself per different destinations and per different business model (micro, small and medium businesses).

There are at least 3 (three) typologies of informality, depicted through data and consultations; (i) informality as unregistered operators, (ii) informality as tax evasion and (iii) informality as undeclared employees. Anti-informality measures should be different per each type of informal activity, and as a result the recommendation are summarized accordingly.

A. Anti-Informality Measures for unregistered economic operators in the sector

Recommendation 4

Identification of all the accommodation structures as defined under the Law no.93/2015 including also apartments/villas and guesthouses which exercise economic activities in the field of tourism, via a coordinated campaign between GDT, MoTE, Regional MoTE Units and Municipalities. Registration of guesthouses which offer accommodation services on occasional basis and for a limited period of days, in cultural/historical destinations on yearly basis as accommodation structures with NUIS/ID, but out of the regime of physical person for national

and local tax purposes, might be considered as a solution. For this purpose several legal amendments/or new law might take place in order to offer certainty to such micro-businesses that the registration process is related to “tourism purposes” rather than for “fiscal ones”. This model of economic activity, in newly emerging cultural/historical destinations is supporting the improvement of supply side through shared economy. This business model is also social in nature, it provides an employment and income source to regions suffering under development and demographic changes.

Recommendation 5

Classification of accommodation structures as per the provisions of the Law 93/2015 and modalities stipulated by the Regulation “On the Conditions, Criteria, Tariffs, Terms and Procedures for Classification of the Accommodation Structures” as approved via CoM No.730 dated 20.20.2016 is a must to be done in order to further tailor the measures for tackling the informality in the sector, especially fiscal policies.

Recommendation 6

Identification and registration of accommodation structures could be finalized with a simple labelling of formal operators in tourism sector - which states that the operator are recognized as registered operator. This labelling has been used in neighbouring countries such as Greece/Croatia as a transitional measure toward full formalization of the sector. This is a preliminary step until the National Register is consolidated.

Recommendation 7

Various structures and institutions from time to time provide contradictory information on the level of informality. In this aspect, based on the fact that without having an accurate and real assessment database, it is not possible to achieve an optimal result on anti-informality. Therefore, having a unified method for the assessment of informality level on sector basis becomes of particular importance. **We recommend that information from different data sources - INSTAT, Tax Authorities, Local Authorities, online booking platforms etc. be brought together in order to update and make accurate the information base. MoFE or Tax Authorities could lead this process of data consolidation.**

B. Anti-Informality Measures for Informality as Tax Evasion

Recommendation 8

Amendments of the MoFE Instruction No.24 date 02.09.2008 “On Tax Procedures” and CoM decree No.96 dated 17.02.2010. The purpose of these amendments should be facilitating doing business and finding out innovative solutions such as enabling issuance of a “summary coupon” associated with a “detailed list of orders” for services offered in accommodations structures,

by making formalization process easier. These changes would improve tax administration while monitoring fiscal equipment, moment when the coupon is issued etc. and would provide a tailored model for businesses operating in tourism, reducing also the tension created between the entrepreneurs and tax administration.

Recommendation 9

Encouraging non-cash payments through POS terminals and electronic payments could impact the high level of shadow economy in the tourism activities, it would increase the tax compliance of business and it would significantly contribute to the increasing of transparency and reputation of Albanian tourism offer especially to foreigners. The means on how to struggle with this challenge would be subject of further discussion with BoA, banks of second level and MoFE, aiming to find an acceptable solution and avoiding additional costs for businesses especially for micro-businesses. The international practice offers several measures that can be followed⁹. Additionally to the above, implementation into practice of the rules on categorization and classification of the accommodation structures as per the provisions of the CoM Decree No.730 dated 20.10.2016 “Approval of the Regulation on the Conditions, Criteria, Tariffs, Terms and Procedure for Classification of Accommodation Structures”, which impose use of POS terminals in 4 and 5 star hotels/resorts, would help to the formalization.

Recommendation 10

Informality from accommodation facilities penetrates the market through the chain of tour-operators, which need to be subject of better monitoring and joint inspections between GTD and Inspectorate on Tourism, ensuring compliance with regulatory and fiscal requirements. Business Associations operating in this segment may help to identify the processes which need to be formalised.

Recommendation 11

Anti-informality programmes should be developed for the tax administration but also for the inspectorates which monitor the conformity of the market on permanent basis. This platform should be implemented on regular basis, seasonality has had a negative impact on business activity and tourists perception. Based on the study findings and the consultations with the business it comes out that it is not the frequency of tax inspections which makes the difference, but rather professionalism of the process, clarity of information and cooperation not commandment on how to formalize. In this aspect, it is important to acknowledge that businesses

⁹ 1) Obligation to operate POS terminals for selected types of businesses (i.e. tourism services). South Korea is known for promoting electronic transactions by applying a wide range of policy tools. In 2001, card acceptance was mandated for all VAT-paying businesses in the country. Moreover, in 2002 South Korea imposed fines for card refusal; 2) VAT deduction on electronic payments accepted by merchants (example Uruguay where 2 p.p. VAT deduction on electronic payments accepted by merchants has recently been introduced); 3) Incentives for customers while using POS terminals (VAT deduction); 4) Incentives for customers for being equipped with debit cards.

confirm a degree of readiness and awareness to engage in formalizing their economic activity. This represents a momentum for the anti-informality agenda and a factor to capitalize. The informality patterns show that informality soared because of next-door informality. Best practice, communication and awareness could be used to revert the spill-over effect of informality.

C. Anti-Informality Measures for Undeclared Employment

Recommendation 12

Informality as unregistered employment, overpasses that of not-issuing coupon, as per business reporting. Supporting businesses with off seasonal social contribution would improve the situation with seasonal employment. Paying through active labour market measures of social contribution for seasonal employees out of season period will improve formalization of informal seasonal employment in tourism sector.

Recommendation 13

Introduce training programs for employees during the off season period, at the verge of the touristic season. This will improve hiring of employees, improve the quality of staff as demanded by many companies. This training scheme could be part of the Active Employment Measures delivered by GoA.

Recommendation 14

Internship and seasonal employees legal framework needs to be adjusted to the nature of this employment scheme. The requirement for such employment scheme are treated similar to full-time employees, posing unnecessary cost of hiring staff for seasonal or internships employment schemes. There is a discussion at national level to improve terms of engagement for internships that practice during education cycle. Tourism business associations have to engage in that discussion and contribute.