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Investment  
Council

Improving Transparency and Investment Climate

# ON FORMALIZATION AND COMPETITIVENESS IN THE TOURISM SECTOR

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This working document was prepared by the experts of the Secretariat of the Investment Council in the frame of Meeting XIV of the Investment Council (15 October 2018), Ms Mimoza Agolli, Economic Expert and Mr Elvis Zerva, Legal Expert, under the direction of the Head of the Secretariat, Ms Diana Leka (Angoni). Supported in the organisation of meetings with partners, survey's implementation, and language editing of the material, Ms Elisa Lula, Administrative and Communications Officer of the Secretariat. We thank the private companies, business associations and chambers of commerce that participated in the survey as well as the independent experts and central and local institutions that contributed during the consultation process and in preparation of this analysis. Special thanks to the students of Epoka University for their contribution to the survey's promotion and data updating. The views expressed herein are those of the authors and do not necessarily reflect those of the Investment Council or the EBRD.



# 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
MFE	Ministry of Finance and Economy
MTE	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

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## 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 m<sup>2</sup> room surface in the accommodation structures at the national level. The growth rate of crediting for the tourism sector was reported to be the highest compared to other sectors; credit to the 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 the tourism sector, introducing standards, reducing informality, tackling land ownership issues, and improving 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) and consultations with businesses have identified informality as a serious concern of investors, especially in the tourism sector.<sup>1</sup> The business community perceives

informality 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 the informal economy in the sector remains challenging because the sector is based on the shared economy and its interrelations with other value chains. For the purpose of this study, the informal economy in the 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 analysis results 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 to the attention of IC the challenge of formalizing economic activity in tourism. The analysis has also considered issues from several businesses reported to the Secretariat during the period 2015-2018, as related to the tourism sector in general and more specific informality of the sector.

<sup>1</sup> The 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.

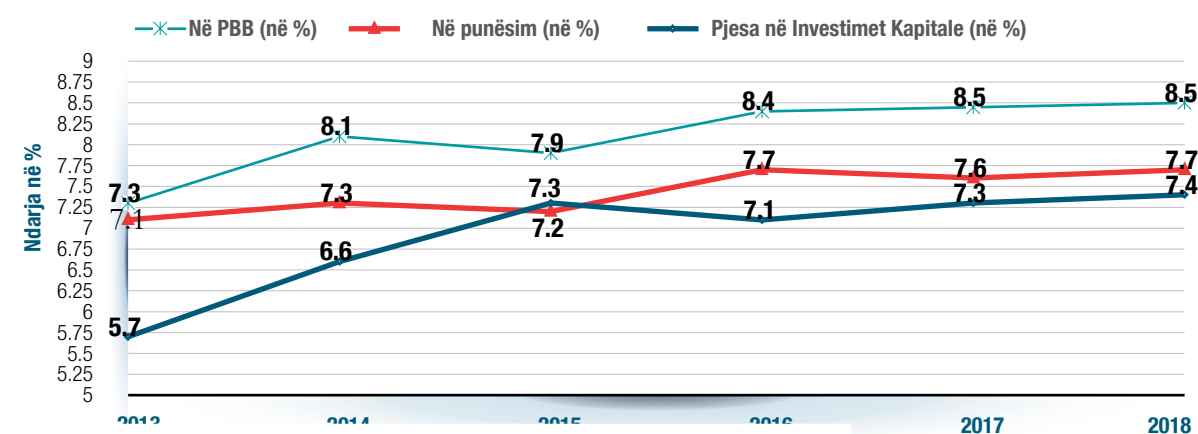


## CONTEXT

The tourism sector's contribution to the national economy is essential, especially **in terms of employment and export income**. The high contribution of the sector in employment is the result of the labour-intensive nature of the sector (EU Progress report, 2018). **The tourism and travel industry was reported to have a direct contribution in GDP of 8.5%** (in 2017), while the indirect and mul-

tiplicative 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 the Tourism sector in GDP, Employment and Capital Investments



Source: World Travel and Tourism Council, 2018

**Tourism remains crucial to restoring the current account balance**, 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 was 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).

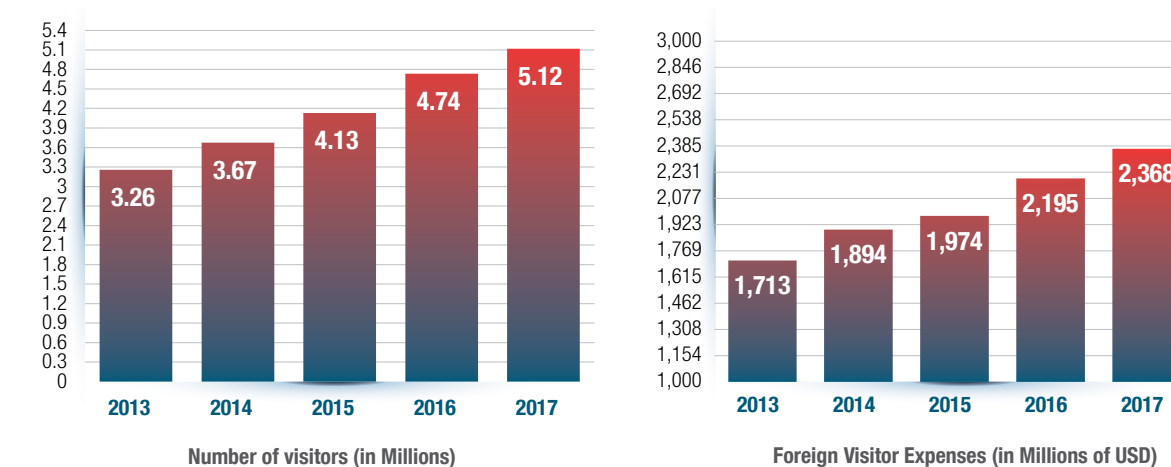
**MTE reports that nationally, 3,800 accommodation structures supply 29,000 or 67,000 beds to visitors daily.** The highest number of available beds are reported in Shkoder (19,000 beds), Vlorë (18,500 beds), Tirana (11,000 beds), and Durrës (4,500 beds).

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). Hotels nationally dominate accommodation structures,

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 the national level. Accommodation structures and other services offered to tourists are channelled through a network of around 46 tour operators and 154 travel agencies (National Strategy of Tourism, 2018).

**The tourism sector is moving very fast toward maximization. During the 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% use maritime transport. Air and maritime transport improvement represent an opportunity for the tourism sector, as they are used under potential, and cost improvement policies could improve the tourist usage of alternative transport (National Strategy of Tourism, 2018).

Capitalizing on the touristic resources, the main product niche that Albania is planning to support strategically includes coastal 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 itself 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.*

## 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 the 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 a source of primary information. The survey aimed to gather information on three broad areas of business and investment climate: 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 during the tourist season 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 the tourism sector had a random chance of being selected of 5.2% ensuring statistical confidence of 94%.** The sample size was determined using population size, sample proportion and accuracy of results

as measured by the confidence level<sup>2</sup>. Companies surveyed were randomly selected out of a dataset of around 2,997 companies registered at GTD. The 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 competitiveness in the tourism sector.

» **In-depth interviews with stakeholders:** Direct interviews took place during 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 the 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.

<sup>2</sup>  $n=1/\{1/N+[(N-1)/N] \cdot (1/PQ) \cdot [(k/Z-2) \wedge 2]\}$

## CURRENT LEGAL AND INSTITUTIONAL FRAMEWORK IN TOURISM

As previously mentioned, the tourism industry has increased its contribution to the country's economy both in monetary and employment terms, becoming thus a strategic sector for Albania. In line with this trend, there has been an increased focus from the government, donors, financial institutions and private companies in the sector. As of 2015, there has been an increased dynamic in preparing the necessary legal and regulatory framework—the prerequisite of any investment and sustainable development. The political commitment for stronger support to tourism started to materialize through sectoral law and law on strategic investments; both were approved in 2015, which aimed to bring the sector under the focus of a new splash of investments. Additionally, by-laws, CoM decrees, regulations, and incentives have been approved from time to time to fill the framework and address the different segments of the tourism chain, aiming to bring the sector development and its contribution closer to its potential.

### 1. LAWS, BY-LAWS AND STRATEGIC FRAMEWORK

For the purpose of the analysis, below is provided a short analysis of dynamics while completing the legal framework and of the strategic sector goals intended to be achieved:

#### A. Law No.93/2015 "On Tourism"<sup>3</sup>.

This Law substitutes Law No.9734, date 14.05.2007, intended to address several issues raised by the business community and by the tourism sector experts. Some of these issues have been addressed, while others have not (for example, categorising apartments/villas as accommodation structures). However, the law brought some novelties while comparing it with the previous law no.9734.

#### Novelties of the law:

1. *Definitions of the law.* Law no. 9734, despite the efforts to provide some definitions in the

<sup>3</sup> Subject of amendment only once with Law No.114/2017.

field of tourism, was deficient in its content while some more important definitions were missing. *Current Law 93/2015 provides a set of systemized definitions that clarify the concepts, processes, and institutions dealing with the tourism sector.*

2. *The role and functions of institutions.* Law 93/2015 creates a clear picture of the institutions dealing with the tourism sector both at the national and local level by eliminating the overlap of competencies among them and the uncertainty it cascaded to the users of the law, mainly to the foreign investors.
3. *Certification and licensing of operators in the field of tourism.* Previous law did not foresee for licensing of the operators offering touristic activities, which brought poor services to the consumers and at the same time has significantly influenced informality. *Although law 93/2015 has addressed the licensing process of the tour operators and tourism agencies, there are still concerns in the market from several operators for a high level of informality and does not provide the required security of services for the tourists.*
4. *Categorization and Classification of accommodation structures.* Law 93/2015 envisaged the categorization and classification process of the tourism accommodation structures missing in the previous law. *However, this process has stuck, although the necessary by-laws have been accordingly approved<sup>4</sup> timely. The lack of this process has brought a chaotic situ-*

*ation in the market, especially for hotels. Several accommodation structures use distinctive signs (stars) of the classification, which do not conform to the real standards of the structure or the level of the service they provide. However, while Law 93/2015 included "guest-houses" in the main concepts of the Law, it failed to include the apartments/villas as part of the "accommodation structures".* 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.

5. *Certification of the touristic guides.* Law 93/2015 provides for the certification of the tourist guides and the respective procedures to be followed to standardise such activities.
6. *Clear obligations for institutions.* Additionally, law 93/2015 sets obligations for main institutions such as MTE in preparing the following documents: a) National Plan on Tourism (NTP); b) Strategy of Tourism and Action Plan (Tourism Strategy), c) Central Tourism Register; d) National Register of Touristic Sources as well e) National Sites with Priority in Developing Tourism.

#### **What has been done and what is expected:**

While consulting public sources of information, as well as business and actors met during regional focus groups and meeting with MTE, it results the following:

1. NTC has already approved the National Inter-sectorial Coast Plan.
2. The strategy of Tourism and its Action Plan, although it has been subject to consultation

4 CoM Decree 710 No.710 date 12.10.2016 "Approval of the Regulation on Conditions and Criteria for Exercising of the Tour-Operator Activity"; CoM No.711 date 12.10.2016 "Approval of the Regulation on Conditions and Criteria for Designing and Building Accommodating Structure"; CoM No.730 date 20.10.2016 "Approval of the Regulation on the Conditions, Criteria, Tariffs, Terms and Procedure for Classification of Accommodation Structures".

roundtables for months, has not yet been officially approved by the GoA, while its official draft is published on the website of MTE.

3. Central Nation Register which should contain the consolidated list of the tourism entrepreneurs it is not yet published. From the consultation with the municipalities, the Register is furnished with data from Municipalities that refer only to the registered entrepreneurs in NBC, rather than the entrepreneurs who do exercise economic activity by a matter of fact.
4. The National Register of Tourism Sources has been prepared and published<sup>5</sup>.

#### **B. Law 114/2017, "On Some Amendments to the Law No.93/2015 "On Tourism"**

Through law 114/2017, the CoM made some new provisions on the main law 93/2015 that incite investments of 4- and 5-star hotels and resorts in priority areas for tourism development<sup>6</sup> and their managing through franchising contracts or similar to franchising. According to this law, CoM shall provide investors with the special status for investments in accommodation structures, which fulfil the following conditions:

1. Invest in 4- and 5-star accommodation structures certified as such by the Committee on Standardization of Tourist Activities in MoTE;
2. Investment reaches at least 8 Mln Euro for the construction of the 4-star accommodation structure and at least 15 Mln Euro for the construction of the 5-star accommodation structure.

5 <http://www.mjedisi.gov.al/burimet-turistike/>

6 NTC with the Decision No.1 date 26.07.2018 approved the list of the areas with priority for tourism development.

Further details on the process are being provided by the CoM decree no. 257, dated 9.5.2018 "On the Approval of The Criteria, Procedures and Documents Required for Entity that Apply For "Investor In 4\* And 5\* Accommodation Structure, Special Status".

#### **C. Law 55/2015, "On Strategic Investments"**

Law 55/2015 was adopted in an effort to foster investments in strategic sectors. The law identifies the country's strategic sectors (*Article 8*)<sup>7</sup> and provisions detailed and special administrative favourable procedures, facilitating or accelerating support and services to domestic and foreign investors (*Article 21 and Article 22*).

The administrative procedures provisioned in this law related to the preparation, implementation, development and realization of a strategic investment project as well as to the issuance of licenses/permits/authorizations and opinions pursuant to this law are of the highest priority and are followed by an accelerated procedure by all the public institutions/entities/public authorities, directly or indirectly involved in these procedures.

Under the Law, *the Albanian Investment Development Agency (AIDA)* is the **Secretariat of the Strategic Investment Committee (SIC)**, which approves the status of every strategic investor and at the same time serves as *a unique window* for foreign investors in relation to Albanian institutions.

As of October 2018, in total, SIC has approved 9 strategic investment projects, out of which 6

7 Energy, agriculture, tourism, oil and extraction of natural resources are strategic sectors. These sectors offer the opportunity to earn long-term revenues from investing in a quickly growing economy and with low cost, with unused natural resources and a flexible working force.



have earned the status of strategic investor/assisted procedures and 3 the status of strategic investor/special procedures. Four projects are approved in the tourism sector, where 2 projects earned the assisted status and 2 projects earned the special. Since the beginning of 2016 and until today, AIDA has assisted 30 investment projects (10 projects in the tourism sector), out of which 17 have gone through all the processes of strategic investments and have been addressed for decision-making in the SIC. In the consultation/assistance phase are 8 other projects for preparation of documents and 5 projects are still in the phase of expression of interest (7 of these projects are in the tourism sector). So far, we couldn't find any assessment document related to the impact of the approval of the above legal framework.

#### D. Draft-Strategy on Tourism 8

Strategic goals relate to five key areas and 19 strategic directions to improve competitiveness and achieve strategic objectives. The main areas where tourism policies should focus on by 2022 are the following:

1. Product development (diversification of tourist offer);
2. Development of human resources (improvement of the quality of services);
3. Marketing (promotion of Albania as a destination for all-year tourism);
4. Private and public investments;
5. Policy framework and destination management.

As identified by the draft strategy, informality related to tourism activity remains a critical impediment in developing the sector. This seems to be considered a crucial point since under the

8 Tourism is promoted as a strategic sector also in other strategies-at least in 8 of them as listed under the Annex A

Strategy, it is provided as a goal: registration of 80% of the share tourism economy (household rooms, apartments and villas for tourism activity) until 2022. Although the strategy identifies informality as a threat for the tourism sector in general, it *does not underline any concrete action/measure to shape* this threat as an opportunity for micro and small enterprises, nor does it *foresee any joint efforts with the fiscal policies to* address such issue.

#### E. Institutional Coordination – in support of the Tourism Development

As previously mentioned, current legislation provides a clear architecture of the institutions responsible for developing tourism at the national and local levels. While competencies and scope of activities seemed to be well envisaged, **we evidenced that more should be done as relates to the coordination between central agencies and municipalities in addressing issues in tourism.** This could also be linked with scarce and limited local sources. Also, some institutions/instruments do not carry out the competencies for which the law has created them. For example, during consultations held with businesses and associations in the tourism sector during the preparatory phase of this working document, it was mentioned that the Private Sector Advisory Committee for Tourism (KKSPT) is not yet set up, and no consultative meetings were held during the last year, while the Commission for Standardization of Tourism Activities has not yet started the classification and categorization procedure of the accommodation structures). Annexe B provides a complete picture of institutions dealing with tourism as per the law provisions and their respective competencies.

## 2. INCENTIVISING POLICIES FOR THE TOURISM SECTOR

For the purposes of this analysis, this section provides updated information on the incentives for the tourism sector as provided under current primary or secondary legislation.

### A. Administrative incentives<sup>9</sup> to reduce the administrative burden

“Assisted procedure” is the administrative procedure provided for in Law no. 55/2015 under which the public administration follows, coordinates, assists, supervises, and, if appropriate, represents a strategic investment during its implementation phases. The specific procedures facilitated to the investor are the following:

- » completion of preparatory actions, preparation of documents and administrative application in an expedited procedure by the assisting agent, including necessary accompanying documents, when they are issued by a state administration body, following the request of another state administration body;
  - » priority handling of documentation preparation, provision of opinions or employment of procedures which are included in the area of activity of the state administration bodies, represented in the operational group, for the preparation and implementation of the strategic investment;
1. land consolidation;
  2. supporting programs;
  3. support with assistive infrastructure;
  4. provision of access to the state-owned im-

9 Administrative incentives are mainly provided as per the provisions of the Law 55/2015 “On Strategic Investments”. The purpose of adopting this law was to encourage the inflow of important investments in the economy until December 31, 2018, while the law was completed with the respective by-laws at the end of 2015.

movable property to develop and execute strategic investment projects.

**Eligibility:** For an investor in the tourism sector to benefit from the *assisted procedure* and to be considered as a strategic investor, the investment should be focused on accommodation structures, it should be equal to or above 5,000,000 Euro, and at the same time to create, at a minimum 80 new jobs.

“Special procedure” is the administrative procedure provided for in Law 55/2015 under which support is provided under special rules to strategic investment with an impact on the economy, employment, industry, technology and/or regional development, intending to facilitate and expedite investments. Additionally, to the facilities as per the above, GoA offers the following guarantees for the investors:

- » expropriation of private immovable assets to enable the development and execution of strategic investment projects;
- » approval by the Assembly, following assessment made by the Council of Ministers, of the relevant strategic investment contracts, upon the request of the strategic investor, to enhance the safety of the regulated judicial relationship between the investor and the Albanian state.

**Eligibility:** For an investor in the tourism sector to benefit from the *special procedure* and to be considered as a strategic investor, the investment should be focused on accommodation structures, it should equal to or above 50,000,000 Euro.

### B. Fiscal incentives to attract quality investments

**VAT reduction for accommodation structures from 20% to 6%.** A reduced rate of value-added tax applies to the provision of accommodation



services in accommodation structures, according to the categories set out in legislation in the field of tourism, which is 6 per cent<sup>10</sup> applicable as of June 2017.

1. **VAT<sup>11</sup> 6% applied for any services supplied within the accommodation structures classified as 5\* hotel/resort, special status** into force as of January 2018.
2. **Exemption<sup>12</sup> from corporate tax for a 10-year period, for accommodations structures, “4 \* and 5 \* hotel/resort, special status”**; which reach to receive special status until December 2024. According to this provision, the effects of this exemption begin the moment the accommodation structure starts the economic activity, but no later than 3 years from receiving the special status.
3. **Exemption<sup>13</sup> from the building tax for accommodations structures, “4\* and 5 \* hotel/resort, special status”** as per the provisions of the Law “On Tourism” and which are the bearer of a trademark internationally known as brand name. Into force as of April 2018.
4. **Exemption<sup>14</sup> from tax on the impact on in-**

<sup>10</sup> This VAT reduction took place after the entry into force of the Law No.71/2017 “For an Addition in the Law No. 92/2014 “On VAT” as amended. Further clarities on the implementation of the reduced VAT 6% were made in the CoM Decree 953 dated 29.12.2014 (as amended) according to which VAT 6% should be applied only to the “accommodation” or “accommodation+ breakfast” in the cases of packages.

<sup>11</sup> This VAT reduction took place with the Law No. 107/2017 “For Some Additions and Amendments in the Law No.92/2014 “On VAT” as amended. The reduced rate of 6% VAT applies to any service supply provided within the “Hotel/Resort Five Star, Special Status” accommodation structures as defined in the legislation of the field of tourism and who are the bearers of a trade mark and brand name internationally registered.

<sup>12</sup> This provision was made with the Law No.104 date 30.11.2007 “For Some Additions and Changes to the Law No.8438 date 28.12.1998 “On Income Tax” (as amended)”

<sup>13</sup> This provision was made with the Law No.106 date 30.11.2017 “For Some Additions and Changes to the Law No.9632 date 30.10.2006 “On Tax Local System” to the Article 22.

<sup>14</sup> This provision was made with the Law No.106 date 30.11.2017 “For Some Additions and Changes to the Law

**frastructure for accommodations structures, “4 \* and 5 \* hotel/resort, special status”** as per the provisions of the law “On Tourism” and which are the bearer of a trademark internationally known as brand name. Into force as of January 2018.

The above fiscal incentives (2), (3), (4) and (5) followed the amendments of the law no. 93/2015 “On Tourism”, according to which the GoA aims to attract international brand names of accommodation sector to build new tourism structures in Albania. These changes introduce the concept of investor in 4\* and 5\* accommodation structures that can be eligible to receive the special status and therefore be subject to the incentives mentioned above.

### C. Incentives for agro-tourism as a growth industry

1. **VAT<sup>15</sup> reduction for accommodations structures certified as “agro-tourism entities” from 20% to 6%.** The reduced VAT shall be applicable as of 1 January 2019 for accommodation and restaurant (excluding drink) structures certified according to the criteria of the CoM No.22 date 22.01.2018. One of the main criteria for “agro-tourism entities” is to have a capacity from 6-30 accommodation rooms.
2. **Corporate income tax to be reduced from 15% to 5%.** This change will take place as of 1 January 2019 for taxpayers certified “agro-tourism entities”.

No.9632 date 30.10.2006 “On Tax Local System”, to the Article 27.

<sup>15</sup> This provision was made through Law No. 40/2018, date 09.07.2018 “For an Addition in the Law No.92/2014 “On VAT” as amended.

3. **Exemption<sup>16</sup> from tax on the impact on infrastructure for “agro-tourism entities” which shall perform investments in their scope.** This measure enters into force as of 1 January 2019.

### Other incentives

1. Law no. 93/2015, dated 27.07.2015 “On tourism”, in Chapter 6 provides for several facilities/supports for investments in priority areas for tourism development such as:
  - » The disposal of state immovable property. Article 35 provides for the availability of state real estate (also through a symbolic 1-euro contract) for a period of up to 99 years;
  - » Establishing of touristic ports or permanent pits serving as supporting infrastructure for

tourist structures;

- » Disposal of beach areas for investments near the shores of the sea or lake.
2. Integrated Rural Development Program (PIZHR) - The program of 100 villages aims to coordinate the development interventions in the rural areas of 100 villages. The integrated rural development approach will target measurable objectives for the development of rural space, through centralized focus (integrated and coordinated programming) of public investment, donor and private investment, in the well-defined space of 100 villages, with high potential for economic and social development, agro-tourism and rural tourism, nature and environment as well as cultural heritage.

<sup>16</sup> This provision was made by the Law No. 41/2018, date 09.07.2018 “For Some Additions and Changes to the Law No.9632 date 30.10.2006” “On Tax Local System” as amended, Article 27.

# SURVEY RESULTS ON INFORMALITY, FISCAL MEASURES AND INVESTMENT CLIMATE IN THE TOURISM SECTOR

## 1. ANTI-INFORMALITY AGENDA 2016-2018

**F**ighting informality and consolidation of the fiscal base is an essential part of the government's economic policy agenda. Following the Strategic Plan 2017 – 2021, the General Tax Directorate started to implement in 2016 the Action Plan on “Anti-Informality” as approved by the Minister of Finance, Decision No 10572 of 08.04.2016. The Action plan focused on the consolidation and expansion of taxpayer's base for VAT, the establishment of chain transaction controls and the reduction of the number of non-declaring tax-

payers and the debt stock. Informality has also been a top priority of the AIC agenda since its establishment in 2015, and relevant recommendations have been provided to the Government. Some of them are already integrated into the government's plans (DTD work); others are still debated, such as the need for a national strategy on the formalization of the economy, etc. The anti-informality Action Plan was extended in 2017 with a new wave of actions to reduce informality based on the risk-based approach. The anti-informality measures after 2017 were accompanied by communication and awareness campaigns.

## 2. ANTI-INFORMALITY AND TAX ADMINISTRATION MEASURES IN THE TOURISM SECTOR

The level of informality in the tourism sector, as measured through tax declaration and self-assessment of the tax administration, is estimated to be 40% (GDT, 2018). The informality in the sector consists of under reporting economic activity to evade tax payment, undeclared employees, declare of lower wages, economic transactions without issuing invoice (coupon), and unregistered economic units. Efforts of the tax administration to restrict informality in the tourism sector undertaken in previous years have improved the situation. However, more has to be done.

The action plan of anti-informality measures in 2018 for the tourism sector was informed and concealed based on a thorough *risk analysis of the sector based on tax declarations of the last two years*. The anti-informality measures were anticipated by an inclusive program of communication and taxpayers' education as a measure to improve awareness and self-compliance. GTD organized 12 regional consultation meetings, distributed 3,090 information materials and contacted 3,886 businesses. Communication and consultation actions of anti-informality measures aimed to improve self-reporting and self-declaration. Tax controls and site inspections followed the communication and awareness stage of anti-informality measures. During 2018, GDT reports that tax authorities had controlled 1,500 businesses, site inspections during the tourist season were reported to reach 9,486. As announced by the tax administration, the result of the anti-informality measures in the tourism sector increased the reported turnover by 12%, associated with an increase

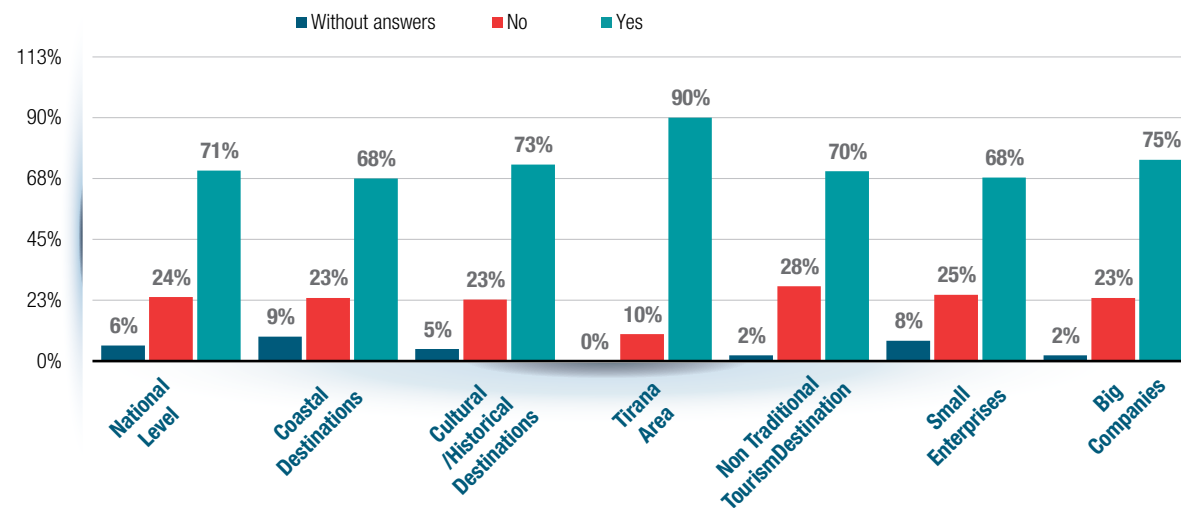
of invoiced services by 13%, and the number of declared employees increased by 13%. The tax administration communicated to 1,500 businesses the need to report their economic activity properly; 72% of the companies agreed to voluntary review the tax declarations and correct them as advised by tax inspectors.

## 3. INFORMAL ECONOMIC ACTIVITY IN THE TOURISM SECTOR

Informality in the tourism sector is increasing globally, mainly due to diversification of tourism destinations, diversification of accommodation and services or due to technology-based exchange of services. Many countries are facing the challenge of accounting for tourism economic activities exchanged through online platforms such as [booking.com](https://www.booking.com), [TripAdvisor](https://www.tripadvisor.com) or [Airbnb](https://www.airbnb.com). These economic activities are not filtered through the traditional market forms and as a result, are not appropriately accounted in the national accounting or tax base of the economy.

When businesses involved in this survey were posed the question – do they face competition from informal economic activities in their sector, 70.5% of respondents confirm they suffer competition from informal economic activities. A higher prevalence of informal activity than the national level is reported in Tirana Region and historical/cultural touristic destinations (Korca, Gjirokastra or Berat). Large companies (with turnover above 8 Mio ALL) also report a relatively higher level of competition from informal activities than nationally. When measured as competition pressure, informality is mostly felt by formalized companies, which are mostly large or well-established ones (see figure 3).

**Figure 3. Frequency of companies perceiving competition from informal economic activity per region and company size**

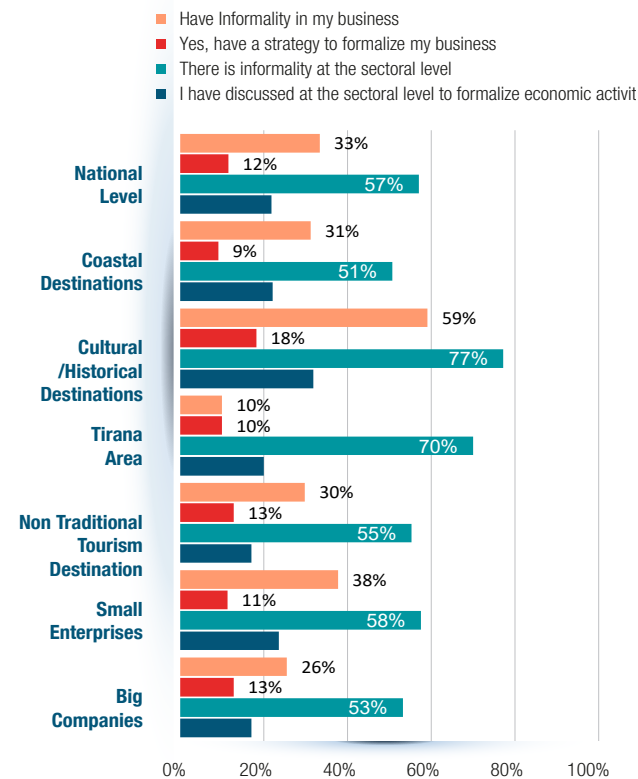


Source: Own calculations based on data from 2018 IC survey

The informality of tourism sector contracts when companies were asked to report if there is informality at their own business, at their sector or if they ever thought about formalizing economic activity at their own business or sector (see Figure 4). We reported the frequency of the response “I have no strategy to fight informality at my business,” “I have a strategy to fight informality in my firm or in the sector.”

At the national level, 33% of companies have reported having some degree of informality, while only 12% declare to have a strategy of formalizing their economic activity. The highest level of self-reported informality is reported at cultural/historical touristic destinations followed by small enterprises, while the lowest self-reported informality is scored in the Tirana region and among large companies.

**Figure 4. Frequency of companies reporting informality at business and sectoral level**



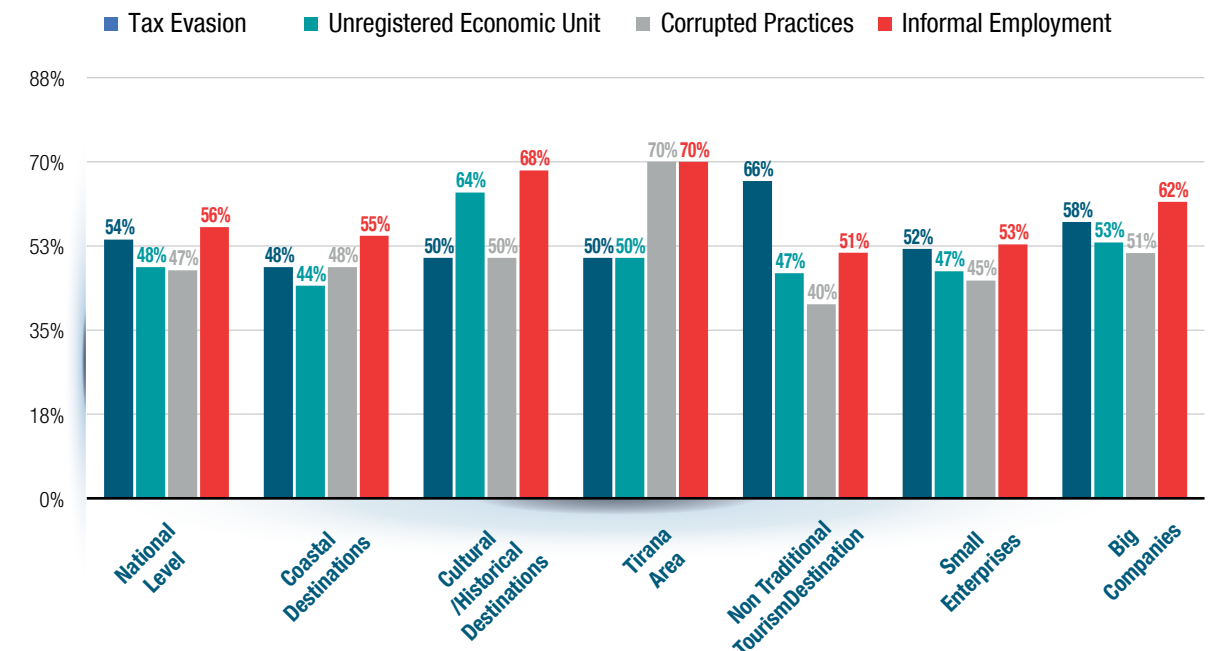
Source: Own calculations based on data from 2018 IC survey

Businesses report a higher degree of *informality at the sectoral level than their self-reported informality*. Cultural and historical destinations and the Tirana area have reported the highest share of informality at the sectoral level; more than 70% of respondents confirm they face informality at the sectoral level. Strategies at a sectoral level to formalize the economic activity have an occurrence rate similar to firms having strategies to formalise their own activity; at the national level, only 22% of firms have declared to have participated in a sectori-

al process initiative to formalise and regulate economic activity.

Businesses were asked to detail what forms of informal economic activity they face or observe often and very often among their competitors. Responses show that at the national level, 56% of businesses observe informal employment among their competitors, 54% declare that informality appears mainly and openly as tax evasion, while there are often corrupted practices of doing business and still unregistered economic activities (see Figure 5).

**Figure 5. Main forms of informality as perceived by businesses**



Source: Own calculations based on data from 2018 IC survey

Business perception on the forms of informality faced show some peculiarities if looked through touristic destination and business size. Coastal touristic destinations report

tax evasion and informal employment as the main forms of informality in the tourism sector in their localities. Cultural and historical destinations such as Korca, Gjirokastra and

Berat confirm as a primary concern competition from unregistered guesthouses or family businesses which pressure the price competitions reducing the average pricing of touristic services in those areas. Companies operating in the Tirana area have reported competition from corrupt business practices in procurement or inspections. Companies operating in a non-traditional touristic destination which in our sample include Dibra, Elbasan, Fier, etc., report as main concern competition from companies that under-report turnover and tax level.

Informality appears a stronger concern among large companies, which suffer the negative impact of informal employment, tax evasion and competition from unregistered accommodation structures (Figure 5). While in cultural and historical destinations, unregistered businesses were mainly family businesses run as guest houses or shared homes. Coastal areas (in Durres or Vlora) report that rented apartments are building blocks that were not traded and shifted to the accommodation and hospitality sector in an undeclared and unregulated manner.

This informal tourist accommodation has increased the competition among hotels and formalized accommodation structures and informal ones. Businesses in these areas report as the primary concern the negative effect in the quality of the destination that tourists perceive if accommodated in a non-formalised accommodation structure. This informality is mainly enabled through the tour operators, and it can be restricted if tour operators and travel agencies monitoring system is enforced and they become part of the anti-informality

measures.

Businesses operating in accommodation and hospitality in cultural/historical destinations call for improving competition and market structure through registration and identification of accommodation structures emerging. Identification and registration could be regulated by the local authority, with simplified mechanisms and flat-lump sum taxes. Strengthening cooperation with online booking platforms, field inspections, and local authorities would reduce this trend of informality in the sector. The progress in preparation and consolidation of the National Register of Accommodation facilities would also contribute to solving this issue.

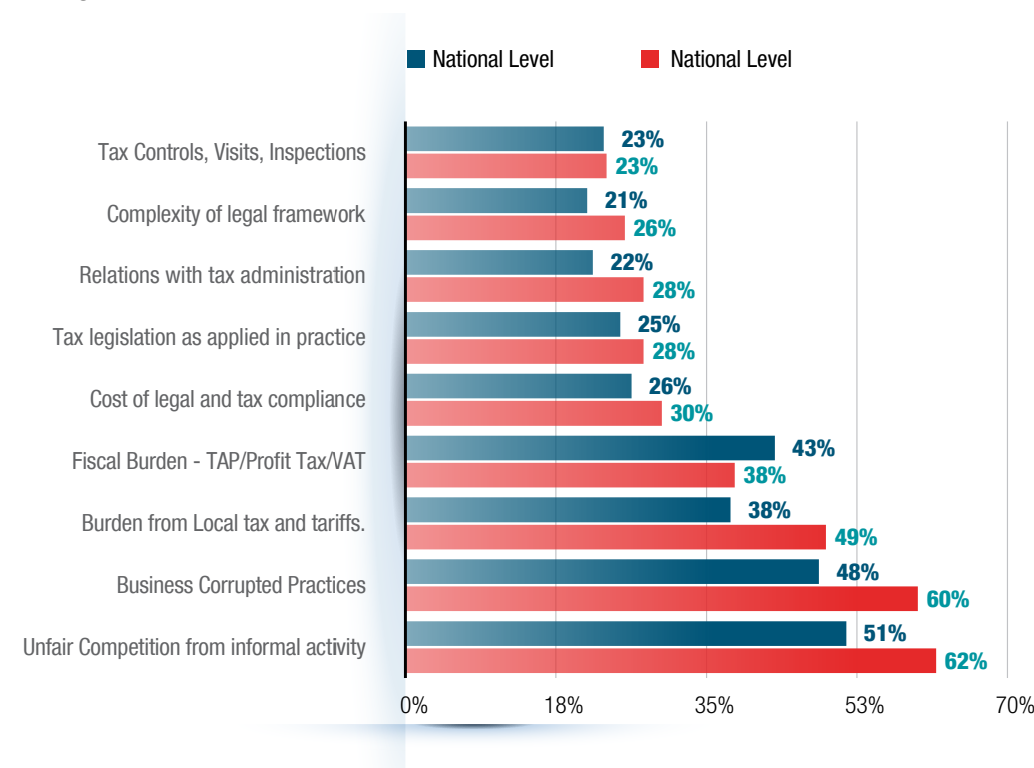
Companies were asked to identify factors that they perceive as a determinant of their decision to undertake the non-formalised economic activity. A set of factors were listed, and companies reported the importance on a scale of 1 to 5, where 1-means unimportant and 5- means very important factor. The 'frequency of reporting' is declared a very important factor in determining the company's decision to operate in a grey/informal economy (see figure 6). This frequency was screened per region and business size to understand the peculiarities of factors impacting informality. The results showed no particular patterns, informality remains systematic, and factors causing it are perceived similarly across the country, with the exemption of large companies.

The main factor in determining the risk level of engaging in informal economic activities is the unfair competition from businesses that operate in informality, in the same market and locality. Informal businesses are per-

ceived to have a cost advantage compared to formalized businesses and compete the formal and standardized businesses unfairly. Consultations and focus groups showed that the competition between formal and informal operators in coastal touristic destinations was not strong on price or cost but rather on quality. The unfair competition was very acute and problematic for the emerging historical and cultural touristic destinations as Korca and Gjirokastra, where this competition was strongly affecting price level and the ability to

improve the quality of services (see Figure 5). The business possibility to solve problems through corrupted practices remains a factor that generates informality in the sector. This factor plays a similar role across regions and business types. While large companies report local tax and tariffs to be a driver of informality, the fiscal burden remains a driving factor of informality at the national level. Cost of tax compliance and tax legislation as applied in practice were ranked among factors causing informality.

**Figure 6. Frequency of companies reporting factors being very important in determining the risk of undertaking informal economic activity**



Source: Own calculations based on data from 2018 IC survey

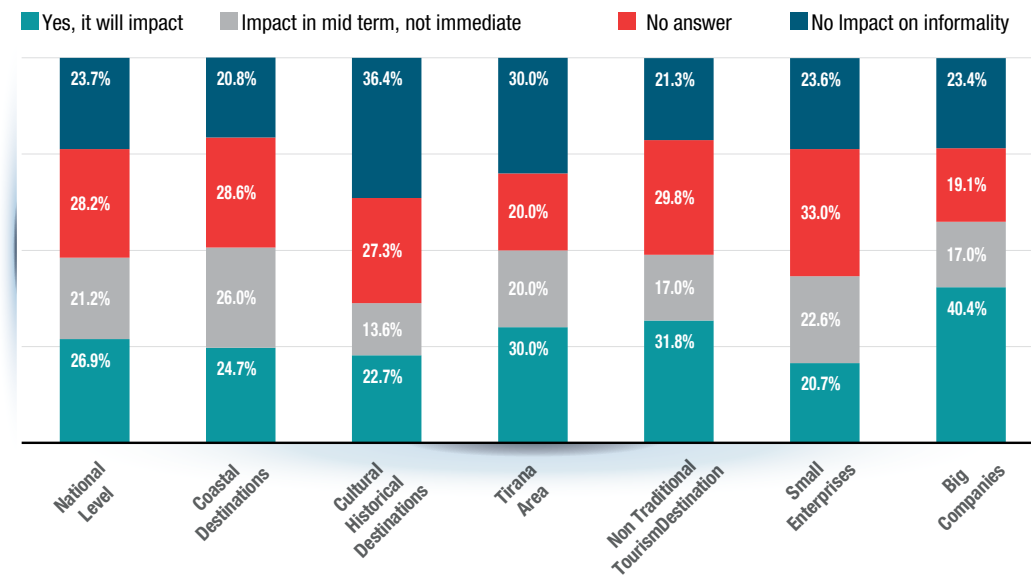


#### 4. FISCAL MEASURE IMPACT ON SECTOR DEVELOPMENT AND FORMALIZATION

Fiscal incentives and anti-informality measures were designed to improve sector competitiveness and reduce informality. The government's decision to reduce VAT from 20% to 6% for accommodation and hospitality services had an immediate impact on reducing informality, as

confirmed by 26% of companies responding. **Large companies and those operating in the 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.

**Figure 7. Business perception on the impact of VAT tax reduction on the formalisation of the tourism sector**



Source: Own calculations based on data from 2018 IC survey

**VAT reduction caused the price reduction of accommodation services; however, this reduction was lower than the impact VAT reduction was reported to have on investment and formal employment.** Coastal and seaside businesses and large companies have reported a higher propensity in inducing investment from VAT tax reduction, 42.9% of companies in coastal areas and 40.4% of large companies have reported using VAT reduction funds in investment and quality improvement. Large com-

panies and companies operating in the 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 and non-traditional tourism destinations to afford the cost of registering or formalising their activity. The VAT had a more noticeable effect on prices only in Tirana areas. The sector reports a high need to upgrade through investment, promotion and staff.

**Many businesses, in consultation processes, longed for policies that regulate the market and enforce fair competition.** The need for the sector to complement fiscal policies with public investment agenda was also urged and demanded by businesses in the Korca region, Gjirokastra, Durrës and other regions. Public investments from simple promoting to large road and infrastructural projects such as gas pipes to support heating of premises in Korca region and improve cost were needs pointed out in business consultations.

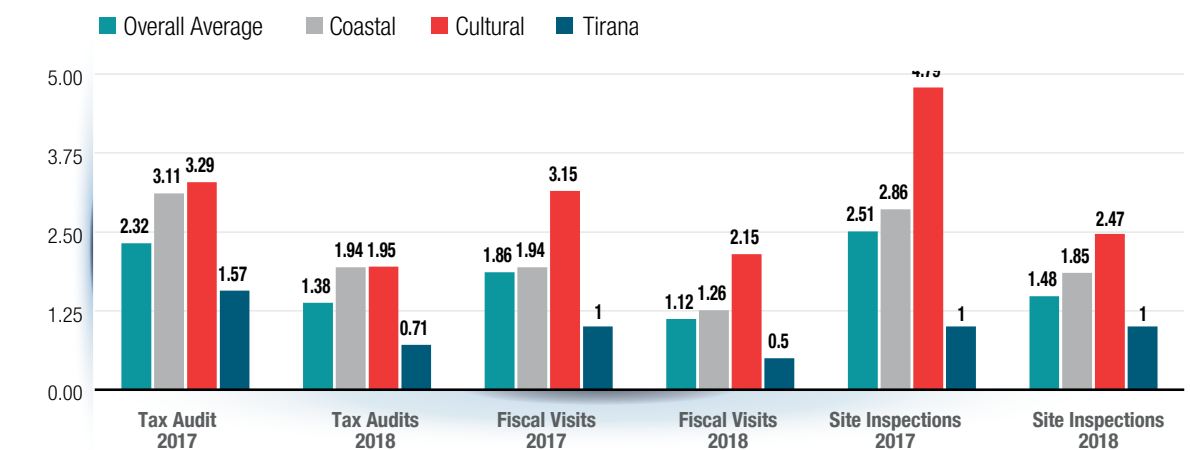
#### 5. BUSINESS PERCEPTION ON TAX CONTROLS AND TAX ADMINISTRATION BEHAVIOUR

The fiscal authorities announced the intention of intensifying fiscal controls and visits in the touristic regions as a way to reduce tax evasion and informality. Businesses were asked to report on the frequency and duration of tax controls/audits or visits. When responding businesses are not always clear which type of

fiscal visit they experienced and from which authority.

The analysis shows that the average frequency of tax controls between 2017 and 2018 has declined by 41%. During 2017 businesses reported an average frequency of tax controls of 2 and site inspections of 3, while in 2018, the frequency of tax audits and fiscal visits was cut to an average of one visit or control. While the declining trend on tax controls frequency is similar at the national level, the average frequency of tax audits/tax controls is reported higher in cultural and coastal touristic destinations (Figure 3). The average frequency of fiscal visits per size of company shows an increased average frequency among small companies. Very few responses were given on the duration of the tax controls; however, from the distribution of the answers, it is confirmed a general perception that the duration of tax audits and tax controls has declined, with the most frequent duration reported to be "less than a week" duration in 2018.

**Figure 8. Distribution of average frequency of tax controls 2017 vs 2018**

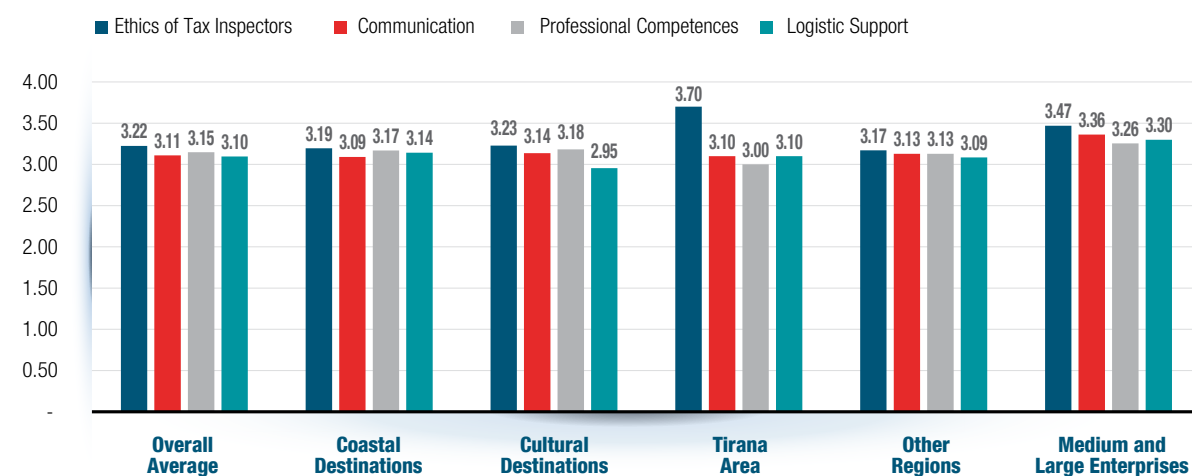


Source: Own calculations based on data from 2018 IC survey

Businesses were asked to evaluate the behaviour and the output of the tax inspectors while visiting or inspecting their businesses. They were asked to evaluate ethics, communication skills, professional skills and logistic support through a like scale of 1 perceived as very low to 5 perceived as very good. The Secretariat screened the perception per overall sample and then looked at regional patterns or

perceptions per company type. Inspectors are perceived as ethical; however, when it comes to professional skills, communication skills and logistic support, they are graded modestly, with an average grade of around the neutral values. Large companies better perceive inspectors' professionalism and behaviour, probably because the big taxpayers' office serves them and not by regional inspectors.

**Figure 9. Business perception on the professionalism of tax inspectors**



Source: Own calculations based on data from 2018 IC survey

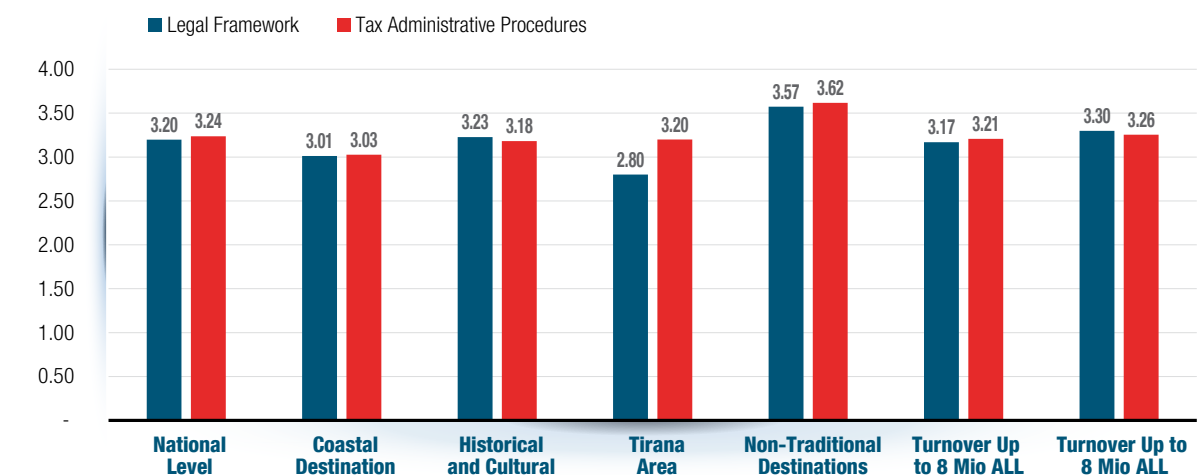
Format of the control report, content and references are perceived as quite clear; however, specific recommendations and conclusions of the report are graded as the most unclear part of the inspector's work. Report's recommendations and conclusions are perceived unclear if companies operate in non-traditional tourism mountain areas and small enterprises, followed by companies operating in the Tirana region. Only 16% of companies have reported they appealed the decision of the tax inspection. From

those appealing the decisions, 84% have taken the decision to the administrative bodies, mainly at the TAD, 95% of the businesses appealing the decision have taken it to the Tax Appeal Directorate at MoFE. In 56% of cases, the appeal decision has been in favour of the tax administration, while only 16% of companies appealing their tax inspection decisions report having received a decision of the appeal that supports their claims. **Only 12% of companies have taken the appeal decision to Administrative Court.**

Businesses were asked to report their perception on the clarity of information provided by tax authorities, mainly on the legal framework and administrative procedure. The clarity was measured on a scale of 1 to 5, with 1 - total lack of clarity and 5 - High Level of Clarity of Information. On a national level, the clarity of infor-

mation provided was moderate, valued at 3.24 (for legal framework) and 3.20 for administrative procedures (Figure 5). The lowest level of clarity of information was reported among businesses in the coastal areas and among small companies (with turnover less than 8 Mio ALL).

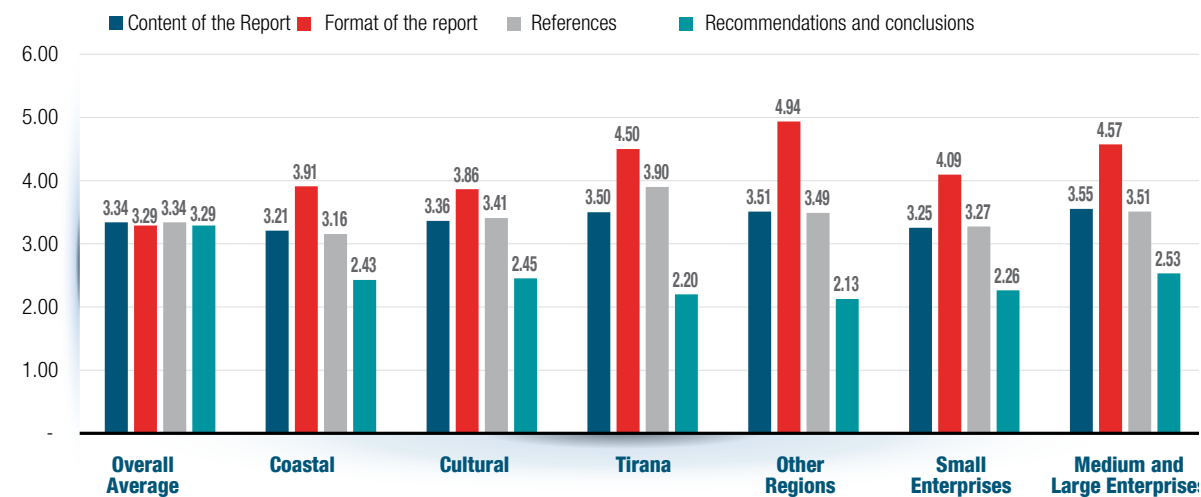
**Figure 10. Business perception on the clarity of information provided by tax authorities, mainly on the legal framework and administrative procedure**



Source: Own calculations based on data from 2018 IC survey

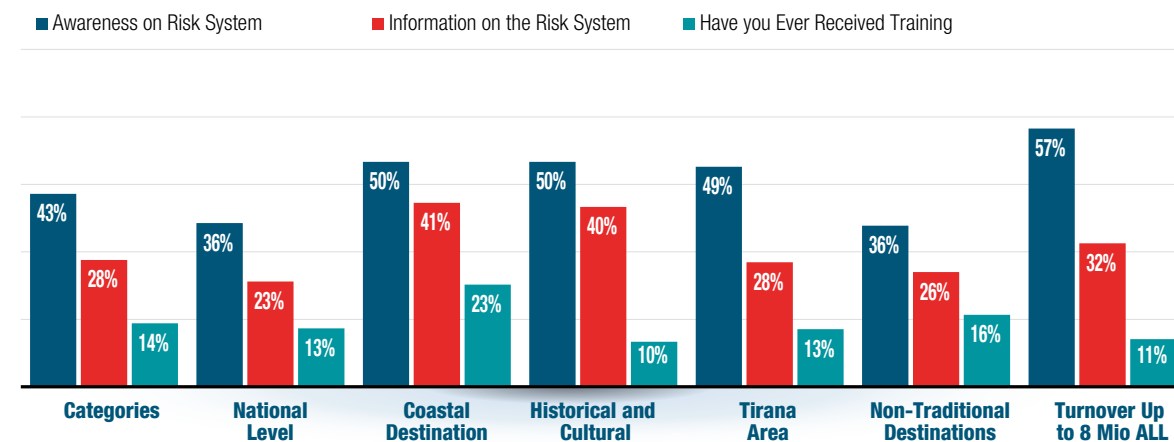
Only 42.7% of companies operating in tourism sector reported to be aware on the use of a risk-based system when tax authorities plan control, visits or site inspections. The lowest level of awareness is reported among companies operating in coastal and seaside touristic destinations and among small companies. The moderate awareness of the risk-based system of tax authority controls is accompanied by even a lower degree of information, 28.2% of companies declare to have

information on the risk-based system used by tax authorities, while only a tiny share of less than 15% of companies at national level report to have been receiving training by tax authorities. Information level among businesses on the risk-based system of tax control selection remains lower among businesses that are small and operate in coastal areas, while the frequency of businesses receiving training is lower in the Tirana region and among big companies.

**Figure 11. Business perception on the quality of report delivered by tax inspectors**

Source: Own calculations based on data from 2018 IC survey

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.

**Figure 12: Business awareness and information on the risk-based system of tax inspection**

Source: Own calculations based on data from 2018 IC survey

## 6. INVESTMENT CLIMATE

Businesses were asked about the attractiveness of the tourism sector to invest, upgrade their capacities and improve quality. From the investors' point of view, the attractiveness of the sector was considered **a measure of competitiveness, especially from the supply side**. A regulated sector with high potential from the demand side would attract investors and be competitive.

**Private investments in the sector have been very dynamic at an aggregate level; in absolute value, investments in the sector are low. However, the sector investments are increasing faster** (INSTAT, BoA, WTTC). Businesses were asked to report **on how favourable they perceive the investment climate in the sector, how favourable** are licensing and registration procedures, legislation, tax procedures and tax burden, human resources and availability/access to financial resources. Businesses rated business climate components from 1- unfavourable to 5- very favourable. **Businesses perceive a favourable investment climate; their evaluation stands above the average but lower than optimal.**

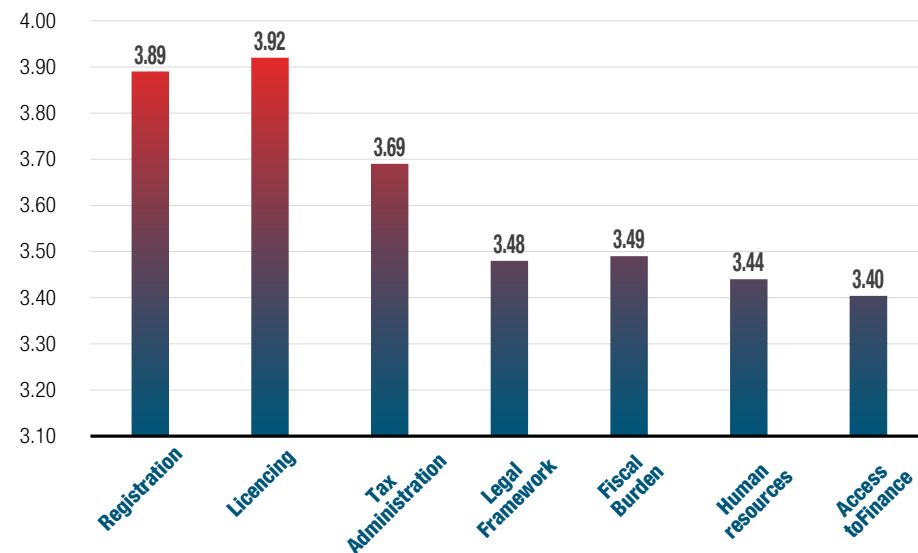
**Regulatory reforms** have improved noticeably. Businesses **perceive a favourable** condition when it comes to registering and licencing, and establishing a relationship with the tax authorities when undertaking new investment (see figure 11).

The complexity of the legal framework and fiscal burden is only moderately considered favourable for new investments. **The least favourable aspects for investment climate are the availability of human capital and access to financial capital.**

Businesses during consultations pointed out the difficulty in hiring well-trained staff. Quoting a

business representative in Gjirokastra, *"We have tourists, but we cannot find waiters"*. Demographic changes and migration have strongly impacted some regions, posing constraints on the availability of qualified staff. In some regions, lack of professional schools or training programs was identified as the main concern regarding the quality of human resources (as in Gjirokastra). In the Korça region, businesses identified rigid cooperation between the sector and education institutions, e.g., university or VET schools. The difficulty of attracting interns from abroad to work during the season was also mentioned as a barrier to fulfilling the need for English-speaking staff or tour guides.

**Access to finance** for the sector was also considered a barrier to new investments. The perception contradicts with the availability of credit at the second level banking system. For some time now, banks have tightened the conditions for crediting to reduce the risk; however, the system is very liquid, and there are available funds. During the consultation with some businesses, it was mentioned that the main reasons constraining access to financial resources were related to land ownership issues (Shkodra, Korca, Dures), viable business plans and informality in declaring financial indicators (profit and cash flows). During 2018, tourist's concern was that of cash payments and inability to use non-cash payments (credit cards) in almost many touristic vacations. Informality in the sector affects many aspects of sector sustainable development and competitiveness; however, the impact on the availability of financial means remains the most problematic. Improving sector access to the financial system and reducing cash payments would tackle informality and improve sector financial viability.

**Figure 13. Business perception on the investment climate in the tourism sector**

Source: Own calculations based on data from 2018 IC su

## 7. POLICY INTERVENTION, INFORMALITY AND COMPETITIVENESS OF THE SECTOR

Policy incentives and intervention to ensure tourism sector potentiality are diverse and combined in a full policy agenda that the government is putting together to spin off the sector dynamics. This study focused on a **systemic problem of the sector which is informality, trying to understand the sensitivity of informality to fiscal policies and interventions**. This would identify fiscal space for intervention and alignment with the general policy framework of the

tourism sector.

We used Principal Component Analysis to reduce the number of variables and triangulate single variables that measure informality, competitiveness and fiscal policies. Informality and competitiveness are simultaneous in their nature, meaning that improving the competitiveness would reduce the sector's informality and vice versa. We modelled the relation between competitiveness and informality through a two-stage linear regression, instrumentalizing the informality on fiscal policy variables, market structure and corruption.

**Table 1. Impact of informality and fiscal policies on investment climate (2SLS)**

Variables	Dependent Variable Investment Climate
Informality as self-reported	-0,436 (0,228)*
<b>Instrument for informality</b>	
Constant Term	-0,22 (0.158)
Regional Dummy	v0,058 (0,036)*
Company Size	0,086 (0.097)
Frequency of Tax audits/controls	0,041 (0.045)
Quality and professionalism of tax inspectors	-0,108 (0,044)**
Clarity of information and reporting of Tax Inspectors	-0,13 (0,045)**
Fiscal Burden (Tax Rate)	0,747 (0,046)***
Information and Awareness on tax policies and intervention	- 0,134 (0,046)***
Complexity of Tax Legislation	-0,091 (0,046)**
Fiscal Legislation as Applied	- 0,075 (0,44)*
Corrupted Practices	-0,022 (0.0046)
Un Fair Competition	0,163 (0,058)***
F-statistic	3,662***
No Observations	156
Adjuster R-Square	0,22



The analysis confirmed the **strong impact that fiscal policy has on the informality level; however**, interesting insights can be drawn. It is not the frequency of tax visits or tax controls that relates to informality. What significantly affects the impact of any tax policy on informality is the soft side of informality measures - professional inspectors, clear and very accurate reporting from any inspection, **and information sharing between tax authorities and businesses**. These variables are significantly affecting informality.

The influence of fiscal burden on informality follows previous findings, showing that that increasing fiscal burden would increase informality in a significant way.

Distorted markets that result in unfair competition would increase informality, complex

legislation, and complex interpretation or implementation of the law do as well lead to informality. However, their impact is weak.

Regional dummy results are significant at defining informality. Reclassifying a business from small to medium or large company would not necessarily impact their level of informality—the business size variable is insignificantly related to informality.

The impact of informality, measured through the components that count for “self-reported informality” on the sector’s competitiveness as measured through investors’ attractiveness, appears negative and significant. A one per cent increase in informality would deteriorate the investment climate by a 0.5 percentage point, leading to a deterioration of competitiveness.

## FINDINGS

**1 Although the Strategy of Tourism and its Action Plan (draft) have been subject to consultation, they have not 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 80% of the shared accommodation (rooms, apartments, houses)<sup>17</sup>. The objective for the formalisation of accommodation 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 a driver in public policies and strategic approaches (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 the fiscal area based on the business model is a desirable intervention; however, tax authorities’ administrative capacities 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 The tourism sector is characterized by systemic informality.** Businesses perceive that 70% of their competitors have informality, while 33% reported informality in their own businesses. A higher prevalence of informal activity at the 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 businesses 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 corrupt-

ed practices of doing business and informality and unregistered economic activities as part of the sector's informality. **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 having strategies at the firm level to correct this market distortion. **During the consultation process, businesses longed for policies that improved the sector's regulatory framework and enforced 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 formalisation of the sector are becoming challenging mainly because of its nature and dynamics, including here the innovative tourism services offered through shared economy, diversification of touristic services, and 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 the formalisation of the sector. The identification of economic operators by the tax administration in the 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 a consultation with municipalities (for example, Korça), it came out that the Register is supplied with data from municipalities that 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 (mostly guesthouses, apartments and small "hotels"/villas) are not registered as economic activities, although they offer accommodation services throughout the year or during the whole tourism season. **In this perspective, there is a lack of coordination between the national and local government to identify all accommodation capacities for tourists and reduce informal activity in the tourism sector.** According to some municipalities, the above identification of economic activities remains an obligation of the tax offices. On the contrary, according to 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 to 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 the identification and registration of those accommodation structures.

» In some destinations, such as Durrës and Vlorë, 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, Korça), 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 somehow help the towns' economies 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 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 gen-

eral 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. Moreover, the lack of a classification of accommodation structures creates confusion in practice while Municipalities impose the "local tax on accommodation". According to Law no. 9632 date 30.10.2016 "On Local Tax System" (as amended), this tax is determined based on the classification of the structure and category of Municipality. For example, for 4- and 5-stars hotels in Tirana and Durrës, the local tax limit is 350 ALL/night person while for the rest of accommodation structures is 140 ALL/night person. Since the official classification of the accommodation structures has not yet taken place, the local tax's implementation into practice might be subject to discretionary and preferential decisions by local authorities.

**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 on high informality, posing a 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 DCM no. 22 in Part II has set the criteria for such certification, MTE 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 highlight that such activities are organised 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 in papers, only a few entrepreneurs might be subject to 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 to contradictory interpretations into practice, and it was associated with struggles.** VAT reduction occurred after the entry into force of *Law No. 71/2017 “For an Addition to 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 DCM 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 to apply the reduced VAT rate, taxpayers, which in addition to the activity in the field of *accommodation structures as per the legislation on tourism*<sup>18</sup>, conduct other activities, should be registered at the National Business Centre as separate taxpayers by reorganising their economic activity, as defined in Law no.

<sup>18</sup> 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.

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 using via the same fiscal equipment 6% VAT for accommodation service and 20% for the rest. Based on the Secretariat’s consultations 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). GTD cleared this issue through a Memo<sup>19</sup> 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 a commercial activity which does not fall under the scope of tourism such as commerce, energy, construction, etc.** Therefore, in the cases of resorts and/or hotels that 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**

<sup>19</sup> Due to several questions raised into practice by the businesses.

**“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 to fit better to the model of accommodation structures (i.e., hotel/resort). This could reduce the confusion created in some cases**<sup>20</sup>. During the consultation meetings with several entrepreneurs in the 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 a bar, restaurant, and for each night of stay in a hotel, it is outdated and leaves room for arbitrary actions, especially by the tax administration. Sometimes they have been subject to fines for non-issuance of the coupon even when the client had not yet made the check-out. It is worthy of underlining 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 geographically mapped the impact of the latest VAT tax reduction in reducing informality to measure the 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 the Tirana region confirm a stronger impact of the VAT policy on formalizing accommodation services. This impact is reported at lower propensity among

<sup>20</sup> 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.

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 and 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 using VAT reduction funds in investment and quality improvement. Large companies and companies operating in the Tirana area have benefited from the VAT reduction to increase employment or probably to formalise employment. The VAT tax cut was used in cultural and historical destinations or non-traditional tourism destinations to afford the cost of registering or formalising their activity.

**12 Businesses call for diversified fiscal interventions to support formalisation 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 local businesses’ access to alternative energy sources were required by business representatives (Korça) to support their tourism sector to gain cost efficiency. The 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.

**13 The analysis confirmed the positive impact that fiscal policy could have on**

**the level of informality. However, interestingly, it seems that the frequency of tax visits or tax controls impact on informality is modest. The soft side of tax authority intervention significantly affects informality, 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, businesses show criticism when it comes to their professional skills. Large companies better perceive inspectors' professionalism and behaviour, probably because the big taxpayer office serves them 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 the 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 training (at national level 14.1%), the need for intensifying communication of tax authorities with the business community, from the formal exchange of official notes, sometimes authoritative visit to platforms of dialogue, information and knowledge transfer would be necessary.

1. **Although there are positive perceptions regarding tourism investment climate (registering, licensing, etc.), the sector is still hampered by low quality of human**

**capital and access to finance.** Regulatory reforms have improved the investment climate noticeably. Businesses perceive as favourable registering and licensing, and establishing a relationship with the tax authorities when undertaking a new investment. The complexity of the legal framework, transparency on legal framework and investments incentives to new investors is perceived as 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).

**15 Access to finance for the sector was also considered a barrier to new investments.** The perception contradicts with the availability of credit at the second level banking system. It is for some time now that banks have tightened the conditions for crediting 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 for the constraint to access financial resources.

**16 During the consultation meetings with different actors in the tourism sector, the low prevalence of transactions with debit/credit cards in tourist areas was underlined. 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 use them on the customer request, while tourists have experienced lack of such facility when performing cash

payments. Several studies have confirmed a direct correlation between the level of informality and the low level of transactions via electronic means such as POS' Terminals<sup>21</sup> or mobile phone payments, especially in trade and services sectors. 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 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, tourism services (i.e. accommodation) remain still organised spontaneously, and there are no significant restrictions on the use of cash payments to change the trend somehow. Referring to the official data from BoA<sup>22</sup>, the total number of POS terminals in Albania by 2017 was only 7,294, out of which 6,269 were in the Ti-

rana region. By T1-2018, the total number of POS terminals increased to 8,157, but still the lowest in the region.

## **17 Lack of trained staff to support the development of tourism services.**

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

<sup>21</sup> Reducing the Shadow Economy through Electronic Payments-Ernst &Young/ MasterCard (2016)

<sup>22</sup> [https://www.bankofalbania.org/Pagesat/Statistika\\_tesistemeve\\_te\\_pagesave/](https://www.bankofalbania.org/Pagesat/Statistika_tesistemeve_te_pagesave/)



# RECOMMENDATIONS

**T**he recommendations are designed to tackle informality in different ways, as per its forms of materialization. The Secretariat has been very careful in drafting them in alignment with the legal framework and strategic development, contextualizing them into practical and able to be implemented actions. The endorsement of these recommendations remains subject to further discussion in the Investment Council.

## RECOMMENDATION 1.

**Finalization and the approval of the Strategy of Tourism. Aligning the objectives between MTE and MFE 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 the 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.

**There is a clear need to strengthen the governance of the tourism sector at the local level.** Tourism is a strategic sector at the national level; however, it remains a local shared economy. Therefore, local authorities need to be more active in monitoring the sector development, better fulfil their obligations, establish a dialogue with businesses to bring their voice to policymaking.

## RECOMMENDATION 3.

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

- » Group 1 - formalization/registration + tax controls for cases where the construction industry is to a certain level converted into a “touristic” one by leasing apartments massively to tourists. The impact in budget losses from this informal activity is significant (main cities like Vlora, Durrës, Shëngjini, Sa-

randa, 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 kinds of “microbusinesses” should be subject to local or national authority’s inspections regarding compliance with the hygiene and sanitary standards and subject of assistance to shape into sustainable businesses gradually.
- » 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.

**The anti-informality agenda has to tackle the informality in compliance with the forms it manifests itself per different destinations and different business models (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 recommendations are summarized accordingly.

## 1. ANTI-INFORMALITY MEASURES FOR UNREGISTERED ECONOMIC OPERATORS IN THE SECTOR

## RECOMMENDATION 4.

**Identification of all the accommodation structures as defined under Law no. 93/2015 including also apartments/villas and guest-houses that exercise economic activities in the**

**field of tourism, via a coordinated campaign between GDT, MTE, Regional MTE Units and Municipalities.** Registration of guesthouses which offer accommodation services on an occasional basis and for a limited period of days, in cultural/historical destinations on a 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 laws might take place to offer certainty to such micro-businesses that the registration process is related to “tourism purposes” rather than “fiscal ones”. This model of economic activity in newly emerging cultural/historical destinations supports the improvement of the 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 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 DCM No. 730 dated 20.10.2016 is a must to be done to tailor further 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 the tourism sector - which states that the operator is recognized as a 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 evaluating informality levels on a 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 to update and make the information base accurate. MFE or Tax Authorities could lead this process of data consolidation.**

### 2. ANTI-INFORMALITY MEASURES FOR INFORMALITY AS TAX EVASION

#### RECOMMENDATION 8.

**Amendment of the MFE Instruction No. 24 dated 02.09.2008 “On Tax Procedures” and DCM No. 96 dated 17.02.2010.** The purpose of these amendments should be facilitating doing business and finding out innovative solutions such as enabling the issuance of a “summary coupon” associated with a “detailed list of orders” for services offered in accommodations structures by making the formalisation process easier. These changes would improve tax administration while monitoring fiscal equipment, the moment when the coupon is issued, etc., and

would also provide a tailored model for businesses operating in tourism, reducing 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 the shadow economy in tourism activities. It would increase business tax compliance and significantly contribute to Albanian tourism’s increased transparency and reputation, especially to foreigners.** The means for dealing with this challenge would be subject to further discussion with BoA, second-tier banks and MFE, aiming to find an acceptable solution and avoid additional costs for businesses, especially micro-businesses. The international practice offers several measures that can be followed<sup>23</sup>. Additionally, implementation into the practice of the rules on categorization and classification of the accommodation structures as per the provisions of the DCM 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 the use of POS terminals in 4 and 5-star hotels/resorts, would help to the formalisation.

23 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.

### 3. 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 contributions 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 the 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 need to be adjusted to the nature of this employment scheme.** The requirement for such an employment scheme is treated similarly to full-time employees, posing an unnecessary cost of hiring staff for seasonal or internships employment schemes. At the national level, there is a discussion to improve terms of engagement for the interns to acquire new skills during the education cycle. Tourism business associations have to engage in that discussion and contribute.

#### RECOMMENDATION 10

**Informality from accommodation facilities penetrates the market through the chain of tour operators, which need to be subject to 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 and the inspectorates, which monitor the conformity of the market on a permanent basis. This platform should be implemented on a regular basis; seasonality has had a negative impact on business activity and tourist’s perception.** Based on the study findings and the consultations with the business, it comes out that it is not the frequency of tax inspections that 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 confirm a degree of readiness and awareness to engage in formalizing their economic activity. This represents 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.

# ANNEX 1

## OTHER SECTORAL STRATEGIES ON TOURISM<sup>24</sup>

### 1. NATIONAL STRATEGY FOR DEVELOPMENT AND INTEGRATION 2015-2020 (NSDI)

This document presents the main challenges faced by the sector, including implementation of standards, quality of tourism services and facilities, development of tourism products, lack of collaboration and effective coordination among stakeholders that are or might become an integral part of the tourism sector. Some specific challenges are (1) need for greater integration in the planning of tourism and tourism destinations; (2) address weaknesses related to the range and quality of tourism products; (3) development of a favourable legal and institutional environment for the absorption of local and for-

eign private investors; (4) need for a more all-inclusive and strategic approach in regards to the development of tourism in Albania, to ensure sustainability and to generate revenues and employment opportunities; and (5) need for approval and implementation of “National Inter-Sectoral Tourism Strategy.”

Two strategic objectives for tourism are foreseen in this strategy:

1. Developing sustainable tourism in the country to contribute to economic development and employment by increasing the staying period of foreign tourists and a modest increase in the inflow of emigrants and ethnic Albanians; increase the direct contribution of tourism in the GDP, and increase the direct contribution of tourism in employment;
2. Setting up an integrated tourism model of

<sup>24</sup> Source: Legislation and MoTE webpage

cultural, natural and coastal dimensions through the development of a “Branding Albania” Strategy with a logo and unified motto for investments in tourism; approval and implementation of the “National Strategy for Tourism Development”; implementation and execution of a national plan for the development of tourism, integrated with the National General Territory Plan; and creating new cultural, natural and coastal tourism products.

### 2. NATIONAL GENERAL PLAN 2015-2030 (NGP)

The National General Plan defines the main directions of tourism development based on the potentials of the territory. Map of Tourist Potential in this Plan illustrates areas that are classified as Areas of National Importance for the values they carry in the planning and sustainable development of the territory. A considerable number of these areas is regulated by sectoral legislation in force, e.g., protected natural areas; water resources and their protection levels; mineral areas; industrial areas; historical and cultural heritage areas; cultural monuments; archaeological areas and parks; historical centres; coast area, etc.

### 3. INTEGRATED INTER-SECTORAL PLAN FOR COAST AREA (IIPS)

From the analyses and studies carried out till to date and based on the national development strategies, but also international ones for the future of the Mediterranean region, developed for the tourism sector and maritime economy, IIPS Coastline considers that the tendency for tourism development in Albania should be focused on these types of tourism: coastal tourism, cultural tourism, natural tourism/eco-tourism,

rural tourism, agro-tourism, mountain tourism, adventure tourism (sports) and tourism of health and well-being.

### 4. INTER-SECTORAL STRATEGY “ALBANIA’S DIGITAL AGENDA 2015-2020”

The document aims to increase the efficiency of the manufacturing sector, agriculture, tourism and industry through ICT systems. One of the strategic objectives of the document foresees improvement of ICT infrastructure in the public administration for aligned and integrated developments as per international standards on e-governance in all the sectors (health, education, environment, agriculture, tourism, culture, energy, transport, etc.) with the aim of inter-connecting at 100% all the systems by the end of 2020.

### 5. INTER-SECTORAL STRATEGY FOR RURAL AND AGRICULTURAL DEVELOPMENT 2014-2020

The documents specify the grounds for integrated planning and aim the development of rural tourism and other activities related to tourism, such as cultural tourism, natural and mountain tourism, wine tourism, and others by reconstructing traditional buildings and houses for business purposes, such as accommodation, food, leisure, trade, and others. According to this strategy, achieving the above goals will be made possible by promoting and marketing the country’s tourism image as a tourist destination of particular interest; diversifying the tourism products by expanding them throughout the country to ensure integrated tourism development; development of certification and standardization systems in tourism to contribute in the quality improvement of services and products in the sector.



## 6. TRANSPORT STRATEGY

It foresees that until 2030, 30% of road transport, with a distance of over 300 km, should be shifted to other transport ways such as rail or water transport and more than 50% until 2050. Until 2050, it is aimed that the majority of passenger transport for medium distances is done by rail. From the environmental point of view, EU transport policy is focused on developing an environmentally-friendly integrated multimodal transport system. The strategy is accompanied by an action plan based on the pillars: Blue Growth, Regional Connectivity (transport and energy network), Environmental Quality and Sustainable Tourism. An integrated combined tourism model of coastal (beaches and sun), cultural (archaeology, heritage) and natural (eco-tourism) dimensions is supported mainly on an efficient network of roads that can connect every corner of the country. Some destinations are of particular importance and need good quality road connections: coastal destinations, world heritage sites and eco-tourism.

## 7. BUSINESS AND INVESTMENT DEVELOPMENT STRATEGY 2014-2020

The increase of foreign investments is a key objective for the economic development of the country and a strategic priority of the government. Foreign investments are essential in many directions, while the performance of investments affects the country's economic and social progress. FDIs bring the necessary capital, increase the productivity of the economy and, among others, knowledge and technology spillover, influence the opening of new markets for

trade, enhance the competitiveness of the economy, influence in reducing the deficit of current accounts, increase employment and above all affect the wellbeing of the population. The strategy notes that a PPP based on a concession contract has proven to be a successful mechanism for attracting foreign investments, particularly in the mining and energy sectors, and foresees that this policy will be extended to other sectors as well as efforts will be made to promote best CSR practices, in the extractive industries (oil, mining, cement and electricity), to create a friendly and manageable environment accepted by the local community.

## 8. STRATEGY FOR MANAGEMENT OF INTEGRATED BORDERS

Policy objectives defined by this strategy are: strengthening of measures to combat cross-border crime and illegal trafficking to increase standards of border security in the parameters of EU countries, increase of standards for the controlling and supervision of borders through the application of best practices for its integrated management, creation of a legal framework suitable to and aligned with EU standards and Schengen Regulation, setting up a system of preventive measures for illegal migration, based on the legal framework and best practices of EU countries, alignment to EU standards on the movement of goods, vehicles and passengers at the border, guaranteeing ease of legitimate trade and safe borders and full alignment of an electronic system for the issuing of visas, e-visa with Schengen Regulation standards.

# ANNEX 2

## INSTITUTIONS RESPONSIBLE FOR THE DEVELOPMENT OF TOURISM<sup>23</sup>

### 1. MINISTRY OF TOURISM

- » implements the basic principles of sustainable tourism development, in accordance with the provisions of this law and the legal and sub-legal acts in force, in cooperation with all stakeholders of the tourism industry;
- » drafts and submits for approval to the National Territorial Council, *the National Tourism Plan* and is responsible for its implementation;
- » drafts and submits for approval to the Council of Ministers, the *Tourism Development Strategy and the Action Plan*;
- » establishes and administers the *Central Tourism Register* and *the National Register of Tourist Resources*;
- » financially supports projects that help develop the tourism field;
- » Supports, protects and develops tourist resources and promotes tourism products in

accordance with the principles of sustainable tourism development and in cooperation with interest groups;

- » Take measures for the welfare, protection and promotion of employment in the tourism industry, giving priority to the employment of young people;
- » promotes, supports and cooperates with public and private institutions in the collection, processing and administration of data in the field of tourism;
- » drafts and implements policies for *certification and classification systems* in accordance with the provisions of this law;
- » proposes to the National Council of Territory the adoption of the priority areas for the development of tourism, according to the provisions of the legislation in force;
- » Develop policies for tourism product and marketing in the field of tourism, based on the *Tourism Development Strategy and the National Marketing Strategy for the Tourism Sector*;

<sup>23</sup> Source: Law 93.2015, MoTE webpage.



- » Supports, encourages and empowers tourist enterprises, which conduct tourism activities as accommodation facilities, with regard to the efficient use of natural resources and the “*Eco-Certificate*” certification.

## 2. THE TERRITORIAL UNITS OF TOURISM

These are created as an administrative structure of the ministry responsible for tourism. The manner of organization and functioning of the territorial branch of the tourism service is approved by order of the minister responsible for tourism. The territorial division of the tourism service performs these functions:

- » coordinates fieldwork for the implementation of tourism product development policies and tourism destination management;
- » advising tourist enterprises to meet the standards and increase the quality of services and tourism products offered;
- » Encourages and empowers tourist enterprises and host communities for ongoing education;
- » Provide information on tourism enterprises regarding the legal framework and standards in the field of tourism, and disseminates classification/certification manuals for tourist undertakings;
- » Advise interested parties for the establishment of tourist enterprises;
- » record any requests and complaints submitted by tourists, their representatives and consumer associations and convey them to the inspectorate covering the field of tourism;
- » cooperate with local authorities and interest groups to provide information in the field of tourism, according to the requirements and tasks given by the structures responsible for tourism;
- » collects data and compiles periodic reports in cooperation with the local government

unit tourism officials, who presents it to the responsible structure in the ministry responsible for tourism.

## 3. PRIVATE SECTOR ADVISORY COMMITTEE FOR TOURISM

Private Sector Advisory Committee for Tourism (KKSPT) is established as an advisory body for the tourism sector. The manner of organizing and operating the KKSPT is defined in the regulation approved by the minister responsible for tourism. The KKSPT is chaired by the Minister responsible for tourism and includes representatives from national associations of enterprises operating in or related to tourism, representatives from higher education institutions, chambers of commerce, representatives of associations or NGOs operating in the field of tourism, as well as representatives of international institutions/donors.

KKSPT has the following functions:

- » Advise the minister responsible for tourism for the development of the Tourism Development Strategy prior to its approval by the Council of Ministers;
- » treats and examines issues related to private sector tourism activity or that may arise during the exercise of this activity;
- » Ensures cooperation between the private sector and the ministry responsible for tourism on issues that may arise during tourism development, the implementation of the Tourism Development Strategy and the Action Plan;
- » gives opinions on the planning of priority areas for tourism development;
- » gives opinions when considering legal acts related to tourism;
- » Provides information on the performance of the private tourism sector and suggests to the ministry responsible for tourism taking measures on tourism-related issues.

## 4. NATIONAL TOURISM AGENCY (NTA)

The National Tourism Agency is a public legal entity under the minister responsible for tourism, aiming to promote Albanian tourism, both inside and outside the country.

NTA has these tasks:

- » Implement marketing policies in the tourism area, promoting Albanian tourism at the national and international level, to create Albania's image as a tourist destination in the international market.
- » Provide information for visitors, travellers and tourists, services offered to tourists, touristic products and destinations, activities, and other useful information.
- » Promote the product and tourist destinations in the country and abroad, cooperating with the regional tourism offices, local government and other organizations operating in the tourism area.
- » Promote investments in priority tourism development areas, cooperating with other public investment promotion institutions in the country.
- » Initiates and promotes tourism projects, according to their field of activity, taking the prior approval of the ministry responsible for tourism.
- » Proposes and designs materials of a promotional character, in line with the tourist market trends, and realizes their production.
- » Implement the national tourism development strategy and national marketing strategy for the tourism sector.

## 5. NATIONAL COASTAL AGENCY (NCA)

The National Coast Agency is a public legal entity under the responsibility of the minister responsible for tourism, which aims to protect and track the development of the Albanian coastal area. Competencies, manner of organi-

sation and functioning of NCA are approved by a decision of the Council of Ministers upon the proposal of the minister responsible for tourism.

NCA has these tasks:

- » Conservation and sustainable development of the coastal zone;
- » Implementation of policies and strategies for integrated coastal zone management;
- » Co-ordination of programs related to the coastal area;
- » Promoting investments in the coastal area;
- » Contributing to public information, consultation and access in drafting and implementing policies and strategies related to integrated coastal zone management;
- » Taking part in drafting national policies and strategies for integrated coastal management and co-ordination of work for their implementation;
- » Proposing changes and improving the legal and sub-legal framework for integrated coastal zone management;
- » Cooperation with relevant bodies on coastal protection and development projects and activities and monitoring their implementation;
- » Encouraging and co-operating with organizations, institutions, investors and other international or local actors and inviting them to participate and involve in projects and developments relevant to the integrated management of the coastal zone;
- » Monitoring the strict implementation of territorial planning instruments, approved by central and local authorities in the coastal zone;
- » Drafting a regulation on the discipline of the development of tourist activities, which take place in the coastal area. This regulation is approved by the minister responsible for tourism;

## 6. NATIONAL TOURISM INSPECTORATE (NTI)

National Tourism Inspectorate has these tasks:

- » controls the implementation of the criteria and conditions of the subjects that exercise tourism activities, in accordance with the provisions of this law, bylaws in its implementation and other legal acts in force;
- » controls and inspects the premises where the tourist activity is carried out;
- » cooperate and provide information to other state bodies, in the cases that are in their competence, regarding the tourist activity;
- » controls and takes measures for violations found by subjects that exercise tourist activity, in accordance with the provisions of this law;
- » collects and administers the complete relevant documentation, including electronic documents, which relate to the object of control;
- » exercises control in the premises and in the documentation of tourist entities, which have the obligation to allow and make available to the Inspectorate the information and documentation necessary for inspection;
- » imposes fines and other administrative measures against natural or legal persons when noticing the provisions of this law.

## 7. COMMISSION FOR STANDARDIZATION OF TOURISM ACTIVITIES

For the certification of tourist activities, the Commission for the Standardization of Tourism Activities is set up to issue and revoke the respective certificates at the ministry responsible for tourism. The manner of organisation, functioning and composition of the standardization commission for tourism activities is determined by approved regulations by order of the minister

responsible for tourism. The standardization commission for tourism activities is established by order of the minister responsible for tourism and consists of 5 members.

## 8. MUNICIPALITIES

Municipalities have the following tasks:

- » create an inventory of the main tourism resources of the local government unit and inventory of tourist enterprises at the local level;
- » to periodically update, every 6 months, inventory of tourist resources to the minister responsible for tourism to establish a database at the national level;
- » Provide support infrastructure for tourism business activities at the local level, enabling standards to be respected by tourism ventures;
- » To contribute to the development of different types of tourism at the local level, such as cultural tourism, agro-tourism, and others based on tourism resources, playing an active role in diversifying the tourism product, in cooperation with all central and local institutions, such as and interest groups;
- » provide information, as part of the tourism statistics system, to the minister responsible for tourism;
- » cooperate to take measures to provide primary healthcare services for visitors/ tourists within the jurisdiction of the local government unit, applying the standards set by the ministry responsible for tourism and health;
- » Take measures to create and maintain a healthy environment within the jurisdiction of their territory, in accordance with the norms and in the implementation of hygiene and sanitary regulations.

# ANNEX 3

## A NOTE ON THE THEORETICAL FRAMEWORK AND OBJECTIVE OF THE ASSESSMENT

**T**ourism is an essential source of income, employment, export earnings, public revenues and business opportunities for many countries. Therefore, it is not surprising that many governments recognize tourism as a set of powerful tools for attracting investments, enhancing public infrastructure, and increasing the standard of living for local communities. These benefits are usually more noticeable and diverse in large tourism destinations and their communities, but they are also visible in small and remote tourism receiving areas.

The informal economy (or shadow economy or grey economy) comprises various economic activities, from doubtfully legal to completely illegal economic activity. For the purpose of this study, the informal economy in the tourism sector will refer strictly to economic activities that involve **monetary transactions but represent legal economic activities, incur tax evasion**

**or tax avoidance.** Studies seeking evidence on what drives shadow economy argue that factors affecting the emerging of informal activity can be grouped in four main categories, (i) tax and social security contribution burdens, 2) increased intensity of regulations (e.g. labour market regulations, trade barriers, etc.), 3) deterioration of the quality of public goods and services, and 4) the state of the formal economy (Schneider et al., 2011). The majority of empirical studies in this field of research have found strong evidence that the **increase of the tax and social security burden remains the most influential factor causing the informal economy.**

Shadow economy in tourism is still a pretty under-researched area, despite the importance tourism is receiving in the national and global economy. So far, little attention has been paid to deeper understanding, decomposition and measurement of tourism-related shadow economy across countries. Pavičević (2014) reported the

negative impact of the shadow economy on tourism in Montenegro by pointed out that the development of Montenegrin tourism has been halted due to emerging uncontrolled activities such as an increase in the number of unregistered private accommodation facilities in the coastal region. Similar observations on tourism-related shadow economy in Montenegro were provided by Milić (2014), who stated that the most prominent problems of the shadow economy in tourism-related economic activities are unreported seasonal accommodation capacities leading to undeclared income and employment. Croatian tourism did also suffer from informal lodging services offered in private houses, apartments, and rooms, which remain the most frequent activity of shadow economy in tourism. In 2016, almost 58% of all commercial-based tourist accommodation facilities in Croatia were privately-owned housing units.

Reporting data from the Business Environment and Enterprise Performance Surveys conducted by the World Bank and the European Bank for Reconstruction and Development in 11 countries in Eastern Europe in 2013 did report that *registered firms in the accommodation and hospitality sector perceive informal practices as the more significant obstacle in their activity if compared with firms in other sectors*. Medium-sized companies are less likely to consider the informal sector the biggest obstacle faced in their activity, whilst a lack of subsidies reduces the likelihood of considering the informal sector as the biggest obstacle for the firm.

Shadow economy in tourism remains a challenge that affects largely not only the service providers but also tourists and the host communi-

ties. Such an informal economy in tourism would impact the overall competitiveness of the sector and its potential to grow and prospect.

The competitiveness of the tourism sector, Crouch and Richie (1999) identifies a set of business-related and policy-related variables that contribute to competitiveness, which are influenced by the dichotomy of the formal-informal economy in the tourism sector. The formal-informal dichotomy in the tourism economy appears typical in developing countries, in Albanian as well. Informal tourism activity would influence endogenous and exogenous comparative advantages, especially natural resources management, capital formation through new investments, technology adoption, infrastructure development, the operational effectiveness of the sector, and monitoring and regulative framework.

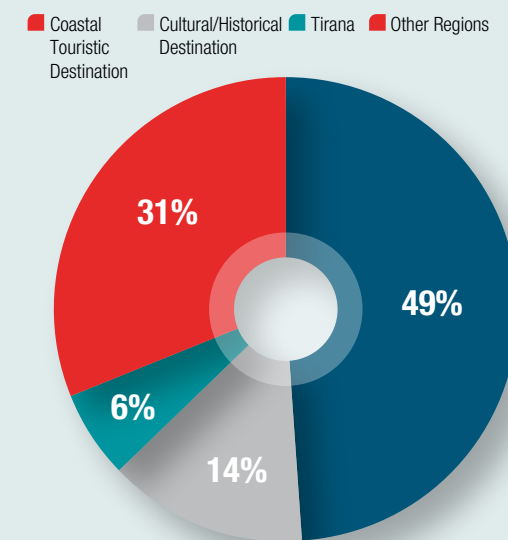
This technical note on the formalisation of the tourism sector will focus on understanding the degree to which tourism economic activity is intoxicated by informal activity and tax evasion, identifying factors driving informality and particularly exploring the impact of fiscal measures on formalization. The informal economy, fiscal stance measures and variables measuring factors impacting informality in tourism will be developed based on the principal component method. We would expect that any policy intervention to formalize tourism economic activity would improve the competitiveness of the overall touristic economy. The sensitivity of informality to policy factors will be estimated using cross-section regression, while a two-stage regression will derive the impact of informality on investment climate, which is used as a proxy of the competitiveness in the tourism sector.

## ANNEX 4

### GENERAL CHARACTERISTICS OF THE SURVEYED BUSINESSES

The distribution of the respondents per region shows that the majority of responses, around half of them (49%), represented businesses operating in coastal areas and seaside touristic destinations of Durrës, Vlora, Lezha and Shkodra. Touristic destinations of cultural and historical nature as Berat, Gjirokastra and Korca represent 14%, 6% of companies operate in Tirana, and the remaining 30% operate in not-traditional touristic destinations of Dibra, Kukës, Elbasan and Fier. This distribution of the sample in four main areas was designed to capture specifics of the tourism sector per destination characteristics since destination typology affects informality and business model. The majority of interviewed companies were registered after 2000, 85.1% after 2001, and only 14.9% before 2000.

**Figure 14. Regional distribution of the survey sample**

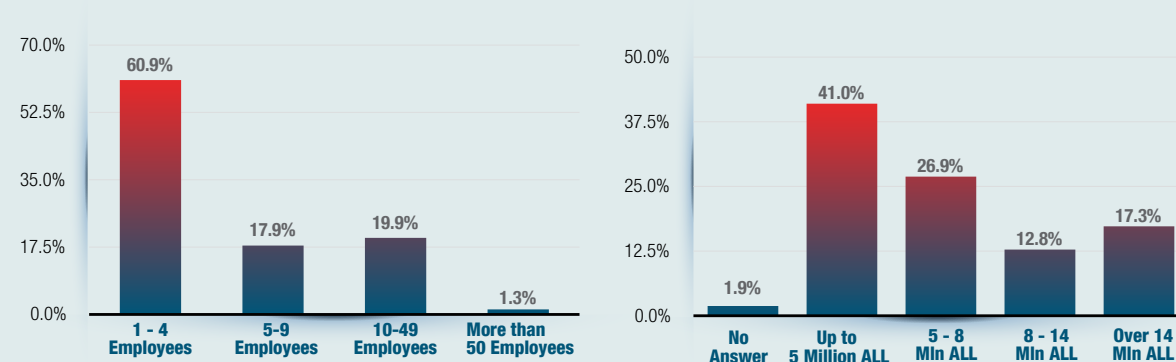


Source: IC Survey

44% of companies surveyed represent accommodation/hotel facilities, 17% are food and drink services, while 35% represent tour operators and travel agents. Micro-enterprises dominate the tourism sector; 60.9% of respondents have 1-4 employees, while 41% report annual turnover of up to 5 Mio ALL. The share of small and medium companies represent 37.8% of the sample (if classified by the number of employ-

ees) or 39.7% of the sample if turnover is used as a classifying measure (Figure 2). Large enterprises are only a minor share of the sector; only 17% of companies could be classified as large companies based on their turnover. The sector does report a low rate of foreign capital penetration; only 6.4% of respondents reported engaging foreign capital either fully or partially in partnership with locals.

**Figure 2.** Distribution of companies per level of turnover and employees



Structure of the sector. Microenterprises dominate the sector structure. Small and medium structures represent a noticeable share of the sector, while large enterprises are only minor, similar to foreign investments, which have a very low prevalence in the sector. The established business model depends on the

touristic destination. Small and medium businesses dominate coastal areas, cultural/historical emerging destinations, and non-traditional touristic regions—dominated by micro family businesses, while Tirana reports a larger share of corporates and medium companies operating in the sector.

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The Investment Council facilitates the development of mutual trust between the business community and the government in Albania and contributes to an incremental institutionalization of effective policy dialogue. It contributes to the national reform and economic transition process by enhancing institutions, laws and policies that promote market functioning and efficiency.

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