

BANKING SYSTEM

A sizeable informal economy and the low usage of bank cards and POS terminals

The informality level, especially in coastal cities, remains particularly problematic, so businesses operate in informality, which is why they may prefer not to install POS terminal to hide their turnover, but also as part of unfair competition.



Diana LEKA

Head of Secretariat
ALBANIA INVESTMENT COUNCIL

Informality has been one of the main pillars of our work, from the beginning, in the frame of stimulating debate on key issues regarding country's investment climate. The Secretariat of Albania Investment Council has analyzed informality (2015-2019) in the Albanian economy in general, as well as in particular sectors, such as: tourism and agriculture. Specifically, in tourism, the analysis aimed to identify the extent to which economic activity is affected by informal activity and tax evasion, where "informal economy" means economic activities involving monetary transactions, related to legitimate economic activity, carrying tax evasion, or tax avoidance. It must be emphasized that, the majority of subjects engaged in tourism (about 300) and

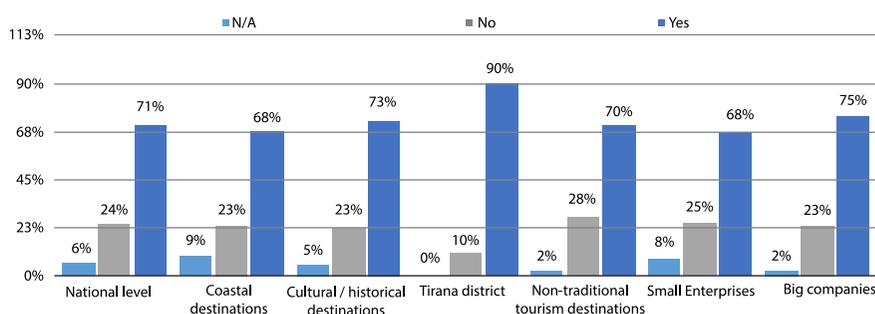
included in the analysis, were small and medium-sized businesses, mainly "hotel accommodation" and "tourist agencies." During the analysis and consultations, a low number of debit/credit card transactions was identified as an issue in general in the country, specifically in touristic areas. The issue was initially perceived as a problem from the viewpoint of tourists, rather than the owners of accommodation units/restaurants/bars, etc. Specifically, tourists have identified cases of lack of POS terminals in touristic areas, often making cash payments. Furthermore, there were cases when entity owners were equipped with POS terminals, but they raised the issues of the cost of their maintenance, as long as the users' number was not high enough.

Also, the Secretariat referred to some studies, which confirmed a direct link between the level of informality and the low level of transactions by electronic means, such as: POS terminals, or payments

via mobile phones, especially in the sector of trade and services. This due to the fact that, cash payments leave no trace and allow them to avoid transaction reporting, as part of turnover, thus becoming one of the causes for shadow economy and tax evasion in tourism. On the other hand, the number and use of debit & credit cards by the population still remain the lowest in the region. Also, official data from the Bank of Albania were analyzed, which showed that the total number of POS terminals in Albania, by the end of 2018, was only 8,726, out of which 7,259 were located in Tirana district. In the third quarter of 2019, the total number of POS terminals increased to 10,837, but still remains the lowest in the region.

In this context, we recommended a deeper analysis of the issue, both in the frame of globalization and compared with countries in the region, and from the perspective of the important role that financial inclusion education has in the economy.

Percentage of companies that perceive competition from informal economic activities, by region and business size



Source: Our calculations, based upon AIC survey data 2018

¹ The informality understanding and measure remains a great challenge, given that the sector is based upon "shared economy" and interacts with other value chains of the economy.

² Reducing the Shadow Economy Through Electronic Payments - Ernst & Young / MasterCard (2016)

³ https://www.bankofalbania.org/Pagesat/Statistika_te_sistemeve_te_pagesave/

1. Reasons for the low use of such instruments in Albania.

The low level of use for such instruments by businesses, especially SME ones, is related to costs, procedures and limited access to banking services. The informality level, especially in coastal cities, remains particularly problematic, so businesses operate in informality, which is why they may prefer not to install POS terminal to hide their turnover, but also as part of unfair competition. This situation is changing somewhat as the sector is growing and such a service is a must, especially in tourism, where foreign tourists demand standards. From the sectoral point of view, although being a strategic sector for the country, tourism or agriculture remain seasonal, and therefore (especially small and medium-sized) businesses take into account the potential costs of this banking service. Meanwhile, Albania remains a new tourist destination, with the challenge of positioning itself in the world market. Therefore, the latest dynamics analyzed by AIC, not only identify demand growth potentials, but they need to be analyzed with the "demand for quality" and competitiveness, from the demand side, as well. **Understanding the features of the sector from the supply side, including card payments, remains crucial, given that most of challenges, the sector faces today, relate to the supply structure and quality,** despite significant developments in the sector.

2. Some measures to be taken to promote the use of these instruments

Certainly, the payment system is an important part of the country's financial infrastructure and relates to a variety of factors, including institutions, rules, and/

or standards that enable financial interactions, where the support for SMEs in priority sectors requires a particular focus. In this regard, in the context of the formalization of economy, the intervention should not be with partial policies, instead it must be integrated with the cooperation of key stakeholders: government, central bank, banking sector, and private entities, which have an interest for fair competition, as "high informality brings informality". In addition to using bank cards as a means of payment, the emphasis should generally be on low/limited access to financial



Businesses are reluctant to fully cooperate with the bank, by failing to provide proper signs in their business premises, concealing POS terminals and accepting card payments, selectively.



services for businesses and individuals, due to limited presence of banks, low number of POS terminals, high administrative and maintenance costs, related to bank accounts and the lack of any risk undertaking from BANKS, related to funding in general and promoting the use of payment instruments, in particular.

On the other hand, the access of the population and business to banking services should be increased, through financial education and confidence buildup in the banking sector, whereas banks must increase the transparency about costs of services and cards, and in particular must review their commissions on providing

and maintaining such devices and instruments. Also, a coordination of anti-informality measures and those promoting voluntary formalization, between the Ministry of Finance & Economy and the Bank of Albania is needed, in terms of: encouraging the use of cards through fiscal instruments and at the same time, providing banking service closer to businesses, especially to small ones.

Finally, the Albania Investment Council would recommend that:

Encouraging payments through the use of POS terminals and electronic payments would affect the high level of the shadow economy in tourism activity; they would increase business compliance with tax administration and contribute significantly to increasing the transparency and reputation of the Albanian tourism offer, especially for foreigners. Ways to face such challenge should be further discussed with the Bank of Albania, commercial banks and the Ministry of Finance & Economy, in order to find an acceptable solution and avoiding additional costs for businesses, especially micro-businesses. International practice offers several measures that can be followed. In addition to the above, the practical implementation of the rules on categorization and classification of accommodation structures, according to the provisions of Decree No.730, dated 20.10.2016 of the Council of Ministers: "On rules for terms, requirements, tariffs, timing and procedure for classification of accommodation structures", which make the use of POS terminals at 4 and 5-star hotels/resorts mandatory, would give a hand in the formalization process.