

ON FORMALIZATION AND COMPETITIVENESS IN TOURISM SECTOR

MEETING XIV OF INVESTMENT COUNCIL
Secretariat - Tirana, 15 October 2018

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II. CONTEXT – COMMENTS FROM THE BUSINESS

☐ **ON INFORMALITY** - **Informality** is in every **sector and cell** and it deserves a radical and special discussion. Market is **dominated by evasion and informality**. First time some is interested about the tourist season immediately **before the closing of the season**. There is illegal competition. **Problem of formalization is for the small businesses (lack of culture, information and high cost of formalization)**

☐ **ON TAX INSPECTION**. **Tax controls** have been very problematic, **obstructive, arrogant** and in inadequate time. Even by unidentified employees. The state strikes those who are registered **and** not those who are not registered at all. **Tax inspectors have shown at the peak of the work. I do not understand why do not come the on-sight inspectors. WE ARE IN THE HANDS OF THE INSPECTORS**. There are improvements but the professional tax level is low. Impose fines for insignificant offenses. Small business has not understood how to technically benefit from 20%, a very problematic tax investigation, such as timetables, behavior, professionalism.

☐ **ON HUMAN RESOURCES**. There are misguided instructions that come from non-consultation with professionals. For example: Instruction for property taxation is not understood. **WE HAVE TOURISTS BUT NO WAITERS** - There is a lack of specialized and trained staff with working culture.

☐ **ON INFRASTRUCTURE** - Infrastructure (e.g. overpass in Golem), while 6% has been a super incentive. There is no investment in the meantime, land ownership is a big problem - the land is divided by 7501.

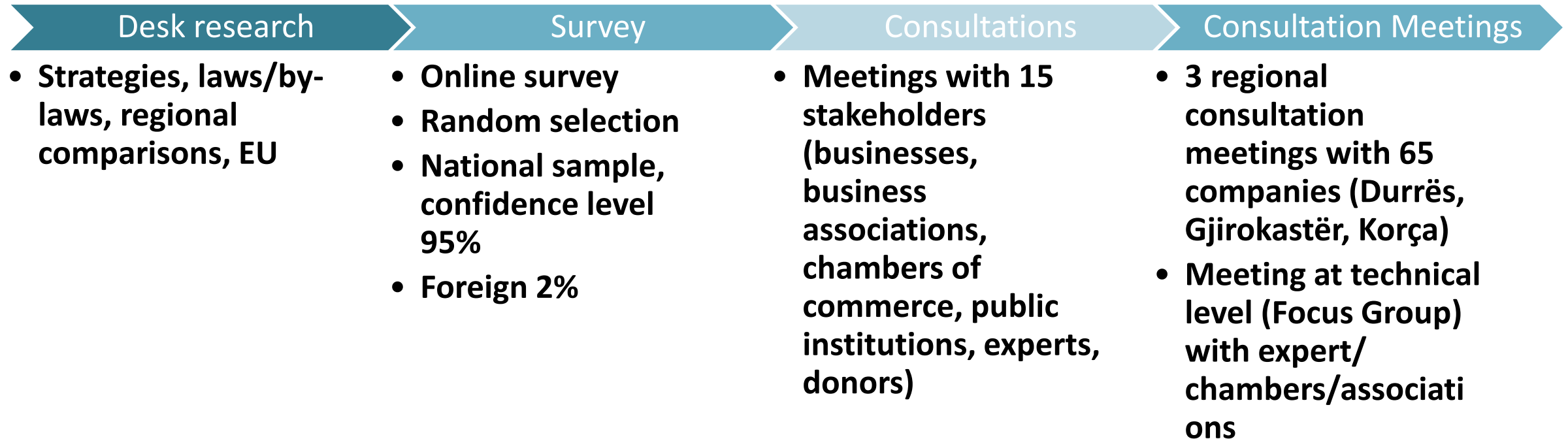
☐ **ON THE CLIMATE OF INVESTMENTS**. Reduction of VAT to 6% - great benefit only to four or five star hotels. The season has increased this year by 20 days, but we are still competing with price. The tourist offer of the city is hampered by problems such as noise and lack of implementation of the inspection functions while there is promotion of the country without criteria, e.g. Valbona no longer has capacities.

☐ **Local taxes** are quite high and do not meet the basic services that are important for the tourism sector - intertwined with many components such as infrastructure, electricity, and drinking water. There were Norwegian investors who came but left because there was a problem with law 7501.

Objective of the Analysis

Competitiveness in Tourism by stimulating investments and formalization of the sector – in focus legal dynamics and identification of business perceptions

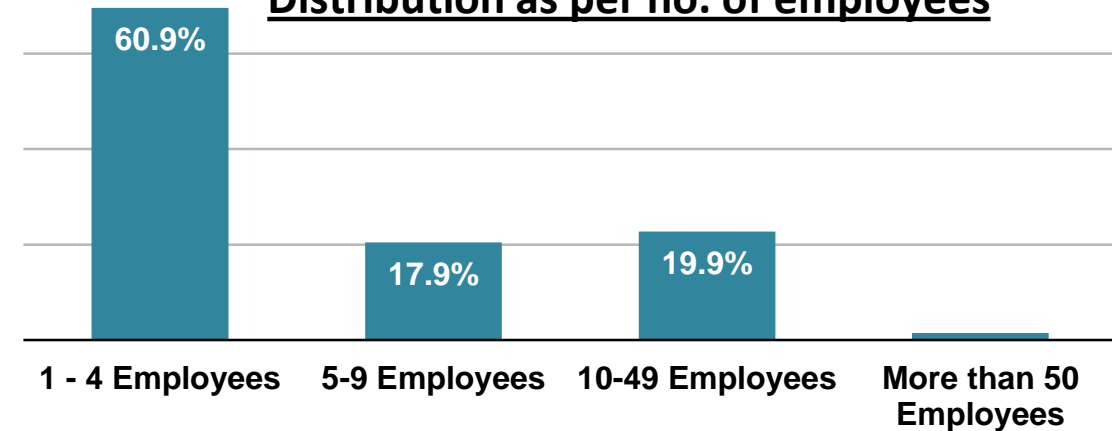
METHODOLOGY



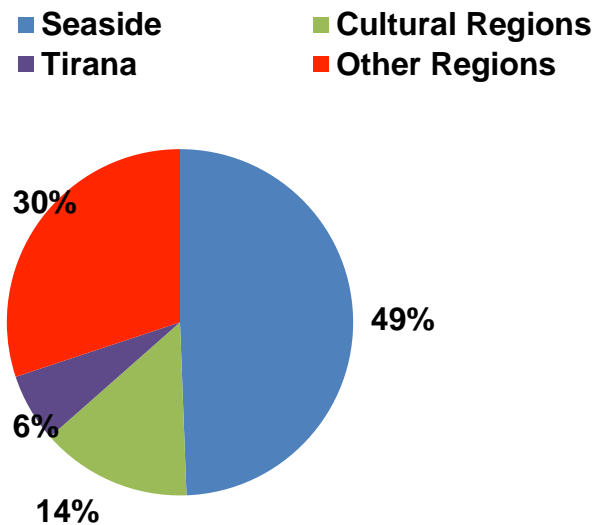
SURVEY – DATA

- Anonymous online survey, 20 July - 20 September 2018
- The survey focused on three pillars – Tax Inspection, Informality, Investment Climate
- The survey was completed by 156 companies, national distribution (number of companies, turnover/employment).
- The survey was designed at national level and it represents 5.6% of the registered companies (95% statistical confidence).

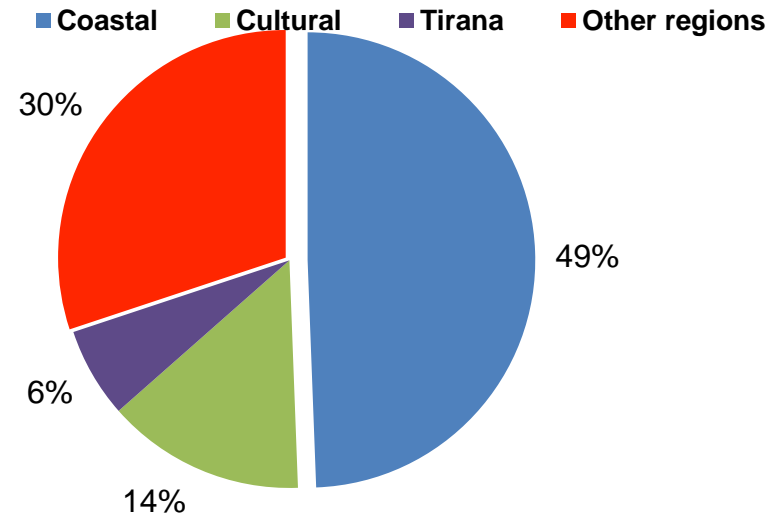
Distribution as per no. of employees



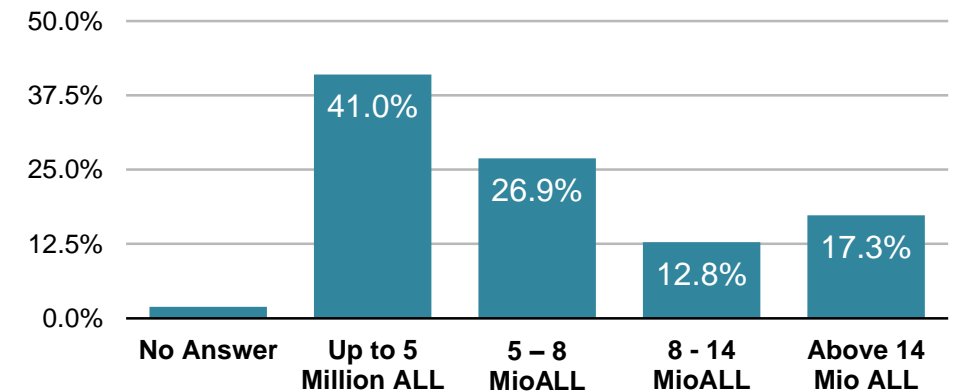
Distribution per regions



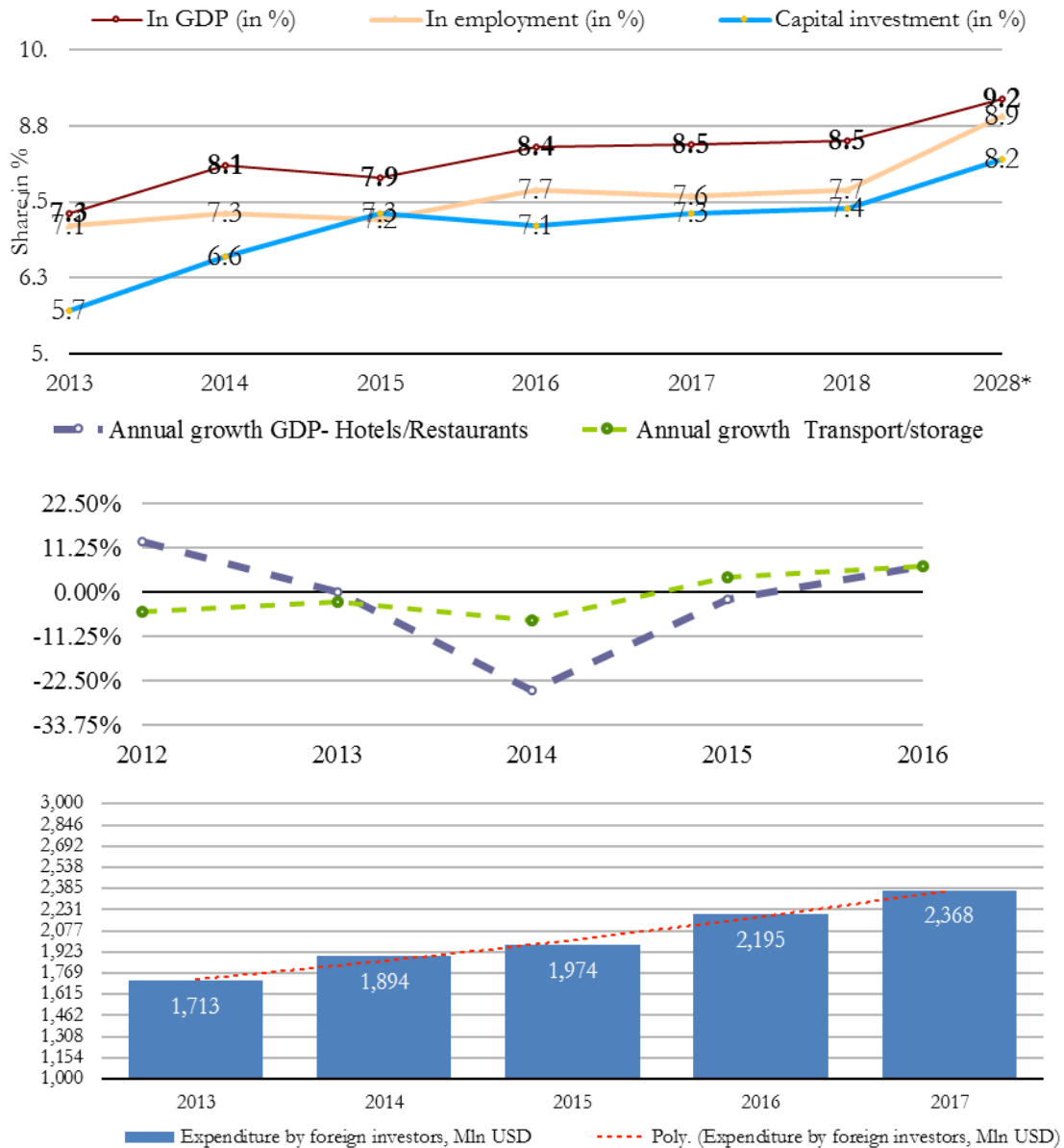
Distribution as per business model



Distribution based on turnover

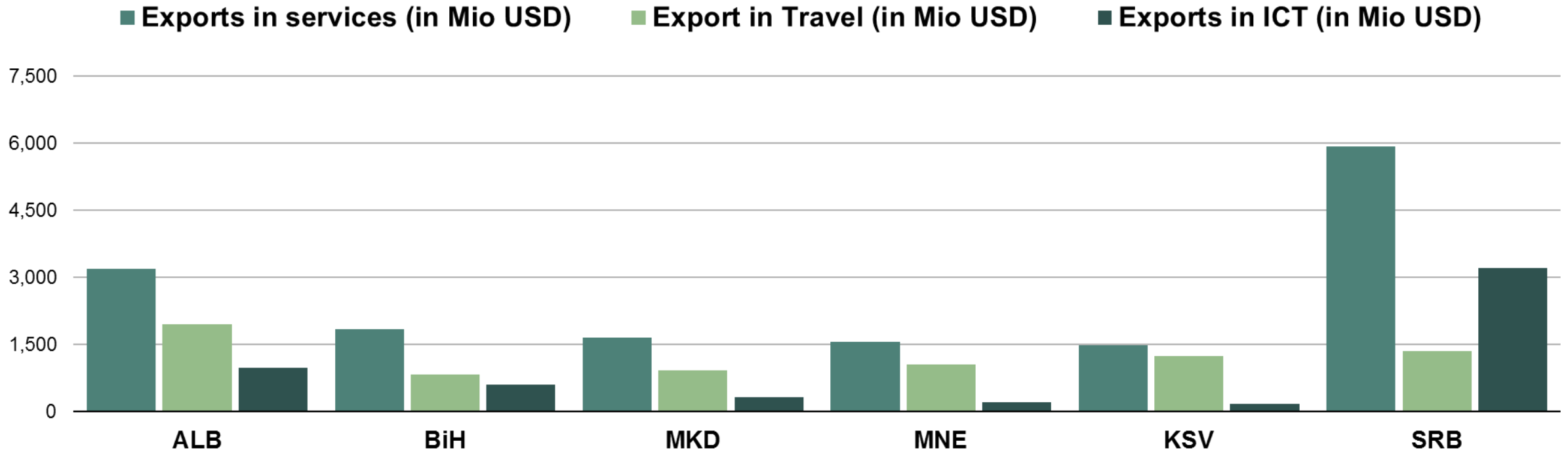


II. CONTEXT: MOST DYNAMIC SECTOR IN THE ALBANIAN ECONOMY



- Sector growth at **7.5%**, nearly twice as high as economic growth (2017)
- **Direct Impact on Economy:**
 - 8.5% of GDP
 - 7.7% of Employment
 - 7.4% of Capital Investments
- Sector with **development potential**, in 2028 it has been forecasted:
 - **110 thousand of direct jobs** and 302 thousand indirect jobs
 - 509 Mln USD Capital Investment
- 4.4 Mio foreign citizens have visited Albania (2018): **increase in the number of foreign visitors-holidaymakers 12% (yoy)**
- **Estimation of Tourism Revenues 2.4 Mln USD**, in 2017, represent **46.9% of the export value**

1.2 REGIONAL CONTEXT – EXPORTS IN SERVICES, 2017



Burimi: World Development Indicators

- *Albania ranked **second** in the region as relates to export of services, mainly dominated by **Tourism and Travel Exports**;*
- ***Travel export** represents the biggest share in the exporting services to Kosovo, Montenegro and Albania.*

II. Strategic & Regulatory Framework of the Sector

LAW 93/2015 “On Tourism”

RESTRUCTURING OF THE SECTOR
DEFINITIONS OF THE SECTOR
ROLE OF THE INSTITUTIONS
CERTIFICATION OF TOURISM OPERATORS
CLASSIFICATION OF THE STRUCTURES
COOPERATION WITH INVESTORS

LAW 114/2017

INCENTIVES FOR HOTELS/RESORTS 4* and 5*
8 MLN EURO 4* SPECIAL STATUS
15 MLN EURO 5* SPECIAL STATUS

LAW 55/2015 “STRATEGIC INVESTMENTS”

STRATEGIC INVESTOR IN TOURISM
A- INVESTMENT => 5 MLN EURO + 80 JOBS =
ASSISTED PROCEDURE
B- INVESTMENT => 50 MLN EURO =
SPECIAL PROCEDURE

STRATEGY OF THE TOURISM SECTOR (DRAFT)

INSTITUTIONAL FRAMEWORK

MINISTRY OF TOURISM
REGIONAL UNITS
PRIVATE SECTOR COMMITTEE
COMMISSION FOR STANDARDIZATION OF THE
STRUCTURES
AKT/AKB/MUNICIPALITIES

III. Specific incentives

ADMINISTRATIVE

- SIMPLIFICATION AND SPEEDY PROCEDURES FOR PERMITS/LICENSES/AUTHORIZATIONS/PROCEDURES/LAND CONSOLIDATION
- INVESTMENT =>5 MLN EURO+80 JOBS = ASSISTED PROCEDURE
- INVESTMENT => 50 MLN EURO= SPECIAL PROCEDURE (CONTRACT APPROVAL BY ALBANIAN ASSEMBLY)

FISCAL

- 6% VAT FOR ACCOMODATION STRUCTURES (HOSPITALITY + BREAKFAST)
- 6% VAT FOR ANY SUPPLY WITHIN "HOTEL/RESORT 5*, SPECIAL STATUS" (BRAND NAME)
- EXEMPTION FROM BULDING TAX AND TAX OF INFRASTRUCTURE IMPACT FOR HOTEL/RESORT 5*, "SPECIAL STATUS" (BRAND NAME)
- EXEMPTION FROM COORPORATE TAX FOR A 10-YEAR PERIOD FOR ACCOMODATION STRUCTURES "HOTEL/RESORT 4* AND 5*, SPECIAL STATUS" WHICH DO RECEIVE SPECIAL STATUS UNTIL DECEMBER 2024.

AGRITOURISM

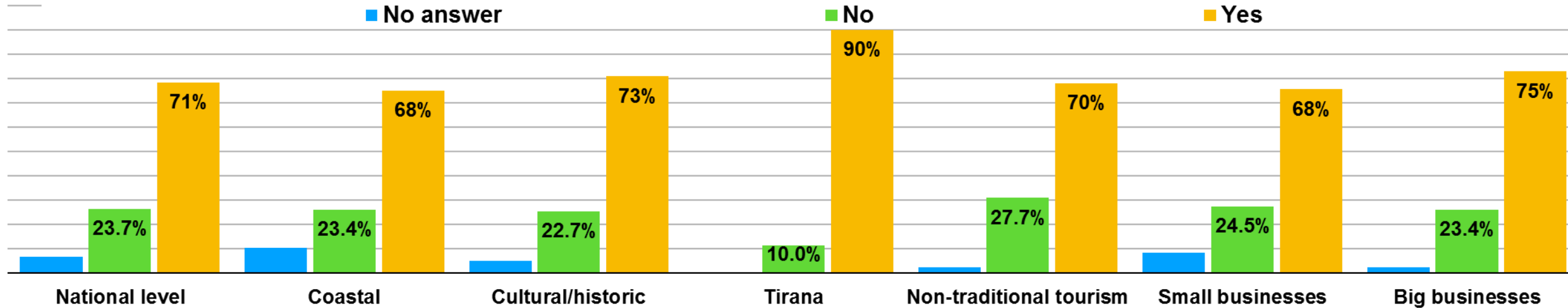
- 6% VAT FOR COMPANIES CERTIFIED IN AGROTOURISM (HOSPITALITY + RESTORANT(EXC. BEVERAGES)
- COORPORATE TAX REDUCED FROM 15% TO 5% FOR LEGAL ENTITIES- AGRICULTURAL COOPERATIVE ENTITIES
- EXEMPTION FROM TAX OF INFRASTRUCTURE IMPACT FOR AGROTOURISM OPERATORS THAT MAKE INVESTMENTS.
- AS OF JANUARY 1st, FOR COMPANIES CERTIFIED IN AGRITOURISM COORPORATE TAX IS REDUCED FROM 15% TO 5%.

OTHER

- LEASE CONTRACT 1 EURO=99 YEARS
- TOURISTIC PORTS AND PERMANENT PONTILS AS SUPPORTIVE INFRASTRUCTURE FOR TOURISTIC STRUCTURES
- 100 VILLAGES PROJECT

IV. Perceptions from the survey

“Do you face informality?”

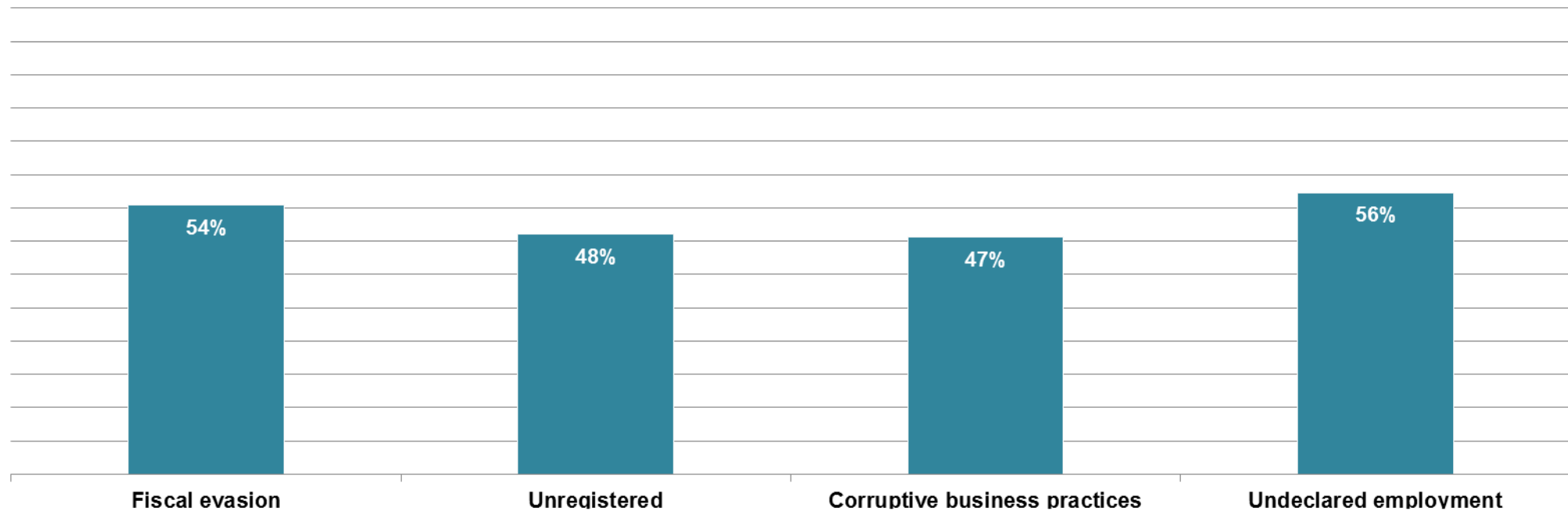


Business perceives systemic informal activity : 70% of businesses surveyed confirm that they are competed by informal activity.

Business Model and Informality has specifics according to tourist destinations.

IV. Perceptions from the survey

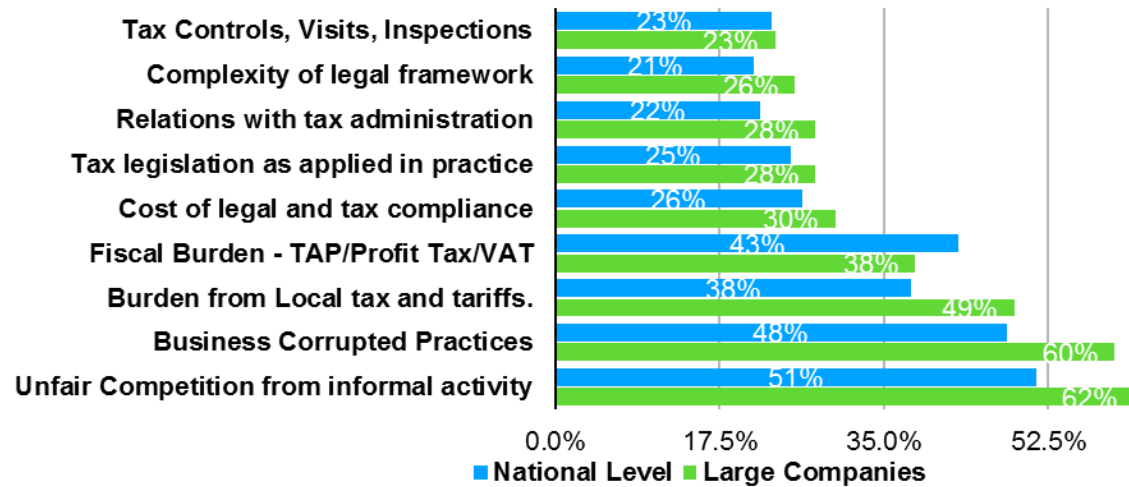
“What is the typical form of informality in your sector?”



*Informality is displayed as **undeclared employment and under declared turnover.**
Unregistered businesses – reported by 48% of the answers.*

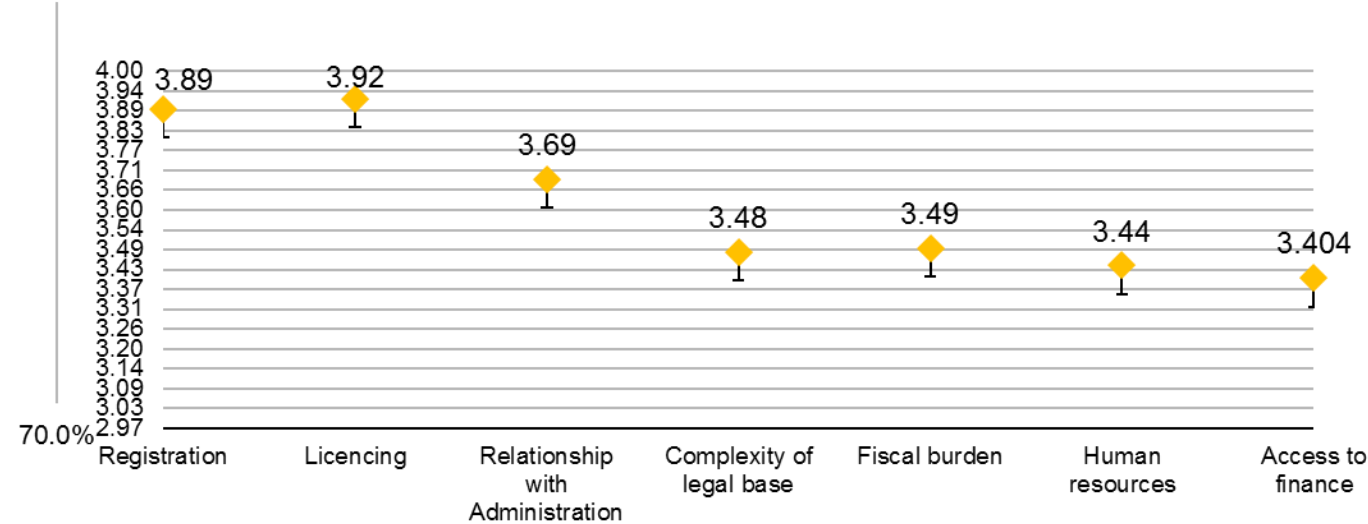
IV. Perceptions from the survey

“What are the factors that encourage you to be informal?”



Among the factors that promote informality: **unregulated market and unfair competition, corruptive practices and fiscal burden, including local fees.**

“How would you assess ‘doing business’ in tourism?”



- Investment climate in the sector perceived as favouring – **human and financial resources remain some of the most challenging aspects.**
- Improvement of informality by 1%, brings improvement to the investment climate by 0.4 percentage point.**

FINDINGS AND RECOMMENDATIONS

Strategic Approach

PROBLEMS/FINDINGS

- Tourism Strategy and the Action Plan are still as a draft and have not yet been adopted. Meanwhile, the formalization of accommodation structures in the strategy is just one sentence. The action plan does not contain clear formalization measures.
- The role of local government. Lack of coordination between government at central and local level to identify all accommodation structures. **For example: The National Register of Businesses in Tourism can not be consolidated without coordination.**

RECOMMENDATIONS

- Finalization and adoption of the National Tourism Strategy. Strengthening of Inter-institutional Coordination for an Integrated Policy to design and implement measures for formalizing the sector through the establishment of joint working structures / working groups.
- Participation of the Local Government, in accordance with the legal obligations under its monitoring. Tourism remains a shared economy - start with a pilot.

FINDINGS AND RECOMMENDATIONS

Strategic Approach

PROBLEMS/FINDINGS

- *Fiscal policies and incentives for sector development have brought improvements; BUT Despite this, informality in the sector remains systemic.*

RECOMMENDATIONS

- Informality in tourism is not just a fiscal but strategic issue. The policy agenda for formalizing the sector may consider :
 - **Category I:** Formalization/registration plus tax audits in cases where the construction industry to a certain extent has become tourism industry (e.g. in major cities such as Vlora, Durrës, Shëngjin, Saranda, etc.).
 - **Category II:** Simple registration of small accommodation structures (which do not exercise a proper economic activity) solely for tourism purposes and not for fiscal purposes (e.g. in historic destinations Gjirokastra, Berat, Korça), while being inspected for sanitary conditions, etc.
 - **Category III:** Formalization of activities promoted through online platforms such as Airbnb in major cities such as Tirana, Durrës, etc. through self-declaration of income as reported by the GDT.

FINDINGS AND RECOMMENDATIONS

Strategic Approach on Investment

PROBLEMS/FINDINGS

- **Incentive not only fiscal:** Reduction of VAT at 6% brought about to reduce informality but at the same time prompted companies (26%) to invest or increase / declare the number of employees. Businesses require diversified policy interventions and innovative policies that encourage formalization.
- **Low number of payments** via banks and POS terminals in accommodation structures as indicators of informality and unsatisfactory tourism offer.

RECOMMENDATIONS

- **The policy agenda for formalizing the sector should be coherent with public investment:**
 - Infrastructure investment in areas with a registered business such as the overpass in Golem (subject to formalization of the business of the area)
 - Connection of formalized businesses of the Korça area to the TAP pipeline network
- **Encouraging non-cash payments through the use of POS terminals and electronic payments would affect formalization.** Manners to cope with this challenge, to be further discussed with BoA, second tier banks and MFE.

Legal obligations for formalization

PROBLEMS/FINDINGS

- Although the legal framework has been completed, the identification and classification of accommodation structures has not been carried out (e.g.: electronic platform for inadequate classification and registration). The lack of classification and categorization has brought confusion into the market structure, and has negatively impacted the competitiveness of tourism.

RECOMMENDATIONS

- **Identification and registration of entrepreneurs** in the tourism sector, as a first step toward formalization.
- For a transitional period till the classification of accommodation structures or other tour operators, the process of identification and registration is finalized with a "labeling" of formal operators in the tourism sector, valid for the customer.
- The process of identification and registration is followed by the process of classification of accommodation structures according to the provisions of Law 93/2015.

FINDINGS AND RECOMMENDATIONS

Legal obligations

PROBLEMS/FINDINGS

RECOMMENDATIONS

- Some provisions of sub-legal acts do not fit the model of accommodation structures and the tourism sector. For example: Instruction no. 24, dated 02.09.2008 of MFE "On Tax Procedures" and DCM no. 96 dated 17.02.2010 regarding the issuance of a fiscal receipt for accommodation and restaurants and the maintenance of fiscal printers can be improved to facilitate its implementation without conflicts.
- Tour operators and tour agencies remain an important part of the value chain in the sector, with a significant impact in conveying informality.

- **Amendments and Adjustments to Instruction no. 24, dated 02.09.2008, of MFE "On Tax Procedures" and DCM no. 96, dated 17.02.2010 in accordance with the nature of the service.**
- **Informality from accommodation facilities** penetrates the market through the chain of tour operators, which should be subject to joint monitoring and inspections by the GDT and the Tourism Inspectorate.

FINDINGS AND RECOMMENDATIONS

Institutional capacities

FINDINGS

- Reduced frequency of fiscal visits influenced the formalization, but survey data showed that the most influential factors in informality are - professionalism, clear and accurate reporting from any inspection as well as business education.
- Particularly small companies operating in the tourism sector do not have the knowledge, information and awareness for the implementation of fiscal measures: **the lowest level of fiscal education is reported to more dynamic tourist destinations, as well as coastal and small business / family.**

RECOMMENDATIONS

- Tax administration, as well as the inspectorates that monitor market compliance, should be professionally prepared to implement anti-informal measures with positive impact. Interventions in the tourist season have had a negative impact on business activity and the perception of tourists.
- **Fiscal education of businesses** remains a challenge for tax authorities that should continue to be addressed. Only 14% of businesses stated that they used these tools. Access to information and fiscal education need to be improved, particularly in coastal and small business areas.

FINDINGS AND RECOMMENDATIONS

OTHER

FINDINGS

- Although there is a positive perception of the investment climate in the tourism sector, businesses perceive as restrictive the low level of human resources and access to finance.
- Lack of consolidated and easily accessible information on sector incentives.
- Lack of more complete information on informality also conditions the decision-making for evidence that would enable even more integrated policies.

RECOMMENDATIONS

- Inclusion of Tourism Sector in Employment Support Programs:
 - Presentation of training programs for employees during the off-season period (before the beginning of the tourist season).
 - Support schemes for getting interns and seasonal employees.
- Preparation of a database or easily accessible factsheet for investors.
- INSTAT, DPT, Local Government, MFE cooperate for evaluation purposes to achieve an optimum result in this regard.

CONCLUSIONS

Informality remains systematic toward formalization, prerequisite for sector competitiveness and investment - Where should the focus be on the 2019 agenda without cross-sectoral co-operation for the sake of the "shared economy" model?

Tax Rate "an outdated instrument - fiscal education, partnership and professionalism of administration - a determining factor in the success of fiscal interventions.

Sector structure prerequisite to deliver the expected effects of any policy - diversification by destination – a factor to be considered.

Tourism as a sector that economizes through the division of economic assets - an innovative economic structure that requires innovative policies.

THANK YOU!
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