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Albania
Investment
Council

Improving Transparency and Investment Climate

INFORMALITY

A COMMON GOVERNMENT
- BUSINESS CHALLENGE

Tirana, December 2015

CONTENTS

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INTRODUCTION

This document was drafted in the framework of the recommendations deriving from the First Meeting of the Investment Council in July 2015. It is aimed at structuring and encouraging debate among experts on realistic grounds and at providing concrete recommendations generated by businesses, with a view to formalisation being effective but balanced when it comes to its social impact and having as few costs as possible. The document takes into account: a) the dynamics of the measures undertaken recently by the government as well as the reactions from different actors; b) issues relevant to the fight against informality; c) recommendations on a sustainable reform against informality, in partnership with business. It is suggested to consider the business as a key partner of the government to be successful in this *reform*, which is challenging but indispensable to create a competitive economy. Informality is one of the main obstacles of other reforms to enforce fair competition in the Albanian economy. Fight against informality is an essential precondition for a country that aims at:

- » enhancing the efficiency and competitiveness of its economy;
- » improving the investments' climate;
- » ensuring the application of balanced tax policy;
- » ensuring a sustainable and long-term economic growth;
- » fulfilling the obligations deriving from Agree-

ments with the EU

The competition of the grey economy against registered businesses and corruptive practices were identified as the main obstacles of the business environment in Albania, according to analyses made by the European Bank for Reconstruction and Development¹ and FIAAs (2015)². According to BEEPS V, 40.2% of Albanian firms reported being unfairly competed by informal businesses.

This document addresses the informality identified mainly in unregistered businesses, fiscal evasion, and informal employment. The analysis also focuses on a sub-sector of the economy, namely milk processing, trying to shed light on the role of formalisation incentives and penalties. At the same time, it addresses the indispensable bilateral cooperation and transparency between the government and business as a precondition for the success of reforms. *We suggest a more insightful analysis to be carried out in 2016, considering the latest study of OECD on Albania, developments up to 2015 and future challenges.*

The document is focused on five main pillars:

- I. Formalisation reform where business is a partner
- II. A tax system and tax administration that is responsible for formalisation.
- III. Regulatory system supporting formalisation.
- IV. Access to loans and financial services as incentives to formalisation.
- V. Consultation, transparency, and taxpayers education.

¹ BEEPS IV and BEEPS V- Business Environment and Enterprise Performance Survey.

² Foreign Investors Association of Albania (FIAA) -Business Environment Survey 2015

CONTEXT

FEW WORDS ON THE CONCEPT

To date, there is no unique definition of the notion of “informality” or “informal economy.” Informality and informal economy are analysed from different perspectives and refer to several activities. This is the reason why not just the definition but also its name is a matter of debate. The informal economy is also known as “shadow economy,” “cash economy,” “hidden economy,” “illicit economy,” “informal sector,” “underground economy,” etc. Informality started to become an object of discussion in academic circles of economists during the 1950s and 1960s³. This economic phenomenon was analysed in 1972 by the International Labour Organisation (ILO) under the term “*informal sector*”⁴. Nowadays, informality represents an identified and serious problem also for developed countries, including those of the EU⁵.

³ Klarita Gërzhani –“Informal Sector in Developed and Less Developed Countries: A Literature Survey”.

⁴ Klarita Gërzhani –“Informal Sector in Developed and Less Developed Countries: A Literature Survey”.

⁵ Policy Brief on Informal Entrepreneurship- European Commission and OECD- Countries in Eastern and South-Eastern Europe, except for the Czech Republic and Slovakia, have a lower level of informality compared to the EU average, while countries of Western and Northern Europe have informality figures below the average EU level - “The

An essential aspect of the “*informal economy*” is “*criminal economy*,” the kind of economy resulting from the illegal production of products and services and activities forbidden by the law. The difference between the two is that in a *criminal economy*, what is prohibited is the activity itself, but in an *informal economy*, the activity itself is legal, but the income is concealed and avoided through illegal means⁶.

Another definition of “informality” refers to “*each legal economic activity carried out outside the government’s inspection range.*” **In this context, informality refers to economic activities that are generally subject to fees and taxes. It excludes all activities that are considered illegal by the legislation (e.g. trafficking of narcotics, weapons, etc.)**⁷. The latter is the largest shared approach towards *informality* and *informal economy* and has been used by the Secretariat while drafting this document.

1. CAMPAIGN AGAINST INFORMALITY

As of the 1st of September 2015, the government officially initiated an extensive campaign against informality in the country. This campaign was

size of the informal economy in the EU-27, 2003-2012 –As a percentage of national GDP”.

⁶ The purpose of the fight against informality in informal economy is formalisation of informal activities so to have declaration of the income that have not been declared, while the purpose of the fight against informality in criminal economy (money laundering, illegal trafficking etc.) is related to the necessity to eliminate such sectors and as a results the income deriving from them.

⁷ Economic Informality: Causes, Costs, and Policies- A Literature Survey of International Experience, Background Paper prepared by Ana-Maria Oviado for Country Economic Memorandum (CEM) – Informality: Causes, Consequences, Policies, June 2009, page 8.

preceded by public statements during July–August 2015 on the necessity to fully establish the rule of law in the economic and commercial sphere of the country. The campaign was also preceded by a series of concrete (not published) steps by the government, including the establishment of a working group within the Council of Ministers, discussions in the Inter-ministerial Strategic Planning Committee (SPC), and the presentation of the campaign to the National Economic Council (NEC).

The process was accompanied by a large number of on-site tax inspections (fiscal visits) aimed at scanning the informality situation, numerous media statements by all stakeholders, followed by a series of legal initiatives. *A “unique” intensity of debate and reaction was observed concerning this campaign, involving the government, the business and its representative associations, as well as international institutions.*

You may find below a chronological presentation of the main actions undertaken by the government and the most notable reactions of the business concerning the campaign against informality:

1. From July 2015 and on, the government intensified public statements generally towards the public and specifically towards the business regarding the necessity of a campaign against informality, which would aim at reinstating fair competition grounds in the market and protecting consumers from abusive practices of companies. It seems that the initiation of this campaign was *considerably conditioned also by the failure to meet the objectives related to the state budget incomes during the*

first half of 2015.

2. On the 31st of August 2015, during the meeting of the National Economic Council, the Prime Minister of Albania presented the campaign against informality to businesses, while the Minister of Finance explained the plan of measures.⁸ The campaign is composed of 2 stages: The short-term action plan; and the drafting of a final, inclusive, 2-year action plan. The short-term plan is composed of three components related to communication: public awareness, business awareness, and public administration awareness on the relevance of the fight against informality; legislation: toughening legal measures against those that do not abide by the law, legal measures for the taxation and customs administration, legal amendments to increase of incentives on the implementation of the law; terrain: identification of high-risk areas, sectors, and businesses, the establishment of a joint task force comprising the General Directorate of Taxation (GDT), General Directorate of Customs (GDC), Sector against Economic Crime, and Labour Inspectorate.

3. For an effective fight against informality in the country, on the 17th of September 2015, a Memorandum of Cooperation on the Fight against Evasion and Informality was signed between the Ministry of Finance, Ministry of Interior, and the General Prosecutor's Office. The Memorandum aimed to formalise sustainable institutional cooperation to investigate

⁸ Source <http://kek.al/njoftime/takim-i-keshillit-ekonomik-kombetar/>

evasion in taxation and customs and establish specific inter-institutional structures against informality, following the model used in 2014 in the campaign on the payment of electricity bills. Moreover, some Cooperation Agreements have been signed between the Ministry of Finance and the Ministry of Healthcare, Ministry of Environment, Ministry of Agriculture, Ministry of Social Welfare and Youth, which aimed to coordinate efforts for the priority on the fight against informality.

4. The start of the campaign was accompanied by legal initiatives⁹ of the government aimed at toughening the administrative and criminal measures against businesses that exercised economic activity without being registered, without fiscal devices in accordance with the criteria stipulated by the effective legislation, and against entities that didn't carry out the real declaration of incomes or employees, etc.

5. Even though there was *tough public debate* over their proportionality, the proposed amendments to the Law on Tax Procedures and to the Criminal Code were approved by the Assembly of Albania¹⁰.

6. By the end of September 2015, the Minister of Finance and the Minister of Economic Development, Tourism, Trade,

and Entrepreneurship launched the application of the *Risk Model* on the grounds of which the General Directorate of Taxation would select a business of a high-risk category as subject of tax inspection. Moreover, the General Directorate of Taxation published the 2014-2017 Strategy in the area of taxation. On the 2nd of October 2015, the public was also presented with some government measures related to informality in the transport sector.

7. The campaign was accompanied by media reports and reports from businesses on added on-site tax inspections and the concern that such inspections considerably penalised small companies as the defenceless category.

8. The government has stated in several instances, to the public and during meetings organised with businesses that *the campaign would focus on large businesses*, while the on-site inspections towards *small businesses were of an awareness nature* on the necessity to exercise their activity as entities that are properly registered in the National Registration Centre. An emphasis was made on the legal obligation to be equipped with fiscal devices and to issue the tax coupon. On the other hand, farmers have been constantly called to register and equip with NUIS (Unique Identification Number) to benefit from VAT reimbursement schemes and grants of different projects under the assistance of the government.

9. On the 16th of November 2015, The Prime Minister presented to small businesses some of the measures envisaged in the 2016 Fiscal Package, unveiling facilita-

⁹ Law No. 99/2015 'On amendments and additions to the Law On tax Procedures in the Republic of Albania' and the draft-law 'On some amendments and additions to the Criminal Code of the Republic of Albania'.

¹⁰ Law No. 99/2015 'On some amendments and additions to Law No. 9920, dated 19.5.2008, 'On ax Procedures in the Republic of Albania,' as amended' and Law No. 135/2015 'On some amendments and additions to Law No.7895, dated 27.1.1995, 'Criminal Code of the Republic of Albania,' as amended'

tions of the fiscal burden. For small businesses with an annual turnover between 0 and 5 million ALL, the simplified profit tax would be 0, while for businesses with an annual turnover between 5 million and 8 million, the simplified profit tax would be 5%¹¹. Moreover, small businesses were given the guarantee that tax inspectors would be withdrawn from on-site inspections and that inspections would be made on the grounds of the Risk Model.

10. On the 7th of December 2015, in a hearing session organised by the Parliamentary Committee of Economy and Finance, business associations presented their suggestions and comments on the amendments envisaged in the 2016 Fiscal Package 2016¹², as well as on different economy-related laws, mainly emphasising the reduction of the fiscal burden.

11. The campaign against informality has been supported in principle by many international institutions and missions operating in Albania, business associations, and economic experts, considering it indispensable for the Albanian economy.

You may find below some of the most notable comments of stakeholders:

- » Different economy experts emphasise the necessity of incentives for formalisation

11 As part of the draft-laws of the 2016 Fiscal package, these amendments are still under legislative process in the Assembly of Albania.

12 The 2016 Fiscal Package was officially published on the 18th of November 2015 by the Ministry of Finance <http://www.financa.gov.al/al/legjislacioni/aktet-ligjore-dhe-nenligjore-per-taksat/paketa-fiskale>.

and the improvement of fiscal administration as preconditions for applying penalties and fines against businesses.

- » Regarding the campaign, FIAA stated in a press statement on the 10th of September 2015 that: *“This is a very welcomed step for the country’s economy, and it will noticeably improve the business environment with visible benefits for the entire population. Moreover, FIAA believes that an effective fight against informality is one of the best ways of preventing a further increase of taxes, which would hamper economic growth”*¹³.
- » The Chamber of Commerce and Industry of Tirana has supported the campaign against informality but expressing reserves on the government’s repressive measures and legal amendments to law no. 9920 “On Tax Procedures in the Republic of Albania” regarding increased fines in the taxation sphere and amendments carried out without preliminary consultation with businesses¹⁴.
- » The American Chamber of Commerce has expressed its concerns regarding the campaign against informality undertaken by the government, concluding that the toughening of tax procedures have an opposite effect and oblige businesses to go bankrupt.
- » The German Chamber of Commerce has supported the campaign against informality but stating that the *“devil is in the detail.”*

13 Such statements were also made on the 6th of October 2015 during the presentation of the Survey performed by Foreign Investors Albanian Association (FIAA)- “Business Environment”.

14 This stance was held by the Head of the Chamber of Commerce and Industry of Tirana, Mr. Nikolin Jaka in media and different fora including the 5th of October 2015 meeting of the Investment Council.

It has emphasised the aggressive nature of the campaign and the proportionality of the punitive measures against tax evasion against the damage caused¹⁵.

- » Confindustria has supported the campaign in principle and has proposed concrete steps to reduce informality in the country, steps such as reducing the fiscal burden and the liberalisation of the fiscal devices’ market.
- » The People’s Advocate has emphasised that social policies must accompany the campaign against informality.
- » The Representative of the International Monetary Fund (IMF) in Albania has expressed appreciation for the campaign emphasising that: *“The initiative has been undertaken due to the high level of informality, lack of income, and failure to fully apply tax laws. When it comes to the application of tax laws, we support it. I have never had the impression that it is especially focused on small businesses. What the government is aiming to achieve is to fight informality wherever it is, in all economic transactions”*¹⁶.
- » The Representative of the World Bank in Albania has emphasised that: *“the fight against informality must be continuous and it must be applied fairly by all segments of*

15 8 <http://www.balkanweb.com/site/kasten-mbeshtesim-aksionin-ndaj-informalitetit-por-djalli-fshihet-ne-detaje/>

16 Interview on Ora News (14th October 2014)

economy and business, which would create confidence in the eyes of the public that reforms are fair and that the application of the law is equal for all”. Moreover, according to her *“The government would have to ensure adequate social mechanisms to address the short-term consequences or issues that may come to the poorest segments of the society.”*¹⁷

- » The Bank of Albania Banka has supported the campaign against informality, stating in a press statement: *“The fight against informality would lead to the avoidance of double standards in companies’ financial statements and balance sheets. Formalisation would also result in the development of capital markets, while the effects of the campaigns are being considered”*¹⁸.

Thus, it can be concisely said that discussions and debates of different actors have focused on whether “the measures undertaken by the Government are the right ones,” regarding their proportionality, form, and content, them being often also considered as “repressive” or aimed at “penalising businesses.” Meanwhile, we notice the government has undertaken a series of measures to create an environment of fair competition. So, what are the reasons for different actors’ perceptions mentioned above?!

17 10 <http://www.mapo.al/2015/09/bb-mbeshtesim-luften-kunder-informalitetit-kujdes-me-te-varferit>

18 11 http://www.bankofalbania.org/web/NJOFTIM_PER_SHTYP_7325_1.php

METHODOLOGY

1. DESK-RESEARCH

To make a realistic but comparative analysis, the Secretariat also considered numerous academic studies on informality, its measurement, its impact on the economy, and how to address the phenomenon. We studied the best reforms against informality applied by governments of EU countries (Italy and Slovakia), Turkey, Moldova, Georgia, the region (Macedonia), etc. We also analysed studies of the OECD, IMF, World Bank, IFC, EBRD. Interviews with different business actors have been organised, and open and inclusive consultation with representatives of 14 chambers of commerce and business associations¹⁹. Furthermore, regarding how to address informality in the Albanian context, we researched the primary official documents published and approved by Albanian governments that focus on the fight against the informal economy. They are chronologically listed as follows:

¹⁹ <https://www.investment.com.al/sq/per-nje-reforme-efikase-kunder-informalitetit/>

APPROVED AND PUBLISHED ACTS AND DOCUMENTS

1. By the end of 2003, the Ministry of Economy asked OECD Investment Compact to carry out a study on the informal economy in the country, with the purpose to come up with necessary recommendations for reducing the informal economy. To date, this is the most comprehensive study carried out on the informality of the Albanian economy. The study was carried out using a combination of macro and microeconomic statistics. It considered the extent and intensity of informal activities in the trade business sector, the impact of tax regimes and social insurance, and the relation between informal economy and expansion of unfair competition. In compliance with the findings and recommendations of this study, the Albanian government established a Committee to prepare, draft, and implement an action plan on the

reduction of the informal economy²⁰.

2. In December 2004, this Committee drafted a detailed Action Plan on the reduction of the informal economy. The Action Plan identified the aimed objectives, applied measures, concrete timeframes, responsible institutions, and monitoring indicators. The Action Plan envisaged the implementation of the measures during the 2005-2009 period, and it was approved in April 2005²¹.

3. Following the 2005 general elections, the Albanian government approved an action plan of the regulatory reform to improve the business climate, state the non-qualitative regulatory framework that had been in force up to that period *had encouraged a high degree of informality in the Albanian economy*²².

4. The Action Plan on Reducing Informal Economy was reviewed for the 2006-2009 period²³, again on the ground of the same main pillars, such as 1) Improvement and regulation of statistical estimates and GDP; 2) Identification and proper collection of social contributions; 3) Improvement of the business environment and facilitation of procedures on starting and developing a business.

5. From 2014 and on, a series of other documents have been approved which have also had an impact in the reduction of informality in the economy, such as:

²⁰ Order No. 180 dated 11.11.2004 of the Prime Minister "On the establishment of the Committee on the Drafting and Implementation of an Action Plan on the Reduction of Informal Economy"

²¹ DCM No. 246, dated 21.04.2005

²² DCM No. 157, dated 15.03.2006

²³ DCM No. 430 dated 28.06.2006

- a. The 2014-2016 Economic and Fiscal Program of Albania,²⁴ which identifies the main directions of the fight against informality:
 - » increase of the number of inspections by the State Labour Inspectorate (SLI);
 - » increase of the number of inspections by the Task-Force Implementation Unit of the Tax Investigation Directorate;
 - » higher use of fiscal devices.
- b. Action Plan on the improvement and monitoring of indicators "Doing Business 2015"²⁵;
- c. The 2014-2020 National Strategy on Employment and Skills and the relevant Action Plan identifies the issues of informality from the perspective of employment issues.
- d. The 2014-2020 Public Funds Management Strategy,²⁶ which, even though it is not directly related to economic informality, is aimed at ensuring a public finance system that encourages transparency, accountability, fiscal discipline, and effectiveness of management and use of public resources to provide improved services and economic development.

2. INDIVIDUAL MEETINGS

During October-November 2015, the Secretariat has held a considerable number of meetings with different actors involved in discussions on

²⁴ DCM No. 33 dated 29.01.2014

²⁵ DCM No. 591 dated 10.09.2014

²⁶ Public Funds Management Strategy -Ministry of Finance

the campaign against informality, such as commercial companies, business associations and organisations, civil society actors, independent economy experts, representatives of international organisations and officials of the fiscal administration, etc. The meetings were aimed at collecting as many opinions as possible on the campaign, causes of informality, and suggestions on how to effectively address the phenomenon.

3. ONLINE SURVEY

Moreover, the Secretariat set up an anonymous survey on informality and launched it on the IC web page to obtain businesses' direct opinions. The survey was filled in online by 89 companies and by 11 companies during direct meetings. Around 60% of the companies have a turnover of over 8 million ALL, and respectively 73% are subject to VAT, and 20% are classified as VIP business by the Regional Directorate of Large Taxpayers. Foreign companies comprise around 30% of answers. The more represented sectors in the survey include services at the level of 36%, commerce 35%, and industry 29%. The survey questions were focused on the ben-

efits and costs of formalisation, identification of causes that lead to informality, and measures businesses think should be applied to encourage and facilitate the formalisation of the Albanian economy.

4. CASE STUDY – THE MILK SECTOR

To identify the problems at a sector and concrete level, the analysis was also accompanied by a preliminary study of informality in the milk-processing sector. The purpose was to have a more focused study on the sector aspect to concretely identify the problems to provide realistic recommendations for successful reform.

The reflected findings are based on the problems raised during discussions with approximately 200 actors of the sector, mainly milk producers from the regions of Fier, Berat and Vlora, the Albanian Dairy and Meat Association (ADAMA), representatives of the largest dairy farms in the country, and individual processors in the areas of Përmet, Fier and Vlora. It considers the entire chain of values with all actors and the formal/informal operations regarding production, distribution, and employment.

INFORMALITY ANALYSIS IN ALBANIA

1. STARTING POINT

Studies carried out by international organisations show that Albania has a considerable degree of economic informality. The survey of EBRD and the World Bank Group with enterprises (BEEPS V) has identified that 40.2% of the companies surveyed report competing against the informal sector, which is especially noticeable for small and medium enterprises. The Schneider (2010) study estimates Albania's informal economy during 1999-2007 at an average of 34.3% of the GDP. A later study from Boka and Torluccio (2013) has calculated that the informal economy during 1996-2012, depending on the method used, can be estimated at an average between 13.6% and 38% of the GDP. *According to the Albanian Government, the degree of economic informality is over 50%.*

Informality is not a phenomenon encountered only in Albania or in countries in transition. Schneider (2010) has performed calculations about 27 countries of the EU on the informal economy during 2003-2012, concluding that Bulgaria had the highest level of informality, at 30.1% of

the GDP in 2012 and that Austria had the lowest level of informality, at 7.6% of the GDP, while the European average for the same year is estimated at 18.2% of the GDP. More detailed information about EU countries can be found in Annex 1. Many approaches in addressing informality focus on enterprises and identify the criteria that distinguish formalised enterprises from informal ones. Some of the main indicators²⁷ kept into account to identify informal enterprises concern: the size; registration status or recognition of the enterprise by a governmental agency; employer/social insurance contributions paid by the enterprise; the legal form of organisation of the enterprise and nature of financial accounts; legal and property rights.

However, to have a full analysis of factors that encourage informality, a deeper analysis is required with a multilateral legal and institutional observation of the shortcomings that may allow room or encourage informality, such as, e.g. the labour legislation, property issue, registration

²⁷ Note: Informality, Inclusiveness, and Economic Growth: An Overview of Key Issues; James Heintz University of Massachusetts, Amherst, USA Political Economy Research Institute- July 2012.

and licensing of private activities, financial market, fiscal burden and tax system, etc. In fact, this document does not aim to exhaust all issues over the causes and measures to address informality. It is aimed at encouraging the debate by structuring the reactions towards the actions undertaken by the decision-makers and prioritising the concrete recommendations generated from businesses to improve the business climate.

In general, we can say there is an awareness and understanding by all actors over the necessity and benefits that can be generated in the long-term by the formalisation of the economy. Thus, around 80% of businesses who answered the survey confirm they face unfair competition because of informality. According to the same survey results, the major part of businesses (around 60%) considered being informal of having more costs than benefits. Businesses think that being informal brings short-term benefits, considering the current legal and administrative context. At

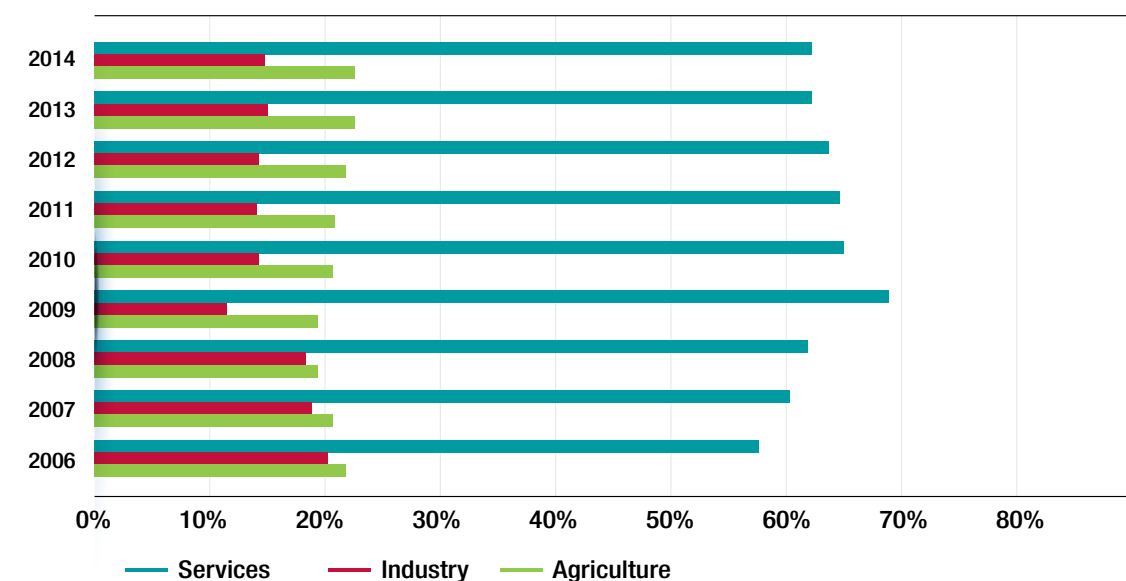
the same time, they admit that there are more costs related to bribery, business security, and fear of tax inspections.

According to an ILO study²⁸ (2011) on informal employment, the reasons for informality in Albania are related to the complicated legislation and administrative regulations, fiscal burden, lack of confidence in institutions, as well as to the lack of culture and ethics to pay taxes and broad acceptance of illicit employment by the public.

The degree of informality is also a reflection of the *economic development model* of the country. The Albanian economy is mainly based on services and agriculture, where the agricultural sector has a considerable contribution to the GDP compared to countries of the region, but on the other hand, it also has the lowest productivity in the region (*Figure 1*)

28 A comparative study on informal employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro. [ILO]

Figure 1. Contribution of Sectors in the Gross Domestic Product during 2006-2014



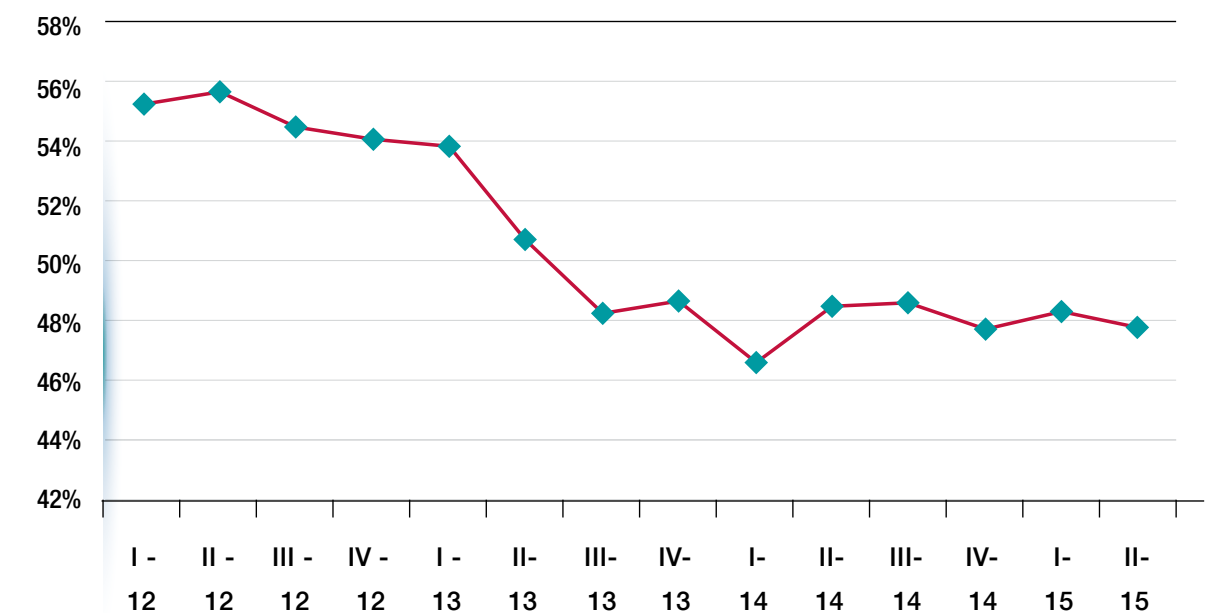
Source: World Bank Data

The contribution of agriculture at approximately 22% of the GDP in 2014 is even more considerable in employment where on average 50% of the

workforce during 2012-2015 declare themselves to be self-employed in this sector, according to official statistics of INSTAT²⁹ (*Figure 2*).

29 Labour Force Survey, Q-2 2015, INSTAT

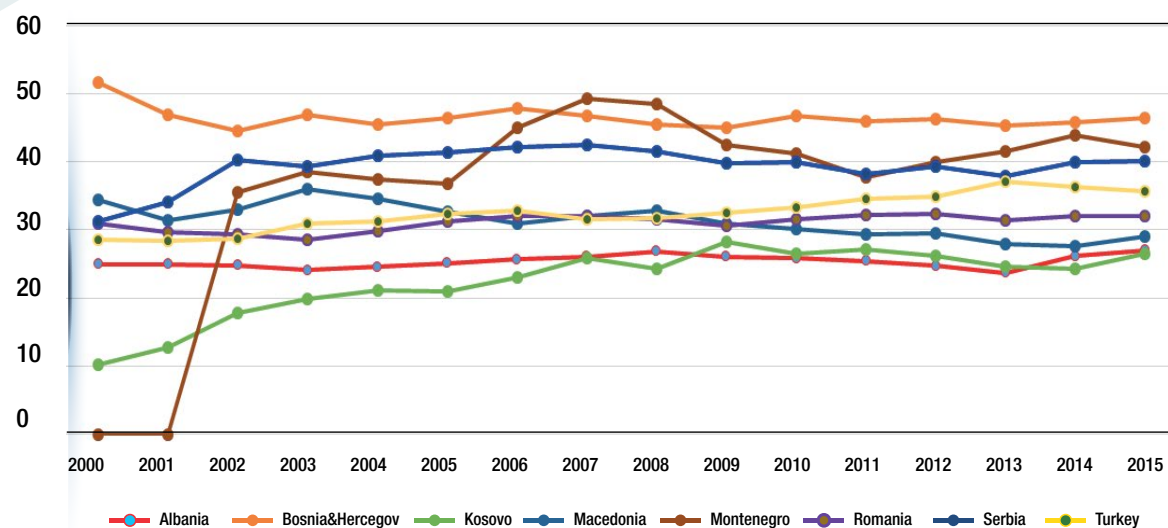
Figure 2. Self-employed in the private agricultural sector



Source: INSTAT

According to INSTAT, during 2014, only 13% of registered economic activities belonged to agriculture, while the most significant weight of the number of enterprises is held by commerce at 47%, which also has the most considerable number of physical persons, 27% of the total of registered persons. It is

thought that the sectors with more informality include commerce, services, and agriculture. Fiscal data show that the weight of the public sector against the GDP is at the lowest levels in the region, comparable with Kosovo, at 25%-26% of the GDP during 2000 – 2015.

Figure 3. Government's income against GDP in countries of the Western Balkans during 2000 – 2015

Source: IMF, WEO, October 2015

The primary source of government's income comprises taxation and customs income, where the VAT contribution is more noticeable and

is followed by social insurance and excise, as shown in Table 1 below, which includes data from 2005 and on.

Table 1. Income from a tax against the total tax income

TAXES	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	9-mujor 2015
From Taxation and Customs	74%	75%	77%	78%	77%	77%	77%	77%	76%	75%	75%
VAT	35%	36%	38%	41%	41%	40%	39%	39%	37%	37%	36%
Profit tax	10%	11%	9%	7%	6%	6%	6%	6%	5%	6%	7%
Excise	10%	11%	13%	12%	12%	13%	13%	12%	13%	12%	12%
Income Tax	4%	4%	7%	9%	10%	9%	9%	9%	10%	9%	9%
Social Insurance	18%	17%	16%	16%	16%	16%	16%	16%	17%	18%	17%
Health Insurance	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	3%

Source: Ministry of Finance – October 2015

According to the IFC (2013) study,³⁰ the costs of fulfilling taxation obligations represent a heavier weight for smaller companies, comprising 4.7% of total income for Micro companies, 3.9% for small companies, 1.4% for medium companies, and 0.3% for large companies. The World Bank Doing Business 2016 report concludes, “Albania ranks 142nd when it comes to Paying Taxes indicator, and a company has to make an average of 34 tax payments annually and spend 357 hours on preparation, filling in, and payments while paying a total of taxes equal to 36.5% of the income”.

As mentioned above, informality is complex, and materialisation and addressing it requires a multi-layered perspective that is in essence related also to the business climate. This document has identified only some of the mainly mentioned causes during interviews, discussions with interested parties, and in the answers of the survey

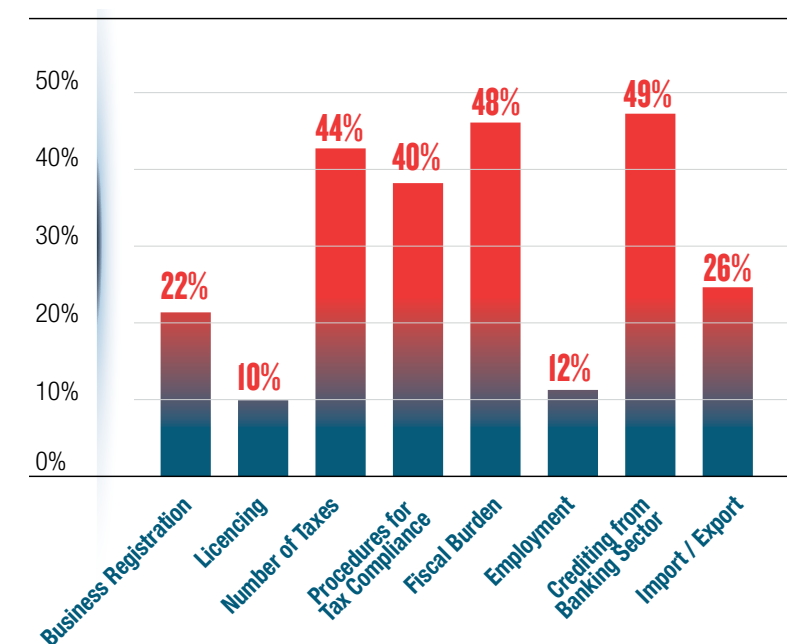
30 Tax Compliance Cost in Albania IFC- IDRA (2013)

and some encountered in international practices.

Therefore, the Secretariat has identified that in the case of Albania, the concrete factors that encourage informality are related to (i) the tax system, (ii) the quality of institutions, (iii) access in funding and (iv) punitive measures.

A. Findings of the Analysis

On the grounds of the survey results, meetings, and the table with business representatives, conclusions have been achieved over a series of causes perceived as encouraging informality, but which can at the same time become obstacles for the phenomenon and contribute to the business climate. In their answers to the survey, businesses say they face greater difficulties regarding the tax system (number of taxes, fiscal burden, and taxation procedures) and access to loans (Figure 4)

**Figure 4.**
The most problematic factors of doing business according to the survey

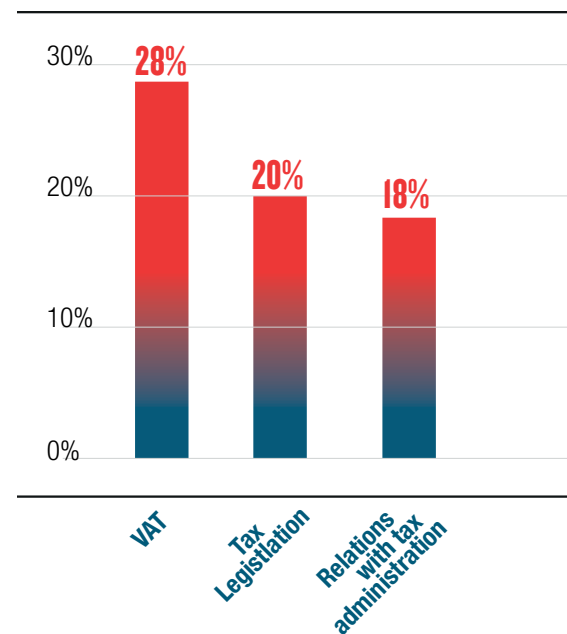
Source: Authors' elaboration of the answers to the survey

2. TAX SYSTEM

The tax system represents one of the main pillars that facilitates or impedes the formalisation of the economy, making the business climate more attractive or not. Regarding the tax system, businesses have identified the following concerns: tax burden, fragmentation of the tax system, tax administration, and tax procedures.

The administration of taxes is mentioned as an issue in different recent reports of international organisations on the business climate of Albania, but it is also a genuine concern businesses shared during the direct meetings and through the answers of the online survey. Businesses have continuously emphasised and made various comments, generally negative ones, over the capacities of the administration, interpretation of the legislation, and frequent tax inspections. Such comments continue to be in line also with the findings and recommendations of the Working Document of the Secretariat “*Proposals on the Improvement of the Tax Inspection Process: Analysis in the framework of Improving the Business Climate in Albania*,” presented during the meeting held on the 5th of October, in which VAT, lack of clarity, and frequent amendments to the tax legislation were identified as factors that can lead to informality. (Chart 5)

Figure 5. Opinions of businesses over the main tax system factors that lead to informality



Source: *Tax Inspection Survey: Elaboration of the Secretariat, September-October 2015*

There are concerns expressed by businesses over the procedures for the acknowledgement of their expenditures (e.g. acknowledgement of field losses) by the tax administration and lack of capacities of the latter to understand specific technological processes. There are numerous reactions from businesses and fiscal experts concerning the current fragmented fiscal policy that is perceived as an encouragement for informality, while they emphasise the existence of a non-professional tax administration that does not meet the intensity and professionalism required by the reform against informality.

Even though the general Directorate of Taxation

has recently undertaken essential steps, such as the application of the *Risk Model* and organisation of intensive training for the tax administration, we think there is room for changing the approach of the tax administration-business relation. *The establishment of a bilateral understanding and development would benefit from the first tax inspection to be consultative, and in the event of failure to apply the instructions given by the tax administration, the second inspection could lead to the application of strict penalties.* This would avoid confusion, misinterpretation, and abuse from both parties. According to the direct answers to the survey, corruption of the administration encourages informality and failure to pay taxes.

You can find below the issues identified:

a) Fragmentation of the tax system:

» The VAT threshold of ALL 5 million turnover for small businesses results in the VAT chain breaking and doesn't allow the link to the final consumer, which should be the one to pay this indirect tax. Even though it has been considered a supportive measure for small businesses and to lower the price for consumers, many experts and companies consider it an encouragement of informality and fiscal evasion. The VAT chain's interruption is deemed to be unfair, as it prevents the inspection of the actual turnover of businesses, the possibility to cross-check VAT invoices, and the verification of inventories and trade of intermediary goods. Meanwhile, there is pressure from companies that consider themselves “small” not to receive VAT invoices from wholesale sellers and suppliers, so to avoid inspection and keep the declared turnover under the VAT threshold.

» **Profit tax and business category according to annual turnover.** In the new 2016 fiscal package, the government has envisaged as an incentive for small businesses, in the framework of measures against informality, the exemption of the profit tax for companies with an annual turnover up to ALL 5 million and the reduction of the profit tax to 5% for the businesses with a turnover between ALL 5 – 8 million. Again, the three levels of profit tax for small businesses, 0%, 5%, and then 15%, are considered a reason to stay under the annual turnover of ALL 5 million or ALL 8 Million.

Customs reference prices and customs fees on imports from non-EU countries, such as, e.g. from China, have often become the cause of smuggling, evasion, as well abuses with the concealment or overpricing of the actual costs of products. Meanwhile, the low customs fees in the region encourage the illicit introduction of goods as personal consumables and unfair competition in markets.

b) Fiscal equipment.

There is a perception that the Government's Campaign is focused on the equipment with fiscal devices, issuance, and receipt of the tax coupon. The equipment with fiscal devices is deemed an essential means for the avoidance of fiscal evasion. However, there are discussions over the price of fiscal devices, which are difficult to cope with, especially by small businesses, and the timely maintenance assistance by companies providing fiscal devices. Moreover, it has been identified that the tax administration doesn't unify its practice in cases the legislation stipulates there is no need for fiscal devices – even in such cases, businesses are obliged to

be equipped with fiscal devices due to the fear of penalties. There is also a need to encourage small businesses to be motivated to use banking channels as much as possible since the legal framework doesn't stipulate the obligation to be equipped with fiscal devices when the business cashes in through banking channels. You may find below the legal analysis on such cases, prepared by the Secretariat and sent to the Ministry of Finance and the General Directorate of Taxation.

LEGAL ANALYSIS OF THE OBLIGATION TO BE EQUIPPED WITH FISCAL DEVICES

Businesses and individuals that are properly registered in the national Registration Centre as commercial entities or physical persons, due to their limited commercial activity, do not make *cash* payments for the circulation of their goods or services. Such payments are regularly made through second-tier banks in the Republic of Albania, therefore documenting all the money cashed in and/or the payments made.

In these circumstances, such businesses issue proper tax bills (VAT format or simple tax invoice), but are not equipped with fiscal devices in compliance with the provisions of article 55 of law no.9920, dated 19.05.2008 (as amended), which envisages the general rule in paragraph q as follows: ***"Taxpayers that carry out circulation of goods and services, for which payment is not made through banks, shall be obliged to install and use the fiscal***

system, through the use of fiscal devices, so to record cash payments and to issue, mandatorily, the tax coupon..." and following legal details stipulated in the Minister of Finance instruction no. 24, dated 02.09.2008 "On tax Procedures" (as amended).

Regardless of the abovementioned legal provisions, during on-site inspections carried out by the tax administration and due to the interpretations made to this issue by Regional Directorates of Taxation, such businesses are being required to install fiscal devices, even though they make no cash payments.

As a justification, such businesses are being told that the type of activity they perform is not exempted from the obligation to issue the tax coupon, in accordance with the specifications of DCM no.781 dated 14.11.2007 "On Technical and Functional Characteristics of Fiscal Devices," paragraph 1, point 9.2.3 and paragraph III.

According to the Secretariat of the Investment Council and not only, such interpretations go against the letter and spirit of law No.9920 and instruction No. 24 and create confusion among taxpayers. According to the analysis of the Secretariat, ***taxpayers who do not make cash payments, but perform such payments only through banks, do not have the obligation to install fiscal devices.*** If it was otherwise, the legislator would have not expressively stipulated the phrase *"for which payment is not made through banks"* in Article 55.

3. QUALITY OF INSTITUTIONS

Businesses indicate a certain lack of trust in public institutions, generally, and on fiscal administration, in particular. Corruption and political influence are considered factors that have generated a high degree of informality. In the meantime, there are concerns about the smuggling of goods that are imported, as well as a lack of capacities and standardisation for the control of domestic production. A summary of the main problems is provided below:

a) Capacities of the public administration

» Businesses have constantly indicated concerns regarding the capacities of the public administration and, in particular, those of the Tax Administration in terms of being in line with the intensity of actions against informality. The lack of trust and lack of positive reaction to the quality of the administration are evident in the survey's answers. This is also seen in the interviews held in person with the private sector. About the Tax Control work, the administration's capacities are viewed as limited in some aspects, such as administrative infrastructure, communication, and professionalism. Businesses say that inspectors, both from the tax administration and customs administration, are not specialised according to the nature of the business to provide a fair judgment, which leads to conflicts, penalties, and costs. A spirit of cooperation and partnership with the public administration is required.

b) Extensive number of inspections

» Contacted businesses report a large number of controls by different administration institutions, including the tax administration. A

lack of coordination is noticed amongst the state inspectorates, which creates negative pressure on the business and does not have clarity on the object of control and why the taxpayer is subject to control.

c) Administrative burden in licences and procedures for the agro-industry, etc.

» In the survey, there are comments about the high number of licences and institutions engaged in the control of a producing business in the agro-industry, such as the production of wines, where it is stated that 4 licences are needed from different institutions, a bank guarantee for 30% of products, payments for fiscal stamps, without calculating taxes, etc.

d) Real possibility to control production businesses in the country

» Businesses say that domestic production in the agro-industry and other sectors, such as the clothing industry, creates premises for evasion because it is difficult for the tax administration to control the quantity of production. This leads to unfair competition in the market and raises suspicions about the quality of products offered to the consumer.

e) Lack of preliminary consultation on legislation and lack of inclusiveness

» Based on the provisions of Article no. 146/2014, "On Public Notification and Consultation", the process of public and preliminary notification and consultation, national and local strategic draft projects and also policies of high public interests is mandatory. Executive bodies proposing law initiatives shall fulfil their obligations concerning provision of information on the process of

notification and public consultation at all stages, starting from publishing the draft act, receiving comments and recommendations for its improvement, organising public debates, and approving the final act. Regardless of the above, frequent legal changes become public only after the Council of Ministers reviews the draft laws and when these draft laws are sent to the Assembly of Albania for approval. A concrete case lacking public consultation with a group of interest, including business associations, was the approval of law no. 99/2015 dated 23.09.2015 “On several changes and addendums to law no. 9920 dated 19.05.2008 “On tax procedures in the Republic of Albania” amended” (“law no. 99/2015 dated 23.09.2015”). The approval of this law which harshens the sanctions against the business for violation of tax nature, was accompanied by debates on the lack of necessary transparency, and it caused reactions of the vast business community, as mentioned above.

e) Confusion of the business as a result of continuous and poor quality legal changes

- » As identified in the working document - “Proposals to Improve the Tax Control Process: Analysis in the framework of the Improvement of Business Climate in Albania” – *Frequent changes to the tax legal framework do not help businesses consolidate their exact approach to the tax system. Frequent changes in the legislation are another issue raised, which puts the stability of the business environment at risk*³¹. In the conditions when the tax legislation, especially legislation related to the tax procedures,

³¹ Law no.9920 dated 19.05.2008 has been amended 12 times.

is subject to frequent changes and when the capacities of the tax administration to adapt to such changes and to update itself remain uncertain, the risk for arbitrariness in the field as a result of erroneous interpretation of the law and procedures that it sets forth is very high, it brings about uncertainty in the business community and mutual lack of trust. Also, considering the considerable lack of knowledge of taxpayers in the tax and financial fields³², particularly regarding the small business, frequent legal changes not only do not improve the situation but may have a counter effect regardless of their positive intention. On the other hand, hurried, inharmonious changes carried out without consultation result in confusion and contradictory juridical norms. Also, it is indispensable that secondary legislation – instructions regarding taxation – be detailed through examples and concrete cases for all norms and procedures that are set forth by law instead of referring word per word to the provisions of the law.

CONFUSION WITH THE LEGISLATION ON SIMPLIFIED PROFIT TAX INSTALMENTS' PAYMENT

The provisions of article 13 of law no. 99/2015, dated 23.09.2015 create confusion regarding the deadlines for taxpayers to prepay the instalments of the profit tax and the simplified profit tax, as they clash with the provisions of law no. 9632, dated 30.10.2006 “On Local Taxes System” (as amended) (“**Law No. 9632**”)

³² According to the report from Standard & Poors 2015: “Albania ranks penultimate globally as regards financial literacy”.

Article 13 of law no. 99/2015 makes an addition to law no. 9920, dated 19.05.2008. article 114/1, entitled “Failure to pay instalments of the profit tax and simplified profit tax” is added and has the following content: The failure to meet the deadline on the payment of preliminary instalments of the profit tax and simplified profit tax, in compliance to Article 30 of law no. 8438, dated 28.12.1998, “On income tax,” as amended, shall be punishable by fine equal to 15 percent of the amount of the instalment that is to be paid”.

Article 13 relates the prepayment deadlines with the provisions of article 30 “Prepayments” of law no. 8438, dated 28.12.1998 “On Income Tax” (“**law no. 8438**”). Article 30 of law no. 8438 stipulates: “During the next tax period, taxpayers shall pay, in the tax bodies’ account, the quarterly instalments of the profit tax, **within the 30th of March**, for January, February, and March; **within the 30th of June**, for April, May, and June; **within the 30th of September**, for July, August, and September and, **within the 30th of December**, for October, November, and December.”

Article 30 of law No.8438 envisages the deadlines for the prepayment of instalments of the profit tax, and not of the simplified profit tax (7.5%) which is regulated by special law, namely law no. 9632. Article 15 of law no. 9632 stipulates, *inter alia*, that: “During the next tax period, taxpayers shall pay, in the tax bodies’ account or in the account of the Albanian Post Office, the quarterly instalments of the simplified profit tax of small businesses, **within the 20th of April**, for January, February, and March; **within the 20th of July**, for April, May, and June; **with-**

in the 20th of October, for July, August, and September and **within the 20th of December**, for October, November, and December”.

Therefore, the content of article 114/1 of law no. 9920, dated 19.05.2008 combined with article 13 of law no. 99/2015, dated 23.09.2015, goes against the provisions of article 15 of law no. 9632.

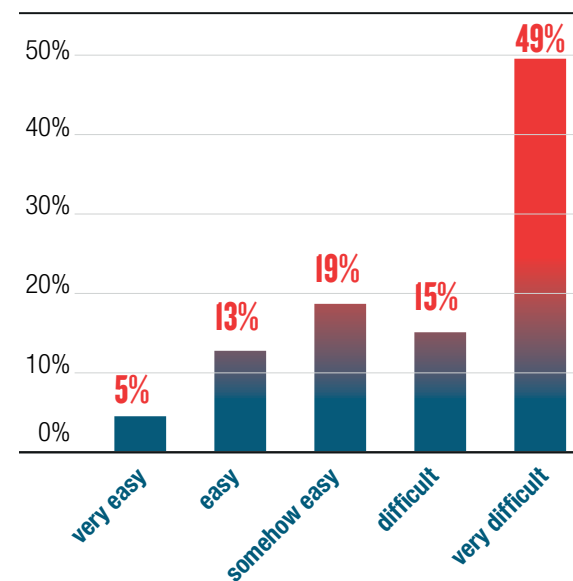
This confusion with the deadlines will create blur in the implementation of the obligation and the legal norm both for taxpayers as well as for the tax administration, and will also create conflict, taking into account that the sanction envisaged for the failure to timely pay the simplified profit tax is **a fine equal to 15 percent of the amount of the instalment that is to be paid**. Confusion goes further since the same amended article was put and reflected in point 14 of decision no.31, dated 27.11.2015 “On some additions and amendments to instruction no. 24, dated 02.09.2008 “On Tax Procedures in the Republic of Albania,” as amended.

We are of the opinion that the deadlines for the prepayment of the simplified profit tax are those envisaged in article 30 of law no. 9632, which is a special law, the provisions of which, on the legislative technique context, cannot be indirectly amended by a law that does not amend the special law, but another law namely Law no. 9920, dated 19.05.2008. It is necessary to make corrections through relevant legal interventions to article 114/1 of law no. 9920, dated 19.05.2008, unifying the deadlines of this article with the deadlines envisaged in law no. 9632.

4. ACCESS TO FINANCE AS AN INCENTIVE FOR FORMALISATION

The low degree of economic growth, the decrease of the aggregate demand and options for attractive investments have led to shrinkage of funding by banks and stricter requirements for the businesses. Informal loans are another growing phenomenon that is being confirmed by the survey. Such loans bear very high-interest rates and create a chain of debts and difficulties in formalising businesses. The results of the Survey on Informality indicate that loans have become very difficult for companies to attain. This is shown in 49% of answers, and, as a result, an incentive for formalisation cannot be taken into consideration (Figure 6).

Figure 6. Difficulties regarding loans as a factor in the business climate



Source: Secretariat's analysis of answers in the Survey on Informality

Efforts to decrease bad loans in the banking system through the plan of measures undertaken

by the Government and the Bank of Albania, with the support of the IMF, as well as efforts to finalise the new draft law "On bankruptcy in the Republic of Albania", drafted with the support of the KFN, are commendable.

On the other side, there are some government and donor grant and loan programs which facilitate the situation for certain sectors such as agribusiness, exports, women as entrepreneurs, etc. from the AARD, AIDA, IPARD, EBRD, etc., which must be coordinated and must support the efforts of the government for successful reform.

5. PUNITIVE MEASURES AGAINST INFORMALITY

International experiences suggest that more substantial penalties function better when adequate incentives have been created preliminarily for formalisation purposes and when informal companies have a more successful transition towards formalisation. On the other side, it is to be considered that penalties (such as in Brazil and Argentina) may result in a counter-productivity and counter employment effect.³³

Businesses that have participated in the survey and those directly contacted admit to the need for penalties to reduce informality and fight unfair competition. But there is also almost a unanimous stance on the irrational severity of punitive measures, assessed in the conditions when there is a lot of scepticism regarding the quality of the tax and customs administration and the ability to make the right decisions.

On the other side, there are many question marks on the efficiency of the complaint system, including tax appeal procedures and complaints procedures through the judicial system. The answers

³³ Economic Informality: Causes, Costs and Policies A literature Survey of International Experience, Ana Maria Dviedo

to the survey on the *Tax Control* of the Secretariat (October 2015) pointed to the concern about the structure of the tax appeal structure, where only in 4% of cases, the decision taken was in favour of the taxpayers. Still, as regards this particular point, the regional tax administration had the right to appeal in judicial ways.

It is also reported that Administrative Courts³⁴ are going through a paralysis due to workload, staff structure, limited infrastructure, and lack of transparency. None of the First Instance Administrative Courts has an official online webpage. Besides delays in trials that are extended beyond the legal timeframe of 3 (three) months, there is a problem with the quality of trials that, as businesses complain, are finalised in favour of the public administration.

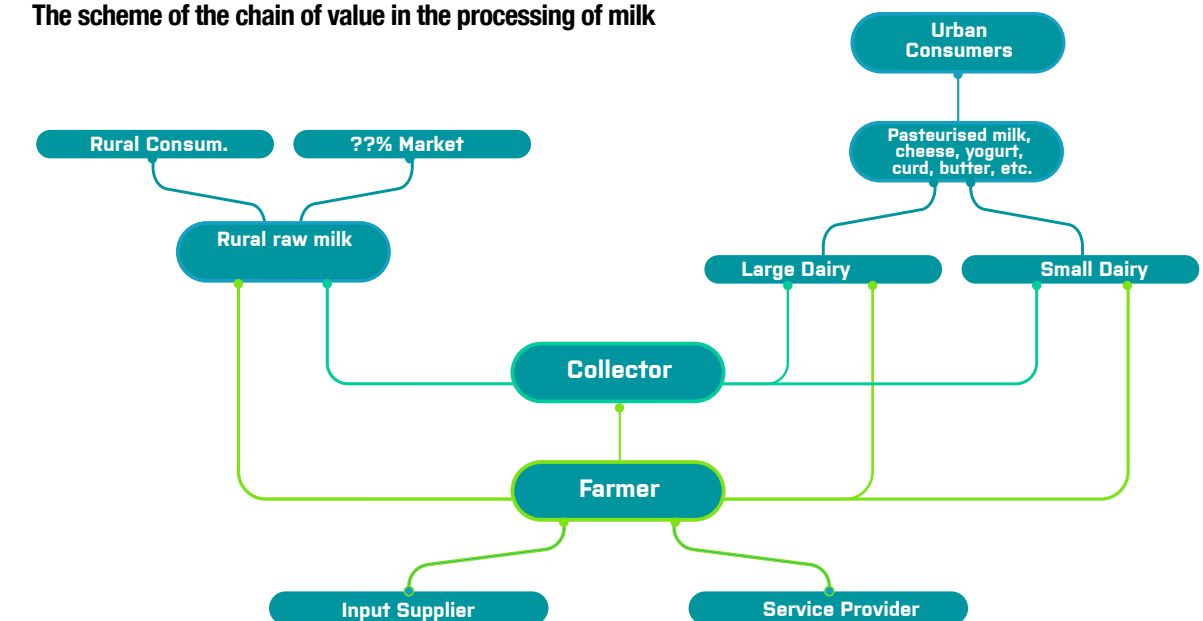
³⁴ The Administrative Court of Appeals in Tirana alone counts 11,500 cases during 2014. These cases are to be tried by a total of only 7 judges.

6. CASE STUDY: MILK PROCESSING INDUSTRY³⁵

In all the chains of the milk processing industry, some actors operate in an informal way (without the business identification number NIPT and without VAT tax invoices). Such "empty pockets" create premises for informality and lead to complex operations for the other actors (formal ones) in this chain, as presented in the scheme below. Particularly, informal milk collectors and informal dairies circulate huge quantities of milk and considerable capital, but not only; through their informal operations, they also harm the efforts made for quality control and safety of products. Given that the VAT cycle is not closed, it can not be sufficiently efficient as a result.

³⁵ The full study has been published at www.investment.com.al

The scheme of the chain of value in the processing of milk



Transactions through the banking system for all producers are not efficient. Moreover, most of them have to travel long distances to reach banks in the towns, and the sum of money earned from selling milk is too small compared to the efforts, time and costs.

There is a lack of information, and there are difficulties in raising awareness of farmers on tax legislation and amendments to it and the formalisation scheme. The responsible regional administrative capacities are limited and often not close to assist the farmer.

Problems regarding land registration and its market, animal identification and registration, lack of credibility of statistical data need to be tackled accordingly to enable a long-term formalisation of the sector.

A more detailed picture of the food chain is provided below. Two examples are given about the cost the farmer faces for bank transfers and the continuation of the VAT chain.

The Albanian farming sector is and will continue to be part of the growing demand for quantity and quality to meet the population's needs. Even though agricultural statistics do not provide fully credible and accurate data, some of the figures about the farming sector show that the number of farms dealing with farming is 352 315; farms that mainly deal in cattle are 214 970, those that mainly deal in goats are 23 445 and in sheep are 47 039. The quantity of milk at an amount of 1 133 000 tonnes per year are produced by 358 000 cows, 1 896 000 sheep, and 904 000 goats³⁶. Due to better management, there is a trend (even though a slow one) towards reduc-

³⁶ Institute of Statistics (INSTAT) 2014

ing the number of livestock and increasing milk and meat production.

Approximately 80% (equals to 170 000 cattle farms) have from 2 to 4 cows, approximately 15% (equals to 35 000 cattle farms) have from 5 to 10 cows, approximately 4% (equals to 9000 cattle farms) have from 10 to 15 cows, and only 1% (equals to 2500 cattle farms) have over 15 cows. The milk is processed in dairy farms, which number has been roughly estimated to 450, out of which some 35% perform formal activity (are registered, with value added tax - VAT), while 65%³⁷ perform informal activity.

A direct payment system for the area (subsidy scheme), at a total value of Euro 6 million, started to be applied for the first time in 2006. Currently, the government's support for the agricultural sector is equal to Euro 12,5 million, which, in the case of farming, is addressed to farmers that are registered in accordance with the law (have a NIPT number), according to the VAT scheme, who perform the identification and registration (I & R) of livestock. A special regime has been designed for the formalisation of the agricultural producers and VAT compensation³⁸. Based on instruction No. 19, the buyer of agricultural products is subject to VAT and other taxes and follows a normal VAT regime. The buyer issues a VAT invoice for each agricultural product purchased from farmers (auto-invoice), which includes the seller (producer) of agricultural prod-

³⁷ Albanian Dairy and Meat Association (ADAMA).

³⁸ Instruction of the Minister of Finance No. 19, dated 3 November 2014 "On the application of the special regime of the compensation scheme for agricultural producers, for the purpose of the value added tax".

ucts, the NIPT of the seller, and other data as required in the official invoice form. The total amount of the invoice includes the amount paid to the farmer, comprising the farmer's compensation rate of 20%. This amount of 20% is intended to cover the VAT paid by farmers to purchase inputs and services for the production of agricultural products.

Instruction of the Minister of Finance no. 26, dated 26.10.2015, specifies that the buyer does not have the right to charge 20% VAT in the event they do not prove the performance of compensation to the farmer through banking transactions (from the bank account of the buyer to the bank account of the farmer) or the Albanian Postal Service.

According to the General Directorate of Taxation, farmers with an annual turnover under Lek 5 million are not considered merchants. In this case, the NIPT is necessary only for VAT compensation. Farmers with a yearly turnover of over ALL 5 million have to register as regular taxpayers using VAT invoices. Currently, only some 20 000 farmers have NIPT³⁹.

Chain of values and its actors

The milk sub-products sector includes goods suppliers and service providers, producers, milk collectors, milk processors, transporters, wholesale sellers, retail sellers, markets, and final users. Below, each of the actors is analysed regarding activity formality and informality. The milk production industry includes several goods suppliers and service providers, such as seeds companies (corn,

³⁹ Directorate of Agricultural Policies. MARDWA

alfalfa); fodder suppliers (concentrates); minerals and vitamins suppliers; veterinary pharmacies; sperm suppliers; veterinary service; artificial breeding service; mechanisation service. Currently, most suppliers and inputs are registered as VAT taxpayers, while in many cases, the veterinarians, artificial breeding technicians, and mechanic machinery operators are not registered as taxpayers. As mentioned above, to date, only 20 000 farmers have NIPT, through which they are part of the VAT compensation scheme, on the grounds of VAT invoices issued by buyers. However, the majority of farmers have not yet registered.

Milk collectors. There are two types of milk collectors; individuals that collect milk and sell it to dairy farms (small or large factories) or directly to rural consumers, and collectors employed by dairy farms. In many cases, the first ones work informally, while the second ones are part of the milk sub-products factories' staff.

Processors. Of 450 units (small processing units, or "Dairy farms" and factories), approximately 300 of them operate informally, and only 150 are registered and operate as formal businesses. Many of the illegal units operate to supply the local rural population.

Due to the obligation to abide by the law, **transporters** are operating formally, especially those that transport milk and its sub-products to urban areas. **Wholesale and retail sellers** are becoming more and more formal in their activities, especially those wholesale and retail sellers that operate in urban areas.

EXAMPLE 1: PAYMENTS THROUGH BANK SYSTEM FOR FARMERS

The volume of milk sold out every day: 70%-80% of farmers sell up to 10-15 liters a day. The price of milk is: 38 All/liter. Daily profit: 380-570 All.

Payments made by buyers are made every 10 or 15 days, so the total sum of payment (or transaction) varies from 3800 to 5700 All (in 10 days), or 5700- 8550 All (in 15 days). The average distance of farms from city centers where the banks are located is 40-50 km. The transportation cost is about 400 All. To receive they need at least 3 hours, which if converted into All is about 400 All. Monthly bank commissions vary from 150 to 500 All.

Total expenses for every payment withdrawal are 950 - 1300 All.

Due to transaction through bank system, farm expenses in relation to income realized by selling milk are calculated to be between:

16.6% to 25% when the payment is made every 10 days and bank fees are 150 All;
11.1% to 16.6% when the payment is made every 15 days and bank fees are 150 All;
22.8% to 34.2% when the payment is made every 10 days and bank fees are 500 All;
15.2% to 22.8% when the payment is made every 15 days and bank fees are 500 All.

EXAMPLE 2: UNREGISTERED DAIRY

The minimum quantity of processed milk in a dairy is 500 lt./day. In the case when dairies work throughout the year, the annual capacity of processing is 500 lt. x 365 days = 182,500 lt. Buying price is: 38 All/lt. X 182,500 lt. = 6,935,000 All/milk a year. 26,071 kg of cheese are produced from this quantity of collected milk. The price of cheese is 350 All/kg (minimum possible price) Annual turnover: 9,124,850 All.

Note: Taking into consideration the above mentioned argument, it is recommended that all processing units become part of voucher system with VAT, otherwise the unfair competition will increase and the quality of products remain problematic. Apart from this, regarding the operations standards, all dairies shall be inspected rigorously by competent authorities.

RECOMMENDATIONS

Various actors have a broad consensus on the “need to formalise” and the benefits this process will bring to fair competition, the attraction of serious investments, and economic growth in the long term. On the other hand, there are uncertainties for the business as to the further steps and extension in time of the action undertaken and the lack of information on the action plan. Word experience has shown that the approach to formalisation (a summary in Annex 3) implies a structure of reforms extended in time, considering legal and institutional dimensions (including but not limited to the tax and customs administration), the provision of incentives and the gradual toughening of penalties, the protection of vulnerable groups and certain sectors that tend to be informal. Although the Minister of Finance has announced in the media the preparation of a two-year plan in December⁴⁰, there is still no governmental document concerning the platform of measures, if there is any sectorial analysis based

on which those measures will be taken. Moreover, the groups of interest expressed the need for preliminary consultation and the necessity of partnership in this field.

According to the international literature⁴¹, on the reduction of informality, it is suggested to take into consideration three main principles:

- Gradual approach for formalisation* through preparations, discussion and implementation of integrated strategy against informality;
- Taking care of the correct order of taken measures*. Burdensome regulations should come after good rules are applied. If you fight shadow economy with repression and you have bad rules, you risk harming the economy; they might get unemployed
- Building social capital*. It is essential to apply measures aimed at increasing transparency and fight against corruption. Even good rules may not work if there is a low level of social capital and weak institutions.

⁴⁰ <http://www.ata.gov.al/operacioni-kunder-informalitetit-cani-do-te-siguraje-rritjen-e-pagave-dhe-uljen-e-taksave>

⁴¹ *The shadow economy and how to fight against it [with focus on Moldova and the best Slovak experience] Peter Golias, Institute for economic and social reforms (INEKO) Slovakia, April 2013*

Referring to the findings of analysis with groups of interest, the recommendations are oriented in five major pillars, detailed as following:

1. FORMALISATION REFORM – PARTNERSHIP WITH BUSINESS

RECOMMENDATION 1. SHORT TERM

Preparation and approval by the Council of Ministers of a Comprehensive Strategy against informal economy based on sectorial analysis, which considers the work done to date and creates the image of a serious and long term commitment of government.

The document should be published, and the preparation process should be transparent and all-inclusive. The formalisation could be gradual and based on a platform with clear rules for the business. This is because different sectors have different fiscal and social specificities, which impact the level of informality. For example, the energy sector or banking sector is more formal and regulated than the agribusiness or trade, where a higher degree of informality is easily observed.

2. A TAX SYSTEM RESPONSIVE TO FORMALISATION

RECOMMENDATION 2. MID-TERM

Reassessment and analysis of the current tax system (the burden and the politics) whether it discourages or encourages formalisation based on the following elements:

a. The discourse on the VAT /Profit Tax threshold

Some tax experts and many undertakings recommend the reassessment with a tendency to decrease the VAT threshold not to cut off its

chain. In contrast, others do not see the VAT threshold as a problem but rather emphasise the improvement of the tax administration. For purposes of its gradual application, depending on whether being a large/small enterprise, the profit tax threshold should guarantee fair treatment of taxpayers and avoid creating room for tax evasion. Meanwhile, the attention must be focused on simplifying the procedures for payments in tax and customs offices, the usage level and efficiency of tax register machines (in tourism, agriculture, etc.), the analysis and registration of losses or even the income tax, applicable depending on the professions. Escalation of penalties or fines and the perception of corruption associated with them call for a deeper analysis, including the respective costs and benefits.

b. Incentives that may accompany the fight against informality

- » Fiscal facilities for new businesses which re-invest a certain amount of their profits, employ a certain number of staff and operate in underdeveloped areas. The possibility of applying differentiated taxes in certain regions of the country must be considered.
- » Assessment of the efficiency of reference prices in customs, whether they are cause for contraband and evasion. Removal of reference prices is identified by the companies as a potential incentive, such as, for example, from the importers of tiles, construction materials, coatings, etc.
- » Clear incentives for the consumer related to taking the tax coupon while enabling direct benefits from the declaration of annual income.
- » The subsidy scheme in agriculture does not sufficiently incentivise formalisation be-

cause it reaches only a limited category of farmers. The strengthening of the current scheme to incentivise through VAT reimbursement is suggested. The situation is more complicated and requires a deeper analysis in the wine sector due to a large number of needed licences and permits or in the sector of medicinal plants and milk processing.

RECOMMENDATION 3. SHORT TERM

Simplified administrative bureaucracy to reduce the number and time for carrying out payments, particularly for medium, small and micro businesses, and making available innovative services such as online tax payment, etc. From the perspective that 90% of enterprises are micro, and the level of awareness and financial know-how among enterprises is very low⁴², such measures would facilitate the tax compliance of this category.

RECOMMENDATION 4. SHORT-TERM

Enhancement of administration accountability to respond to the formalisation reform through:

- a) *Investment transparency and acceleration of information technology modernisation, such as the well-functioning of the new tax system and risk system, must precede the field actions, thus increasing public confidence.*
- b) *Specialised training sessions for the employees, especially for the tax and customs administration⁴³.*

⁴² <http://www.monitor.al/shqipëria-e-parafundit-në-botë-për-një-johuri-financiare/>

⁴³ Please refer to the Recommendations of the Investment

- c) *Fast and effective appeal and advisory structures, and the preparation of manuals and commentaries for inspectors and enterprises regarding their reciprocal rights and duties*

3. A REGULATORY SYSTEM, SUPPORTIVE TO FORMALISATION

RECOMMENDATION 5. MID-TERM

The formalisation reform must also have a goal to relieve the administrative burden for taxpayers by promoting compliance with the tax system and the regulatory system as well as a higher standard of the final goods and services in the following aspects:

- a) *Improvement of public institutions' infrastructure concerning application of online systems and enhancing the exchange of information in real time. More concretely, the online coordination of state inspectors and online exchange of information on Inspections as well as coordinated registration of private entities, with institutions such as the NRC, Tax Office, Employment Office and other Inspectorates (e.g. NFA, the Environment Inspectorate, etc.) or the General Directorate of Customs for imports of raw materials (necessary for agro-business).*
- b) *Accurate categorisation of professions from legal and administrative aspects and their harmonisation through NRC, Tax Office and INSTAT, to avoid confusion among taxpayers and the difference in treatment by tax administration, for instance, freelance professions.*
- c) *Unification of investigation and inspection units of the tax administration and custom administration to enable effective control and detection*

Council in meeting No. 2 <https://www.investment.com.al/sq/events/mbledhja-nr-2-5-tetor-2015-1600-2/>

of cases of tax avoidance, but also exchange of information and expertise.

- d) *Recognition of the Technological Card for certain operations, especially in agro-business and coordination with the tax administration to acknowledge the respective losses.*
- e) *Clear legal definition of wholesale and retail markets⁴⁴ to prevent switching from a certain status to another. Clear definition of the street-trader. Redefinition of the functions of inspection to such businesses by central and local institutions*
- f) *Enabling the connection between the NUIS of the farmer to the electronic land registry and electronic animals' registry, etc.*
- g) *Formalisation in agriculture must be preceded by the completion of the land registration, formalisation of the land market, registration of the farms and livestock and improvement of official statistics.*
- h) *Enhancement of the coordinating capacities and functions of responsible institutions subordinate to the Ministry of Agriculture, Rural Development and Water Administration, in charge of imposing and monitoring the quality on value added approach in agro-industry starting from raw materials, assisting ones, up to the final product.*

TECHNOLOGICAL CHARTS AND STANDARDS IN PROCESSING MILK

It is necessary to prepare/update, approve and implement some technological charts and standards. The process should include Ministry of Agriculture, Rural Development and Water Administration, AKU, Center of Transferring Agricultural

⁴⁴ Their definition in Item 59.2.2 of the Directive of Minister of Finance No. 24 dated 02.09.2008 leaves room for interpretation and it is not clear.

Technology, Veterinary Authorities, artificial insemination operators, input suppliers, pertinent NGO, etc. Some of the main technological charts shall include:

- » Construction of garnerers
- » Construction of fodder storehouses
- » Construction of mechanical devices warehouse
- » Construction of areas for processing milk
- » Milk standards and milk processing standards
- » Expected losses from technological processes
- » Remains of veterinary medicaments

It is recommended that every branch of farm sector and sub-products of milk should issue a list of products, services, operations which require intervention for preparation/updating technological charts and standards for implementation, followed by proposals prepared by working groups of experts.

4. ACCESS TO FINANCE AND IMPROVEMENT OF FINANCIAL SERVICES - AN INCENTIVE IN FORMALISATION

RECOMMENDATION 6. SHORT TERM

- a) *Further cooperation with banking financial institutions and non-bank financial institutions* should be considered in the context of the formalisation strategy and its expected benefits. For instance, micro-credit institutions may play an essential role in reducing the informal economy, especially in rural areas where they have extensive access.

- b) The recent changes regarding channelling payments to farmers by the collectors through the banking system require *a deeper analysis on the threshold of and the category of farmers* who shall pass through the banking system, in the context where the rural population has very limited access to the banking system and such services entail considerable costs.
- c) *Encouraging banking transactions and electronic payments* such as through PoS, especially in trade and services. Implementation by the tax administration of the existing legal provisions, which do not pose the obligation to use the tax registration machines when the taxpayer does not collect any *cash*, shall help small enterprises reduce costs. For this purpose, the Ministry of Finance and the General Directorate of Taxation must unify their interpretations regarding such cases.

5. CONSULTATION, TRANSPARENCY AND EDUCATION

RECOMMENDATION 7. SHORT TERM

Implementation of the Law No. 146/2014 "On Public Notification and Consultation" regulating the process of public and prior notification and consultation of bills, draft national and local strategic documents, and policies with a significant public interest

RECOMMENDATION 8. MID-TERM

- » *Grant and crediting programs* by the government and donors may play a key role in *awareness-raising and consultation* on the formalisation of certain private-sector groups, such as supporting the government's action during the first 2-3 years. More concretely, it is suggested that the governmental subsidiary schemes on the milk sector shall be based on the volume and quality of products.
- » In agriculture, it is suggested to increase the *consultation and awareness-raising* to the farmers. To be considered the *establishment of an intermediate unit for the provision of assistance and information to farmers* regarding the registration and the benefits of formalisation, upon the assistance of the donors and the government.
- » Organising targeted awareness-raising campaigns in cooperation with the business associations or other private partners such as micro-financing institutions in rural areas.
- » Publicly appreciating regular businesses over the years or exchanging experiences with other companies, through tax administration.

ANNEX 1 Size and Development of the Shadow Economy of 27 EU Countries in the percentage of GDP 2003 - 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	10,8	11	10,3	9,7	9,4	8,1	8,5	8,2	7,9	7,6
Belgium	21,4	20,7	20,1	19,2	18,3	17,5	17,8	17,4	17,1	16,8
Bulgaria	35,9	35,3	34,4	34	32,7	32,1	32,5	32,6	32,3	31,9
Cyprus	28,7	28,3	28,1	27,9	26,5	26	26,5	26,2	26	25,6
Czech Republic	19,5	19,1	18,5	18,1	17	16,6	16,9	16,7	16,4	16
Denmark	17,4	17,1	16,5	15,4	14,8	13,9	14,3	14	13,8	13,4
Estonia	30,7	30,8	30,2	29,6	29,5	29	29,6	29,3	28,6	28,2
EU-27 (simple average)	22,3	21,9	21,5	20,8	19,9	19,3	19,8	19,5	19,2	18,4
Finland	17,6	17,2	16,6	15,3	14,5	13,8	14,2	14	13,7	13,3
France	14,7	14,3	13,8	12,4	11,8	11,1	11,6	11,3	11	10,8
Germany	17,1	16,1	15,4	15	14,7	14,2	14,6	13,9	13,7	13,3
Greece	28,2	28,1	27,6	26,2	25,1	24,3	25	25,4	24,3	24
Hungary	25	24,7	24,5	24,4	23,7	23	23,5	23,3	22,8	22,5
Ireland	15,4	15,2	14,8	13,4	12,7	12,2	13,1	13	12,8	12,7
Italy	26,1	25,2	24,4	23,2	22,3	21,4	22	21,8	21,2	21,6
Latvia	30,4	30	29,5	29	27,5	26,5	27,1	27,3	26,5	26,1
Lithuania	32	31,7	31,1	30,6	29,7	29,1	29,6	29,7	29	28,5
Luxemburg	9,8	9,8	9,9	10	9,4	8,5	8,8	8,4	8,2	8,2
Malta	26,7	26,7	26,9	27,2	26,4	25,8	25,9	26	25,8	25,3
Netherlands	12,7	12,5	12	10,9	10,1	9,6	10,2	10	9,8	9,5
Poland	27,7	27,4	27,1	26,8	26	25,3	25,9	25,4	25	24,4
Portugal	22,2	21,7	21,2	20,1	19,2	18,7	19,5	19,2	19,4	19,4
Romania	33,6	32,5	32,2	31,4	30,2	29,4	29,4	29,8	29,6	29,1
Slovakia	18,4	18,2	17,6	17,3	16,8	16	16,8	16,4	16	15,5
Slovenia	26,7	26,5	26	25,8	24,7	24	24,6	24,3	24,1	23,6
Spain	22,2	21,9	21,3	20,2	19,3	18,4	19,5	19,4	19,2	19,2
Sweden	18,6	18,1	17,5	16,2	15,6	14,9	15,4	15	14,7	14,3
United Kingdom	12,2	12,3	12	11,1	10,6	10,1	10,9	10,7	10,5	10,1

Source: Schneider F. (undated), "Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2012: Some New Facts", http://www.econ.jku.at/members/Schneider/files/publications/2013/ShadEcEurope31_Jan2013.pdf

ANNEX 2 SURVEY / ASSESSMENT ON FACTORS OF INFORMALITY IN ALBANIAN ECONOMY

The Secretariat of Investment Council undertakes this survey in the framework of the discussion of the subject of informality in the plenary meeting of the Council of Investments in December 2015. The purpose of the survey is to incite the debate on the causes of informality and offer concrete suggestions for proper tackling of the phenomenon to improve the business climate in Albania and promote investments in the economy.

The survey remains anonymous and is filled on-line on the internet web page of the Investment Council. Your contribution is essential to bring the business community's concerns and address them professionally and comprehensively to governmental bodies.

- The main economic activity of your business is:
 - ☐ Extractive industry
 - ☐ Processing industry
 - ☐ Electric power supply, gas steam and air condition
 - ☐ Activities with running on hot water, sewage, waste management and arrangements

- ☐ Construction
- ☐ Service
- ☐ Wholesale and retail
- ☐ Transporting and storage
- ☐ Hotels
- ☐ Information and Communication
- ☐ Architectural and engineering activities
- ☐ Travel agencies, touristic operators
- » Others (please specify_____)

- Biggest shareholders (with more than 50% of shares) of your business are:

- ☐ Locals
- ☐ Foreigners

- For how long are you present in the market?

- The size of your business based on the annual turnover of the last year:
 - ☐ 2 – 8 million Lek
 - ☐ More than 8 – million Lek

- Are you a subject to VAT?
 - ☐ Yes
 - ☐ No

6. Are you classified as a VIP Business by the General Directorate of Taxes?

- ☐ Yes
- ☐ No

7. Please specify if you face competition by informal activities in your sector?

- ☐ Yes
- ☐ No

If yes, please give your comments on what is the nature of informality in your sector (tax evasion, lack of registration, corruption, smuggling, undeclared work, etc) and at what stage of activity it appears (registration of activity, production process, introduction of product/service to the market, import/export, relations with the suppliers, etc.)?

8. Please rank from 1 to 5 (where 1 is the easiest/smallest and 5 is the most difficult/biggest) concerning doing business in Albania, referring to the following issues:

- ☐ Registration of business (from 1 to 5)
- ☐ Licensing the activity (from 1 to 5)
- ☐ Number of taxes (from 1 to 5)
- ☐ Procedures to comply with taxes (for instance, the time spent, service costs, the way of payment, etc.) (from 1 to 5)

- ☐ Fiscal burden (such as VAT limit, Social Security, tax on profit, etc.) (from 1 to 5)
- ☐ Employment of workers (from 1 to 5)
- ☐ Business crediting by banking sector (from 1 to 5)
- ☐ Importing/exporting goods and services (from 1 to 5)
- ☐ Different inspections by state administration (from 1 to 5)
- ☐ Procurement of public funds (from 1 to 5)
- ☐ Consultation (from 1 to 5)
- ☐ Others, _____

Comments and specifications on the above, if any:

9. Please give your opinion on the reasons which incite informality in your sector:

10. In your opinion, being informal in your sector has more profit of more costs (not registered / tax evasion), and if you can articulate in detail:

11. If you have somehow informality in your business, do you have a long-term strategy to formalise?

- ☐ Yes
- ☐ No

12. Do you think that penalties are necessary to reduce informality in the economy? If yes, to what level do you consider them as effective?

13. What can be some of effective incentives to reduce informality in your sector? _____

14. Can you suggest some incentives in the formalisation of the Albanian economy as a whole?

ANNEX 3

SUMMARY MATRIX OF SOME INTERNATIONAL EXPERIENCES IN REDUCING INFORMAL ECONOMY

v

THE EXPERIENCE OF OTHER COUNTRIES ON MEASURES TO REDUCE INFORMALITY

[NOTE: FOR EASE OF RESEARCH, THE SOURCES ARE INTENTIONALLY LEFT IN THEIR ORIGINAL LANGUAGE]

SOURCE: "TACKLING THE UNDECLARED ECONOMY IN FYR MACEDONIA: A BASELINE ASSESSMENT 2014 [ADAPTED FROM WILLIAMS, BARIC AND RENOY - 2013]"

SUMMARY OF MEASURES IN 31 EU COUNTRIES

PUNITIVE MEASURES

- » Administrative sanctions for purchasers/companies
- » Administrative sanctions for suppliers/employees
- » Penal sanctions for purchasers/companies
- » Punitive sanctions for suppliers/employees

MEASURES TO IMPROVE DETECTION

- » Penal sanctions for suppliers/employees
- » Workplace inspections
- » Registration of workers before starting work or on the first day of work
- » Coordinating strategy across government
- » Certification of business, certifying payments of social contribution and taxes
- » Usage of surveillance through reporting
- » Coordination across governmental institutions
- » Exchange of data across governmental institutions
- » Mandatory ID in the workplace

PREVENTIVE MEASURES

- » Reduce regulations
- » Simplify compliance procedures
- » Technological innovations (e.g. certified cash registers)
- » New categories of work
- » Direct tax incentives (e.g. exemptions, deduction)
- » Social security incentives
- » Ease transitions from unemployment to self-employment
- » Changing minimum wage upwards
- » Changing minimum wage downwards
- » Training and support to businesses start-ups
- » Microfinance to businesses in start-ups
- » Advice on how to formalise
- » Connecting pension schemes to formal labour
- » Introducing supply chain responsibility
- » Restricting free movement of (foreign) workers

CURATIVE MEASURES

- » Encourage purchasers to buy declared goods and services
- » Service vouchers
- » Targeted direct tax incentives
- » Targeted indirect tax incentives
- » Stimulate suppliers to formalise
- » Society-wide amnesties
- » Individual-level amnesties for voluntary disclosure
- » Targeted VAT reductions
- » Free record-keeping software to businesses
- » Free advice/training on record-keeping
- » Gradual formalisation schemes

FOSTERING COMMITMENT TO DECLARED WORK

- » Campaigns to inform undeclared workers of risks and costs of working undeclared
- » Campaigns to inform undeclared workers of the benefits of formalising their work
- » Campaign to inform the users of undeclared work on risks and benefits of formalisation
- » Use of normative appeals to people to declare their activities
- » Measures to change perceived fairness of the system
- » Measures to improve procedural justice of the system (i.e. degree to which people believe the government has treated them in a respectful, impartial and responsible manner).
- » Measures to improve knowledge on taxes, social security and labour law
- » Adoption of commitment rather than compliance approach (e.g. 'responsive regulation')
- » Campaigns to encourage a culture of commitment to the declaration

MACEDONIA

IMPROVING DETECTION

- » Work inspection
- » Control on tax and social security payments. Establishment of 'Centre for debt collection', 'Centre for seized goods', 'Tax Academy for training' and a 'forensic laboratory' within the Public Revenue Office to tackle high-risk fraud and tax evasion
- » Strengthened administrative cooperation and mutual assistance through electronic data exchange between taxes and labour inspectorate
- » Increasing penalties and increasing perception about the risk that comes with undeclared jobs

OPPORTUNITIES FOR FORMALISATION

- » Simplifying regulations on starting a business
- » Decentralisation of tax service payments, e.g., the opening of local 'Service Points' (2011)
- » Encouragement of electronic filing of tax returns and electronic payment of the corporate income and VAT taxes
- » Electronic payments of the income of corporate and VAT

DIRECT TAX INCENTIVES

- » Reduction and equalisation of the corporate and the personal income tax rate ('flat-tax rate') at 10%
- » Reduction and equalisation of the corporate and the personal income tax rate ('flat-tax rate') at 10%
- » Tax relief for re-invested profit (for investments over 100,000 Euros)
- » Zero corporate income tax for non-distributed profits

INCENTIVES FOR INVOLVEMENT IN OFFICIAL EMPLOYMENT AND BUSINESS OPERATIONS

- » Reduction in the cost of seasonal workers by easing the requirements for severance pay
- » Lower tax base for registered individual farmers (20% of the national average net wage)
- » Farmers with an annual income lower than 300000 MKD are exempted from paying any income tax

RAISING AWARENESS AND PUBLIC CAMPAIGNS

- » Hotlines for reporting undeclared work and labour
- » Checklist for employers and employees of their respective legal rights and obligations
- » Awareness-raising campaign targeted at youths to promote a successful transition to decent work

GEORGIA – “MSM TAX SIMPLIFICATION REFORM: CAN IT TACKLE INFORMALITY, WORLD BANK, IFC”

- » Definition of micro business, small, medium and large business
- » Developing guidance for tax accounting for micro-businesses
- » Simplifying reporting of small businesses, payments twice a year, elective

“ECONOMIC INFORMALITY: CAUSES, COSTS AND POLICIES A LITERATURE SURVEY OF INTERNATIONAL EXPERIENCE, ANA MARIA OVIEDO”

INCREASING TAX COMPLIANCE

- » Reduced tax rates for low-wage earners - Belgium, Bulgaria, The Netherlands, and France
- » Tax exemptions and reductions in sectors that rely on undeclared work - Hungary, Sweden, Belgium, and France
- » Reduced VAT in labour-intensive sectors - The Netherlands
- » Targeted awareness campaigns and in cooperation with trade associations to tackle industries with a high incidence of non-compliance - Australia, Belgium and Sweden
- » Offering voluntary disclosure schemes, media and internet campaigns, "vouchers" for work etc. - UK, Belgium, and Australia
- » Replace VAT/income tax/social security contributions of small businesses with a single tax - Argentina, Bolivia, Brazil and Peru
- » An integrated system for small and large enterprises unifies the collection of federal tax payments and social security contributions. All firms with revenues below US \$1,000,000 that work in services, trade, manufacturing, or agriculture are eligible, which represents 75 per cent of the business register and 7 per cent of GDP - Brazil
- » The program substitutes 6 types of taxes and 5 types of social security contributions with a progressive tax levied on gross revenues. An important feature is that it has de-linked social security contributions from the number of declared workers employed or the wage bill, instead of making the contributions proportional to the firm's revenues - Brazil
- » Establishing Business Service Centers offering several services to entrepreneurs, from information and business counselling to registration facilities - Colombia

REDUCING TAX BURDEN FOR COMPLIERS

- » Reduction of corporate income tax - Hungary, Poland, Slovakia
- » Tax exemptions for employing underprivileged workers – Hungary
- » Tax concessions in industries with a high percentage of undeclared workers - Sweden, Belgium, France
- » Tax relief for new employees - Montenegro
- » Tax amnesty - Cyprus, Turkey
- » Tax exemption on re-invested earnings – Estonia
- » Reduce aggregate tax burden (as a % GDP) (Most EU27 countries)
- » Increase non-taxable income threshold/introduce tax reductions for low-wage earners - Bulgaria, Belgium, Netherlands, France

INCREASING TAX BASE

- » Introduce online filing and payment - Estonia
- » Harmonisation of tax regulations/forms - Austria, Greece, Netherlands, France, Portugal, Denmark
- » Simplified tax system for SMEs - Kenya, Tanzania, Uruguay
- » Replace VAT/income tax/social security contributions of small businesses with single tax – Countries of Latin America
- » Appreciation for honest businesses - 15 EU countries
- » Increase the flexibility of temporary work contracts – 15 EU countries

"POLICY BREAf ON INFORMAL ENTREPRENEURSHIP - EUROPEAN COMMISSION"

- » Tax thresholds and exemptions, advice and training and offering social benefits for a short term till starting the business and enjoy benefits from employment – The example of Italy with temporary periods and reduced taxes.
- » Deduction of taxes and vouchers for undeclared workers from the consumers' viewpoint, for household employees – Denmark model

"THE SHADOW ECONOMY AND HOW TO FIGHT AGAINST IT (WITH FOCUS ON MOLDOVA AND THE BEST SLOVAK EXPERIENCE) PETER GOLIAS, INSTITUTE FOR ECONOMIC AND SOCIAL REFORMS (INEKO) SLOVAKIA, APRIL 2013"

- » Hartz IV Reform in Germany from the year 2000. The reform introduced that the "mini jobs" of monthly wages less than €400 are not subject to social insurance contributions. And for wages between €401 and €800, the contribution rate rises gradually to the full share.
- » Flat tax reform in Slovakia. Unifying direct income taxes to 19% for individuals and businesses. The reform also decreased the corporate income tax rate from 25% to 19% and cancelled the dividend tax rate of 15%.
- » Increasing the indirect consumption taxes. In the old system, the two VAT rates: standard rate of 20% and reduced rate of 14%, were unified in 19%
- » Radical simplification of the tax code.

ANNEX 4

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ABOUT INVESTMENT COUNCIL IN ALBANIA

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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