

SUMMARY OF MEETING MINUTES
INVESTMENT COUNCIL (IC)
MEETING XIV

On the Formalization and Competitiveness in Tourism

Tirana, 15 October 2018, 15h30 – 17h15

The meeting was held at the Ministry of Finance and Economy (MFE) and it was chaired by Mr Arben Ahmetaj, Minister of Finance and Economy, with the participation of 12 IC Members and representatives from several groups of interest in the tourism sector. The meeting was attended by around 25 observers representing the business community, domestic and foreign business associations and representatives from state institutions such as Ministry of Tourism etc.

I. Opening of the meeting and speech by IC Chair, Minister Arben Ahmetaj

The IC Chair, Minister Arben Ahmetaj, opened the meeting by thanking all the participants for their presence. In the agenda of the meeting was the formalization and competitiveness of the tourism sector, with reference to the last tourist season, achievements and some considerations from the Investment Council. The analysis of the Secretariat highlights some findings, including business perceptions as relates to the fiscal aspect, but also perceptions as regards to the formalisation and investment climate in the sector. 2018 tourism season, as it was confirmed also by the participants of the industry, was practically the best tourist season of many years and a record year for the number of foreign visitors. In the same time, also from the formalization aspect, it may be concluded that it was a very good season.

Obviously, tourism growth is not unforeseen. During the past 5 years, Albanian economy has performed in a sustainable growing trend. During 2013 growth was only 1%, meanwhile for the first half of 2018 growth was 4.4%, the highest growth in the past 8 years. In 2015, when Tourism was under the Ministry of Economy, the Ministry initiated important legal improvements to the Tourism Law. It was consulted with all stakeholders, in liaison as well with the Law of Strategic Investments, the Law on Economic Areas, offering concrete initiatives for the promotion of domestic and foreign investments, also in favour of tourism.

From the fiscal aspect, reduction of the VAT at 6% for accommodating structures, coupled with the fiscal facilities for agro tourism, has given an impetus to the development and growth of the sector and it will continue to do so. During the past 4 years, tourism has increased its contribution to GDP by almost 1 pp per year, representing already 15% of the GDP, from 11.5% in 2013. Tourism brought to the Albanian economy a historic income of 1.7 billion euros in 2017, 12% more compared to the same period of a year ago. Growth is significant, from 1.1 billion euros in 2013 to 1.7 billion euros in 2017, and in 2018 it is expected to amount over 2 billion euros. In 4 years, incoming flows related to tourism activities have increased by 54.3% or on average by 13.5% each year. According to INSTAT, the number of foreign citizens entering our country in the first 8 months of 2018 is 4.4 million, increasing by 12.4% compared to the first 8 months of 2017.

At the end of the tourism season, the Ministry of Finance and Economy analysed in depth the outcomes of this season, focusing in 5 main regions: Saranda, Durrës, Lezha, Shkodër and Vlora. General Tax Directorate has performed a very good work in two directions, i) in the

formalization aspect and, ii) in their approach with the business, assisting them on fiscal education.

Minister Ahmetaj shared some findings from the General Tax Directorate.

In June-August 2018, in the above regions, there has been an increase of about 19% of new net businesses or 1,012 more businesses in just these 2 months compared to the same period in 2017. Turnover for the period June-August 2018 has increased significantly compared with the previous year. Referring again to the 5 municipalities mentioned above, there is a total turnover increase of 12%. The largest increase is in Saranda with 48%, Durres 10% and Vlora 14%.

In addition, as regards employment, by the end of August 2018, compared to August 2017, there are 34,000 more employees in the national tax payroll. In the 5 main touristic regions, there are 11,811 new jobs. Only during June-August in these 5 municipalities, there were 11,377 employees, a direct outcome of the tourism season.

Minister Ahmetaj tackled also the issue of vocational education. The biggest challenges are to supply all this increased demand with adequate services. In a survey with companies, one of the main reported concerns was the professional preparation of the staff in almost all the surveyed regions. To date, there are 2,711 students in vocational education schools in the tourism profile for the academic year 2017-2018, almost 1,000 more students compared to the previous year (1,692 students). There is a growing interest due to the employability level that these professions have, which will continue to be increased in the future. On the other hand, the employment rate in these profiles is 80%.

There is an increase in the accommodation tax, important for the local governance of 15% during May-August 2018, compared to the same period in 2017.

From the application of the reduced VAT at 6% benefitted 1,584 companies. For the period June-August, there have been over 5.2 billion ALL of the sales at 6% VAT, for the companies benefiting 570 million ALL, i.e. USD 5.7 million, decrease in VAT payments, saved by these 1,584 companies which they can use for investment or cover their own expenses, and this has happened in only 3 months.

Minister Ahmetaj mentioned also the package for 5-stars hotels. The interest in building accommodation structures with 5 stars is on the rise. Requests have been submitted to the Ministry of Tourism and to the Prime Minister's Office. More than 4 projects have materialized the first phase of preparation with a detailed file. The package for 5-stars hotels includes reduced VAT rate at 6%, zero profit tax for a period of 10 years, zero infrastructure tax and property tax. In consultation with the business, the Government extended the package on the other side of the 5-star hotel spectrum. The Government has promoted big investments of 5-stars hotels, while on the other hand, it has promoted the agro-tourism package, which offers more or less the same alleviations, reduced VAT at 6%, reduced tax on profit at 5%, and a number of procedural facilitations to develop both sides of the same spectrum. A five-star hotel starts with a considerable value of over 10, 15, or 20 million euros, and depending on the size, the project can go over 50 or 60 million euros. While the agro-tourism package focuses mainly on the development of bio tourism, it directly affects employment in areas which are not entirely touched by economic development.

Additionally, IC Chair briefly mentioned for all the participants some of the features of the Fiscal Package 2019.

In conclusion, Minister Ahmetaj reiterated that the formalization of the tourism sector remains a challenge. During this tourism season, many tax inspection structures have been engaged especially in tourism areas. The findings are significant, but beyond the figures, there is still room

for improvement in this regard. From over 9,900 on-site tax inspections, have been found over 3,500 violations with over 130 million ALL of penalties. Purpose of these inspections has been taxpayers' education and, of course, further formalization.

A step further has been made as relates to the formalization of accommodating structures. Negotiations have initiated with the digital platforms of Booking.com and Airbnb, to obtain official information from these platforms for all those leased structures in the territory of Albania, which are out of the radar of the GTD or of the fiscal institutions. Soon, due to this major fiscal reform, the battle against informality will go to another level.

At the end of his speech, Minister Ahmetaj informed the members about a very important digitalization project that will make online and in real-time all B2C and B2B transactions. This is expected to escalate government's battle for formalization in a more intelligent approach.

II. Presentation 'On Formalization and Competitiveness in Tourism' – Secretariat of Investment Council

Ms Diana Leka, IC Secretariat, delivered a presentation to the IC Members on the topic of the meeting. The presentation was divided in three parts: i) Object & Methodology, ii) Context (*Strategic & Regulatory Framework of the Sector, IC Survey 2018, Specific Incentives*), iii) *Findings & Recommendations (Strategic Approach, Legal Obligations for Formalization, Institutional Capacities, and other)* prepared by the IC Secretariat in close cooperation with experts, companies, business associations and institutions. In addition, Ms Leka presented some comments and issues raised by the business community in the IC Survey (July-September 2018) as well in the consultation tables held during September.

III. Summary of the main comments raised during the Meeting

Mr Matteo Colangeli, EBRD, acknowledged the positive figures showing a strong growth of the tourism sector and of the number of tourists in Albania. However, he also noted that the average amount spent by each foreign tourist has actually declined from \$525 in 2013 to \$460 in 2017. In his view, the focus in the future should shift from increasing the number of tourists to increasing the average amount of money they spend in the country.

Mr Colangeli made the following remarks on the impact of informality for the competitiveness of Albania's tourism:

Firstly, the predominance of cash transactions does not only enable more grey economy but it constitutes a competitive disadvantage for Albania, particularly with regard to attracting more independent foreign tourists. Operators in the tourism sector should offer the possibility to secure a room reservation and pay for services by card.

Secondly, access to finance is severely limited by informality which makes it unduly difficult to obtain loans from the banking system. This is a material impeding factor in improving the quality of the accommodation stock in Albania, which should be a more urgent priority than new construction. In this context, the fiscal incentives introduced by the government in support of the sector and particularly those related to agro-tourism represent a very good step forward towards more formalization and more investments.

Thirdly, it is important to strengthen the role of local government in the governance of the tourism industry. In particular, a stronger link should be established between what operators in the tourism sector pay, especially in regards to local taxation, and what they receive in terms of

local municipal services, such as for example efficient waste and environmental management, which is a key factor in attracting and retaining higher spending foreign visitors in the country.

EBRD is working on a number of sizeable projects that should be under implementation as soon as next year, particularly for the improvement of the infrastructure which is necessary for the development of the sector. In this regard, EBRD is working closely with the government, the EU and the World Bank.

Olga Anghelakis, EU Delegation, while appreciated the IC good work related to the tourism data brought to the table, she mentioned that from 4.4 Mio of visitors during January-August 2018, 2.1 entered Albania in August. This means that the concentration and the seasonality are very high, and foreseen to increase. The old economic cycle is disturbed by this concentration activity during one month.

Another issue to be regulated in tourism is related to the construction of very large resorts in areas of potential environmental interest, such as the case of Divjaka, in proximity to Karavasta National Park. Therefore, it is important to develop more environmental and sustainable models of development that protect biodiversity and other natural resources which constitute a richness and another value for Albania compared to the neighbouring countries but also to the European Union countries. The EU Delegation supports the recommendation to adopt the National Tourism Strategy. Their official comments have been shared with the responsible institution, hoping that some will be taken into account, while they look forward to having the final adopted version of this very important strategic framework. The same also for the structural reforms singled out in Economic Reform Program 2016-2018 and 2017-2019, which have to do with the classification and accreditation of the accommodation structures, very important to develop quality tourism in the country.

Minister Arben Ahmetaj, confirmed that EBRD is supporting the tourism sector via a co-funded loan with the World Bank related to direct interventions in the tourism infrastructure, more specifically on the connectivity of tourism destinations. Apart from the high number of visitors, it is time to focus on the improvement of the quality in order to increase the added value in the country. As related to the main focus of the formalization campaign, the Minister mentioned two of the four important factors, i) tax evasion, ii) non-declaration of the employees. They are both actually related to tax evasion. In the IC Survey 2018, some contradictions are noted on the way how the businesses react to informality. To the question ‘*What brings more risks in a business?*’ the business ranked at the last position - tax inspector. While on top was ‘unfair business practices’ which is practically evasion. On the other hand, around 74% nation-wide affirm that there is evasion.

Government’s focus for formalization will be in three directions:

1. *Infrastructure*. There are many projects nowadays for the improvement of connectivity. There is a WB project of \$74 Mio for intervention in the tourism infrastructure in specific areas in the South. Another WB and EBRD project regarding the whole backbone of Albania from the North to the South combined with direct funding from the government, but also with other instruments such as PPPs. In three years, thanks to PPPs there will be roads which could not have been constructed in 20-25 years. There is also a nationwide big intervention package for the improvement of water management, especially drinking one, in collaboration with KfW, with a special focus of the coastal line.
2. *Formalization*. This enables the Government to get the return of investments in the territory via the infrastructure of all types.

3. *Fiscal package.* Although VAT was reduced to 6%, it did not incite price reduction, instead saved money went as a profit margin. However, in a way, the sector was subsidised indirectly. It would be good if in the next three-four years the whole package is used for increasing the quality of capacities in order to reach the optimum balance between the number and quality.

Infrastructure investments have increased to 1.1 billion from PPPs. The fiscal package remains the most incentivising one, and Albania is nowadays ahead of the region. The government developed also the package for 5-star hotels to attract brand names and to build excellence centres. It is needed to fill the gap between the skills needed by the sector and those offered by the labour market. Business should also reflect- which of course might need some time, in order not to run to lower prices but to increase the quality of the services.

Tourism is the most informal sector. Formalization is a key challenge. Education should not be only made by the Ministry of Finance and GTD. It is controversial to think that formalization is made through repressive measures and not sustainable. Formalization should be made through self-education of the sector, also facilitated by business association's initiatives to address the key challenge of unfair competition.

Mr Enver Mehmeti, ATA, mentioned that tourism sector is in a unique moment especially the Albanian coast, quite dynamic due to the high interest for the seaside while the tourism model needs to be discussed more. He suggested to review the current draft of the strategy, clarify the tourism model and protect our seaside from the construction of touristic villages which could damage the coast. He expressed ATA's support to the government for the formalisation of the sector (in the case a task force will be set up). Currently, Albania needs a strategy for investment in the tourism for all 365 days of the year. Growth in the past 2 years has been quite unexpected and the business learnt from this experience. Central government, local government and the business should work together to make clear the future steps in tourism. Undoubtedly, the reduced VAT at 6%, requested by the business for many years, has had some effect on the industry. Informal businesses should be educated and penalized, and it cannot be accepted nowadays that a business does not pay energy. More than 50% of revenues in the sector come from the leasing of apartments. Let's make today a call to get registered, and raise accountability. The government should impose a tax (as per specific regions), a deadline and penalties – if we want fair competition and increase support to local investors. Regarding seasonal workers, Mr Mehmeti asked the government to subsidize the social contribution for these workers for 5-6 months in a year. Mr Mehmeti required a balance between national and foreign investors for accessing incentives in the 5 stars hotels package.

Mr Zak Topuzi, ATA/Hotel Mondial, said the EU Directive 114 was adopted in 2006, while in Albania the VAT was reduced only in 2017, however, giving a hand in the formalization of the sector. The most informal part of the sector does not come from hotels but from unsold apartments/villas and may be linked with a legal gap, which may be adjusted. There are about 6,400 accommodation structures registered in online platforms, while 3,900 structures are registered with a NUIS. This means 30%-40% are unregistered. The biggest **formalization burden** is held by the formalized hotels. Mr Topuzi, speaking on behalf of ATA's accommodation division, reiterated to partner with the government as relates to efforts for the formalisation.

The whole region has used very stimulating policies for tourism, based also on the EU Directive 114/2016, such as reducing local taxes, subsidizing each incoming tourist with EUR 10-15, subsidizing the social contribution of the staff, etc. Currently, Albania has not enough accommodation structures, and there is a need for policies to increase the number of accommodation structures including hotels and resorts which serve to tourism, not tourism villages which deploy the area. Lastly, Mr Topuzi made a call for collaboration with the GTD to

improve Instruction no. 24, which has created some implementation problems for the hotels such as, among others, the parallel fiscal printer. This is a very concerning problem for the whole industry.

Ms Vasilika Vjero, GTD, informed that in the last information roundtable held, GTD explained the seven paragraphs of the abovementioned instruction. There were some misunderstandings on the instruction from the tour operators, which were considered as clarified. However, GTD is willing to further discuss and clarify all the issues. Rather than problematic issues, there were more misunderstanding issues related to the specific aspects of the instruction. However, this is a new IC recommendation, therefore it can be reconsidered again.

Mr Kliton Gërxbani, ATOA, supported formalisation efforts on including all informal structures in the system. It is needed to find forms for formalization and to have a database of all the structures that will help to solve the complexity of tourism issues. Referring to the IC survey, it came out that 74% of the tourism market is informal –meaning that out of 5 Mio of incoming tourists, over 3 Mio are served by unregistered structures. This means that formalized companies may not be able to survive in the future due to the unfair competition. He mentioned that the focus should be on 3-4 star hotels. A major part of the market of tour operators remains informal also due to some gaps in the legislation. Tour operators cannot currently operate with the legislation in force, because tour operators do not provide insurance policies. This is because in the law it was not specified the base amount for insurance. He demanded from GTD flexibility to discuss at technical level new innovative issues that the tourism brings. Once businesses are on the system, it is difficult for them to get out of it. There has been an increased number of workers in tourism. Reduction of VAT has influenced also in the reduction of price, although it is to be further analysed for per specific segments. Apartments should be included in the law and formalised.

Mr Arben Ahmetaj, stated that despite whether the apartments are included or not in the law, for as long as they carry out an economic activity, the owners which rent apartments should declare to tax authorities their rent revenues and pay 15% income tax.

Mr Maksim Hoxha, CCI Gjirokastra/Hotel Çajupi, confirmed the positive trend and unique moment of tourism not only in Gjirokastra, but also in Tepelena and Përmet. As relates to the formalisation steps, he suggested to consider Greece (EOT) example – all the formal accommodation structures to have a distinguishing label delivered by registered local or national structures. This is already proposed to the Ministry of Tourism and included in the IC recommendations. Mr Hoxha supported the initiative of Minister to cooperate with international platforms and emphasized that formalization should not be tackled only from the fiscal aspects, but also from other aspects, such as the health safety, especially for restaurants. We should intervene now. Later, due to the high number of tourist coming in our cities with no proper conditions, this might turn into a boomerang.

Ms Natasha Ahmetaj, Bank of Albania, expressed approval in principal of the recommendations prepared by the Secretariat, tackling in specific the Secretariat's recommendation for extending the POS activity in the country. Two steps can address this problem.

1) BoA is working with the WB and MFE for a national payment switch. One of the reasons why the businesses do not accept the use of POS was because of the cost (commission fee). It is impossible to go under the threshold fee imposed by the international banking system for the use of credit cards. The national payment switch will facilitate a lot the use of online payments, and it will automatically make more acceptable the use of POS by the business.

2) Since long, the banking system has been *avant-garde* by investing in POS and credit card technologies. The request from the tourism industry came before the offer from the banking

system. The business model will make it obligatory the use of POS. POS should be accepted in every commercial unit to allow the customer to use a widely accepted payment instrument. Perhaps the equipment of the business with POS terminal should be obligatory, to enable every customer the alternative of payment by credit/debit card.

Mr Spiro Brumbulli, Banks Association, emphasised the need for alternative payment methods. He mentioned the case of Greece, where before the financial crises only 10% of payments were made by card, after the crises it was imposed as an obligation that every commercial unit should have a POS. To date, over 60% of money transactions are made by card. Efforts can be made to start this also in Albania, perhaps in the upcoming tourism season.

Mr Arben Ahmetaj, supported the last suggestion made from the Bank of Albania & Association of Banks, and it encourages Bank of Albania to start with the preparation of the system, perhaps not on 1 January, but perhaps to start implementation in July or September in order to give time to the business to get prepared. Issues raised by Ms Leka on potential costs of POSs and its impact especially for small businesses shall be further tackled while this measure will be discussed with the BoA.

IV. Closing of the meeting

Minister Ahmetaj thanked the Secretariat for the good analysis and the interns who helped the Secretariat in conducting the IC survey. Any other suggestions which were not brought up in this table can be sent directly to the Secretariat. As per usual procedure, minutes of the meetings will be shared with all the members.

The agenda item for the upcoming IC Meeting (expected at the beginning of December) will be:

- Business Inspection and investment climate

The meeting was closed at 17h15.

List of participation

Representatives from the Government

1. Mr Arben Ahmetaj, IC Chair/Minister of Finance and Economy
2. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
3. Ms Vasilika Vjero, General Tax Director
4. Mr Arben Seferi, Deputy General Director of Administrative Department, in the absence of General Customs Director, Ms Belinda Ikonomi
5. Mr Sokol Nano, CEO of AIDA

Business Community

1. Mr Turker Sengonul, Vice President of FIAA, in the absence of FIAA's President, Mr Tom Kristian Larsen,
2. Ms Ines Muçostepa, Chair of Union of Chambers of Trade and Industry (UCCIAL)
3. Deputy in absence of Seyhan Pencabligil, CEO of National Commercial Bank

International Partners

1. Mr Matteo Colangeli, Head of EBRD RO, Albania
2. Ms Olga Anghelakis, Head of Operation Section for Economic Reform and Infrastructure, European Delegation in Albania
3. Ms Laura Qorlaze, Representative of IFC in Albania
4. Ms Hilda Shijaku, Economist at the World Bank Office in Albania

Other business representatives from the sector

1. Mr Enver Mehmeti, President, Albanian Association of Tourism
2. Mr Zak Topuzi, CEO, Albanian Association of Tourism/Hotel Mondial
3. Mr Kliton Gërzhani, Chair, Albanian Tour Operators Association
4. Mr Maksim Hoxha, Chair of Chamber of Commerce Gjirokastra, CEO of Hotel Çajupi
5. Mr Artan Dulaku, Chair, Association of Builders

Not attended:

1. Mr Edmond Spahiu, CEO, Alb-Star Sh.p.k.
2. Mr Grigor Joti, Chair, Association of Trade Union of Albania
3. Mr Isuf Ferra, CEO, Ferraco