TECHNICAL NOTE

ON FORMALIZATION AND COMPETITIVENESS IN THE TOURISM SECTOR

Full Version

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ABBREVIATIONS

CoM	Council of Ministers
GoA	Government of Albania
GTD	General Tax Directorate
IC	Investment Council
IMF	International Monetary Fund
MARD	Ministry of Agriculture and Rural Development
MoFE	Ministry of Finance and Economy
MoTE	Ministry of Tourism and Environment
NBC	National Business Centre
NUIS	Unique Number for Identification of the Taxpayer
TAD	Tax Appeal Directorate
VAT	Value Added Tax

I. INTRODUCTION

The Albanian government has undertaken important reforms to support sector development. Legal framework and strategic visions are adjusted to the sector dynamics, while infrastructure investment packages to support tourism are being implemented. Private investments in the sector are also very dynamic, for example only during 2017, were issued in total 53 construction permits (INSTAT, May 2018). These new investments add 89,000 m^2 room surface in the accommodation structures at national level. The growth rate of crediting for tourism sector was reported to be the highest compare to other sectors, credit to tourism sector grew by 6.5% (yoy) during the first half of 2018 (Bank of Albania, 2018).

Despite improvements, Albania still needs to address the concerns of regulating tourisms sector and introducing standards, reduce informality, tackle land ownership issues, as well as improve infrastructure and human resources. The sector has to upgrade from labour-intensive toward technology driven as a cost improvement path (IMF, 2018). In addition, previous Investment Climate Surveys (2015-2017) as well as consultations with businesses have identified informality as a serious concern of investors, especially in the tourism sector.[1] Informality is perceived by business community as widely spread and single actions are not enough to fully address it.

This technical note intends to provide evidence on the degree to which economic activity in tourism is hampered by informal activity and tax evasion. Apprehending and measuring informal economy in the sector remains challenging due to the sector being based on the shared economy and its interrelations with other value chains. For the purpose of this study, the informal economy in tourism sector will refer strictly to economic activities that involve **monetary transactions but represent legal economic activities, incur tax evasion or tax avoidance**. Efforts have been made to evaluate the impact of tax incentives on formalization and explore the relation between informality and sector competitiveness. The results of the analysis remain relevant to policy discussion, mainly in the fiscal policy area, legal framework and institutional coordination to support sector expansion.

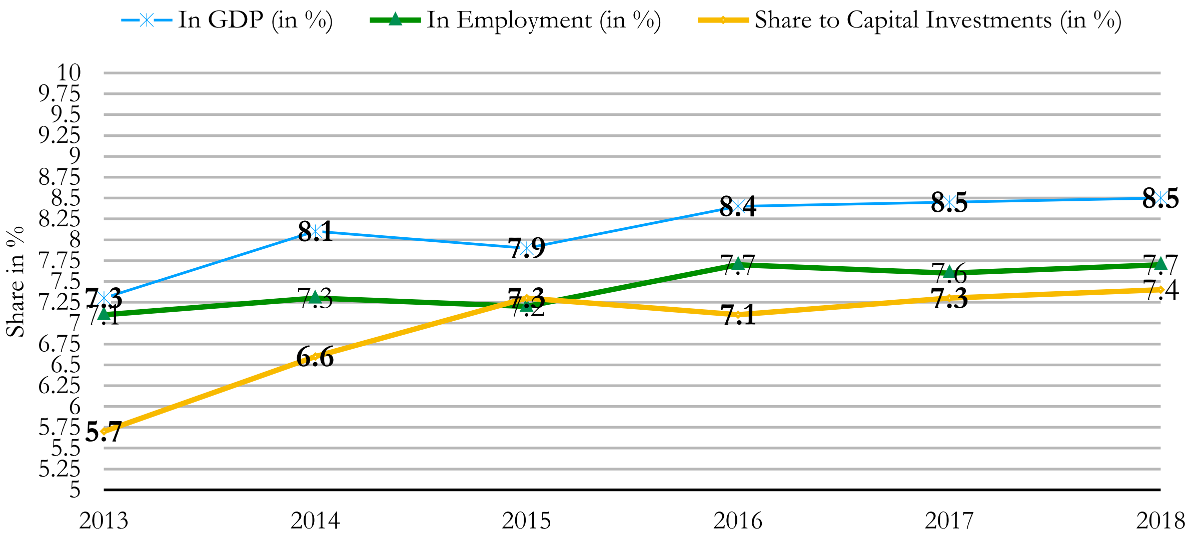
The Secretariat, in fulfilment of its mandate to address business concerns is bringing into the attention of IC the challenge of formalizing economic activity in tourism. The analysis has also taken into consideration issues from several businesses reported to the Secretariat during 2015-2018, as related to the tourism sector in general and more specific informality of the sector.

[1] The collected information, served to the Secretariat to elaborate and further detail the issues and questions for discussing with stakeholders during Focus Group Meetings and interviews. On the above basis, Secretariat prepared structured and tailored questionnaires for public institutions, businesses, associations and experts in the sector of tourism.

II. CONTEXT

Contribution of tourism sector to the national economy is important, especially **in terms of employment and export income**. The high contribution of the sector in employment is result of the labour-intensive nature of the sector (EU Progress report, 2018). ***Tourism and travel industry was reported to have a direct contribution in GDP of 8.5%*** (in 2017), while indirect and multiplicative contribution of the sector to GDP is estimated to reach 26.2% (WTTC, 2018).The sector generated 7.7% of the employment as direct employment in 2017, which converts to 93,500 jobs. The sector induced employment, or indirect employment is estimated to represent 24.1% of total employment. The sector is expected to generate around 110,000 jobs as direct employment and 344,000 jobs as indirect in 2018.

Figure 1: Contribution of Tourism sector in GDP, Employment and Capital Investments



Source: World Travel and Tourism Council, 2018

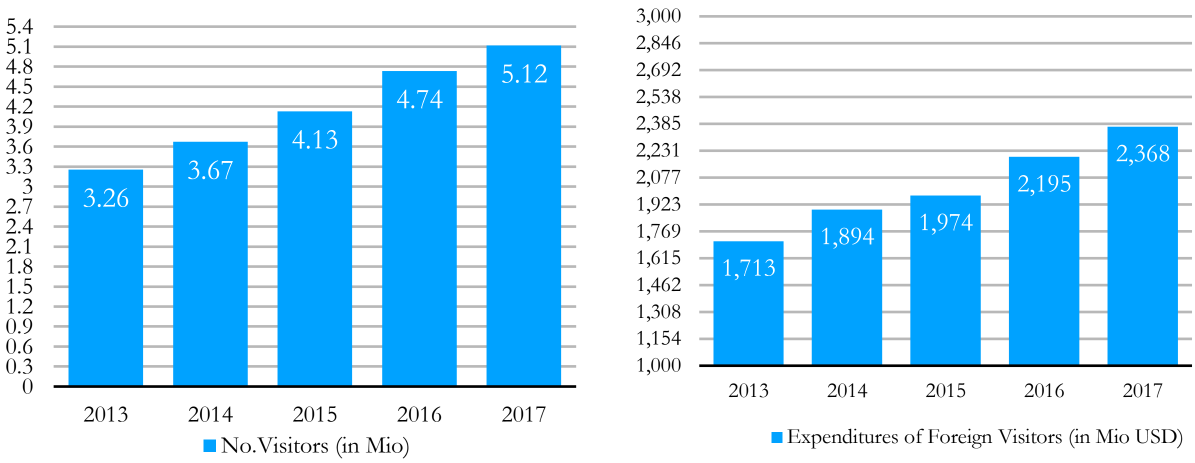
Tourism remains crucial to restoring the balance of the current account given the contraction of remittances and FDIs. Tourism exports represent 54.2% of total exports, with a value of USD 1,974.1 Mio, in 2017. In 2017, investment in the sector increased by 7.5% and valued USD 269 Mio. The dynamics of investment in the sector are expected to prevail in years to come, investments in 2018 are expected to grow by 4.4%, while in over 10 years they expect to reach approximately half a billion USD (WTTC, 2018).

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

The emerging cultural and historical destinations such as Korca, Gjirokastra and Berat report bed capacities lower than 2,000 beds (National Strategy of Tourism, 2018). Accommodation structures are nationally dominated by hotels, 65% of accommodation capacity is offered through hotels or similar structures, resorts provide only 1% of the accommodation capacities, guesthouses 3%, private houses, private rooms renting in private houses or apartments are reported to supply around 30% of the beds at national level. Accommodation structures and other services offered to tourist are channelled through a network of around 46 tour operators and 154 travel agencies (National Strategy of Tourism, 2018).

Tourism sector is moving very fast toward maximization, during 2018 tourist season, 4.4 Mio foreigners have visited Albania, and compared to 2017, the number of visitors increased by 12%. The share of foreign visitors that choose Albania as a vacation destination is 49%. **Among visitors, the most dynamic group are those staying in Albania for a day visit,** this group represented 10% of visitors and almost doubled in 2018 if compared to 2017 (INSTAT, 2018).

Figure 2: Number of foreign visitors and value of their expenditures, 2013-2017



Source: INSTAT, 2018

Visitors reach Albania as a destination mainly through road connections, 81.1% of visitors reach Albania through road transport. Visitors coming through air transport represent only 11.3% of visitors, while the remaining 7.5% of visitors use maritime transport. Air and maritime transport improvement represent an opportunity for tourism sector, as they are used under potential and cost improvement policies could improve the tourist usage of alternative transport(National Strategy of Tourism, 2018).

Capitalizing on the touristic resources, the main product niche that Albania is planning to support strategically includes costal and cultural tourism, health, bicycle and eco-tourism, rural and mountain tours combined with culinary and tradition. Despite developments in the sector, ***Albania remains a relatively new tourist destination, with the challenge to position in the world market.*** The dynamics observed among visitors (vacation, and daily visitors), represent an opportunity for the sector from the demand side, however these dynamics need to be matched with supply side quality and competitiveness.

Understanding peculiarities of the sector from the supply side, remains crucial to investors, since many challenges that the sector faces are supply side rooted.

III. METHODOLOGY

The steps undertaken by the Secretariat to identify business challenges as related to the informality of the sector and the impact that its formalization would have on the competitiveness of the sector were as follows:

- **Desk research** on the national legislation covering the tourism sector in terms of regulatory and institutional framework, national strategic documents, regional countries strategic documents on tourism, other studies and reports on tourism from national and international organizations.
- **A national scale survey was implemented** as source of primary information. The survey aimed to gather information on three broad areas of business and investment climate being, tax compliance and tax controls, investment climate of the sector and informal tourism economic activity. The survey was based on a standardized, closed questions questionnaire, previously implemented by IC Secretariat. The questionnaire was reviewed to accommodate questions on informality. Reviews and suggestions from relevant stakeholders were reflected in the final form, which became available online. The survey timing was selected to be during the tourist season in order to get feedback on daily matters affecting business and investment climate in the sector. The survey was designed to be at national scale, with around **156 respondents companies (44% accommodation & hospitality, 39% travel agency & tour operator, 17% food and drink services) operating in tourism sector had a random chance of being selected of 5.2% ensuring statistical confidence of 94%.** Sample side was determined using population size, sample proportion and accuracy of results as measured by the confidence level[2]. Companies surveyed were randomly selected out of a dataset of around 2,997 companies registered at GTD. Tourism sector consists of businesses in accommodation and hospitality, food and drink services, tour operator and travel agencies. The questionnaire was sent to sampled companies by e-mail. Survey data were used to understand the degree to which tourism economic activity is intoxicated by informal activity and tax evasion. The analysis was also focused on identifying factors driving informality and particularly exploring the impact of fiscal measures on formalization. A two-stage least square regression was used to estimate the impact of informality on investment climate which is used as a proxy of the competitiveness in the tourism sector.
- **In-depth interviews with stakeholders:** Direct interviews took place during the period July - September 2018 with representatives of the tourism business associations, public institutions, fiscal experts, tour-operator and travel agencies. In total, the Secretariat held 15 face-to-face interview meetings with relevant stakeholders (government, companies, associations, and donors).
- **Consultations with business focus groups:** During September 2018, Secretariat organized in close cooperation with CCIs, three regional focus group meetings in Durrës, Gjirokastër and Korça with 65 businesses operating in the tourism sector. A final focus group meeting was held in Tirana (September 26, 2018) with participation of 20 representatives (from MoFE, MoT, GTD, NTA, Tourism Associations, other Business Associations and experts) to discuss in advance and validate the most important findings and recommendations to be presented at the plenary IC Meeting.

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[2] $n=1/\{1/N+[((N-1)/N)*(1/PQ)*((k/Z_{a-2})^{\wedge}2)]\}$

IV. CURRENT LEGAL AND INSTITUTIONAL FRAMEWORK IN TOURISM

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

A. LAWS, BY-LAWS AND STRATEGIC FRAMEWORK

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

a) Law No.93/2015 "On Tourism"[3].

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

Novelties of the law:

1. *Definitions of the law*. Law no.9734 despites the efforts to provide some definitions in the field of tourism, was deficient in its content while some more important definitions were missing. *Current Law 93/2015 provides a set of systemized definitions which makes clarity on the concept, processes and institutions dealing with tourism sector*.
2. *The role and functions of institutions*. Law 93/2015 creates a clear picture of the institutions dealing with the tourism sector both in national and local level by eliminating the overlap of competences among them and the uncertainty it cascaded to the users of the law, mainly to the foreign investors.
3. *Certification and licensing of operators in the field of tourism*. Previous law did not foresee for licensing of the operators offering touristic activities, which brought poor services to the consumers and at the same time has significantly influenced informality. *Although law 93/2015 has addressed the licensing process of the tour-operators and tourism agencies, there are still concerns in the market from several operators, for high level of informality and which does not provide the required security of services for the tourists.*

[3] *Subject of amendment only once with Law No.114/2017.*

4. *Categorization and Classification of accommodation structures.* Law 93/2015 envisaged the categorization and classification process of the tourism accommodation structures which was missing in the previous law. *However, this process has stuck although the necessary by-laws have been accordingly approved[4] timely. The lack of this process has brought a chaos situation in the market especially for hotels. Several accommodation structures use distinctive signs (stars) of the classification which do not conform to the real standards of the structure or the level of the service they provide. However, it seems that while Law 93/2015 included "guest-houses" in the main concepts of the Law, failed to include the apartments/villas as part of the "accommodation structures".* Other countries for example Greece have already included self-catered accommodation- touristic furnished mansions and Self-catered accommodation-touristic furnished residences under the category of Secondary Touristic Accommodation as per the provisions of the law no.4276/2014, the main law for tourism.
5. *Certification of the touristic guides.* Law 93/2015 provides for the certification of the tourist guides and the respective procedures to be followed aiming to standardize such type of activities.
6. *Clear obligations for institutions.* Additionally, law 93/2015 sets obligations for main institutions such as MoTE in preparing the following documents: a) National Plan on Tourism (NTP); b) Strategy of Tourism and Action Plan (Tourism Strategy), c) Central Tourism Register; d) National Register of Touristic Sources as well e) National Sites with Priority in Developing Tourism.

What has been done and what is expected:

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

1. NTC has already approved the National Inter-sectorial Coast Plan.
2. Strategy of Tourism and its Action Plan although have been subject of consultation roundtables since months, has not yet been officially approved by the GoA, while its official draft is published in the website of MoTE.
3. Central Nation Register which should contain the consolidated list of the tourism entrepreneurs it is not yet published. From the consultation with the municipalities, the Register is furnished with data from Municipalities which do refer only to the registered entrepreneurs in NBC, rather than the entrepreneurs which do by matter of fact exercise economic activity.
4. National Register of Tourism Sources has been prepared and published[5].

[4] *CoM Decree 710 No.710 date 12.10.2016 "Approval of the Regulation on Conditions and Criteria for Exercising of the Tour-Operator Activity"; CoM No.711 date 12.102.2016 "Approval of the Regulation on Conditions and Criteria for Designing and Building Accommodating Structure"; CoM No.730 date 20.10.2016 "Approval of the Regulation on the Conditions, Criteria, Tariffs, Terms and Procedure for Classification of Accommodation Structures".*

[5] *http://www.mjedisi.gov.al/burimet-turistike/*

b) Law 114/2017, "On Some Amendments to the Law No.93/2015 "On Tourism"

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

a) Invest in a 4 and 5 star accommodation structures certified as such by Committee on Standardization of Tourist Activities in MoTE;

b) Investment reaches at least 8 Mln Euro for the construction of the 4 star accommodation structure and at least 15 Mln Euro for the construction of 5 star accommodation structure.

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

c) Law 55/2015, "On Strategic Investments"

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

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

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

As of October 2018, in total, SIC has approved 9 strategic investment projects, out of which 6 have earned the status of strategic investor/assisted procedures and 3 the status of strategic investor/special procedures. Four projects are approved in tourism sector where 2 projects earned the assisted status and 2 projects earned the special. Since beginning of 2016 and until today, AIDA has assisted 30 investment projects (10 projects in tourism sector), out of which 17 have gone through all the processes of strategic investments and have been addressed for decision-making in the SIC. In consultation/assistance phase are 8 other projects for preparation of documents and 5 projects are still in the phase of expression of interest (7 of these projects are in tourism sector). So far, we couldn't find any assessment document related to the impact of the approval of the above legal framework.

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

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

d) ***Draft-Strategy on Tourism*** [8]

Strategic goals relates to five key areas and 19 strategic directions aiming to improving competitiveness and achieving strategic objectives. Main areas where tourism policies should focus on by 2022 are the following:

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

As identified by the draft-strategy, informality as related to the tourism activity remains an important impediment in developing of the sector. This seems to be considered as crucial point since under the Strategy it is provided as a goal: registration of the 80% of the share tourism economy (familiar rooms, apartments and villas for tourism activity) until year 2022. Although, the strategy identifies the informality as a threat for tourism sector in general, it *does not underlines any concrete action/measure to shape* this threat as an opportunity for the micro and small enterprises nor does it *foresees any joint efforts with the fiscal policies to* address such issue.

e) ***Institutional Coordination – in support to the Tourism Development***

As previously mentioned, current legislation provides a clear architecture of the institutions responsible for development of the tourism both in national and local level. While competences and scope of activities seemed to be well envisaged, **we evidenced that more should be done as relates to the coordination between central agencies and Municipalities in addressing issues in tourism.** This could be also linked with the scarce and limited local sources. Also, some institutions/instruments do not carry out the competences for which they have been created by the law (for example from the contacts Secretariat had with businesses and associations in tourism sector during the preparatory phase of this Technical Note, it was mentioned that Private Sector Advisory Committee for Tourism (KKSPT) is not yet set up and no consultative meeting during the last year is organised while the Commission for Standardization of Tourism Activities has not yet started the classification and categorization procedure of the accommodation structures). In Annex B it is placed the full picture of institutions dealing with tourism as per the law provisions and their respective competences.

B. INCENTIVISING POLICIES FOR TOURISM SECTOR

For the purposes of this analysis, in this section it is provided an updated information of the incentives for tourism sector as provided under current primary or secondary legislation.

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

a) *Administrative incentives[9] to reduce administrative burden*

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

- completion of preparatory actions, preparation of documents and administrative application in an expedited procedure by the assisting agent, including necessary accompanying documents, when they are issued by a state administration body, following the request of another state administration body;
- priority handling of documentation preparation, provision of opinions or employment of procedures which are included in the area of activity of the state administration bodies, represented in the operational group, for the preparation and implementation of the strategic investment;

1. land consolidation;
2. supporting programs;
3. support with assistive infrastructure;
4. provision of access to state-owned immovable property for the purposes of developing and executing strategic investment projects.

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

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

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

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

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

b) Fiscal incentives to attract quality investments

VAT reduction for accommodation structures from 20% to 6%. Reduced rate of value added tax applies to the provision of accommodation services in accommodation structures, according to the categories set out in legislation in the field of tourism, which is 6 percent[10] applicable as of June 2017.

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

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

c) Incentives for agro-tourism as a growth industry

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

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

[12] *This provision was made with the Law No.104 date 30.11.2007 "For Some Additions and Changes to the Law No.8438 date 28.12.1998 "On Income Tax" (as amended)"*

[13] *This provision was made with the Law No.106 date 30.11.2017 "For Some Additions and Changes to the Law No.9632 date 30.10.2006 "On Tax Local System" to the Article 22.*

[14] *This provision was made with the Law No.106 date 30.11.2017 "For Some Additions and Changes to the Law No.9632 date 30.10.2006 "On Tax Local System", to the Article 27.*

1. [15]***VAT reduction for accommodations structures certified as "agro-tourism entities" from 20% to 6%.*** The reduced VAT shall be applicable as of 1 January 2019 for accommodation and restaurant (excluding drink) structures certified according to the criteria of the CoM No.22 date 22.01.2018. One of the main criteria' for "agro-tourism entities" is that they should have a capacity from 6-30 accommodation rooms.
2. ***Corporate income tax to be reduced from 15% to 5%.*** This change will take place as of 1 January 2019 for taxpayers certified "'agro-tourism entities".
3. [16]***Exemption from tax on impact on infrastructure for "agro-tourism entities" which shall perform investments in their scope.*** This measure enters into force as of 1 January 2019.

d) Other incentives

1. Law no. 93/2015, dated 27.07.2015 "On tourism", in Chapter 6 provides for a number of facilities/support for investments in priority areas for tourism development such as:
   - The disposal of state immovable property. Article 35 provides for the availability of state real estate (also through a symbolic 1 euro contract) for a period of up to 99 years;
   - Establishing of touristic ports or permanent pits serving as supporting infrastructure for tourist structures;
   - Disposal of beach areas for investments near the shores of the sea or lake.
2. Integrated Rural Development Program (PIZHR) - The program of 100 villages aims to coordinate the development interventions in the rural areas of 100 villages. The integrated rural development approach will target measurable objectives for the development of rural space, through centralized focus (integrated and coordinated programming) of public investment, donor and private investment, in the well-defined space of 100 villages, with high potential for economic and social development, agro-tourism and rural tourism, nature and environment as well as cultural heritage.

V. SURVEY RESULTS ON INFORMALITY, FISCAL MEASURES AND INVESTMENT CLIMATE IN TOURISM SECTOR

A. ANTI-IINFORMALITY AGENDA 2016-2018

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

[15] *This provision was made through Law No. 40/2018, date 09.07.2018 "For an Addition in the Law No.92/2014 "On VAT" as amended.*
[16] *This provision was made by the Law No. 41/2018, date 09.07.2018 "For Some Additions and Changes to the Law No.9632 date 30.10.2006" "On Tax Local System" as amended, Article 27.*

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

B. ANTI-INFORMALITY AND TAX ADMINISTRATION MEASURES IN TOURISM SECTOR

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

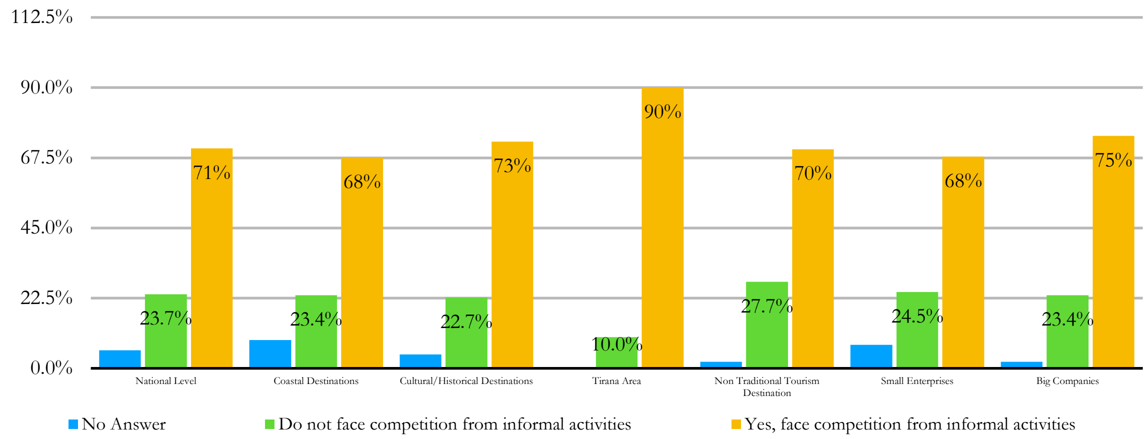
The action plan of anti-informality measures in 2018 for tourism sector, was informed and concealed based on a ***thorough risk analyses of the sector based on tax declarations of the last two years.*** The anti-informality measures were anticipated by an inclusive program of communication and tax payers' education, as a measure to improve awareness and self-compliance. GTD organized 12 regional consultation meetings, distributed 3,090 information materials and contacted 3,886 businesses. Communication and consultation actions of anti-informality measures aimed to improve self-reporting and self-declaration. The communication and awareness stage of anti-informality measures was followed by tax controls and site inspections. During 2018, GDT reports that 1,500 businesses had been controlled by tax authorities, site inspections during the tourist season were reported to reach 9,486. Result of the anti-informality measures in the tourism sector, as announced by the tax administration, was increased by 12% of the reported turnover, associated with an increase of invoiced services by 13%, number of declared employees increased by 13%. The tax administration communicated to 1,500 businesses the need to report properly their economic activity, 72% of the companies agreed to voluntary review the tax declarations and correct as advised by tax inspectors.

C. INFORMAL ECONOMIC ACTIVITY IN TOURISM SECTOR

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

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

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

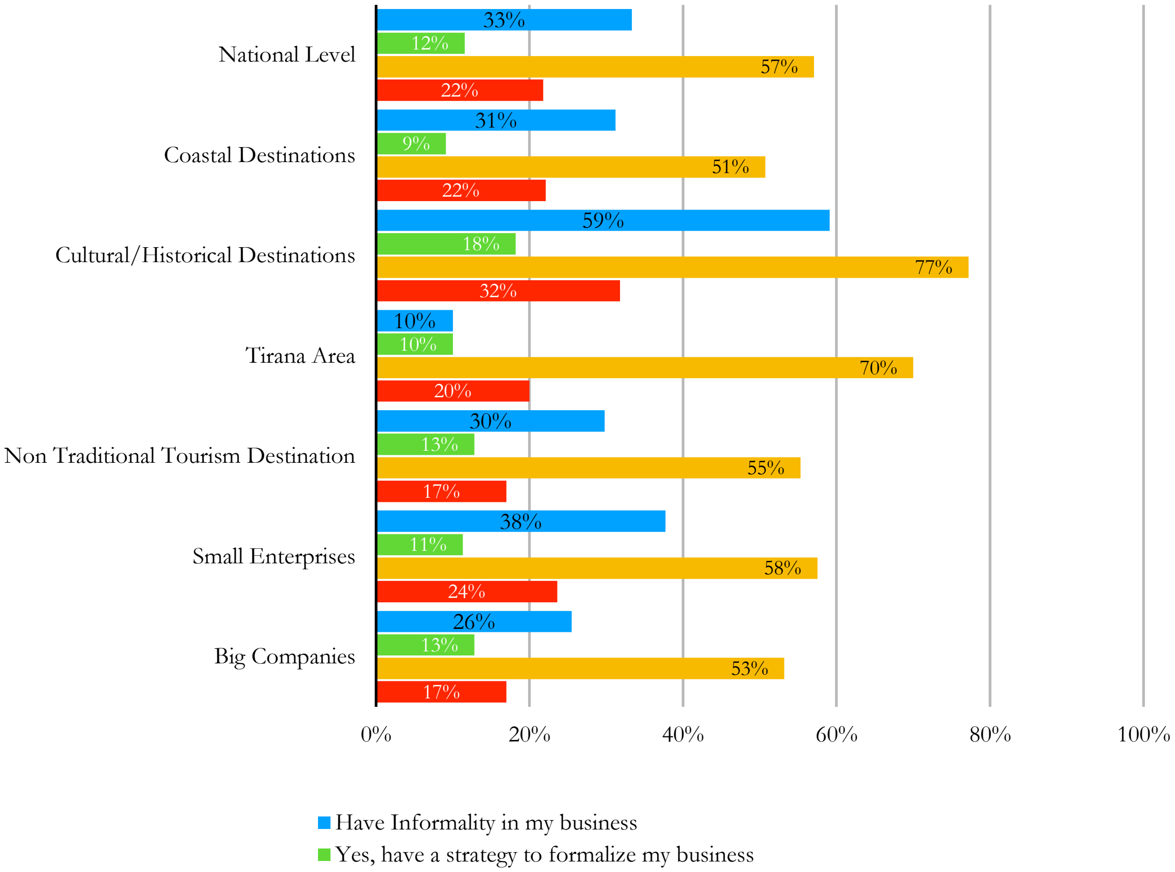


Source: Own calculations based on data from 2018 IC survey

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

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

Figure 4: Frequency of companies reporting informality at business and sectorial level.

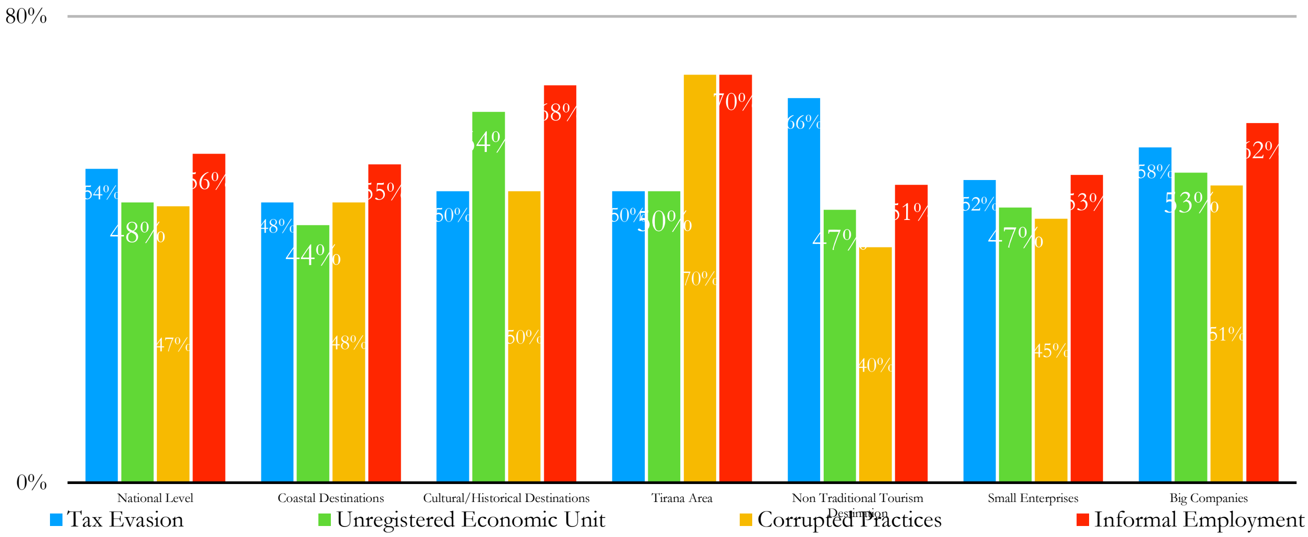


Source: Own calculations based on data from 2018 IC survey

Businesses report a higher degree *of informality at sectorial level, compare to their self-reported informality*. Cultural and historical destinations as well as Tirana area have reported the highest share of informality at sectorial level, more that 70% of respondent confirm they face informality at sectorial level. Strategies at sectorial level to formalize the economic activity have an occurrence rate that is similar to firms having strategies to formalize their own activity, at national level only 22% of firms have declared to have participate in a process of sectorial initiative to formalize and regulate economic activity.

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

Figure 5: Main forms of informality as perceived by businesses



Source: Own calculations based on data from 2018 IC survey

Business perception on the forms of informality faced show some peculiarities if looked through touristic destination and business size. Coastal touristic destinations report tax evasion and informal employment as main forms of informality in tourism sector in their localities. Cultural and historical destinations such as Korca, Gjirokastra and Berat confirm as a main concern competition from unregistered guesthouses or family busineses which pressure the price competitions reducing the average pricing of touristic services in those areas. Businesses operating in Tirana area, have reported as a concern competition from corrupted business practices as those in procurement or inspections. Businesses operating in non-traditional touristic destination which in our sample include Dibra, Elbasan, Fier etc. report as main concern competition from companies that under report turnover and tax level.

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

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

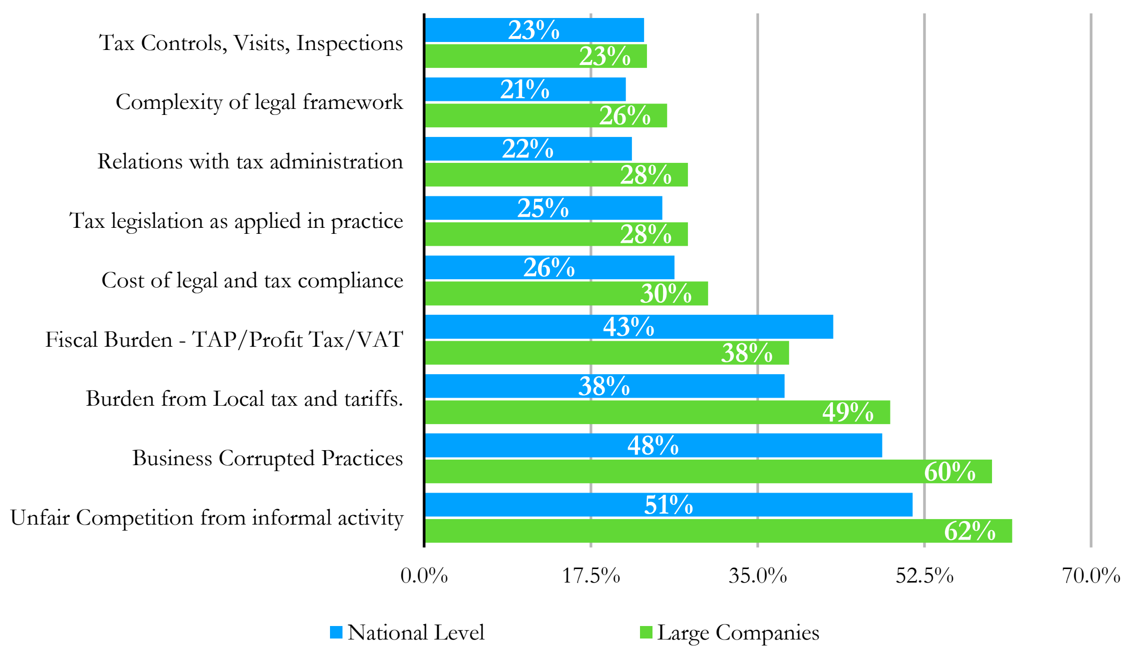
Businesses operating in accommodation and hospitality in cultural/historical destinations call for improving competition and market structure through registration and identification of accommodation structures emerging. Identification and registration, could be regulated by the local authority, with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

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

The main factor in determine the level of risk of engaging in informal economic activities is the unfair competition from businesses that operate in informality, in the same market and locality. Informal businesses are perceived to have a cost advantage compare to formalized businesses and compete the formal and standardized businesses in an unfair way. Consultations and focus groups showed that in coastal touristic destinations the competition between formal and informal operators was not strong on price or cost, but rather on quality. The unfair competition was very acute and problematic for the emerging historical and cultural touristic destinations as Korca and Gjirokastra, where this competition was strongly affecting price level and the ability to improve quality of services (see Figure 5).

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

Figure 5: Frequency of companies reporting factors being very important in determining the risk of undertaking informal economic activity

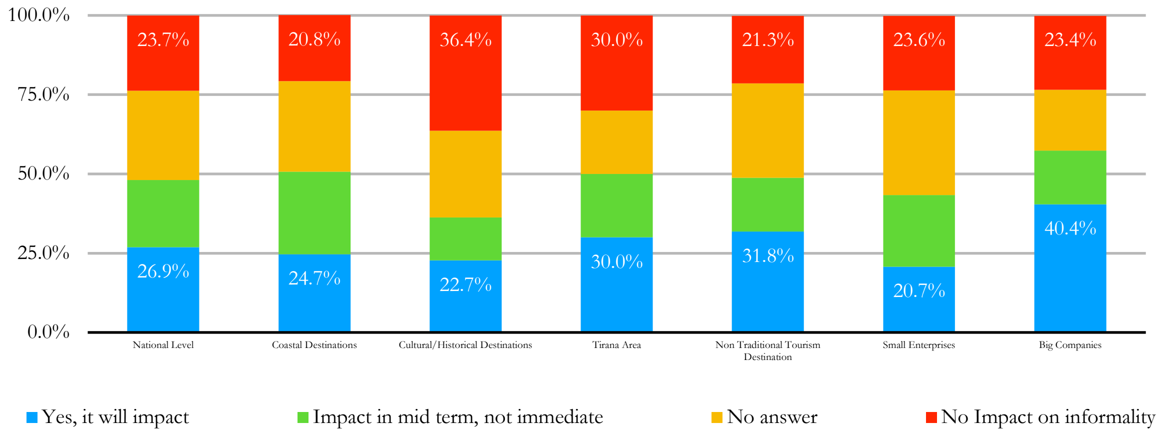


Source: Own calculations based on data from 2018 IC survey

D. FISCAL MEASURE IMPACT ON SECTOR DEVELOPMENT AND FORMALIZATION

Fiscal incentives and anti-informality measures were designed to improve sector competitiveness and reduce informality. The government decision to reduce VAT from 20% to 6% for accommodation and hospitality services had an immediate impact on reducing informality as confirmed by 26% of companies responding. **Large companies and those operating in Tirana region confirm a stronger impact of the VAT policy on formalizing accommodation services**. This impact is reported at lower propensity among small companies and those operating in cultural and historical touristic destinations, where the dominated business model are small and micro enterprises, not impacted by the VAT policy intervention.

Figure 11: Business perception on the impact of VAT tax reduction on formalization of tourism sector



Source: Own calculations based on data from 2018 IC survey

VAT reduction caused the price reduction of accommodation services, however this reduction was lower compare to the impact VAT reduction was reported to have on investment and formal employment. Coastal and seaside businesses as well as large companies have reported a higher propensity in inducing investment from VAT tax reduction, 42.9% of companies in coastal areas and 40.4% of large companies have reported to use VAT reduction funds in investment and quality improvement. Large companies as well as companies operating in Tirana area have benefited from the VAT reduction to increase employment, or probably to formalize employment. The VAT tax cut was used in cultural and historical destinations and non-traditional tourism destinations o afford cost of registering or formalizing their activity. The VAT had a more noticeable effect on prices only in Tirana areas. The sector report a high need to upgrade through investment, promotion promoting and staff.

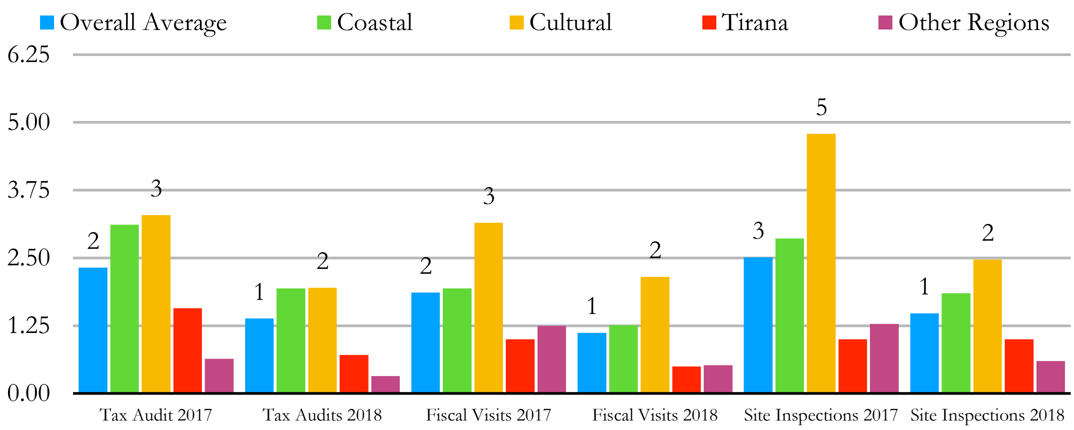
Many **of businesses in consultation processes, longed for policies that regulate the market and enforce fair competition**. The need of the sector to complement fiscal policies with public investment agenda was also urged and demanded by businesses, in Korca region, Gjirokastra, Durrës and other regions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

E. BUSINESS PERCEPTION ON TAX CONTROLS AND TAX ADMINISTRATION BEHAVIOUR

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

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

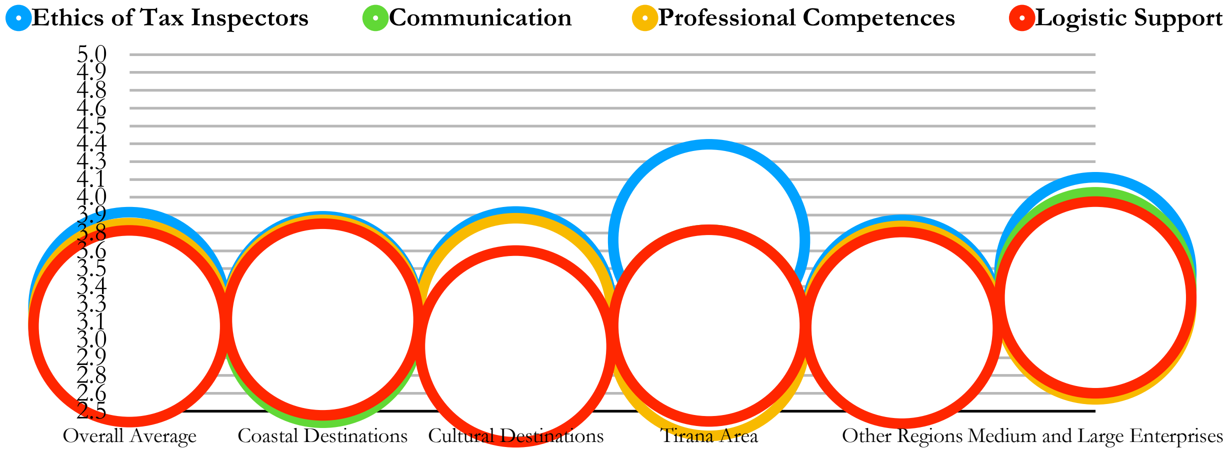
Figure 6: Distribution of average frequency of tax controls 2017 vs. 2018



Source: Own calculations based on data from 2018 IC survey

Businesses were asked to evaluate the behaviour and the output of the tax inspectors, while visiting or inspecting their businesses. They were asked to evaluate ethics, communication skills, professional skills and logistic support through a like scale of 1 perceived as very low to 5 perceived as very good. The Secretariat screened the perception per overall sample and then looked at regional patterns or perception per type of companies. Inspectors are perceived ethical, however when it comes to professional skills, communication skills and logistic support they are graded modestly, with an average grade of around the neutral values. Large companies have a better perception on inspectors' professionalism and behaviour, most probably because they are served by the big tax payer office and not by regional inspectors.

Figure 7: Business perception on professionalism of tax inspectors



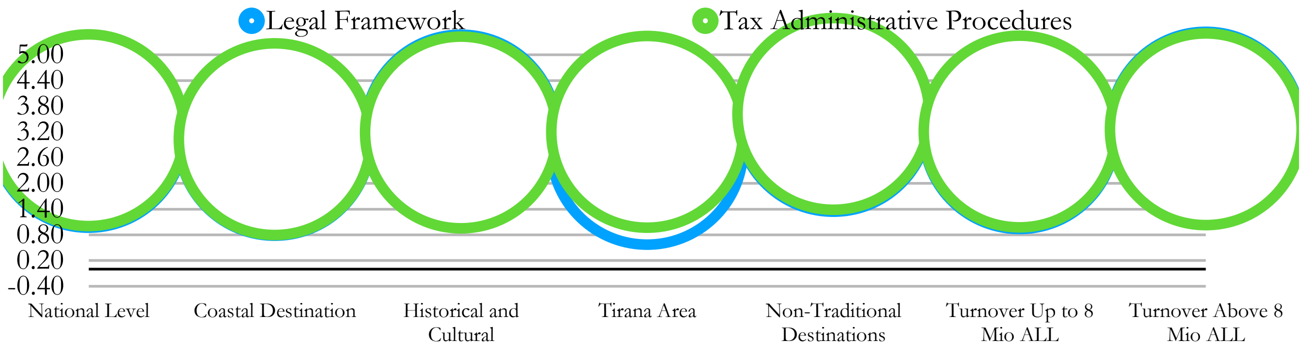
Source: Own calculations based on data from 2018 IC survey

Format of the control report, content and references are perceived as quite clear, however specific recommendations and conclusions of the report are graded as the most unclear part of the inspectors work. Reports recommendations and conclusions are perceived unclear if companies operate in non-traditional tourism mountain areas and small enterprises, followed by companies operating in Tirana region.

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

Businesses were asked to report their perception on the clarity of information provided by tax authorities, mainly on legal framework and administrative procedure. The clarity was measured on a scale of 1 to 5, with 1 - total lack of clarity and 5 - High Level of Clarity of Information. On national level the clarity of information provided was moderate, valued at 3.24 (for legal framework) and 3.20 for administrative procedures (Figure 5). The lowest level of clarity of information was reported among businesses in the coastal areas, and among small companies (with turnover less than 8 Mio ALL).

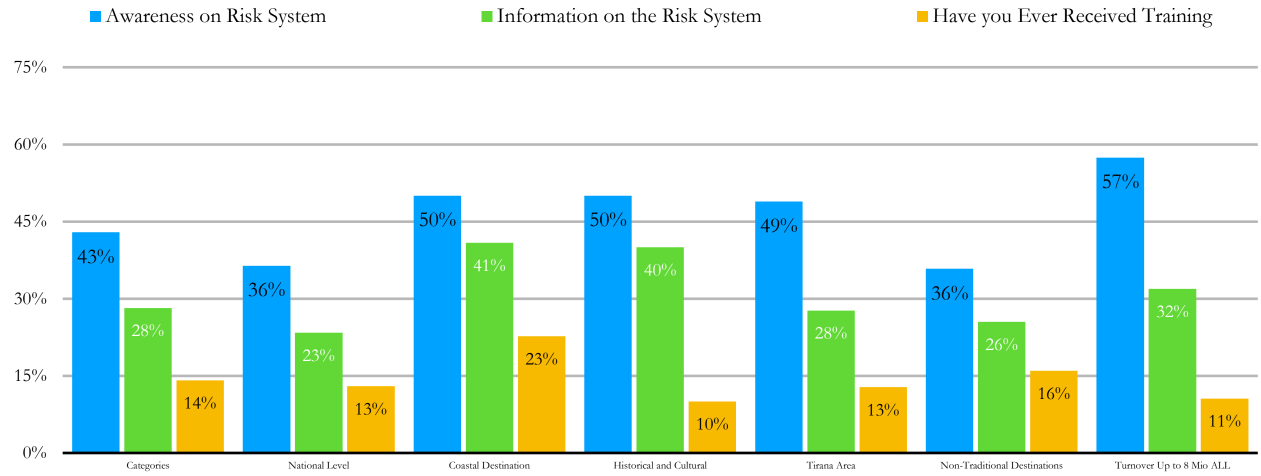
Figure 8: Business perception on the clarity of information provided by tax authorities, mainly on legal framework and administrative procedure



Source: Own calculations based on data from 2018 IC survey

Only 42.7% of companies operating in tourism sector reported to be aware on the use of a risk based system when tax authorities plan control, visits or site inspections. The lowest level of awareness is reported among companies operating in coastal and seaside touristic destinations and among small companies. The moderate awareness on the risk based system of tax authority controls is accompanied by even a lower degree of information, 28.2% of companies declare to have information on the risk based system used by tax authorities, while only a tiny share of less than 15% of companies at national level report to have been receiving trainings by tax authorities. Information level among businesses on the risk based system of tax control selection remains lower among businesses that are small and operate in coastal areas, while frequency of businesses receiving trainings is lower in Tirana region and among big companies.

Figure 9: Business perception on the quality of report delivered by tax inspectors

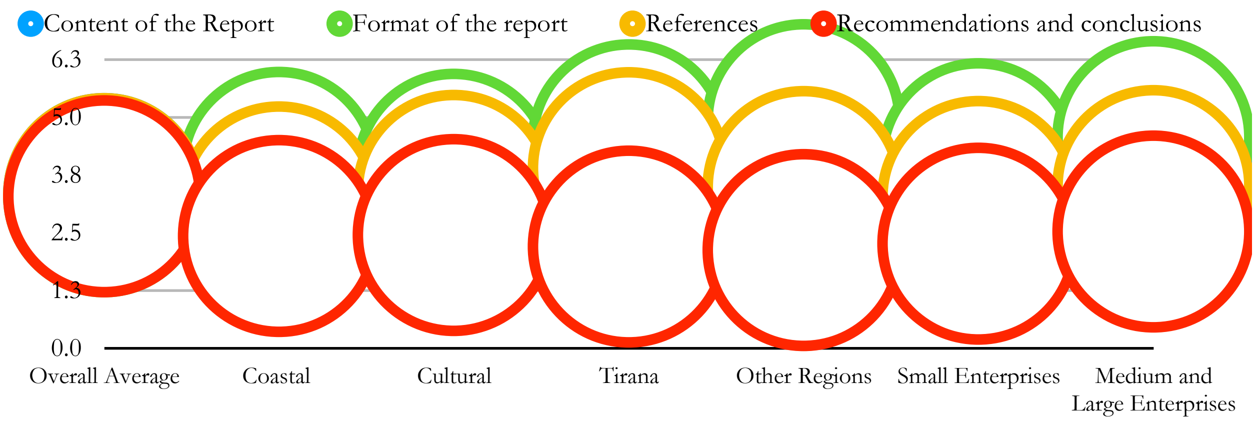


Source: Own calculations based on data from 2018 IC survey

Tax compliance education, information and awareness is reported to be weak among companies operating in tourism sector, with the weakest level reported in the most dynamic touristic destination as coastal and seaside destinations.

Figure 10: Business awareness and information on risk based system of tax inspection

Source: Own calculations based on data from 2018 IC survey



F. INVESTMENT CLIMATE

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

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

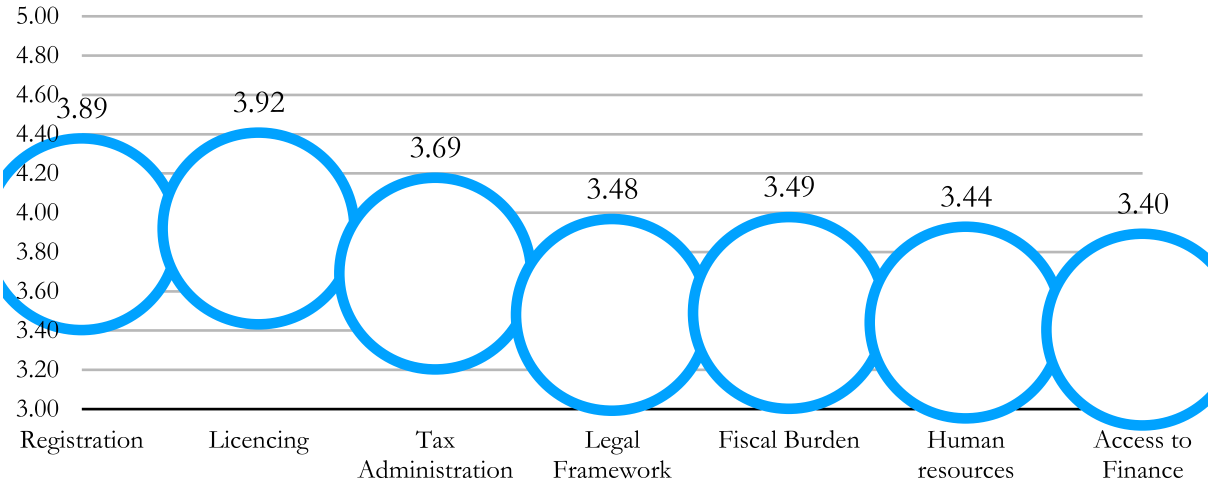
Regulatory reforms have improved noticeably business **perceive a favourable** conditions when it comes to registering, licencing and establishing e relation with the tax authorities while undertaking a new investment (see figure 11).

Complexity of legal framework and fiscal burden are only moderately considered favourable to new investment. **The less favourable aspects for investment climate are availability of human capital and access to financial capital.**

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

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

Figure 11: Business perception on the investment climate in tourism sector



Source: Own calculations based on data from 2018 IC survey

G. POLICY INTERVENTION, INFORMALITY AND COMPETITIVENSS OF THE SECTOR

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

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

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

Variables	**Dependent Variable Investment Climate**
Informality as self-reported	-0.436 (0.228)*
Instrument for informality	
Constant Term	-0.22 (0.158)
Regional Dummy	0.058 (0.036)*
Company Size	0.086 (0.097)

Frequency of Tax audits/controls	0.041 (0.045)
Quality and professionalism of tax inspectors	-0.108 (0.044)**
Clarity of information and reporting of Tax Inspectors	-0.13 (0.045)**
Fiscal Burden (Tax Rate)	0.747 (0.046)***
Information and Awareness on tax policies and intervention	- 0.134 (0.046)***
Complexity of Tax Legislation	-0.091 (0.046)**
Fiscal Legislation as Applied	- 0.075 (0.44)*
Corrupted Practices	-0.022 (0.0046)
Un Fair Competition	0.163 (0.058)***
F-statistic	3.662***
No Observations	156
Adjuster R-Square	0.22

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

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

Distorted markets that result in unfair competition would increase informality, complex legislation and complex interpretation or implementation of the law do as well lead to informality, however their impact is weak.

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

The impact of informality, measured through the components that count for "self-reported informality" on competitiveness of the sector as measured through investors' attractiveness, appears negative and significant. A one percent increase in informality would deteriorate the investment climate by a 0.5 percentage points, leading to a deterioration of competitiveness.

VI. FINDINGS

1. **Although the Strategy of Tourism and its Action Plan (draft) have been subject of consultation, they have not yet been officially endorsed by the GoA.** Additionally, although it acknowledges informality as one of the main threats in the tourism sector, it sets 2022 as a milestone for the registration of the 80% of the shared accommodation (rooms, apartments, houses)[17]. The objective for formalization of accommodation structures is not addressed through any clear measures or actions, it rather stands as a statement.
2. **The peculiarities of the business model per tourist destinations are to be considered as a driver in public policies and strategic approach (anti-informality measures, distribution of public investments, etc.).** Businesses capacity to digest and intake different policy measures is strongly affected by the business model. The diversification of policy intervention in fiscal area based on the business model is a desirable intervention, however administrative capacities of tax authorities need to be improved. The business model in tourism varies depending on the tourist destinations, with the following pattern were confirmed by administrative data and survey results:
    - Coastal areas are dominated by small and medium businesses, with large companies are emerging.
    - Cultural/historical and not-traditional tourist destinations are dominated by micro family-owned businesses, while small and medium enterprises are emerging.
    - Tirana region reports a larger share of corporates and medium companies operating in the sector.
3. **Tourism sector is characterized by a systemic informality.** Businesses perceive that 70% of their competitors have informality, while 33% of businesses reported to have informality in their own businesses. A higher prevalence of informal activity at national level is reported by large companies and in emerging historical/cultural tourist destinations. Informality is manifested in the form of informal employment (56% of business confirm that informality at their competitor consists of undeclared employees), while 54% declare that informality appears mainly in the form of tax evasion. There are often corrupted practices of doing business and informality and unregistered economic activities as part of the informality of the sector. **Price competition and deterioration of the destination quality are perceived as the negative impact of informality. Informality becomes a reason for more informality, since firms report the unfair competition from businesses that operate in informality, in the same market and locality as the main factor that generates informality.** Businesses are aware of the negative effects of informality, but only 11% report to have strategies at firm level to correct this market distortion. **Businesses during consultation process, longed for policies that improve regulatory framework of the sector and enforce fair competition.**
4. **Tourism sector formalization through adjustment of fiscal policies, incentives and enforcement of tax compliance actions is improved, but there is still to be done.** Consolidation and formalization of the sector is becoming challenging mainly because of the sector's nature and dynamics including here the innovative tourism services offered through shared economy, diversification of touristic services and their distribution channels. **Tax authorities could have limited instruments in identifying informality in the sector.** An important part of informality emerges in the form of unregistered businesses, unidentified by tax authorities, underestimate informality. Many countries have used different data, including those from

[17] *Page 31 of the Draft-strategy*

online booking platforms, to improve formalization of the sector. Identification of economic operators by tax administration in tourism sector and their registration remain crucial to reduce informality.

5. **Central National Register defined as the main instrument/database of the consolidated list of the tourism entrepreneurs is not yet published nor is it comprehensively finalized.** During consultation with municipalities (for example Korca), it came out that the Register is supplied with data from municipalities which refer only to the registered entrepreneurs in NBC. The register does not contain all businesses which in fact exercise economic activity in tourism. Also, it came out that a significant number of accommodation structures (most of them guesthouses, apartments and small "hotels"/villas) are not at all registered as economic activities although they offer accommodation services during all the year or during the whole tourism season. **In this perspective there is a lack of coordination between the national and local government for identifying all accommodation capacities for tourists and as a result reduce informal activity in tourism sector.** According to some municipalities, the above identification of economic activities remains an obligation of the tax offices. On the contrary, according to the Law No.9632 date 30.10.2006 on "Local Taxes System" (as amended) local authorities are eligible to administrate the *hotel accommodation tax* which could be of importance for their budget, therefore incite them to identify the tourism activities.

   The above situation seems to be also related with a legislation gap. While Law 93/2015 included *"guesthouses"* in the categories of tourist accommodation, it did not make any specific reference to apartments/villas in the category of "accommodation structures." Lack of legal reference creates difficulties for identification and registration of those accommodation structures.

   - In some destinations, such as Durrës and Vlora, building blocks of apartments were re-designed as accommodation structures for tourists with significant undeclared turnover.
   - While in other destinations such as cultural and historical ones (i.e. Gjirokastra, Korca), private houses or apartments leased to tourists, represent the category of traditional houses that are converted into tourism accommodation structures due to the recent demand for accommodations. Although "informal", such structures help somehow the economies of the towns rather than damage the state budgetary needs. In this perspective they need to generate more income for families through shared economy and self-employment.

   Other countries for example Greece have already included self-catered accommodation-touristic furnished mansions and self-catered accommodation-touristic furnished residences under the category of Secondary Touristic Accommodation as per the provisions of the Law No.4276/2014, the main law for tourism. Recognizing these accommodation structures obliges the individuals conducting such economic activities to register for tax purposes.

6. **Classification of accommodation structures has not yet been performed by the MoTE as per the obligations deriving from the Law 93/2015 and Regulation "On The Conditions, Criteria, Tariffs, Terms and Procedures for Classification of the Accommodation Structures" as approved via CoM Decree No.730 date 20.20.2016.** The electronic portal to facilitate such registration and classification is not yet active. The uncompleted process of classification of accommodation structures has caused a chaotic situation in the market especially among accommodation structures in general and for hotels in particular. Several accommodation structures use distinctive signs (stars) of classification which do not conform to the

real standards of the structure or the level of the service they provide. Moreover lack of classification of accommodation structures creates confusion into practice while Municipalities impose the *"local tax on accommodation"*. According to the law no.9632 date 30.10.2016 "On Local Tax System" (as amended), this tax is determined on the basis of the classification of the structure and category of Municipality. For example for 4 and 5 stars hotels in Tirana and Durres, the local tax limit is 350 ALL/night person while for the rest of accommodation structures is 140 ALL/night person. Since the official classification of the accommodation structures has not yet take place, the implementation into practice of the local tax might be subject of discretionary and preferential decisions by local authorities.

As related to the classification of 4 and 5 stars hotels holder of brand names internationally recognized and potentially subject of fiscal incentives, the picture seems to be more promising, and process closer to finalization. The classification here is directly related with new investments and with *"investor special status",* and a preliminary condition for investor for being eligible for the incentives.

7. **Although Law 93/2015 has addressed the licensing process of the tour-operators and tourism agencies,** there are still concerns that operators in the distribution chain embark in high informality, posing risk to tourists of not being provided with the required services.

8. **No "agro-tourism activities" have so far been certified as per the provisions of the CoM Decree No. 22 date 12.01.2018 "On the approval of the criteria for certification of agro-tourism activities" (CoM 22), and which by 2019 should be subject of the fiscal incentive, reduced 6% VAT.**

   While CoM Decree no. 22 in Part II has set the criteria for such certification, MoTE and MARD through a regulation have set additional criteria beyond what the above decree authorizes. Through this Regulation the entrepreneurs should also submit the property document of the farm/land where the activity is run or the lease contract valid for 5 years. It is important to bring to attention that such types of activities are organized in rural areas where the land property is not yet fully registered for several reasons. Therefore, there is a high probability that while the incentives exist into papers, only few entrepreneurs might be subject of eligibility criteria. For a larger impact of the fiscal incentive, it would have been preferred that certification as "agro-tourism activity" was linked with the activity rather than with the property of the land.

9. **Implementation of reduced VAT 6% for accommodation structures as of June 2017 was subject of contradictory interpretations into practice and it was associated with struggles.** VAT reduction took place after the entry into force of the *Law No.71/2017 "For an Addition to the Law No.92/2014 "On VAT"* as amended. Further clarities on the implementation of the reduced VAT to 6% for accommodation services were made in the CoM Decree no. 953 dated 29.12.2014 (as amended) according to which 6% VAT should be applied only to the "accommodation" or "accommodation + breakfast" supply in the cases of packages.

   Additionally, this Decree states that for the purpose of applying the reduced VAT rate, taxpayers, which in addition to the activity in the field *of accommodation structures as per the legislation on tourism*[18]*, conduct other activities, should registered at the National Business Centre as separate taxpayers by reorganizing their economic activity,* as defined in Law No. 9901, dated 14.4.2008, "On Entrepreneurs and Commercial Companies" within 3 months of the entry

[18] *Law No.93/2015 gives a clear definition of what an accommodation structure is. More specifically: "Accommodation structure" means the facility that makes available to tourists, domestic or foreign, individuals or grouped, for an indefinite period of time, but not more than one year, accommodation services (lodging, food, drinks and other services), in accordance with the standards defined by its classification and categorization.*

into force of this decision. **The above provision was not clearly transmitted to the entrepreneurs and they were not sure if they had to register as separate activities and with separates NUIS, the bar-restaurant, hotel, beach-bar, although these elements were part of the same accommodation structure.** As confirmed to the Secretariat, few entrepreneurs have done so, others have continued to apply 20% VAT to the accommodation service waiting for a final procedure to be communicated, while some others have not had any issue, by applying via the same fiscal equipment, 6% VAT for accommodation service and 20% for the rest. Based on the consultations the Secretariat had with entrepreneurs, some of them pointed the finger toward the Regional Tax Offices for lack of guidance (for example in Korça) or for misleading them during the information sessions (for example in Durres).

This issue was definitely cleared by GTD through a Memo[19] in early September 2018, stating that: **reorganization of the economic activity, thus the segmentation as per the type of activities via separate NUIS should be done only in the cases where a company additionally to accommodation structures performs commercial activity which do not fall under the scope of tourism such as commerce, energy, construction etc.** Therefore, in the cases of resorts and/or hotels which offer as part of their accommodation services, additional tourism services, such as bar, beach-bar, restaurant, leisure activities etc. there is no need for any reorganization.

10. **Some provisions of the by-laws (MoFE Instruction No.24 dated 02.09.2008 "On Tax Procedures" and CoM Decree No.96 dated 17.02.2010) related to the issuance of the fiscal coupon for accommodation and restaurants and managing of fiscal printers, can be improved in order to fit better to the model of accommodation structures (i.e. hotel/resort). This could reduce the confusion created in some cases[20].** During the consultation meetings with several entrepreneurs in tourism sector and with business associations operating in the sector, they argue that provisions of the Instruction that imposes issuance of the coupon for any order in bar, restaurant, and for each night of stay in hotel, it is outdated and leaves room for arbitrary actions especially by the tax administration. Sometimes they have been subject of fines for non-issuance of the coupon even when the client had not made the check-out yet. It is worthy to underline that such cases (i.e. fiscal coupon, fiscal printers etc.), are the main issues that lead to disputes and tax appeals to the TAD, although their minor importance.

11. The Secretariat mapped geographically the impact of the latest VAT tax reduction in reducing informality as a way to measure sensitivity of informal economic activity to fiscal policies. **VAT reduction from 20% to 6% for accommodation and hospitality services had an immediate impact on reducing informality as confirmed by 26% of companies responding.** Big companies and those operating in Tirana region confirm a stronger impact of the VAT policy on formalizing accommodation services. This impact is reported at lower propensity among small companies and those operating in cultural and historical touristic destinations, where the dominated business model are small and micro enterprises, not impacted by the VAT policy intervention. **The analysis showed that VAT reduction did cause contraction of the informality, but it also gave some space to companies to invest or improve employment.** Coastal and seaside businesses as well as big companies have reported a higher propensity in inducing investment because of VAT tax reduction, 42.9% of companies in coastal areas and 40.4% of large companies have reported to use VAT reduction funds in

[19] *Due to several questions raised into practice by the businesses.*

[20] *For example there is a confusing situation related to the selling documents for tourism packages of tourists groups, when accommodation structures are still required to issue a fiscal coupon on their own for the incurred selling activity, despite the payment made in the end of the service by the tourists.*

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

12. **Businesses call for diversified fiscal interventions to support formalization, in compliance with business model and destination. Businesses ask for coherence among fiscal stance and the public investment agenda.** Public investments that capitalize on large international investments such as TAP Pipeline and enable the access of local businesses to alternative energy sources were required by business representatives (Korca) in order to support their tourism sector to gain cost efficiency. Need for public investments in the promotion of destinations, roads, clean environment, green and sustainable alternative energy was posed in all consultation with business representatives.

13. **Analysis confirmed the positive impact that fiscal policy could have on the level of informality, however interestingly, it seems that frequency of tax visits or tax controls impact on informality is modest. What affects significantly informality is the soft side of tax authority intervention - such as professional inspections, clear and very accurate reporting from any inspection and information sharing between tax authorities and businesses.** Inspectors are perceived to have ethics, however when it comes to professional skills, businesses show criticism. Large companies have a better perception on inspectors' professionalism and behaviour, most probably because they are served by the big taxpayer office and not by regional tax inspectors. Businesses are modestly satisfied with recommendations, references and conclusions of the reports delivered by tax inspectors. Small enterprises or companies operating in non-traditional tourism mountain areas report to perceive the findings reported by tax inspectors as unclear, and as a result they face more difficulty in trying to address them.

14. **Tax compliance education, information and awareness is reported to be weak among companies operating in tourism sector, with the weakest level reported in the most dynamic touristic destination as coastal and seaside destinations.** Given the low rate of businesses reporting to have received trainings (at national level 14.1%) the need for intensifying communication of tax authorities with business community, from formal exchange of official notes, sometime authoritative visit to platforms of dialog, information and knowledge transfer would be necessary.

15. **Although there are positive perceptions regarding tourism investment climate (registering, licensing, etc.), still the sector is hampered by low quality of human capital and access to access to finance.** Regulatory reforms have improved noticeably the investment climate, businesses perceive as favourable registering, licensing and establishing a relation with the tax authorities while undertaking a new investment. Complexity of legal framework, transparency on legal framework and investments incentives to new investors is perceived moderate. The lowest level of clarity of information was reported among businesses in the coastal areas, and among small companies (which for the sake of this report are those with turnover less than 8 Mio ALL).

16. **Access to finance for the sector was also considered a barrier to new investments.** The perception contradicts with the availability of credit at second level banking system. It is for some time now that banks have tighten the conditions for crediting in order to reduce the risk, however the system is very liquid and there are available funds. Ownership of land, viable business plans and informality in declaring financial indicators (profit and cash flows) are main reasons of constraint to access financial resources.

17. **During the consultation meetings with different actors in tourism sector it was underlined the low prevalence of transactions with debit/credit cards in tourist areas. This is perceived as an issue more from the tourist point of view, rather than from the owners of accommodation structures/restaurants/bars etc.** Owners confirmed that they were equipped with POS terminals that allow debit/credit card payments and they use them on the customer request, while tourists have experienced lack of such facility, performing therefore cash payments. Several studies have confirmed a direct correlation between the level of informality and low level of transactions via electronic means such as POS' Terminals[21] or mobile phone payments especially in sectors of trade and services. Since cash payments leave no electronic trace, it is relatively easy to avoid reporting them. Cash payments can therefore be the cause of shadow economy of activities operating in tourism, as they provide an incentive not to report the transaction and evade tax payment, "helping" owners to "control" the turnover declared for tax purposes as well as the VAT to be paid. On the other hand, there are no fiscal incentives for customers (tourists) while using card payments, to increase somehow the need for using POS terminals. Additionally to that, tourism services (i.e. accommodation) remain still organized on spontaneous basis and there are not imposed any significant restrictions on the use of cash-payments to change somehow the trend. Referring to the official data from BoA[22], total number of POS terminals in Albania by 2017 was only 7,294 out of which 6,269 in Tirana region. By T1-2018 the total number of POS terminals increased to 8,157, but still the lowest in the region.
18. **Lack of trained staff to support the development of tourism services.** Businesses during consultations pointed out the difficulty in hiring well trained staff, in Gjirokastra a representative from businesses quoted …"We have tourists but we cannot find waiters". Demographic changes and migration have strongly impacted some of the regions, posing constraints on availability of qualified staff. In some regions lack of professional schools or training programs was identified as main concern regarding quality of human resources (e.g. in Gjirokastra). In Korça region, businesses identified a rigid cooperation between the sector and education institutions such as university or VET schools. The difficulty to attract interns from abroad to work during the season was also mentioned as a barrier to fulfil the need for English speaking staff or tour guides.

VII. RECOMMENDATIONS

The recommendations are designed in a way that they tackle informality in different ways, as per its forms of materialization. The Secretariat has been very careful in drafting them in alignment with legal framework and strategic development, contextualizing them into practical and able to be implemented actions. Endorsement of this recommendation remains subject to further discussion in the Investment Council.

Recommendation 1

Finalization and the approval of the Strategy of Tourism. Aligning the objectives between MoTE and MoFE with regard to the actions, concrete measures and responsible Agencies to

[21] *Reducing the Shadow Economy through Electronic Payments-Ernst &Young/ MasterCard (2016)*
[22] *https://www.bankofalbania.org/Pagesat/Statistika_te_sistemeve_te_pagesave/*

tackle informality in the sector. The issue of identification and registration of accommodation and other services in tourism sector needs to be addressed. Establishing clear milestones for formalization, actions and modalities that address the identified problems, could make the goal of the strategy realistic.

Recommendation 2

There is a clear need to strengthen the governance of the tourism sector at local level. Tourism is a strategic sector at national level, however it remains a local shared economy. Considering this, such local government need to be more active in monitoring the sector development, better fulfil their obligations, establish dialog with businesses in order to bring their voice to policy making.

Recommendation 3

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

- Group 1 - formalization/registration + tax controls for cases where the construction industry is to a certain level converted into a "touristic" one by leasing massively apartments to tourists. The impact in budget losses from this informal activity is significant (main cities like Vlora, Durrës, Shëngjini, Saranda etc.)
- Group 2 - simple registration of small accommodation structures (which do not exercise pure economic activity) only for touristic purposes and not for fiscal ones (e.g. historical destinations such as Gjirokastra, Berat, Korca). However, these kind of "microbusinesses" should be subject of local or national authority's inspections regarding compliance with the hygiene and sanitary standards and subject of assistance to gradually shape into sustainable businesses.
- Group 3 - formalization of the activities promoted via online platforms such as Airbnb in main cities like Tirana, Durrës etc. through self-declaration as already declared by GTD.

Anti-informality agenda has to tackle the informality in compliance with the forms it manifests itself per different destinations and per different business model (micro, small and medium businesses).

There are at least 3 (three) typologies of informality, depicted through data and consultations; (i) informality as unregistered operators, (ii) informality as tax evasion and (iii) informality as undeclared employees. Anti-informality measures should be different per each type of informal activity, and as a result the recommendation are summarized accordingly.

A. ANTI-IINFORMALITY MEASURES FOR UNREGISTERED ECONOMIC OPERATORS IN THE SECTOR

Recommendation 4

Identification of all the accommodation structures as defined under the Law no.93/2015 including also apartments/villas and guesthouses which exercise economic activities in the field of tourism, via a coordinated campaign between GDT, MoTE, Regional MoTE Units and Municipalities. Registration of guesthouses which offer accommodation services on occasional basis and for a limited period of days, in cultural/historical destinations on yearly basis as accommodation structures with NUIS/ID, but out of the regime of physical person for national and local tax purposes, might be considered as a solution. For this purpose several legal amendments/or new law might take place in order to offer certainty to such micro-businesses that the registration process is related to "tourism purposes" rather than for "fiscal ones". This model of economic activity, in newly emerging cultural/historical destinations is supporting the improvement of supply side through shared economy. This business model is also social in nature, it provides an employment and income source to regions suffering under development and demographic changes.

Recommendation 5

Classification of accommodation structures as per the provisions of the Law 93/2015 and modalities stipulated by the Regulation "On the Conditions, Criteria, Tariffs, Terms and Procedures for Classification of the Accommodation Structures" as approved via CoM No.730 dated 20.10.2016 is a must to be done in order to further tailor the measures for tackling the informality in the sector, especially fiscal policies.

Recommendation 6

Identification and registration of accommodation structures could be finalized with a simple labelling of formal operators in tourism sector - which states that the operator are recognized as registered operator. This labelling has been used in neighbouring countries such as Greece/Croatia as a transitional measure toward full formalization of the sector. This is a preliminary step until the National Register is consolidated.

Recommendation 7

Various structures and institutions from time to time provide contradictory information on the level of informality. In this aspect, based on the fact that without having an accurate and real assessment database, it is not possible to achieve an optimal result on anti-informality. Therefore, having a unified method for the assessment of informality level on sector basis becomes of particular importance. **We recommend that information from different data sources - INSTAT, Tax Authorities, Local Authorities, online booking platforms etc. be brought together in order to update and make accurate the information base. MoFE or Tax Authorities could lead this process of data consolidation.**

B. ANTI-IINFORMALITY MEASURES FOR INFORMALITY AS TAX EVASION

Recommendation 8

Amendments of the MoFE Instruction No.24 date 02.09.2008 "On Tax Procedures" and CoM decree No.96 dated 17.02.2010. The purpose of these amendments should be facilitating doing business and finding out innovative solutions such as enabling issuance of a "summary coupon" associated with a "detailed list of orders" for services offered in accommodations structures, by making formalization process easier. These changes would improve tax administration while monitoring fiscal equipment, moment when the coupon is issued etc. and would provide a tailored model for businesses operating in tourism, reducing also the tension created between the entrepreneurs and tax administration.

Recommendation 9

Encouraging non-cash payments through POS terminals and electronic payments could impact the high level of shadow economy in the tourism activities, it would increase the tax compliance of business and it would significantly contribute to the increasing of transparency and reputation of Albanian tourism offer especially to foreigners. The means on how to struggle with this challenge would be subject of further discussion with BoA, banks of second level and MoFE, aiming to find an acceptable solution and avoiding additional costs for businesses especially for micro-businesses. The international practice offers several measures that can be followed[23]. Additionally to the above, implementation into practice of the rules on categorization and classification of the accommodation structures as per the provisions of the CoM Decree No.730 dated 20.10.2016 "Approval of the Regulation on the Conditions, Criteria, Tariffs, Terms and Procedure for Classification of Accommodation Structures", which impose use of POS terminals in 4 and 5 star hotels/resorts, would help to the formalization.

Recommendation 10

Informality from accommodation facilities penetrates the market through the chain of tour-operators, which need to be subject of better monitoring and joint inspections between GTD and Inspectorate on Tourism, ensuring compliance with regulatory and fiscal requirements. Business Associations operating in this segment may help to identify the processes which need to be formalised.

Recommendation 11

Anti-informality programmes should be developed for the tax administration but also for the inspectorates which monitor the conformity of the market on permanent basis. This platform should be implemented on regular basis, seasonality has had a negative impact on business activity and tourist's perception. Based on the study findings and the consultations with the business it comes out that it is not the frequency of tax inspections which makes the difference, but rather professionalism of the process, clarity of information and cooperation not commandment on how to formalize. In this aspect, it is important to acknowledge that businesses confirm a degree of readiness and awareness to engage in formalizing their economic activity. This represents a momentum for the anti-informality agenda and a factor to capitalize. The informality patterns show that informality soared because of next-door informality. Best practice, communication and awareness could be used to revert the spill-over effect of informality.

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[23] *1) Obligation to operate POS terminals for selected types of businesses (i.e. tourism services). South Korea is known for promoting electronic transactions by applying a wide range of policy tools. In 2001, card acceptance was mandated for all VAT-paying businesses in the country. Moreover, in 2002 South Korea imposed fines for card refusal; 2) VAT deduction on electronic payments accepted by merchants (example Uruguay where 2 p.p. VAT deduction on electronic payments accepted by merchants has recently been introduced); 3) Incentives for customers while using POS terminals (VAT deduction); 4) Incentives for customers for being equipped with debit cards.*

C. ANTI-INFORMALITY MEASURES FOR UNDECLARED EMPLOYMENT

Recommendation 12

Informality as unregistered employment, overpasses that of not-issuing coupon, as per business reporting. Supporting businesses with off seasonal social contribution would improve the situation with seasonal employment. Paying through active labour market measures of social contribution for seasonal employees out of season period will improve formalization of informal seasonal employment in tourism sector.

Recommendation 13

Introduce training programs for employees during the off season period, at the verge of the touristic season. This will improve hiring of employees, improve the quality of staff as demanded by many companies. This training scheme could be part of the Active Employment Measures delivered by GoA.

Recommendation 14

Internship and seasonal employees legal framework needs to be adjusted to the nature of this employment scheme. The requirement for such employment scheme are treated similar to full-time employees, posing unnecessary cost of hiring staff for seasonal or internships employment schemes. There is a discussion at national level to improve terms of engagement for internships that practice during education cycle. Tourism business associations have to engage in that discussion and contribute.

VIII. ANNEXES

ANNEX A. OTHER SECTORAL STRATEGIES ON TOURISM[24]

1. National Strategy for Development and Integration 2015-2020 (NSDI)

This document presents the main challenges faced by the sector, including implementation of standards, quality of tourism services and facilities, development of tourism products, lack of collaboration and effective coordination among stakeholders that are or might become integral part of tourism sector. Some specific challenges are: (1) need for a greater integration in the planning of tourism and tourism destinations; (2) address weaknesses related to the range and quality of tourism products; (3) development of a favourable legal and institutional environment for the absorption of local and foreign private investors; (4) need for a more all-inclusive and strategic approach in regards to the development of tourism in Albania, to ensure sustainability and to generate revenues and employment opportunities; and (5) need for approval and implementation of "National Inter-Sectoral Tourism Strategy."

Two strategic objectives for tourism are foreseen in this strategy:

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

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

2. National General Plan 2015-2030 (NGP)

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

3. Integrated Inter-Sectoral Plan for Coast Area (IIPS)

From the analyses and studies carries out till to date and based on the national development strategies, but also international ones for the future of Mediterranean region, developed for tourism sector and maritime economy, IIPS Coastline considers that the tendency for tourism development in Albania should be focused on these types of tourism: coastal tourism, cultural tourism, natural tourism/eco-tourism, rural tourism, agro-tourism, mountain tourism, adventure tourism (sports) and tourism of health and well-being.

[24] *Source: Legislation and MoTE webpage*

4. ***Inter-Sectoral Strategy "Albania's Digital Agenda 2015-2020"***

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

5. ***Inter-Sectoral Strategy for Rural and Agricultural Development 2014-2020***

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

6. ***Transport Strategy***

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

7. ***Business and Investment Development Strategy 2014-2020***

   Increase of foreign investments is a key objective for the economic development of the country and a strategic priority of the government. Foreign investments are important in many directions while the performance of investments affects the country's economic and social progress. FDIs bring the necessary capital, increase the productivity of economy and among others knowledge and technology spill over, influence the opening of new markets for trade, enhance the competitiveness of the economy, influence in reducing the deficit of current accounts, increase employment and above all affect the wellbeing of the population. The strategy notes that a PPP based on a concession contract has proven to be as a successful mechanism for attracting foreign investments particularly in the mining and energy sectors, and foresees that this policy will be extended to other sectors as well as efforts will be made to promote best CSR practices, in the extractive industries (oil, mining, cement and electricity), to create a friendly and manageable environment accepted by the local community.

8. ***Strategy for Management of Integrated Borders***

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

ANNEX B. INSTITUTIONS RESPONSIBLE FOR THE DEVELOPMENT OF TOURISM[25]

1. ***Ministry of Tourism***

- implements the basic principles of sustainable tourism development, in accordance with the provisions of this law and the legal and sub legal acts in force, in cooperation with all stakeholders of the tourism industry;
- drafts and submits for approval to the National Territorial Council, *the National Tourism Plan* and is responsible for its implementation;
- drafts and submits for approval to the Council of Ministers, the *Tourism Development Strategy and the Action Plan*;
- establishes and administers the *Central Tourism Register* and *the National Register of Tourist Resources;*
- financially supports projects that help develop the tourism field;
- Supports, protects and develops tourist resources and promotes tourism products in accordance with the principles of sustainable tourism development and in cooperation with interest groups;
- Take measures for the welfare, protection and promotion of employment in the tourism industry, giving priority to employment of young people;
- promotes, supports and cooperates with public and private institutions in the collection, processing and administration of data in the field of tourism;
- drafts and implements policies for *certification and classification systems* in accordance with the provisions of this law;
- proposes to the National Council of Territory the adoption of the priority areas for the development of tourism, according to the provisions of the legislation in force;

[25] *Source: Law 93.2015, MoTE webpage.*

- Develop policies for tourism product and marketing in the field of tourism, based on the *Tourism Development Strategy and the National Marketing Strategy for the Tourism Sector;*
- Supports, encourages and empowers tourist enterprises, which conduct tourism activities as accommodation facilities, with regard to the efficient use of natural resources and the *"Eco-Certificate"* certification.

2. The territorial units of tourism

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

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

3. Private Sector Advisory Committee for Tourism

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

KKSPT has the following functions:

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

4. National Tourism Agency (NTA)

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

NTA has these tasks:

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

5. National Coastal Agency (NCA)

The National Coast Agency is a public legal entity under the responsibility of the minister responsible for tourism, which aims to protect and track the development of the Albanian coastal area. Competencies, manner of organizing and functioning of AKB are approved by a decision of the Council of Ministers, upon the proposal of the minister responsible for tourism.

NCA has these tasks:

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

6. ***National Tourism Inspectorate (NTI)***

National Tourism Inspectorate has these tasks:

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

- imposes fines and other administrative measures against natural or legal persons when noticing the provisions of this law.

7. Commission for Standardization of Tourism Activities

For the certification of tourist activities, the commission for the standardization of tourism activities is set up for the issuance and revocation of the respective certificates, at the ministry responsible for tourism. The manner of organization, functioning and composition of the standardization commission for tourism activities is determined by approved regulations by order of the minister responsible for tourism. The standardization commission for tourism activities is established by order of the minister responsible for tourism and consists of 5 members.

8. Municipalities

Municipalities have the following tasks:

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

ANNEX C. A NOTE ON THE THEORETICAL FRAMEWORK AND OBJECTIVE OF THE ASSESSMENT

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

The informal economy (or shadow economy or grey economy) comprises various economic activities, from doubtfully legal to completely illegal economic activity. For the purpose of this study the informal economy in tourism sector will refer strictly to economic activities that involve **monetary transactions but represent legal economic activities, incur tax evasion or tax avoidance**. Studies seeking evidence on what drives shadow economy argue that factors affecting emerging of informal activity can be grouped in four main categories, (i) tax and social security contribution burdens, 2) increased intensity of regulations (e.g. labour market regulations, trade barriers etc.), 3) deterioration of the quality of public goods and services, and 4) the state of the formal economy (Schneider et al, 2011) The majority of empirical studies in this field of research have found strong evidence that the **increase of the tax and social security burden remains the most influential factor causing informal economy.**

Shadow economy in tourism is still pretty under-researched area, in spite of the importance tourism is receiving in national and global economy. So far, little attention has been paid to deeper understanding, decomposition and measurement of tourism-related shadow economy across countries. Pavičević (2014) reported the negative impact of the shadow economy on tourism in Montenegro by pointed out that the development of the Montenegrin tourism has been halted due to emerging uncontrolled activities such as increase in number of unregistered private accommodation facilities in coastal region. Similar observations on tourism-related shadow economy in Montenegro were provided by Milić (2014) who stated that the largest problems of shadow economy in tourism-related economic activities are unreported seasonal accommodation capacities leading to undeclared income and employment. Croatian tourism did also suffered from informal lodging service offered in private houses, apartments and rooms, remain by far, the most frequent activity of shadow economy in tourism. In 2016, almost 58% of all commercial-based tourist accommodation facilities in Croatia were in privately owned housing units.

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

Shadow economy in tourism remains a challenge that affects not only the service providers but also tourists and the host communities largely. As such informal economy in tourism would pose impact on the overall competitiveness of the sector and its potential to grow and prospect.

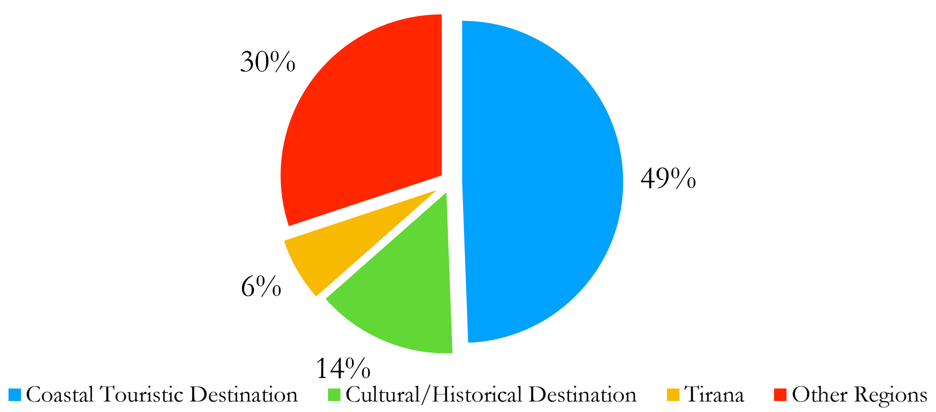
The competitiveness of tourism sector, Crouch and Richie (1999) identifies a set of business related and policy related variables that contribute to competitiveness, which are influenced by the dichotomy of formal-informal economy in tourism sector. The formal-informal dichotomy in tourism economy appears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

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

ANNEX 4: GENERAL CHARACTERISTICS OF THE SURVEYED BUSINESSES

The distribution of the respondents per regions shows that the majority of responses, around half of them (49%) were representing businesses operating in coastal regions and seaside touristic destination of Durres, Vlora, Lezha and Shkoder. Touristic destinations of cultural and historical nature as Berati, Gjirokastra and Korca represent 14% , 6% of companies operate in Tirana and the remaining 30% of businesses operate in not-traditional touristic destinations of Diber, Kukes, Elbasan and Fier. This distribution of the sample in four main areas was designed to capture specifics of the tourism sector per destination characteristics, since destination typology affects informality and business model. Majority of companies interviewed were registered after 2000, 85.1% of interviewed companies have declared to be registered after 2001, only 14.9% of survey businesses have been registered before year 2000.

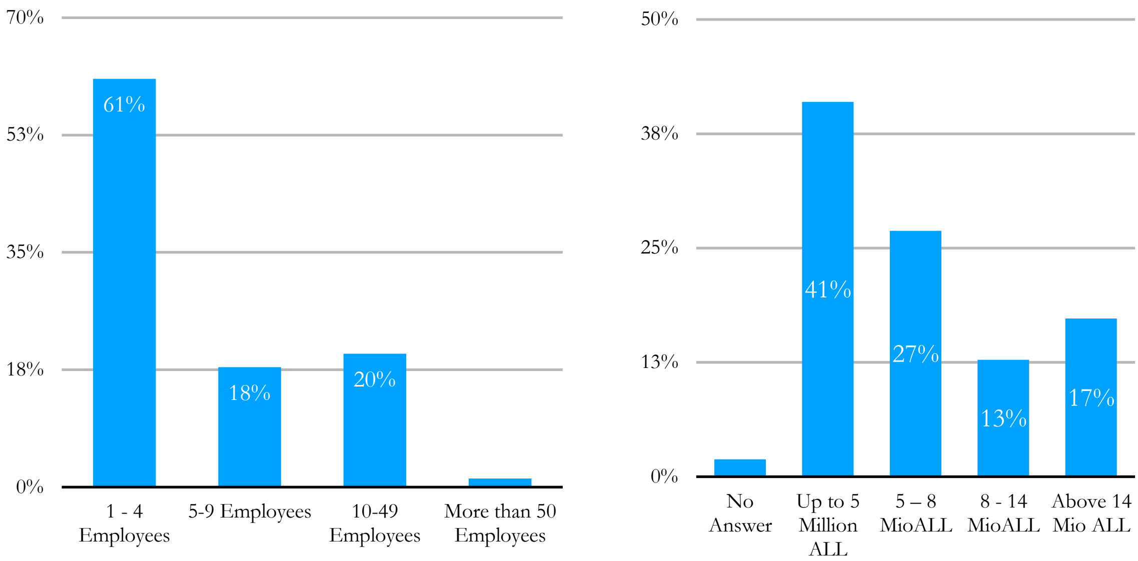
Figure 1. Regional distribution of the survey sample



Source: IC Survey

44% of companies surveyed represent accommodation/hotel facilities, 17% are food and drink services while 35% represent tour operators and travel agents. Tourism sector is dominated by micro enterprises, 60.9% of respondents have 1-4 employees while 41% report annual turnover up to 5 Mio ALL. The share of small and medium companies' represent 37.8% of the sample (if classified by number of employees) or 39.7% of the sample if turnover is used as a classifying measure (Figure 2). Large enterprises are only a minor share of the sector, only 17% of companies could be classified as large companies based on their turnover. The sector does reports a low rate of foreign capital penetration, only 6.4% of respondents' have reported to engage foreign capital either fully or partially in partnership with locals.

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



Structure of the sector. The sector structure is dominated by microenterprises, small and medium structures represent a noticeable share of the sector, while large enterprises are only minor, similarly to foreign investment which have a very low prevalence in the sector. The business model established depends on the touristic destination, coastal areas are dominated by small and medium businesses, cultural/historical emerging destinations as well as non-traditional touristic regions are dominated by micro family businesses, while Tirana reports a larger share of corporates and medium companies operating in the sector.

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