



Improving Transparency and Investment Climate

PRIVATE SECTOR CHALLENGES: INFORMALITY, PRODUCTIVITY, AND INNOVATION

Tirana, March 2024

ABBREVIATIONS

This working document was prepared in the frame of the Meeting XXXIII of the Investment Council (26 March 2024) by the experts of the Secretariat of the Investment Council, Ms Elida Fara, Economic Expert, Mr Elvis Zerva, Legal and Regulatory Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, as well as with the contribution of external experts, Mr Artur Papajani and Ms Mimoza Agolli, under the direction of the Head of the Secretariat, Dr Diana Leka (Angoni). Supported in the language editing of the material, Ms Elisa Lula, Administrative and Communication Officer at the Secretariat.

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IC	Albania Investment Council
ALL	Albanian Lek
BIDS	Business Investment Development Strategy
CoM	Council of Ministers
EBRD	European Bank for Reconstruction and Development
ERP	Economic and Reform Programme
EU	European Union
GDC	General Directorate of Customs
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GoA	Government of Albania
IC	Investment Council
ICT	Information and Communications Technology
NAIS	National Agency for Information Society
NBC	National Business Centre
SR	Structural Reform
SSA	State Supreme Audit
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value-Added Tax
WB	Western Balkan

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INTRODUCTION

In the past few years, the Albanian Government has devoted considerable attention to enhancing infrastructure to support Micro, Small, and Medium Enterprises (MSMEs) as well as startup ventures. Through the adoption of legal mechanisms and the establishment of several state agencies¹, such as Start-up Albania, the ecosystem is empowered to foster the expansion of the startup and innovation landscape, with the final goal of promoting entrepreneurial progress.

As *relates to competitiveness*², Albania has demonstrated a certain degree of readiness to navigate competitive pressures and market dynamics within the EU, and it has shown progress in enhancing competitiveness. Advances have been made in implementing structural reforms in the energy sector, improving transportation infrastructure, fostering digitalization in the economy, and achieving better educational outcomes. However, substantial disparities

persist between Albania's competitiveness and that of its regional and EU counterparts. Challenges such as limited entrepreneurial and technological expertise, unmet investment requirements in both human and physical capital, persistently low levels of spending on research and development (R&D), and a growing scarcity of skilled labour impede Albania's competitiveness. While there has been an increase in trade openness, particularly through a notable rise in service exports such as tourism, overall export levels remain relatively low, particularly in goods, indicating untapped potential in this area.

The Albanian economy's competitive edge has largely relied on low-cost labour, which has fueled the growth of labour-intensive sectors. However, this approach is no longer sustainable, especially with the exacerbation of the skills shortage due to emigration. Across all sectors, there is a significant challenge in finding employees, leading to wage hikes that may not be matched by improvements in firm productivity. Increases in wages without corresponding gains in productivity could threaten a company's competitiveness. Without a simul-

¹ Law 25/2022 "On the Support and Development of Startups" (as amended)

² Albania 2023 Report by the European Commission released on November 8, 2023,

taneous focus on enhancing productivity, businesses may face the risk of bankruptcy. While tourism stands out as a positive development in recent years, it's essential to assess whether it has brought added value to the economy in 2023. Additionally, entrepreneurs face productivity challenges as Albania opens to regional and global markets. These challenges may include adapting to higher standards, meeting diverse market demands, improving efficiency in production processes, and enhancing product quality and innovation. Furthermore, entrepreneurs need to invest in training and technology to remain competitive in the global arena.

Since 2013, the GoA has embarked on various fiscal reforms aimed at revenue enhancement, resulting in an increase from 22.2% to 28% of GDP (Gross Domestic Product) in 2023, as per published official data. These reforms included raising progressive taxes on labour and corporate taxes (ranging from 10% to 15%), as well as other personal incomes and excises. As of 2017, specific fiscal interventions targeted priority sectors through preferential tax treatments, such as preferential taxes for small, medium-sized enterprises (SMEs) with a turnover of up to 5 million leks, and VAT exemptions for inputs in agriculture and tourism development. Additionally, since 2021, legislative actions have been taken to support businesses in recovering from the impacts of the COVID-19 pandemic and earthquakes, including reductions in profit taxes and adjustments to VAT registration thresholds.

While fiscal interventions play a role in influencing competitiveness, a sustainable fiscal policy alone is insufficient to drive productivity and

competitiveness. The policy discourse should also focus on efficient revenue administration as essential but not solely determining factors for a country's competitiveness. Continual efforts are needed to enhance productivity, innovate, and minimize environmental and public impacts, reflecting the evolving challenges facing the economy. In addressing entrepreneurs' challenges regarding labour availability and productivity, it's imperative to consider benchmarking labour tax levels against regional economies, particularly for high-intensity labour sectors struggling to improve labour productivity.

Starting this year, the Economic and Reform Programme will also play a pivotal role as the foundational document for the New Growth Plan. This plan includes a regional fund of € 6 billion earmarked for the Western Balkans, with an indicative allocation of nearly € 1 billion for Albania. However, the disbursement of these funds is contingent upon the completion of structural reforms outlined in the ERP.

The primary objective of this paper is *to stimulate debate within the Investment Council regarding entrepreneurs' productivity challenges, with a particular focus on their interactions with fiscal policy and administration.* This discussion is based on relevant evidence and aims to prioritize interventions that can address these challenges effectively. *The issue has been identified as highly prioritized by IC members since early 2023 and has been the subject of ongoing monitoring, with progress reports available on the IC's website (www.investment.com.al/monitoring).* This transparency facilitates analysis and fosters a deeper understanding of private sector concerns.

METHODOLOGY

The analysis relies on an extensive methodology comprising of:

CROSS-SECTIONAL RESEARCH

- Consultation* of documents, laws and by-laws, institutional practices, and the institutional framework responsible for fiscal administration and economic development in the country.
- Synthesis of findings and recommendations* presented in national and international reports by various actors on the analysed topic.
- Compiling feedback* from the business community, including trade societies, chambers of commerce, industry associations, and documented reports or indices, both national and international. *Additionally, the Secretariat considered discussions, complaints, and issues raised by the business community during Secretariat and IC meetings, as well as data from the internal database on Investment Climate and Business Issues (2015-2023), in the preparation of the analysis.*

DIRECT RESEARCH

Qualitative Research

- Semi-structured interview* model for 5 direct meetings with central institutions responsible for the fiscal framework and economic development.
- Semi-structured interview* model for 12 direct meetings with the business community engaged in different sectors of the economy.

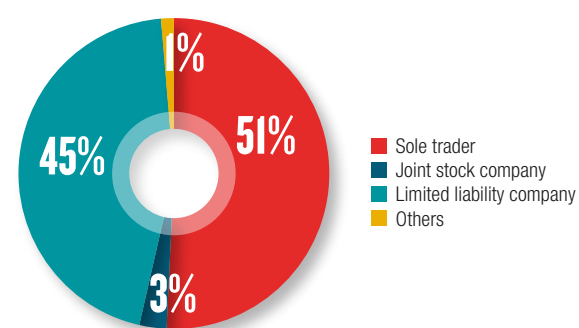
Quantitative Research

- A structured business survey* was conducted online by the Secretariat of IC from January to February 2024. The survey aimed to identify the primary challenges encountered by the private sector within the domains of Fiscal Good Administration, Informality, Productivity, and Innovation. It received responses from 601 participants anonymously. The respondents represent enterprises across various sectors of the economy, spanning all regions of the country (Figure 1).

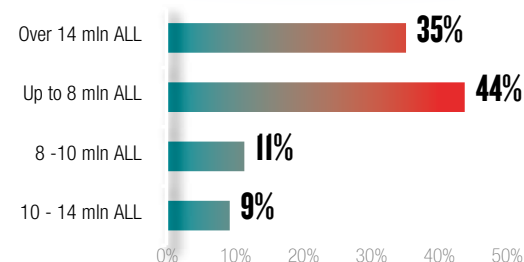
Figure 1. Sample Profile

601 BUSINESSES

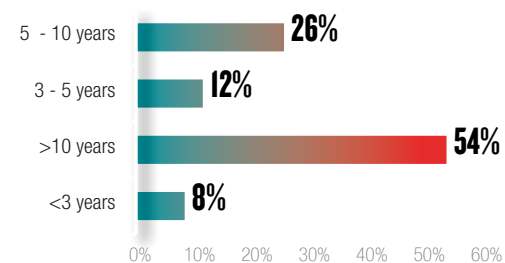
Organisational structure of your business (% of total):



Size of your business by last year's turnover (% of total)

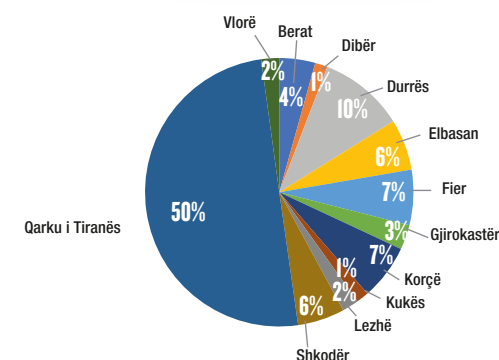


Age of your company (% of total)

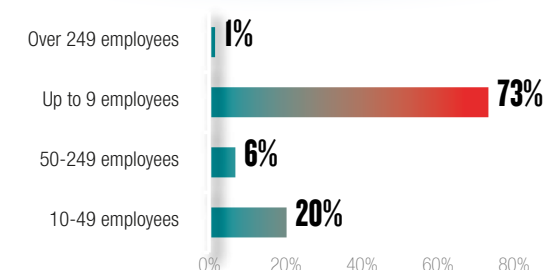


Source: AIC Secretariat survey, 2024

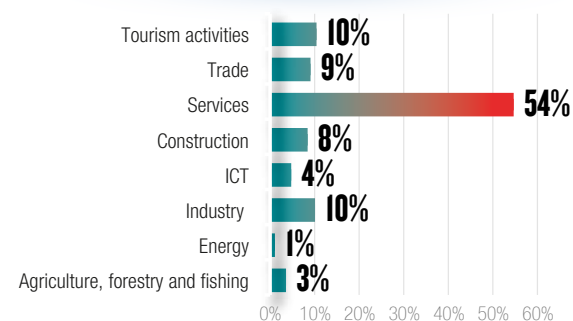
County where you carry out your activity (% of total):



What is the average number of employees in your business (% of total)?



Sector (% of total)



CONTEXT

Under this section are included only the main documents that provide for direct measures and concrete actions regarding fiscal policy and administration, innovation, and competitiveness. In addition, there are several strategies with cross-cuttings with the above pillars, such as BIDS (2021-2027) and documents in the framework of the regional cooperation covering (trade integration, regional investment, free movement, digital agenda, etc.) which support current national reforms and efforts about the innovation and productivity, but not subject to this analysis

3.1 FISCAL POLICY VISION

The main dedicated document that envisages the directions of the fiscal policy and fiscal administration is the *Mid-Term Strategy for Revenue Collection 2022³* ("the draft-strategy"). The document remains a draft. It has not been approved by the CoM decision. The draft strategy acknowledges *inter alia* that in recent years, there have been numerous and frequent changes to tax legislation, including tax rates and tax exemptions. The frequent changes have not stimulated the sustainability of the tax system and have also influenced the reduction of performance in revenue collection, but at the same time have led

to an increase in the costs of administration by the fiscal administration, as well as the costs of taxpayers' reconciliation. Although incomes have been on an upward trend over the last few years, it is noted that income growth results in a declining rate.

Through the measures and anticipated changes in tax policies and administration, the draft Strategy aims to increase budget revenues by about 2.55% of GDP for a five-year period, 2022-2026, of which 1.31% will generated by changes in tax policies and 1.24% of GDP by improving elements of tax and customs administration. It also underscores the high level of informality (non-registration, underreporting and evasion). It is for this reason that tax revenues as a percentage of GDP in Albania

³ <https://www.financa.gov.al/wp-content/uploads/2022/02/Strategjia-Afatmesme-e-f%C3%AB-Ardhurave-2022-2026.pdf>

are among the lowest compared to the countries of the Region. In its entirety, the draft strategy foresees the gradual removal of exemptions and incentives provided so far for sectors and categories of taxpayers while underscoring its 6 priorities, among which *reducing the compliance gap in VAT*. A short analysis of the VAT impact on the economy as a substantial part of the fiscal policy is provided under Annex III.

3.2 ERP 2024 - 2026⁴

The recent ERP 2024-2026 has introduced three thematic clusters focused on *human capital and social policies⁵, sustainability and resilience⁶, and competitiveness*. It also *increased the importance of dialogue* with international partners particularly IFI, with more focus on complementing implementation of reforms. The structural reforms under competitiveness are *SR #5 Research and innovation, economic integration, and improvement of services* and *SR #6 Improving business climate for SMEs and start-ups*.

SR #5 Research and innovation, economic integration, and improvement of services (In essence, the measure will strive to undertake several actions in the upcoming period to deepen economic integration in the region, such as the implementation of the action plan on CRM, non-tariff barriers, one-stop-shop (National Single Window, NCTS); and new rules of origin based on the re-

⁴ ERP 2024-2026

⁵ SR #1 Education and Skills, SR #2 Access to social protection and healthcare, and increased employability for vulnerable groups

⁶ SR #3 Renewable energy and green transition, SR #4 Digital transformation, and infrastructure

vised PEM convention). While Reform measure **5.2 - Improving institutional, financial & human capacities for research & innovation**. The reform initiative aligns with the Government's medium-term goals as outlined in the *National Strategy for Development and European Integration 2022-2030*. The strategy is in harmony with and contributes to the fulfilment of the 2030 Agenda for Sustainable Development, adopted by the Albanian Government in 2015. Furthermore, it aligns with the vision articulated in the *National Strategy for Research, Science, and Innovation 2023-2030*, which envisions that by 2030, Albania will facilitate high-quality scientific research contributing to sustainable socio-economic development in accordance with international and European standards **5.3 - Enhancing efforts to combat informality stands as a strategic goal for the Tax Administration**, which has consistently refined its operations to effectively pursue this objective. The essence of this initiative is summarised as follows: (I) Reduction of the compliance gap related to VAT; (II) Reduction of undeclared work, under-declaration of wages; (III) Unjustified wealth investigation; (IV) Reducing tax fraud; (V) Reducing compliance costs and increasing tax security and trust in the tax administration; (VI) Improving the quality of the service provided by the Tax Administration through the development of institutional capacities of the GDT

SR #6.1 Improving business climate

for SMEs and start-ups - Developing a legal framework to support innovative start-ups, fortify economic growth and enhance the well-being of the populace. Within this context, the mission of the strategy articulates a distinct aim: to establish a novel economic model founded on the principles of innovative entrepreneurship. Reform measure **6.2: Developing e-commerce, promotion of exports and internationalisation, increasing access to finance** - The current enforcement of the Business Investment Development Strategy spanning 2021-2027, coupled with the Action Plan for its execution from 2021-2023, serves as the foundation for devising additional measures to support businesses and investments.

3.3 KEY HIGHLIGHTS - ASSESSMENTS FROM INTERNATIONAL REPORTS

3.3.1. EU Progress Report for Albania 2023

The report underscores that the key persistent challenges that harm the business climate are *corruption; the informal economy and unfair competition; the lack of transparency in public procurement procedures (especially for public-private partnerships); the lack of predictability of legislation; bureaucracy, and an inefficient public-private consultation mechanism*. Improvements in the tax administration, and substantial reforms such as the introduction of automated electronic VAT invoicing ("fiscalisation"), excise harmonisation and indexation and digitalisation were successfully im-

plemented in the last three years but have not yielded an increase in the revenue ratio. *The tax revenue structure has remained unchanged over the last decade, characterised by a heavy reliance on revenue from consumption and low revenue from capital taxation and social contributions*. Albania continued to provide incentives for the agro-processing industry which faces challenges including labour shortages and low levels of mechanisation, digitalisation, and innovation. Finally, the report provides for *an independent oversight body with a mandate to assess the fiscal risks and monitor compliance with the existing fiscal rules the remain to be established*.

3.3.2. TADAT⁷

The tool assesses 9 key performance outcome areas (POAs) covering the most critical tax administration functions, processes, and institutions. In the case of Albania, it summarises that: "significant reforms in recent years include the move to fiscalization, consolidation of debt management in three offices, improved processing of VAT refunds and clearance of backlogs, strengthening the taxpayer register, an expansion of e-services, and the development of risk-based sectoral and informality projects. *However, many challenges remain, including the growing stock of tax arrears, the need to increase professionalism in the audit function and the Large Taxpayer Office, the need for greater external engagement with intermediaries and key business representatives, the absence of significant feedback mechanisms from stakeholders, and the need to address deficiencies in the administrative review legal framework for tax dispute resolution.*"

⁷ <https://www.tadat.org/performanceAssessmentReports>

3.3.3. IMF⁸

IMF states the importance of revenue-based fiscal consolidation in 2024 as critical to build fiscal space for future countercyclical policy. Moreover, it underscores that “...*additional front-loaded cumulative net fiscal measures of around 1½ per cent of GDP would bring public debt on a clear downward path per cent, and lower gross financing needs. Consolidation should be achieved through a sound revenue mobilisation strategy, coupled with efficiency gains and reallocation of resources to infrastructure, education, and climate adaptation. The authorities should also continue to lengthen debt maturities and reduce the reliance on floating-rate debt. Concrete advances on fiscal reforms that enhance governance and oversight of SOEs, including in the energy sector and PPPs, are key to safeguarding fiscal sustainability.*”

3.3.4. OECD- SME Policy Index: Western Balkans and Turkey 2022⁹ ¹⁰

According to the OECD SME Policy Index - Albania copes with certain deficiencies in competitiveness, and SMEs tend to underestimate the significance of maintaining a healthy financial standing and avoiding precarious decisions. Informality stands out as a primary impediment

to the sustainable advancement of formal businesses and, consequently, the overall economy.

3.3.5. EBRD- Can the Western Balkans converge towards EU living standards¹¹?

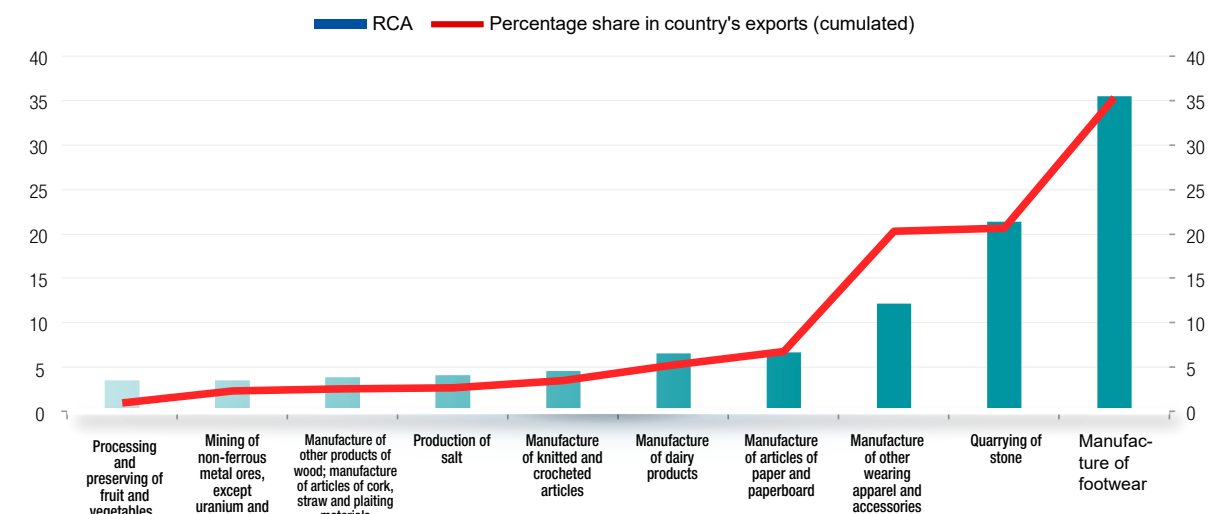
According to a recent EBRD regional working paper, “the fundamental problem for Balkan countries is low *productivity in the economy*, a result of many years of under-investment, weak institutions, unfavourable demographics and a difficult business environment”. It suggests a three-pronged approach to reforms: better governance, enhanced openness and going green. The advantages of doing so – and the costs arising from delay in terms of climate damage – are well known by now. What is perhaps less well appreciated is the potential the region has, particularly in wind, solar and hydro projects. A decisive move towards renewables and carbon neutrality, along with the appropriate regulation, would strengthen the region’s resilience to future energy shocks. For exporters, it would also mitigate or eventually eliminate the negative consequences of carbon border taxes soon to be introduced in the EU.

⁸ <https://www.imf.org/en/Publications/CR/Issues/2024/01/12/Albania-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-543731>

⁹ https://www.oecd-ilibrary.org/development/sme-policy-index-western-balkans-and-turkey-2022_d22fdb37-en

¹⁰ b47d15f0-en.pdf (oecd-ilibrary.org)

¹¹ <https://www.ebrd.com/news/publications/special-reports/can-the-western-balkans-converge-towards-eu-living-standards.html>



Albania - Revealed comparative advantages in exports and cumulative share of those products in exports in 2021 (per cent)

3.3.6. 3.3.6 An overview of the challenges identified by the business community during 2015-2023 in relation to fiscal policy and fiscal administration, informality, administrative burden productivity & competitiveness.

While aiming for systemic evidence of the problems in the business climate in the country, the Secretariat maintains an internal database *On Investment Climate and Business Issues*. The database lists concrete cases and problems, including those related to the core elements of the business climate, such as (a) administration and fiscal policies; (b) informality and its forms; (c) challenges for increasing productivity and competitiveness; (d) inspections and administrative burden of business. These cases have been evidenced by direct meetings, focus groups and national and international business climate assessment indexes during 2015-2023. For the pur-

poses of this Technical Note, the most relevant ones are summarised below. Some of them have already been addressed during these years via legal amendments and improvement of administrative practices. The summary below helps to analyse the historical context of the reforms, their starting point and the progress made over the years.

- » *Retaliatory tax audits (fiscal administration, 2023).*
- » *There is a lack of incentives (removal of VAT) for alternative sources of renewable energy, as in Italy (fiscal policies, 2023).*
- » *The fiscal framework, in some cases, is a problem - it favours informality in some cases – For example: liquid gas excise duty 6 Lek/Liter (fiscal justice, 2023).*
- » *Bank lending is expensive (productivity, 2023).*
- » *Support schemes with technological lines have been suspended (productivity, 2023).*

- » *More attention should be paid to solving technical problems of fiscalization, disproportionate costs and penalties (**fiscalization, 2022**).*
- » *Consolidation and final implementation of fiscalization procedures (**informality, 2022**).*
- » *Ignoring the concerns of interest groups during the consultation of the Draft "On Income Tax" (**fiscal policies, public consultation 2022**).*
- » *Agricultural Cooperation Associations - The regulatory framework does not support their functioning (**regulatory and fiscal framework, 2021**).*
- » *Local taxes and fees for subjects in the field of agribusiness are not appropriate (**fiscal policy, 2020**).*
- » *The lack of subsidies for livestock makes the sector less competitive compared to countries in the region (**fiscal policy, 2020**).*
- » *Uncoordinated inspections by inspectorates (**inspectors and administrative burden, 2019**).*
- » *The deadline set for the entry into force of this law, January 1, 2020, is considered unfeasible and premature (**fiscalization, 2019**).*
- » *Such legal initiatives as fiscalization must be accompanied by a package of by-laws because it often happens that the law says one thing and the instruction says another (**fiscalization, 2019**).*
- » *Targeting a fair cost-benefit balance is necessary for implementing the system (**fiscalization, 2019**).*
- » *Tariff and non-tariff barriers, plus the high cost of energy prices (**competitiveness, 2018**).*
- » *The quality of the administration staff is problematic. Irresponsible people with personal agendas and incompetents in key positions. (**administration, 2018**).*
- » *Creditable VAT is not refunded. The laws are there, but the will is lacking. (**VAT refund, 2018**).*
- » *Meat processing industry: The customs tax on raw materials should be removed. (e.g. pork) that are not produced locally anyway (**competitiveness, 2018**).*
- » *The impossibility of exporting animal products to the EU (**competitiveness, 2018**).*
- » *Customs tax for raw materials that are not produced in the country, such as soybeans/sunflowers, etc. (**competitiveness, 2018**).*
- » *Instruction No. 24 of the Ministry of Finance does not properly adapt to the practical requirements of tourism service units (**coupons, summary invoices, fiscal equipment, 2018**).*
- » *High informality among tour operators themselves (**informality in tourism, 2018**).*
- » *VAT invoice blocks - must be electronic (**digitalization, 2017**).*
- » *Failure to apply for a VAT refund for fear of tax audits (**fiscal administration, 2016**).*
- » *High interest and high administrative costs from second-level banks and immovable property registration local offices (**banking system, 2016**).*
- » *Unfair competition from entities that sell without invoices to wholesalers (**informality, 2016**).*
- » *Frequent and unjustified controls by the administration in general and the tax administration in particular (**fiscal administration, 2016**).*
- » *Unjustified fines from the system for the sole self-employed for non-declaration of*

- employees (**fiscal administration, 2016**).*
- » *Weak capacities of the tax administration - there is a need for training and a change of mentality (**fiscal administration, 2016**).*
- » *Informality in employment from unfair competition - competitors do not pay social security (**informality, 2016**).*
- » *The legislation is confusing, and some overlaps justify a complete revision of it according to a European model (**legislation, 2016**).*
- » *Unsubstantiated Tax Controls and poor communication of the tax administration (**fiscal administration, 2016**).*
- » *There are no simple explanatory manuals for certain segments of taxpayers (e.g. small businesses) to facilitate your compliance with the legislation (**fiscal administration, 2015**).*
- » *Weak and not at all clarifying answers from the tax administration regarding questions and issues raised by businesses (**fiscal administration, 2015**).*
- » *The assessment of the work of the tax administration is done based on tax re-evaluations, which include fines imposed on businesses (**fiscal administration, 2015**).*

MAIN LAWS CONCERNING FISCAL POLICY AND ADMINISTRATION

The following constitutes the main laws which provide fiscal rules and regulations as well as taxes to be paid by taxpayers.

1) Law 9920/2018 “On tax procedures” (as amended).

The law on tax procedures and the bylaws issued on its basis, especially MoF instruction 24/2008 regulate the procedures for the administration of the tax liabilities, the principles of organisation and the functioning of the tax administration in the Republic of Albania and so on. This law determines the core principles on which is based the Albanian tax system and its administration. The law sanctions taxpayers’ rights, which are, in fact, a complete balance towards their contributory liabilities into the revenues of the state budget. Since its approval in 2008, the law has been subject to revisions more than 23 times. These amendments have substantially changed its initial provisions to the extent that they affected almost all articles of the law according to the original version. Continuous changes have af-

fected main principles such as self-declaration. Self-assessment (self-declaration) is limited as a right of the taxpayer, while tax administration is provided more and more space to using alternative methods while determining the amount to be paid. As a matter of fact, the number of alternative methods at the disposal of tax administration has almost doubled since 2008, from 8 to 15. The administration can re-adjust and reassess the tax situation with unilateral initiative in many cases. In addition, disproportionate penalties have been envisaged from time to time, creating as such overlapping and uncertainty for both taxpayers and the administration during the implementation¹². Several concepts need to be reshuffled substantially,

¹² For example, in the article 121 it is provided that “Taxpayers with the tax liability of corporate profit tax, who keep in inventory, use or transport goods not accompanied by tax documents are penalized with a fine of 750,000 ALL. In practice, there is a high probability that minimal differences will result in a company’s inventory, especially in goods with inferior prices. The penalty in in this case is not in proportion to the value of the missing goods and the level of breach. On the other hand, the risk of corrupt practices from extreme provisions is high.

while instruction 24/2008 in many cases provides for rules beyond those provided by the law itself¹³, contrary to the provisions in other laws, such as the law 9901/2008 “On commercial and commercial entities” and not in line with business practices (e.g. rules for businesses operating in tourism sector)¹⁴. Moreover, tax procedures during these years have undergone several processes and reforms concerning e-tax, fiscalization, anti-informality, etc., which require adequate legal provisions for accurate implementation.

2) Law 29/2023 “On income tax”

The law on income tax, the regulations and bylaws issued to implement it, regulate the relationships regarding the personal income tax, profit tax, and tax deducted at the source. It defines the rules for the collection and administration of the personal income tax of individuals, profit tax for trading companies and natural persons (registered traders), when they are subject to the profit tax. This law was approved amidst public debates concerning the chosen instruments to address certain types of tax avoidance and the new concepts introduced, which mainly tackled a specific group of small businesses, such as the professionals’ providing services in the market. However, continuous changes in legislation, especially those that provide for fiscal rules, create uncer-

¹³ An example was the adoption of amending instruction no. 44 date 9.11.2020 to instruction 24/2008, published in the Official Gazette no. 197, dated 12.11.2020, which “worsened” the provisions with regard to the blocking of accounts for taxpayers. The mistake was adjusted with the reverse changes made with instruction no. 45 date 26.11.2020, published in the Official Gazette no. 210, dated 02.12.2020.

¹⁴ Many of these congestions have been resolved into practice from time to time via a proactive engagement by stakeholders such as tourism associations and GDT, but the full alignment requires for adoption of clear rules which enable predictability and security for both parties.

tainty, and continue to be a constant concern for businesses. The implementation of fiscal rules requires a large prior consensus by all the stakeholders and good planning as premises for successful implementation. Here, it is worth noting the lack of timely coordination between the adoption of legal measures and the operational and institutional infrastructure that makes the effective implementation of the regulatory framework without further unclarity possible. More concretely, the approval of law 29/2023 “On income tax”, without entering into force yet, was amended by normative-act¹⁵ due to the non-readiness and lack of time for tax administration to implement the new declaration forms in the electronic system e-tax. As we have underlined in the past, the effective implementation of the regulatory framework and the increase of business compliance with it require as prerequisites a transparent relationship and sufficient time for testing the systems that, as proved, are still not consolidated. While its implementation is expected to trigger uncertainty in practice for both taxpayers and tax administration, the decision of the Constitutional Court is also expected to address the claims related to some of its articles.

3) Law no 92/204 “On value added tax” as amended.

This law determines the application of the Value Added Tax in the Republic of Albania. The Value Added Tax (VAT) is a general tax on the consumption of goods and services, proportional to their price, which is charged at each stage of the production and distribution process without tax price. The current Law No. 92/2014 dated 24.07.2014 “On Value Added

¹⁵ Normative-act no 7 dated 14.12.2023.

Tax” was developed under the IPA 2007 Project “Support for the General Directorate of Tax of Albania” for the approximation of the national legislation with the *acquis*. The law has been subject to several amendments which have accommodated changes in fiscal policy concerning the threshold for VAT purposes and specific procedures to address several issues during VAT administration, such as those concerning the procedures on VAT reimbursement for certain categories (e.g. exporters’ package). On the other hand, continuous changes to the applicable VAT for purposes of compensation of the farmers (6%, 14%, 20%, 0 %, 6% etc.) in the respective by-law have been frequent and demonstrates for the application of non-sustainable and long-term solutions and the need for thorough analysis prior to implementation phase.

4) *Law 9632/2006 “On local taxes system” (as amended)*

This law, in its provisions, determines the rules for the exercise of the rights and duties of local government units to settle local taxes, their collection and administration. The law, in detail, in addition to the structure, determines any local tax administered by the local administration unit. It clearly defines its administration, starting with the method of calculation and the persons responsible for the payment of the tax and its collection. A particular place

is occupied by the treatment in details of the method of administration of the simplified tax on profit, namely the determination of taxpayers subject to the tax, the rules of keeping the documentation, the rules for determining the taxable incomes and expenditures, the tax rate, as well as the declaration and payment of tax. The law, apart from the determination of the local tariffs, has provided the attribute to the local government units to establish temporary taxes, which has been subject to public debate, especially in the case of the Municipality of Tirana (e.g. tax on education infrastructure). The Secretariat analysed in the past issues related to the implementation of taxes at the local level and has recommended harmonisation of legislation concerning local taxes and tariffs with the new legislation on local self-government¹⁶. The corpus of legislation concerning fiscal policy and fiscal administration elements contains many other laws and by-laws which taxpayers and tax administration navigate at both the central and local levels. It is worthy of mentioning herein some of them, such as law 54/2015 “On the creation and functioning of technological and economic development areas” and law 25/2022 “On the support and development of startups” (as amended). They both provide for exemptions and fiscal incentives for certain types of investments and categories such as digital nomads, etc.

¹⁶ https://www.investment.com.al/wp-content/uploads/2020/04/EN_Technical-Note.pdf

KEY FINDINGS AND ANALYSIS

The findings presented in this working document stem from an analysis of issues raised by the business community. To ensure a global perspective, these findings were discussed in advance with relevant institutions responsible for addressing and resolving them and were grouped into five pillars: (a) Fiscal Good Administration; (b) Informality and Unfair Competition; (c) Enterprise Productivity; (d) Innovation and Competitiveness; and (e) Regulatory Burden and Business Climate.

Key sources identifying these findings include: (i) Business perceptions gathered from questionnaires completed by 601 companies, with 28% being women entrepreneurs; (ii) Consultation meetings held between February and March 2024 with consultancy firms specialising in tax and legal matters, industry experts, chambers of commerce, trade associations, businesses, and institutions; (iii) Analysis of the pertinent legal and regulatory framework, along with annual reports from institutions like GDT; (iv) Insights from the draft Mid-Term Revenue Collection Strategy.

Several findings address issues previously discussed in IC meetings, such as (i) Frequent changes in fiscal and tax legislation and non-timely adoption, leading to implementation challenges and compliance difficulties for both administrations and businesses, hampering predictability and adaptability; (ii) Lack of coherence among applicable legal provisions, such as those concerning tax procedures, the local tax system, on income tax, both at law and by-laws level; (iii) Fragmentation within the tax system contributing to perceived fiscal disparities; (iv) The need for interventions to be measured not only in budgetary terms but also in their broader impact; (v) Insufficient institutional capacities to manage the growing challenges and complexity of tax and fiscal matters; (vi) The importance of structured and sustainable reforms over time, particularly in deregulation and inspection fields; (vii) The necessity for institutional coordination in creating a business-friendly environment.

SUMMARY OF MAIN SURVEY RESULTS AND SOME CONSIDERATIONS

- » Improved information/communication (2019-2024): Communication with the tax administration has slightly improved and has been sustained continuously.
- » Digitalization is well accepted – The business is fairly satisfied with electronic services compared to 2022, even though there is still room for improvement, mainly in the elements of data reliability and customer service.
- » Fiscalization reform - There has been an increase in evaluation in terms of customer service in the fiscalization system, increasing from 2022. However, the need for the existence of a communication channel (call center) to support users is still expressed. Fiscalization is evaluated in its impact on reducing informality in the country but with increased costs to businesses.
- » Increasing legal training – The business has increased its participation in GDT training, although it is still in low numbers.
- » Perception of informality – To a considerable extent, businesses accept the existence of informality, more than in 2019 but less than in 2022. Agriculture, Processing Industry, Services and Tourism perceive more Informality. Energy perceives less informality compared to other sectors. Informality in its highest form appears as tax evasion, black work and non-registration, a trend preserved over the years.
- » The most important factor that promotes informality is the fiscal burden at the central level for the first time since 2022, where unfair competition and corruption

were the primary factors in promoting informality. The above can be explained with (i) the structure of businesses (95% constitutes small businesses with a turnover up to 14 mln ALL), who, at a significant level, will be affected by the adoption of the law 29/2023 “On Income Tax” and taxes it introduced for service professional activities; (ii) expected removal of current exemptions with effect on end year 2025 and end year 2029 for several industries (e.g. software, agrotourism, tourism, automotive industry etc.) as per the article 69 of the law and therefore heavy tax burden expected for the future.

- » The reduction of VAT in tourism has reduced informality according to the perception of the sector itself.
- » The business climate has improved in terms of registration and licensing but not in terms of the procedures/costs of borrowing and the fiscal burden in the country.
- » The availability of the labour force is considered the main disadvantage in 2024, at a time when in 2022, availability was the 4th factor in a row considered as an obstacle to integration. Informality is still considered the main obstacle to integration for Albanian companies.
- » Productivity – Companies feel they are equally productive domestically but less productive compared to companies operating abroad.
- » Continuous training along with salary increases can bring an increase in productivity at work according to the perception of the business. To a significant extent, the business has declared that it is taking

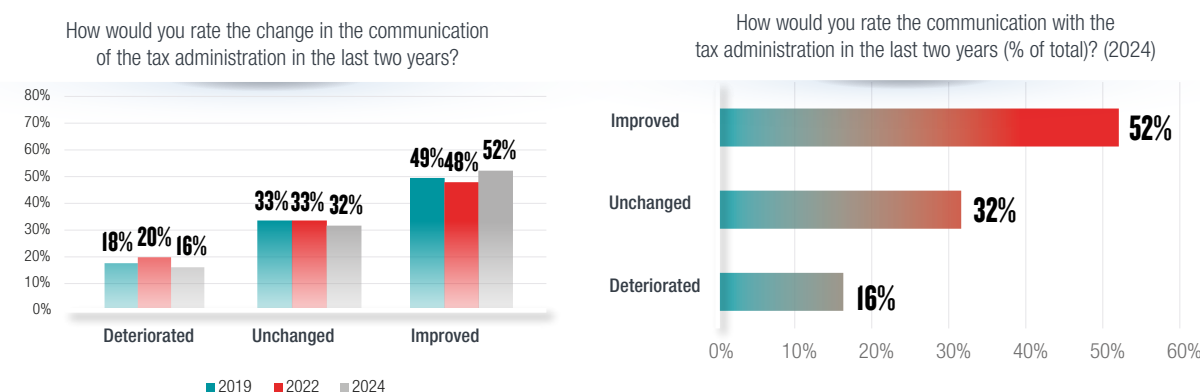
the central tax administration, the private sector remains concerned about the stability of fiscal policies, the quality of fiscal communication (tax ruling)/ technical interpretation of legislation and the professionalism of the administration.

- (1) *A slight uptick in positive trends has been noted in initial business interactions with the tax administration (2019-2024). One out of two businesses believes that communication with the tax administration has improved over the past two years, and this trend has remained relatively consistent over time. When considering company size, the situation appears largely similar, although small companies may perceive slight differences in the deterioration of communication. This trend is primarily attributed to the reduction in human interaction stemming from the rise of digitalised services.*

5.1 FISCAL ADMINISTRATION

A. While there is a consensus on improved communication and interaction with

Figure 3 Communication with Tax Administration



Source: AIC Secretariat survey, 2024

- (2) Based on the meetings conducted with the private sector a prominent concern among businesses has surfaced regarding the *quality of tax audits, legal and technical explanations, and opinions (tax rulings) provided by the tax administration concerning the issues raised by the businesses*. The recurring issues of delayed, time-consuming, incomplete and/or inconsistent responses to tax issues raised by taxpayers are the most permanent issues highlighted by the business, which lead to escalated tax compliance costs, delays, and lack of security due to doubts.

In our analysis, greater transparency is required in making public and easily accessible manuals & tax rulings, for example, legal and technical decisions/instructions on specific tax issues of taxpayers, which can serve as a tool for the unification of tax administrative practices, and improvement of tax compliance without further costs and/or legal amendments. This is not only also a legal obligation as per the provisions of articles 10, 28 and 135 of the law 9920/2008 “On tax procedures”, which were adopted in the past and during the

years with the main goal of consolidating the tax precedents, but also a facilitating mechanism that increases accountability. In this category also fall the decisions of tax appealing structures, which are effective instruments for the self-correction of the administration and taxpayers, and therefore, such decisions should be systematically published.

The gap in tax compliance legislation from both tax administration and taxpayers can be extrapolated from the official data provided by the Tax Appeal Directorate as follows:

Compared to 2015, GDT’s website is substantially improved and provides useful content, included in GDT annual reports, bulletins on court case decisions, and bulletins on legal and technical instructions. Regarding the bulletins on legal and technical decisions/instructions, the latest publication covers only the year 2021.

- (3) According to the survey data, *businesses demand more training sessions from the tax administration concerning recent legal changes impacting business activities and their relationship with the administration*.

Figura 4. Decision-making in relation to the value of complaints taken into consideration

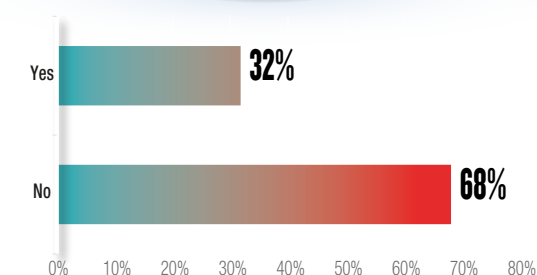
	Year 2020		Year 2021		Year 2022		Year 2023	
Value of complaints upheld	381,112,929	80%	359,713,481	65%	365,248,661	62%	509,789,735	73%
Value of abolished complaints	72,762,130	15.32%	156,839,345	28.37%	199,780,251	33.77%	162,451,976	23.24%
Value of complaints returned to the RTD	21,083,985	4.44%	36,260,250	6.56%	26,595,725	4.50%	26,717,394	3.82%
Sum (cancellation and return to RTD)	93,846,115	19.8%	193,099,595	35%	226,375,976	38.26%	189,169,370	27%

Source: Tax Appeal Directorate

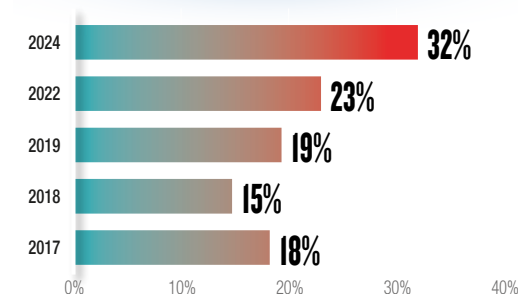
The survey also indicates a rise in business participation in these training sessions through years, albeit at a relatively low level. When this trend was further discussed with the GDT, they acknowledged low attendance in their training sessions aimed at the private sector. However, there was an exception noted with training related to the fiscalization system, where the GDT reported higher participation and interest from businesses.

Figure 5. Training Sessions on Tax Legislation

Have you participated in training sessions offered in recent years by the tax administration on the implementation of tax legislation? (2024)



Have you participated in training sessions offered in recent years by the tax administration on the implementation of tax legislation? Yes



Source: AIC Secretariat Survey, 2024

- (4) Apart from the eagerness to engage in training sessions provided by the tax administration, the private sector expressed reservations regarding the quality of the communication with existing personnel. In addition to emphasising the necessity for training aimed at businesses, the private sector also perceives a need for more prior training programs to enhance the skills and knowledge of tax administration staff. This could be stimulated by recent changes in fiscal legislation and their practical interpretation.

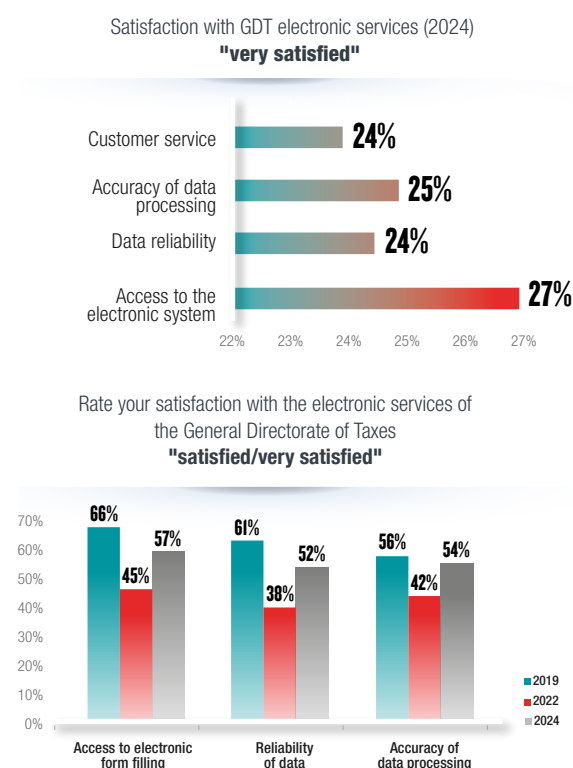
B. The private sector has embraced digitisation positively, expressing overall satisfaction with electronic services. However, there is still room for improvement, particularly in enhancing data reliability and customer service elements.

- (5) *Businesses have enthusiastically adopted the digitisation of public tax services, highlighting timesaving and reduced human contact as the most beneficial aspects*. According to their perception, the elements that remain concerning and problematic are the reliability of data and customer service. This is also clearly stated in SSA report on “*The Audit of Technology Systems Information to The General Directorate of Taxation*,”¹⁷

¹⁷ The infrastructure hosting the e-Taxation system is facing challenges such as limited space, ageing equipment nearing the end of its life cycle, and operating systems that are no longer supported, leading to suboptimal security conditions. Despite the existence of legal provisions regarding critical infrastructures, the National Agency of Information Society and the National Authority for Electronic Certification and Cybernetic Security have not evaluated the e-Taxation system’s critical importance, resulting in inadequate cybersecurity measures. The audit also highlights concerns regarding access to data from the ICT structure of NAIS attached to

where the necessity of taking immediate security measures for the e-tax system is highlighted. *During consultations, we evidenced concerns regarding the quality of written communication on technical issues, including delays.*

Figure 6. Satisfaction with electronic services



Source: AIC Secretariat Survey, 2024

GDT, the management of undocumented changes in system functionality, and the lack of continuous monitoring of user access, potentially creating vulnerabilities for unauthorized actions beyond NAIS's jurisdiction. As the data administrator, the General Directorate of Taxes is urged to play a more interactive role in Information Technology management, ensuring that actions by both internal and external users are monitored effectively and system data serve as accurate indicators of the institution's activities.

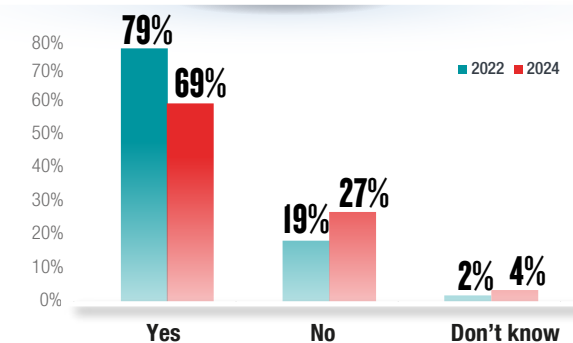
(6) *Businesses evaluate the central platform of tax administration invoices (fiscalization) positively, also highlighting the significance and stimulation of fiscal education, especially to MSMEs introduced by this system to taxpayers.* This educational aspect has somewhat also influenced, albeit not significantly, the reduction of informality manifested in the form of non-declaration. However, it is emphasized that fiscalization still does not operate at full capacity due to ongoing technical issues, ranging from security concerns to compatibility challenges between the technical and legal aspects. Specific problems highlighted by businesses include the following examples and scenarios: (i) *The recent security element introduced in e-Albania not being adequately included in Selfcare;* (ii) *Insufficient user allocations for a company leading to difficulties in utilising the Self-care account;* (iii) *The presence of numerous software options on the market that operate alongside Self-care;* (iv) *Lack of training for both software providers and system users, etc. (These issues have been forwarded to GDT for further action.)*

(7) The taxpayer service related to fiscalization is experiencing delays in response times. Consequently, *businesses are calling for the establishment of a call centre to address issues in real-time as they arise.* In addition, through quantitative and qualitative discussions with businesses, a new “administrative burden” within the company seems to be emerging, especially for small and medium-sized enterprises – the adaptation to digitalisation so that these companies can effectively embrace and utilise

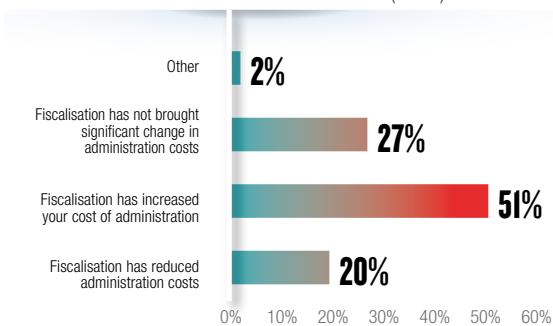
online services. This is tied to the companies' internal digitalization level and the growth of digital literacy among their employees (technological proficiency or additional payment for engaging experts in the field). Electronic document management, archiving, the use of electronic signatures (not just sporadically), and even basic utilisation of online platforms are challenges for SMEs. *1 in 2 companies declare that Fiscalisation has increased the cost of administration, according to our survey data.*

Figure 7. Fiscalization and associated costs of administration

Do you think that the tax service/fiscalisation process/etc. needs the establishment of an electronic telephone service (call center)?



Has Fiscalization affected the costs of fiscal administration? (2024)

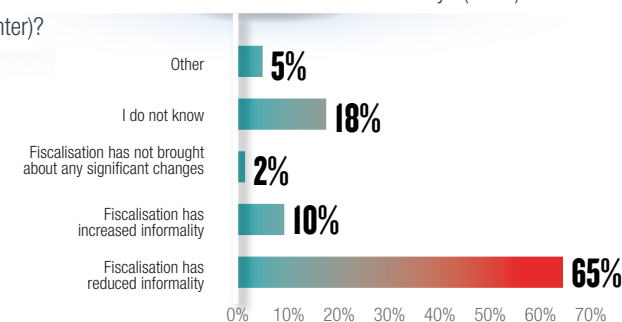


Source: AIC Secretariat survey, 2024

(8) As mentioned earlier, businesses perceive the fiscalization system as having an impact on reducing informality. More than six out of ten companies perceive that fiscalization has had an impact on increasing the formality of the economy. *Larger companies state that through the new tax invoicing system, more small businesses have begun to receive fiscal education, consequently transitioning more informal taxpayers into the formal system.*

Figure 8. Fiscalization and Informality

Do you think that fiscalisation has properly addressed the practical implementation of fiscal policies and measures for the formalization of the economy? (2024)



Source: AIC Secretariat survey, 2024

(9) *Businesses perceive positively the decrease in the number of tax audits conducted by the tax administration, attributing this to the implementation of the Risk System, which was effectively promoted since 2016 in identifying high-risk businesses most likely to undergo tax audits¹⁸.* However, concerns persist re-

¹⁸ In the meeting at GDT, we were informed that the Risk Management Manual is periodically updated with typologies of indicators that are analyzed from concrete cases encountered in practice.

garding the timelines of such tax audits, both related to the evidenced on-site duration and finalisation of tax audit reports and delivery of conclusions, as well as the methodology and concepts used to reach conclusions. Some of these issues associated with tax audits are acknowledged by GDT itself. Specifically, in the annual report of the GDT for the year 2023¹⁹, the following issues are highlighted as the main concerns on tax audits:

- Challenges related to the tax-audit methodology applied for taxpayers.
 - Non-compliance to tax audit deadlines or legal violations in the handling of such audits.
 - Conducting verifications or checks for taxpayers involved in the Reconstruction Process without the involvement of construction engineer specialists.
 - Analysis of identified problems and deficiencies of control inspectors.
 - Recommended training programs aimed at enhancing the capacities and skills of inspectors.
 - Reporting and reconciliation of evidence
 - Timelines for the approval of control reports by directors of Regional Tax Directorates (RDTs)
 - Management of technical issues within the tax system.
- (10) The post-Covid-19 era and the openness of the Albanian market, which is still in its preliminary phases, has been

associated with an increased number of applications to GDT concerning the avoidance of double taxation. This has led to a new issue, which, during our consultation meetings, resulted to be a systemic issue, especially in the last 2 years, and an example of uncertainty for the business community, especially the foreign taxpayers.

BOX 1

Double Taxation Treaties - Treatment of Double Taxation Claims

- » *During the Secretariat's meetings, mainly with consulting firms in the legal and tax fields, it came out that the handling and resolution of requests for the avoidance of double taxation has turned into a typical problem with the tax administration. This issue stems from the unjustified substantial change in the earlier consolidated practices established over the years by the GDT regarding the deadline for handling and accepting requests, the non-exhaustive list of requested documentation and evidence (such as information from systems such as TIMS that the taxpayer cannot access), and excessive bureaucracy (over 2 and 3 years) in the handling of cases, unnecessary additional requirements and details on the documentation (seal and seal from foreign institutions), etc.*
- » *The procedures concerning the Application for Avoidance of Double Taxation are regulated by the provisions of law 29/2023, dated 30.3.2023, "On income tax" and General Instruction no. 26,*

dated 8.9.2023 "On income tax". From a procedural point of view, the review of requests is based on annual instruction no. 6, dated 10.02. 2004 "On bilateral agreements for the avoidance of double taxation and the prevention of fiscal evasion". However, the root of the above issues appears to be not directly related to the legal framework but to the individual approach and argumentation at the sector level within GDT, which deals with business applications. Limited capacities to address complex issues arising from the implementation of international double taxation treaties, where the Republic of Albania is a party, exacerbates the situation.

- » *The above issues were also acknowledged by GDT which has accepted the need for structural adjustments, also underscoring the need to monitor fraud transactions. GDT has already addressed the issue from structural and human resources point of view, and the adoption of a new instruction specifically dedicated to these cases is ongoing.*
- » *Given the increasing frequency of cross-border transactions, particularly in the context of Albania's integration into the EU and its expanding economic ties with other nations (currently party to 43 ratified International Treaties on Avoidance of Double Taxation and Prevention of Fiscal Evasion), the solution might be in automating procedures. The endorsed solution can mirror the successful automation of VAT refund procedures, and it could streamline the procedures regarding the avoidance of double*

taxation requests in line with evolving international economic dynamics. The initial starting point should be the prior consultation of the Instruction and Solution with the outside experts in the private sector who can share best-proven practices at the EU level.

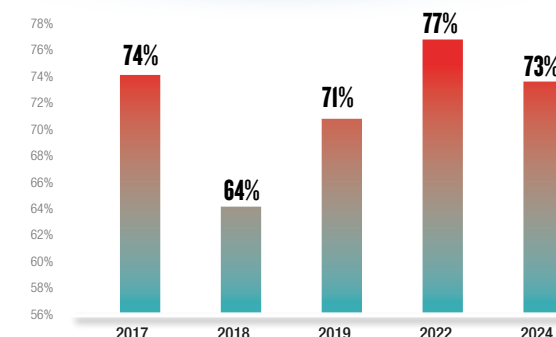
5.2 INFORMALITY

A. Despite efforts to formalise the economy, particularly in reducing non-declarations, undeclared work, and non-registration, businesses still maintain a high perception of informality within the country.

- (1) *According to survey data, one out of seven companies perceive the existence of informality in the country, a trend that has persisted over the years, except for the year 2018 when fewer businesses perceived informality in the country (most likely due to actions against informality that the government took during years 2016-2017).*

Figure 9. Perception on Informality

Please determine whether you face competition from informal activities in the sector in which you operate?

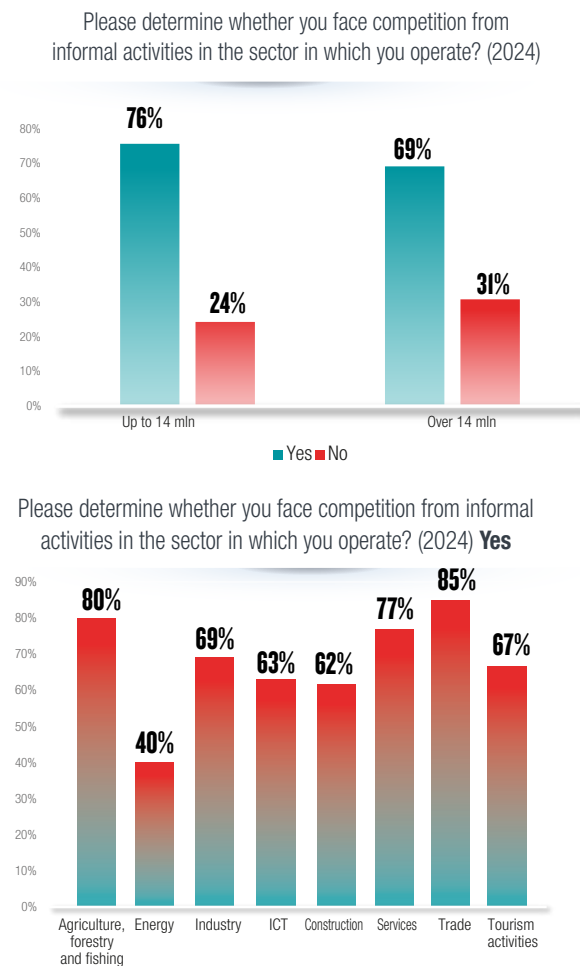


Source: AIC Secretariat survey, 2024

19 <https://www.tatime.gov.al/c/8/42/49/strategjia-dhe-raporte>

The perception of informality varies according to sectors and the size of the company. Agriculture and trade sectors perceive higher levels of informality, while the energy, construction, and information technology and communication sectors perceive lower levels of informality. Larger companies have a lower perception of Informality compared to smaller ones.

Figure 10. Perception on Informality by sectors and company size



Source: AIC Secretariat survey, 2024

(2) *Tax evasion is confirmed as the main form of informality in years, followed by undeclared work and non-registration.* The survey period aligns with the approval of the new income law, which businesses perceive as a factor contributing to the further promotion of informality.

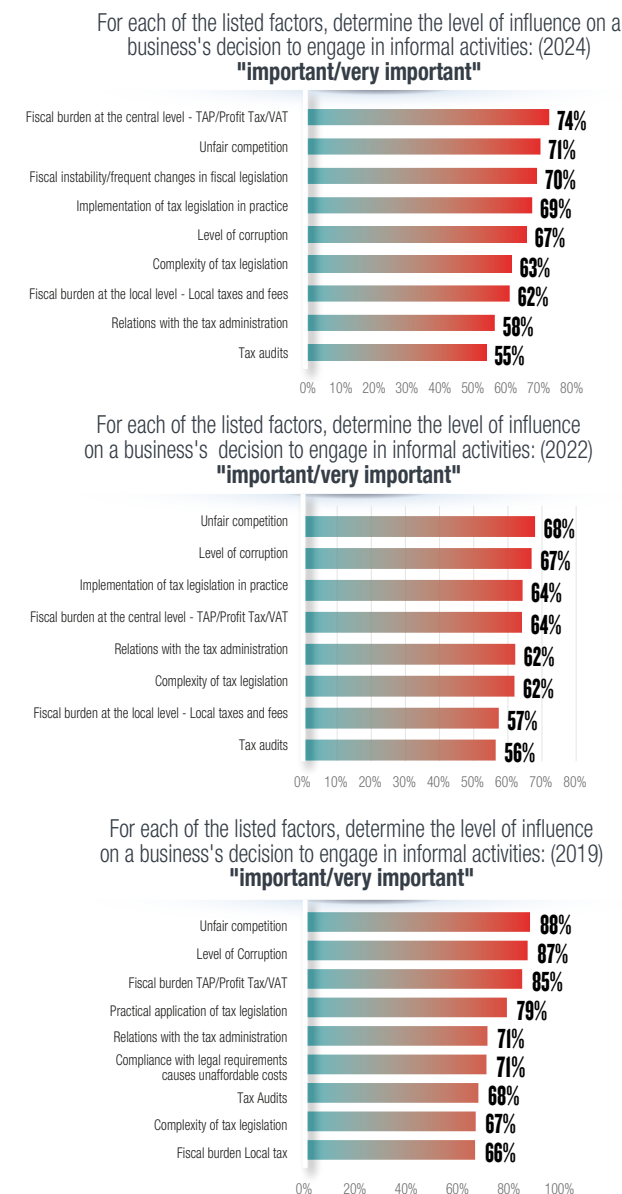
Figure 11. Nature of Informality



Source: AIC Secretariat survey, 2024

(3) *According to business perception, unfair competition was identified as the primary factor driving informality, but by 2024, it has been replaced by the fiscal burden at the central level.*

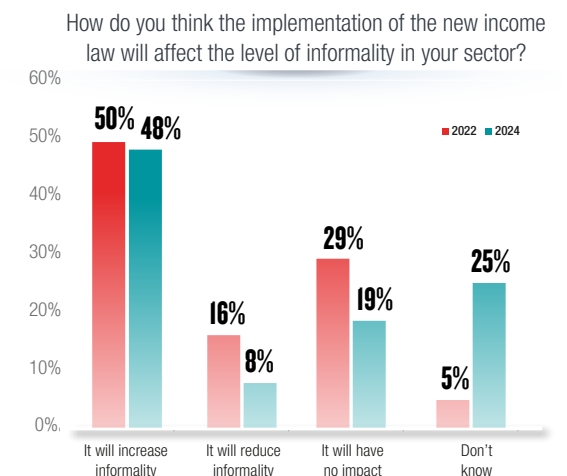
Figure 12. Factors that influence Informality



Source: AIC Secretariat survey, 2024

Businesses express concern that the recently approved income law will potentially increase informality, primarily due to the significant taxation burden imposed on affected businesses. Under this law, tax rates for certain MSMEs escalate from 0% to 18% and 23%. Direct consultations with companies have underscored the impact of fiscal legislation, including the establishment of exemptions or 0% taxation rates, on fostering a lack of tax compliance awareness among businesses. Consequently, reintroducing taxation for certain small businesses while leaving others untaxed is anticipated to intensify informality issues.

Figure 13. Informality and new Income Law

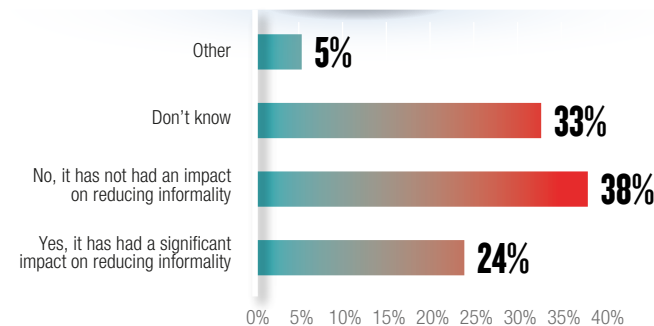


Source: AIC Secretariat Survey, 2024

(4) *Conversely, positive discrimination in business activity taxation can aid in reducing informality. When questioned about the impact of the reduced VAT on informality reduction in the tourism sector, the tourism sector affirms this correlation. 2 out of 5 companies operating in this sector perceive a decrease in informality as a result.*

Figure 14. Reduction of VAT on tourism sector and impact on Informality

In the field of tourism, where some services have benefited from a reduction in VAT to 6%, do you think that this policy has reduced informality in this sector? (2024)



Source: AIC Secretariat survey, 2024

(5) Increasing standards as an opportunity to address sectoral informality.

Informality is one of the main obstacles for the sustainable development of formal businesses and the country's economy in general. As already mentioned, important factors affecting the business environment are related to frequent changes in legislation, often incomprehensible for mostly small businesses, and the increasing trends in interest rates that make lending more expensive. But, while strengthening the fight against informality is a strategic objective of the tax administration, which has periodically improved its activities (implementation of the risk management system, carrying out verifications and controls based on risk analysis, as well as the implementation of fiscalization), still the reduction of informality in certain sectors, remains a challenge that requires the involvement of other institutions.

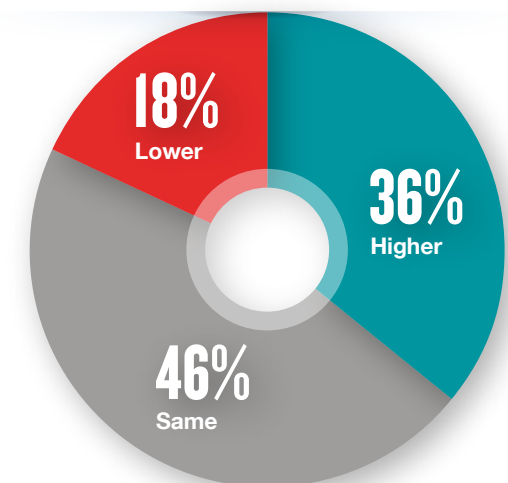
BOX 2

Tourism, transport and automotive spare parts and repair services

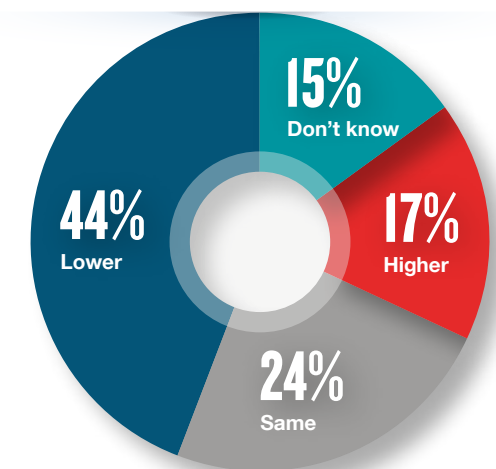
- » *Cases of informality in specific sectors, such as the tourism sector (unregistered, non-standardized, unlicensed accommodation structures and outside the radar of fiscal administration institutions at the central and local level), have been discussed earlier in IC20. For these cases, it has been recommended that the solution to the problem should not be seen only in the role of the tax administration to identify informality, but also in the role of fiscal and sectoral regulatory policies, including here market forces that drive businesses towards increasing standards, increasing competitiveness and, consequently, formalisation.*
- » *The most recent changes proposed in law 93/2015 "On Tourism", (amended) focused on increasing the quality of services in the tourism sector, were driven by the increased demand for tourism services due to the rapid and progressive growth of the sector in the country. The formalisation of the sector and, consequently, of other sectors linked with it leads to an increase in the quality of the offer and the implemented standards.*
- » *This approach should be extended to other sectors such as transport and that of spare parts and vehicle maintenance services which are connected to each other and require an integrat-*

Figure 15. Labour Productivity

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of other companies in the sector where you operate? (2024)



Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies you cooperate with? (2024)



Source: AIC Secretariat survey, 2024

ed regulatory approach at all levels. During consultation with businesses, these sectors were identified with large margins of improvement both in terms of the quality of the services as well as in terms of formalisation. While the import of spare parts is largely considered regulated and formalised, maintenance services performed for vehicle users are still considered unregulated both in terms of standards, safety, and quality and, finally, in terms of tax compliance.

5.3 PRODUCTIVITY, INNOVATION AND COMPETITIVENESS

A. **Companies in the country perceive similar levels of productivity compared to their domestic competitors. However, they hold a pessimistic outlook on their level of productivity when compared to competitors operating in regional markets and beyond. This vulnerability potentially hampers Albanian companies' ability to compete effectively in shared regional and broader markets.**

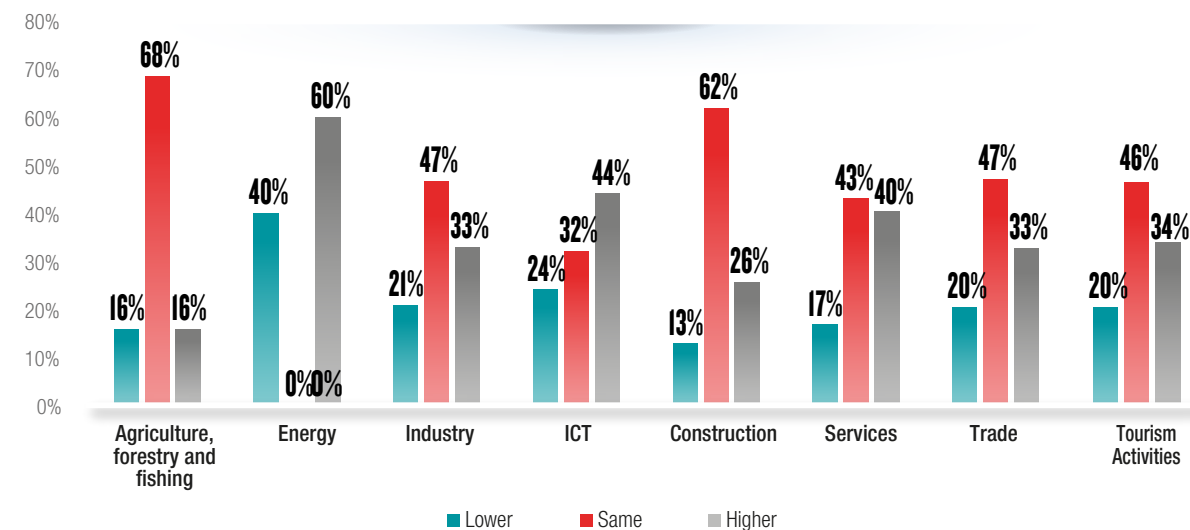
- (1) *Within the national market, one in two companies reports having a labour productivity similar to its competitor, while one in two companies reports having lower productivity if compared with regional competitors.*

(2) *The perception that productivity as compared to competitors **is similar** does not apply to all sectors. Three patterns of labour productivity diversity within the sector are observed. There are sectors where companies are leaders in productivity with higher productivity than the rest of the firms in the sectors. Sectors as such are energy and, to some degree, the ICT sector. Traditional sectors such as agriculture, trade, construction, and service report to perceive no productivity dispersion at the sectoral level, responding that productivity among different companies is of the same level. Firms that have operated for more than 10 years as well as companies with employees higher than 250, report that their productivity is higher than that of competitors. MSMEs generally report that*

they perceive their productivity to be similar to that of competitors at the local level. The national survey on enterprises provides data on the sectorial level. We used the sectorial value-added and number of employers at year-end to estimate labour productivity as the value-added created per employee. The average value added created per employee for the period 2019-2022 amounts to 11,888 Euro/year. Traditional sectors and the public sector have productivity similar nearly to the national average. Sectors such as construction, processing industry, transport, trade, accommodation, and food industry (tourism included) have a value-added per employee around the *national average*. Sectors with the highest labour productivity (measured as value added per employee) are extractive industries, ener-

Figure 16. Labour productivity by sectors

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of other companies in the sector where you operate? (2024)



Source: AIC Secretariat survey, 2024

gy, professional services, real estate sector, followed by the ICT sector.

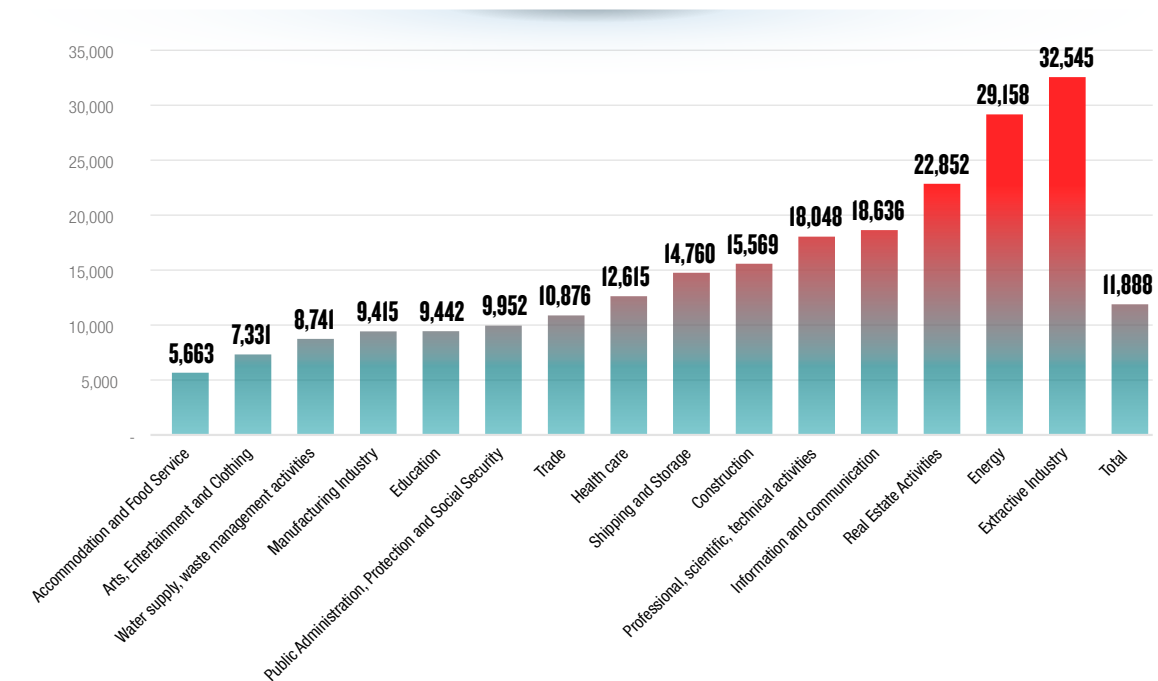
The dynamics of labour productivity, measured by the average growth rate of value-added created per employee from 2019 to 2022, indicate an overall increase of 11% across all sectors (refer to Annex 1). However, certain sectors with traditionally high productivity levels have experienced a slowdown in productivity growth. These include the energy, ICT, and construction sectors. Conversely, sectors such as accommodation and food services (tourism), processing and extraction industries, and recreation and entertainment have shown significant increases in productivity. The health sector has also seen a rise in pro-

ductivity, along with the public administration, defence, and social protection sectors.

*In line with the IC business perception on productivity, industries (such as energy and construction) where firms report to have high productivity are on the **optimal production frontier**, while traditional sectors (tourism, industry) report productivity improvement space similar to the distance from the optimal production. The high inefficiency in the trade, entertainment, and recreation or real estate sector shows a deviation that is more a misallocation of resources rather than a sectorial inefficiency (more resources are allocated into those sectors that the optimal production frontier demands)²¹.*

Figure 17. Average Labour Productivity per Employee (in Euro, Annual 2019-2022)

Average Labour Productivity per Employee (in Euro, Annual 2019-2022)



Source: Enterprise Survey (ASN) and IC Secretariat's own calculations

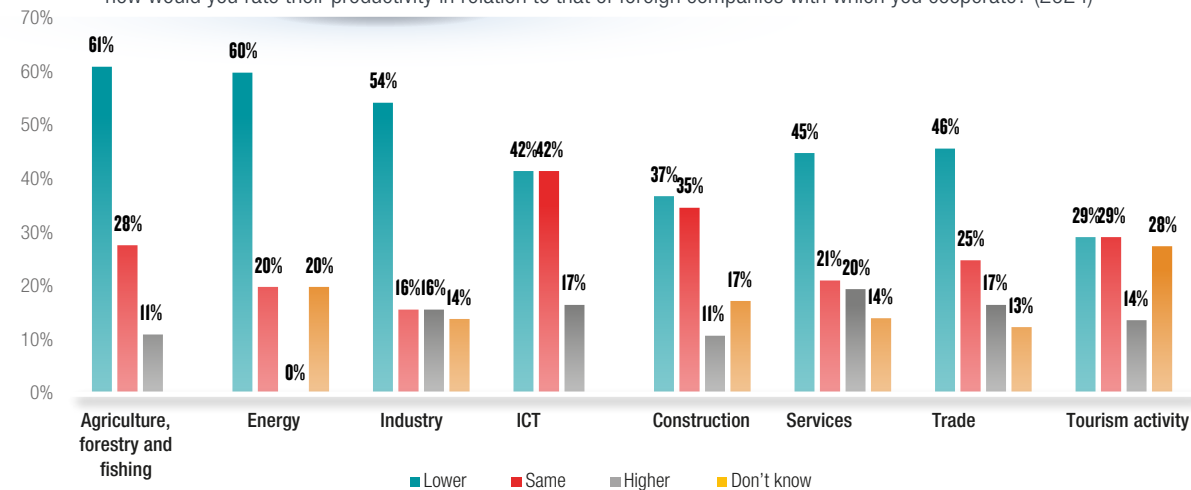
²¹ For more details on calculations, please refer to Annex V.

(3) In general, the perception that companies have lower productivity than the foreign companies they compete with is dominant even at

the sectoral level. Companies operating in the construction, trade, ICT, and tourism sectors perceive a productivity that is aligned and like

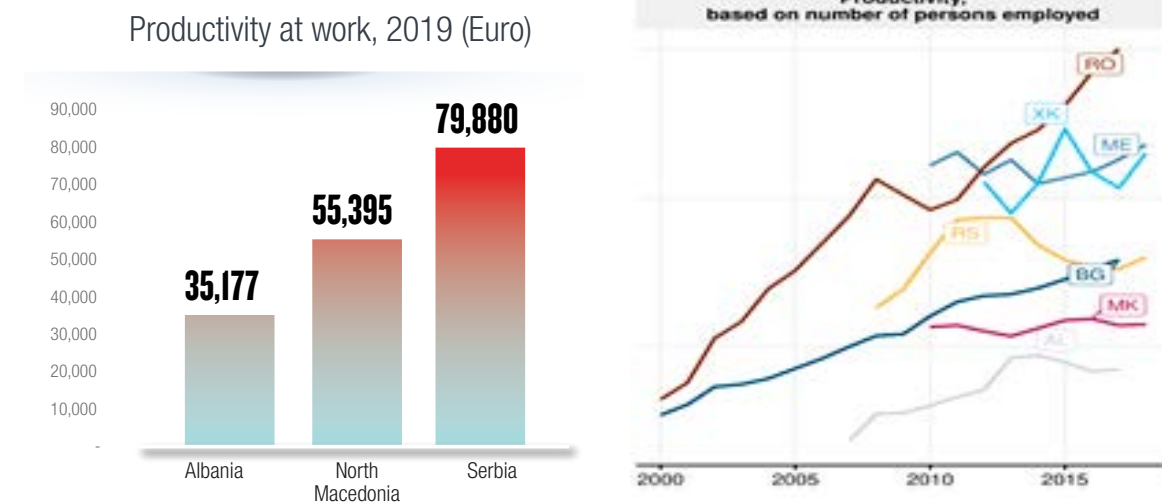
Figure 18. Labour Productivity by sectors, comparison with foreign companies

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies with which you cooperate? (2024)



Source: AIC Secretariat survey, 2024

Figure 19. Labour productivity compared to regional economies.



Source: WIIW Productivity of Western Balkan Countries and Xhepa and Liperi (2022)

their foreign competitors. Companies that operate in agriculture, energy, services, and industry report having a disadvantage compared to their foreign competitors in terms of low productivity of labour.

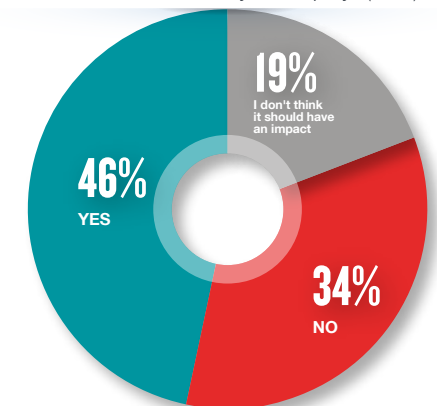
Previous research does confirm the low productivity of labour comparably to the regional economies of Albania. Labour productivity, measured as the ratio of the total output to the number of people employed, is half that of other economies in the region (e.g. Serbia and Montenegro) and even lower if compared to Bulgaria or Croatia.

(4) Businesses report that upscaling skills through on-the-job training would improve labour productivity, and 24% of businesses report they need such training to improve productivity. 1 out of 5 businesses think that a productivity boost would result from increasing wages. 46% of companies interviewed had already responded to the pressure to increase wages that resulted from increased wages in the public sector.

Figure 20. Enhance Productivity measures



Has the salary increase in public institutions affected the salaries in your company? (2024)

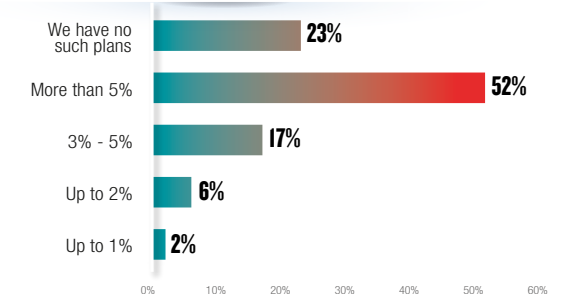


Source: AIC Secretariat survey, 2024

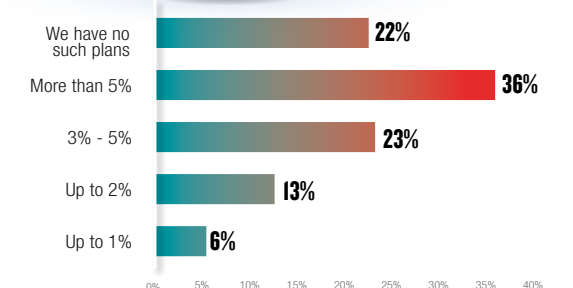
(5) The increase in productivity appears to be a priority for most companies, with seven out of ten stating their intention to implement measures to enhance productivity.

Figure 21. Companies and Productivity elevation

If you as a company consider applying measures to increase labour productivity, how much do you think these measures will increase productivity? (2024)



If you as a company consider applying measures to increase labour productivity, how much do you think these measures will increase the cost of your activity? (2024)



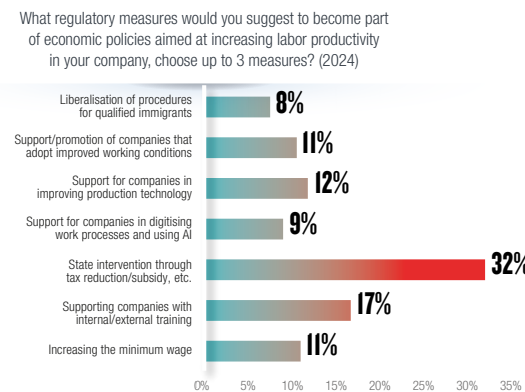
Source: AIC Secretariat Survey, 2024

- (6) *Given that productivity improvements are measures that require additional financing, companies (32% of surveyed companies) demand less fiscal burden to be able to finance productivity-improving interventions.* Tax policy and tax administration are important factors in addressing productivity challenges. Tax systems can boost productivity by reducing resource allocation distortions. Fiscal policies could also increase available funds to support productivity-increasing measures.
- (7) Companies recognise the importance of innovation in enhancing their productivity and competitiveness in the markets. However, only a small number of companies allocate funds specifically for research, development, and employee training.
- (8) Companies were asked to identify their commitment to innovation as part of their company strategy. 54% of companies reported *being very dedicated/concerned to*

innovation, 34% reported having some *attention/dedication to innovative business practices*, and 21% reported not having an interest at all. The share of companies that care about innovation has declined noticeably if compared to the same survey performed in 2021.

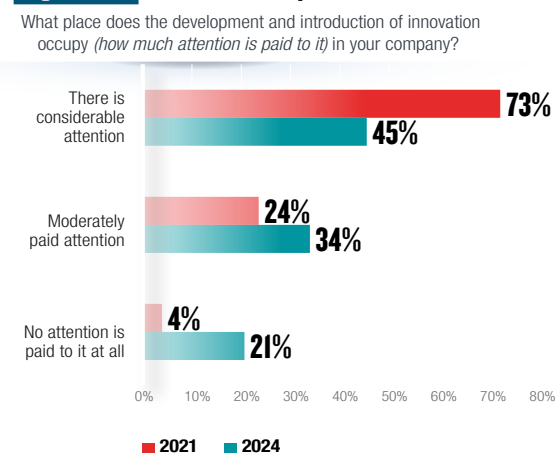
- (9) R&D investments and employee training are among the most important interventions in improving productivity. Companies were asked to identify if they invest in R&D investments and if they have a dedicated budget for that purpose. *Only 6% of companies have confirmed to have a budget dedicated to R&D. In 2024, the propensity of companies investing in R&D has declined by 8% (14% of companies have confirmed to invest in R&D in 2021). 54% of companies have declared to have an ad-hoc budget for R&D, while 40% report not having a budget at all. The same trend appears to prevail regarding the allocation of dedicated funds for staff training.*

Figure 22. Measures to increase productivity



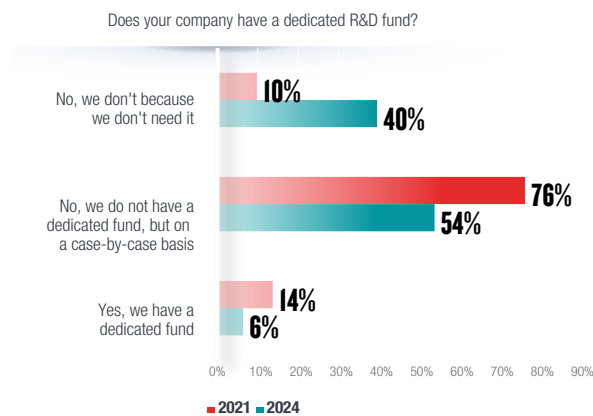
Source: AIC Secretariat survey,

Figure 23. Innovation Importance



Source: AIC Secretariat surveys

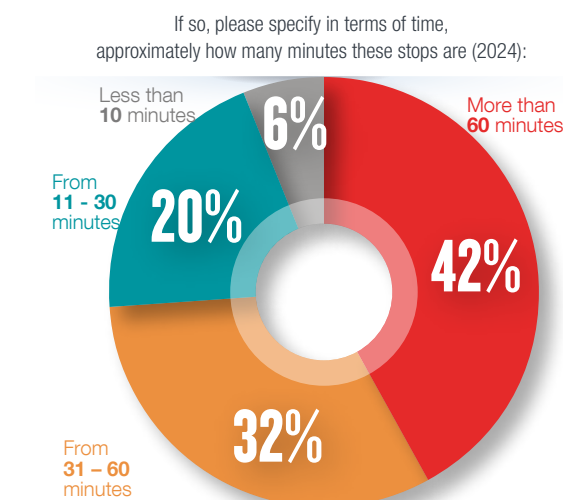
Figure 24. R&D and training funds



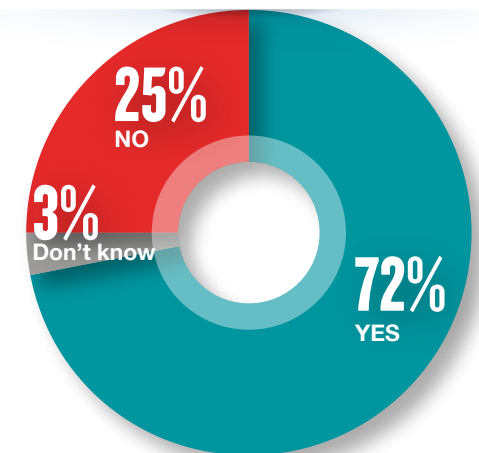
Source: AIC Secretariat Surveys

- (10) *Given the fact that labour productivity is closely related to technology, companies were asked to identify if there are cases when their work needs to be stopped due to technological problems.* 72% of companies reported that their work stopped due to problems with the production technology, and 94% of respondents' working process stopped due to technology problems lasting from 30 to 60 minutes.

Figure 25. Technology and Productivity



Does it happen to you during a working day, to suspend work due to a breakdown (e.g. power outage, the system does not work, you are waiting for another work process to finish, etc.)? (2024)



Source: AIC Secretariat Surveys

We used data from the National Survey on Enterprise and examined the variation of value added to investment ratio against value added to labour. There is a positive correlation between investment productivity and labour productivity (correlation coefficient 0.37), showing that technology's impact on determining labour productivity is significant. At the national level, the share of labour cost to value added is 42%, and capital (investments) is 31%. Sectors in which value-added share from investments is higher than that of labour are real estate, energy, water, and waste management. For sectors such as accommodation and food (tourism), extractive industries, processing industry, ICT, trade, and transport, the share of investments and labour in value added is almost proportional. Labour and capital are combined in value creation in a one-to-one ratio, causing high conditionality of productivity. Unskilled or unproductive labour would undermine the productivity of capital,

and similarly, unproductive production technology would cause labour productivity to be sub-optimal.

(11) The competitiveness of Albanian companies in international markets holds significant importance, particularly within the context of accession to regional and European markets. Consequently, enhancing productivity and promoting innovation

within business activities would yield the necessary benefits for the country.

(12) In 2024, the availability of the workforce, a factor directly linked to business activity, takes precedence over all other elements concerning the competitiveness of Albanian companies. This contrasts with two years ago when it was considered the fourth factor in the ranking.

Figure 26. Labour productivity vs. Investment Productivity (2019-2022)

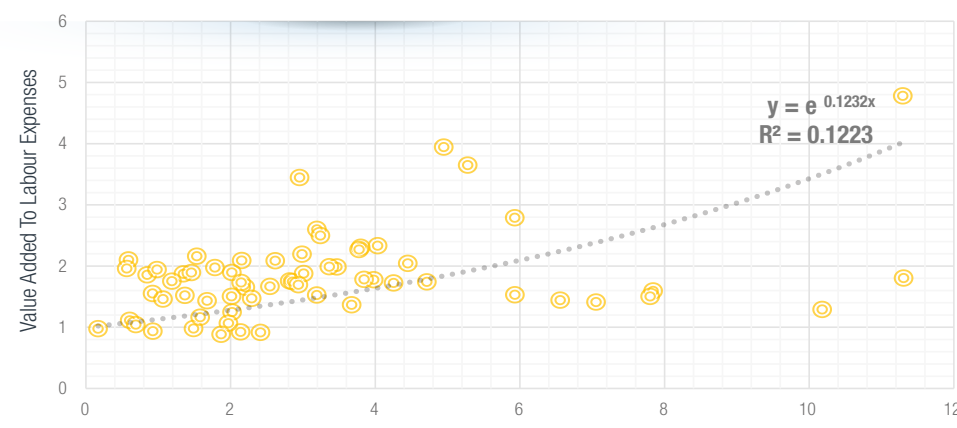
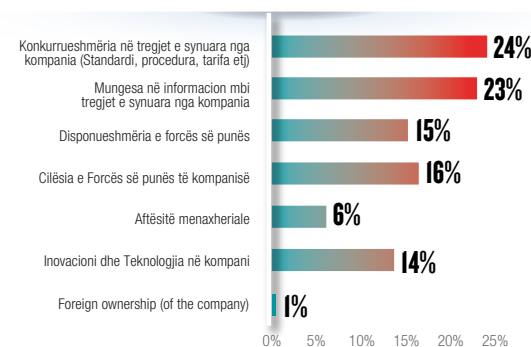


Figure 27. Obstacles to competitiveness.

From the following factors, directly related to your company, which can be considered the 3 main obstacles to integration in international value chains (2022):



Source: AIC Secretariat Survey

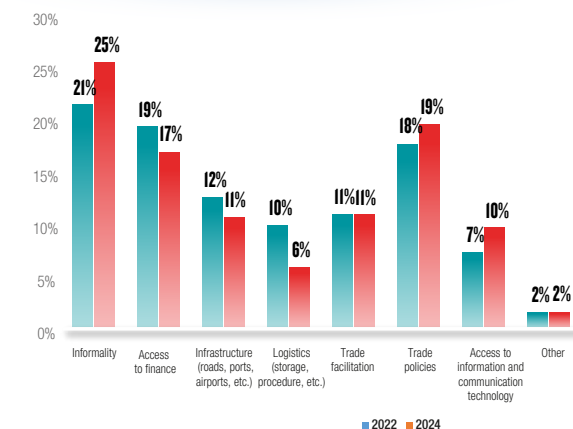
From the following factors, directly related to your company, which can be considered the 3 main obstacles to integration in international value chains (2024):



(13) In 2024, Informality, Trade Policies, and Access to Financing are regarded as the primary obstacles to integration. Similarly, Informality was also identified as the main obstacle in 2022, followed by Access to Finance in second place and Trade Policies in third.

Figure 28. Obstacles to competitiveness

Of the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains?



Source: AIC Secretariat surveys

5.4 REGULATORY BURDEN AND BUSINESS CLIMATE

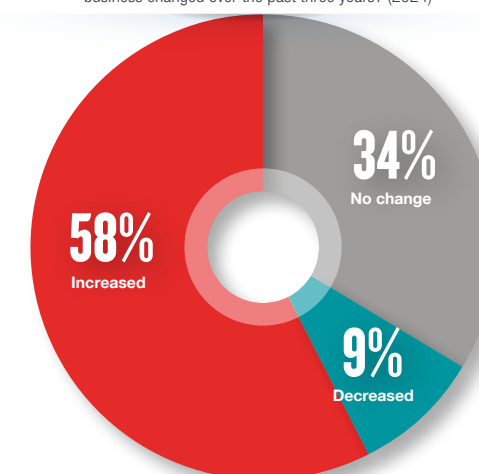
A. REGULATORY BURDEN

(1) According to business perception, the regulatory burden has increased over the last three years, with nearly six out of ten companies confirming this trend. The ICT, Construction, and Services sectors perceive an increase in the regulatory burden over the last three years. Conversely, the Energy,

Industry, and Agriculture sectors perceive a lesser increase in the regulatory burden. 57% of companies with turnovers up to 14 million perceive a rise in the overall regulatory burden, whereas 48% of companies with annual turnovers exceeding ALL 14 million report the same.

Figure 29. Regulatory burden

How has the overall regulatory burden on your business changed over the past three years? (2024)

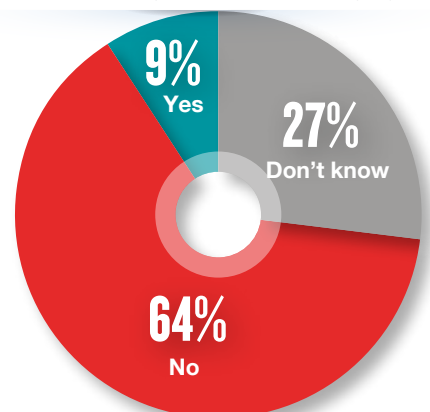


Source: AIC Secretariat survey, 2024

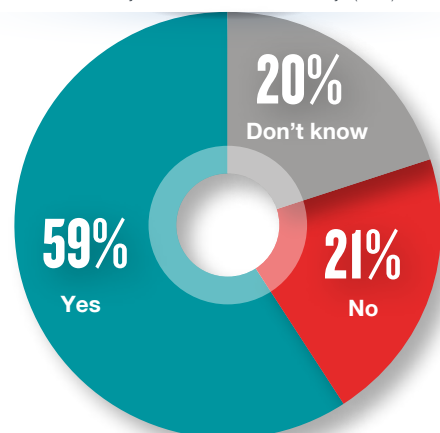
(2) Sixty-four per cent are uncertain about the existence of initiatives aimed at reducing the cost of compliance with the regulatory framework. However, tourism, services, and agriculture sectors exhibit greater awareness of such regulatory initiatives. Among companies that declare awareness of measures aimed at reducing compliance costs with the regulatory framework, nearly 3 out of 5 companies report that these incentives have resulted in savings of time and money in their operations.

Figure 30. Initiatives to decrease regulatory burden.

Are you aware if initiatives have been implemented over the last three years at the central and local level to reduce the cost of compliance with the regulatory framework for business? (2024)



Please specify whether the initiatives have helped to save your business time and/or money? (2024)



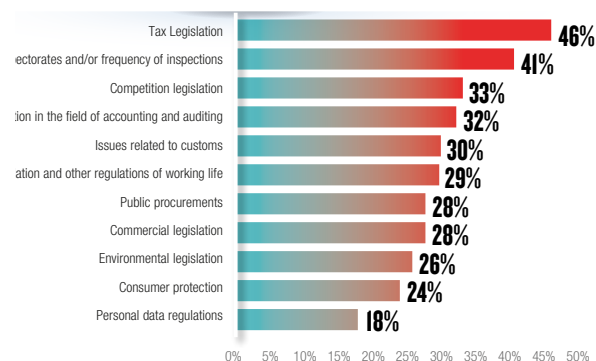
Source: AIC Secretariat survey, 2024

- (3) *Tax legislation is rated as the area with the heaviest administrative burden for companies, followed by Inspections and the frequency of Inspections.* Perceptions vary when considering a sectoral approach. For example, the construction sector perceives Inspections, Tax Legislation, and Public Procurement as imposing the most admin-

istrative burden. The trade sector identifies Competition Legislation, Public Procurement, and Trade Customs as the main sources of administrative burden. Industry, particularly processing, experiences heavier administrative burdens from Environmental, Tax, and Public Procurement legislation.

Figure 31. Areas that affect administrative costs the most

Which of the following areas causes an administrative burden for your enterprise, measured in man-hours and/or costs incurred? (2024)



Source: AIC Secretariat survey, 2024

BOX 3

Administrative burden and business perceptions

Over the past years, and especially in 2016, Albania has made significant progress in improving its tax legislation and business climate. Also, the continuous simplification of tax procedures and modernisation of the IT tax system, culminating with the provision of many online services by public authorities through the e-Albania portal contributed significantly decreasing the administra-

tive burden. However, this changed upon entry into force of the fiscalization reform which increased in the short-term the compliance requirement for businesses. Seven steps/procedures with administrative and financial costs were added to the businesses:

- Registration of Taxpayers as Issuers of Invoices
- Registration of the place of activity
- Registration of electronic billing devices
- Registration of Operators
- Equipment and software solutions for implementing the fiscalization procedure.

vi. Electronic certificate
vii. Implementation of the invoice fiscalization procedure
Fiscalization in Albania included all categories of businesses, as well as transactions, regardless of the nature or type of businesses involved. Therefore, the extended scope of implementation included business-to-business, business-to-consumer, and business-to-public relations. Implementation in tight intervals of time, without being associated with technical support, without a manual or commentary, created problems for many taxpayers. In many cases, technical clarifications were not provided on time.

Compliance with fiscalization requirements, now that the technical problems have been diminished, is not a problem for businesses nor an administrative burden. However, procedures and costs related to the equipment with a qualified certificate for electronic signature have

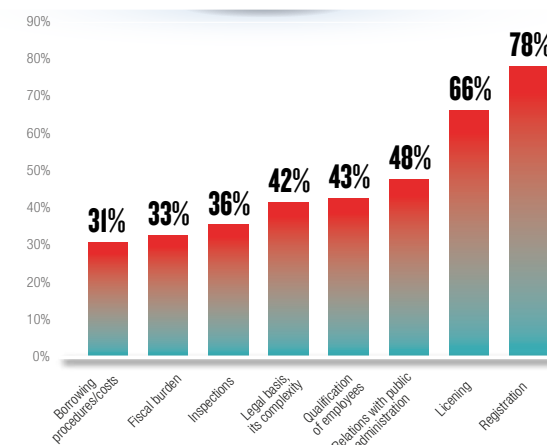
been reported as burdensome, especially for small businesses. In addition to the above, uncertainties that have been associated with the entry into force of the law 29/2023 “On Income Tax”, which provides for a set of procedures and applications not ready yet from the technical point of view, are perceived to further increase the administrative burden for businesses.

B. BUSINESS CLIMATE

- (1) The respondents consider business registration and licensing/authorization procedures the most favourable elements for *doing business* in Albania. However, the procedures and costs of borrowing, fiscal burden and inspections are among the least favourable elements.

Figure 32. Business Climate

How would you rate the climate of doing business in the sector where you operate, based on the following elements? (2024)
(facilitating)



Source: AIC Secretariat survey, 2024

We believe that the perception of the business on the favourable factors is based on the sustainability of the legislation for business registration, the procedures implemented by NBC and their structuring, as well as the widespread introduction of electronic services. The use of electronic services became widespread when it was decided that the institutions would be responsible for receiving and exchanging accompanying documentation among themselves for the applications made by citizens/businesses through the Document Circulation System with Electronic Signature (SQDNE). This shifted the administrative burden (number of procedures, processing deadlines, etc.) of documentation from business to institutions, such as in the case of applications for business registration in the dedicated section in the NBC on the e-Albania platform. The online procedures for business registration are usually fast. During 2023, cases of delays have been recorded due to the obligation for businesses to be equipped with qualified certificates for electronic signatures from NAIS and delays by the latter on their delivery.

While registration in the commercial register is now a consolidated procedure, deregistration as a subject/taxpayer is a problem that has been reported for years by businesses. While the businesses are deregistered in the commercial register of the NBC according to the deadlines clearly stipulated by the law, the tax administration still considers them taxpayers even after these deadlines expire, often requesting from the NBC via an official written letter not to deregister the subject. So, in practice, there are cases in which, although the entities are deregistered in the commercial register, they are still taxpayers in the tax administration registers.

The legal improvements in the framework of the *Doing Business*²² indicator made during 2018 in the law 9920/2008 “On tax procedures” are very clear. *The date of deregistration of the taxpayer in the tax administration is the date of deregistration at NBC or in court for all subjects that are deregistered with them.* This means that after the expiration of the stipulated deadlines of 10 working days from the date of submission of the request and 30 working days for the tax control according to the risk analysis if the entity has no current obligations, it must be deregistered as a subject/taxpayer. The extension of deadlines, although due to objective reasons from tax administration, such as those related to the verification of the subject’s/taxpayer’s obligations and tax audit procedures, is beyond the legal provisions. During the consultations with the respective institutions, it was confirmed that NBC and GDT are currently in the last steps of developing the technical protocol for the real-time verification of taxpayers’ obligations, an obligation which has been foreseen since 2018 in tax procedures.

(2) Regarding inspections in general (non-tax audits), the business community has a non-positive opinion on the real objectives of the inspections. This was confirmed by the Survey and by the meetings of several businesses. The number of inspections and their frequency, along with the number of inspectorates, is considered excessive, while businesses have claims on inspectorates’ technical capacities (do not print the administrative acts and do not provide transparency). The deregulation reform with a focus on streamlining sim-

22 Under the indicator “Ease of doing business”.

ple administrative procedures and the inspection reforms aiming at reducing the number of inspectorates and their methodological structuring, have been the subject of analysis in IC in the previous meetings. More specifically, at the IC meeting XV (2019), it was evidenced that: “... *inspectorates are an important part of the public administration that businesses interact. This confrontation also influences the business’s perception on the administration’s role as a market regulator. Although there are positive dynamics in the formal aspect of reforming inspections, in terms of content, there is still room for improvement in avoiding the over-*

lap of powers and functions between different inspectorates and strengthening inter-institutional coordination. The revision of the sectoral legislation and the coherence in the distribution of powers are factors that still prevent the optimisation of the efficiency of the reform. At this stage where the implementation of the inspection reform has arrived, as part of the deregulatory one, perhaps a revival of political commitment and strategic documents of the reform is required by making public the model and plan of measures or ongoing activities”. It seems that with all the improvements made, this finding is still valid even after 5 years.

RECOMMENDATIONS

In addition to the above, the following considerations can be made from the survey results. There is an increased perception of positive improvements in communication with tax administration, easier electronic tax access, including better client service as relates to the fiscalization, better expectations on GDT's training, including positive perception on the impact of fiscalization and reduced VAT in tourism on the formalisation of the economy. However, more improvements are expected to tackle issues related to data security, formalization of agriculture, trade and services, unexpected costs for SMEs related to fiscalization, or frequent fiscal changes. As relates to the firm's competitiveness, labour availability, and financial support remain pertinent issues, while local salary increase didn't come because of the increase in their productivity but were stimulated by public initiatives. Local entrepreneurs support innovation but, in a major part they do not allocate resources or R&D funds while still believing as being competitive. How to better tackle this firm competitive issue while they still perceive an increase of the regulatory burden, basically the fiscal, not fully aware/informed on recent government initiatives as relates to better harmonization with regulatory reforms, etc.

RECOMMENDATION 1

Approval of a Strategy on Revenue Collection as a comprehensive document for all the stakeholders in public and private sector. Such strategy should be subject to a prior consultation process and discussion with the public (businesses, associations and cham-

bers of commerce, academia, think tanks, partners for development and international institutions). It should be able to clearly underscore the goals, objectives, and actions at medium-term which shall facilitate its periodical monitoring and institutions' accountability on the use of taxpayers' money. The Strat-

egy should not aim the revenue collection *per se*, but also the increasing of productivity and competitiveness through better tax administration and competitive tax burden.

RECOMMENDATION 2

To further stimulate business innovation by releasing funds at the firm level to boost capital/technology investment, relevant analyses should be initiated focusing on: (a) accelerated depreciation (b) supplementary depreciation. Enabling of the reduction of taxable profit, should not be considered as an exemption but as a direct incentive, periodically monitored by tax administration on their yielded impact (MEKI, MF). The *key objective* of the reduction of the taxable profit is improving the financial conditions for the promotion of internal investments, the promotion of productive innovative methods, research, and technological development initiatives. It provides for the reduction of the profit tax payment by incentivizing those enterprises that are profitable.²³

RECOMMENDATION 3

Ensuring fiscal stability – coherence and consolidation of tax procedures through a new law. The new law should unify all the tax procedure practices currently envisaged by several laws, by-laws, and regulations applicable at both central and local level. The adoption of the new law should aim for the endorsement of best practices related to the organization of tax administration operations as envisaged by OECD and should be associated with a detailed Commentary that provides for clear tax

rulings, directly applicable to business scenarios. Without prejudice to the options at the disposal of legislators, the new law should be the outcome of a comprehensive and large-scale political agreement, and possibly at the level of the Code (like the Customs Code).

RECOMMENDATION 4

Approval of a new Instruction on bilateral agreements for the avoidance of double taxation that shall provide for automation and electronic procedures followed by the businesses and tax administration (like the system on VAT reimbursement). The solution envisaged by the instruction does not necessarily need to be based on a genuine procedure, but to follow an EU country model and update the agreements based on the new formats of documents issued from European Tax Departments as for example Certificates of Residence issued in electronic formats and without inked signatures and stamps. It should be applied rigorously through a dedicated team of experts at the level of GDT.

RECOMMENDATION 5

The lower productivity of the economy if compared to regional or European economies identifies a space for improvement and calls for urgent policy interventions targeting. **Given the interaction between fiscal policy, innovation, and productivity it is recommended that productivity should be a guiding principle in designing fiscal policy and direct support to R&D/innovation.** Moreover, in-depth sectorial analyses would shed light on regulatory and policy interventions needed to correct resource misallocation and inefficiencies at the sectoral level, with special focus MSME's.

²³ Models: OECD Countries

We recommend that at least three inter-ministerial working groups with the mandate to perform sectorial analyses on productivity are established at least for the tourism sector, agriculture, and energy and waste management. These analyses could lead to coordinated policy actions on R&D innovation, fiscal measures, and growth rooted in economic productivity. The ICC analyses show that economic productivity could be improved by 24 %.

RECOMMENDATION 6

The productivity gap at the sectorial level identifies sectors that need to address the productivity of labor while being capital-intensive. Improved labor productivity would improve the return from capital and sector performance overall. These sectors could benefit from digitalization or AI of labor processes as well as from on-the-job training and upskilling of existing labor. ***Sectors with a space for productivity boost through labor productivity are energy, water and waste management, construction, and real estate. We recommend these sectors be put under the focus of the innovation strategy inducing more AI/digitalization in support of labour productivity. Measures to deduct labor expenses or subsidize highly skilled specialists engaged in research and development, circular economy, and renewable energy would pay off in terms of efficiency and productivity of capital-intensive industries.***

RECOMMENDATION 7

The tourism sector, manufacturing, extractive industries as well as ICT sector demand more capital to match the labor at the sectorial level and improve productivity. Regulatory measures or standards of operation or fiscal support to release funds within firms, aiming the intensification of capital investments with a focus on innovative and green investments, would lead these sectors toward a more sustainable productivity growth path.

RECOMMENDATION 8

There is a strong need to raise awareness among businesses/MSME's on the importance and benefits of innovation and R&D as ways to address low productivity and lack of competitiveness. The insignificant share of financial resources dedicated to innovative investments and R&D is persistent. Policy measures addressing R&D/innovation are intensified, however, more needs to be done to trigger an organizational change at the firm level able to create a mass of innovative investments. Thus, ***it remains within the focus/leadership of the Ministry of Economy, Culture, and Innovation to design and lead an awareness campaign and communicate with businesses and financial institutions to induce more funding and investment toward innovations.***

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ANNEX I

THE SURVEY

CHALLENGES: INTERACTION WITH THE TAX ADMINISTRATION, FORMALIZATION AND PRODUCTIVITY

The survey is an initiative of the Investment Council. The purpose of the survey is to support a comprehensive debate based on facts, data and analysis of business concerns in three main areas (i) interaction with the fiscal administration (ii) informality and (iii) productivity.

The findings and suggestions will be discussed at the next meetings of the Investment Council and the approved recommendations will be presented to the Albanian Government for further consideration that may bring changes or legal and regulatory revisions with an impact on the investment climate.

1. 1. Company age:

Mark only one oval.

- ☐ <3 years
- ☐ 3 - 5 years
- ☐ 5 - 10 years
- ☐ >10 years

2. 2. In which Qark is located/operates your business? : *

Mark only one oval.

- ☐ Qarku i Beratit
- ☐ Qarku i Dibrës
- ☐ Qarku i Durrësit
- ☐ Qarku i Elbasanit
- ☐ Qarku i Fierit
- ☐ Qarku i Gjirokastrës
- ☐ Qarku i Korçës
- ☐ Qarku i Kukësit
- ☐ Qarku i Lezhës
- ☐ Qarku i Shkodrës
- ☐ Qarku i Tiranës
- ☐ Qarku i Vlorës

3. 3. Organization of your business: *

Mark only one oval.

- ☐ Sole trader
- ☐ General Partnerships
- ☐ Limited partnership
- ☐ Limited liability company
- ☐ Joint Stock Companies
- ☐ Foreign company branch
- ☐ Representative office

4. 4. The main shareholder (owning more than 50%) of your company is: *

Mark only one oval.

- ☐ Female
- ☐ Male
- ☐ I prefer not to answer

5. 5. The annual reported turnover of your company for the last year: *

Mark only one oval.

- ☐ up to 8 mln ALL
- ☐ 8 -10 mln ALL
- ☐ 10 - 14 mln ALL
- ☐ over 14 mln ALL

6. 6. What is the average number of staff employed at your company: *

Mark only one oval.

- ☐ up to 9
- ☐ 10-49
- ☐ 50-249
- ☐ over 249

7. 7. You have more _____ workers : *

Mark only one oval.

- ☐ Female
- ☐ Male

8. 8. The main shareholders (owning more than 50%) of your company are: *

Mark only one oval.

- ☐ Albanian
- ☐ Foreigner
- ☐ Both

9. 9. Please select the activity that defines the main economic activity of your company: *

Mark only one oval.

- ☐ Agriculture, forestry and fishing
- ☐ Mining and quarrying
- ☐ Manufacturing
- ☐ Water supply, sewerage, waste management and remediation
- ☐ Construction
- ☐ Wholesale and retail trade, repair of motor vehicles and motorcycles
- ☐ Electricity, gas, steam and air-conditioning supply
- ☐ Transportation and storage
- ☐ Accommodation
- ☐ Food service activities
- ☐ Travel agency/Tour Operators
- ☐ Telecommunications, IT and other information services
- ☐ Professional, scientific and technical activities
- ☐ Real estate activities
- ☐ Financial activities
- ☐ Education
- ☐ Human health services
- ☐ Arts, entertainment and recreation
- ☐ Other services

10. 10. Are you an exporting company? *

Mark only one oval.

☐ Over 70% of sales

☐ Between 50% - 70% of sales

☐ Less than 50% of sales

☐ No, I dont export

ON INFORMATION, COMMUNICATION AND USE OF INFORMATION TECHNOLOGY BY THE TAX ADMINISTRATION

11. 11. How would you rate the communication with the tax administration in the last two years?

Mark only one oval.

☐ Very Positive

☐ Positive

☐ Unchanged

☐ Deteriorated

☐ Significantly worsened

12. 12. Please rate your satisfaction with GDT's electronic services. Give your rating using the rating scale below 1- very satisfied, 2- satisfied, 3- somewhat satisfied, 4- dissatisfied, 5- very dissatisfied

Mark only one oval per row.

	1	2	3	4	5
Access to the electronic system	☐	☐	☐	☐	☐
Reliability of data	☐	☐	☐	☐	☐
Accuracy of data processing	☐	☐	☐	☐	☐
Customer service ((existence of communication channels/speed of response/complaints/correct answers to problems/etc.)	☐	☐	☐	☐	☐

13. 13. Please rate your satisfaction with the customer service provided regarding the fiscalization process:

Mark only one oval.

☐ Very satisfied

☐ Satisfied

☐ Somewhat satisfied

☐ Disappointed

☐ Very unhappy

14. 14. Do you think that the tax service/fiscalization process/etc. needs the establishment of an electronic telephone service (call center)?

Mark only one oval.

- ☐ Yes
- ☐ No
- ☐ Other: _____

15. 15. Have you participated in training sessions offered in recent years by the Tax Administration on the implementation of tax legislation?

Mark only one oval.

- ☐ Yes
- ☐ No

16. 16. Please, if you have comments/suggestions about the fiscalization process (such as problems with the software used for the fiscalization process, support from operators, etc.)

INFORMALITY

17. 17. Please determine if you face competition from informal activities in the sector where you operate?

Mark only one oval.

- ☐ Yes
- ☐ No Skip to question 19

18. 18. Please rate the nature of informality in your sector, rating 3-phenomena that appear more often and 1-phenomena that appear less often.

Mark only one oval per row.

	1	2	3
Tax avoidance	☐	☐	☐
No registration	☐	☐	☐
Corruption	☐	☐	☐
Undeclared work	☐	☐	☐
Under declared salary	☐	☐	☐
False statements	☐	☐	☐
Contraband goods	☐	☐	☐

19. 19. For each of the factors listed, identify the degree of influence in the decision of a business to undertake the risk of an informal activity (1- the most important factor, 2- important, 3- somewhat important, 4- not important, 5 - not at all important):

Mark only one oval per row.

	1	2	3	4	5
Complexity of tax legislation	☐	☐	☐	☐	☐
Implementation of tax legislation in practice	☐	☐	☐	☐	☐
Fiscal burden at the central level - TAP/Profit Tax/VAT	☐	☐	☐	☐	☐
Fiscal burden at the local level - Local taxes and fees	☐	☐	☐	☐	☐
Tax Audits	☐	☐	☐	☐	☐
Relations with the Tax Administration	☐	☐	☐	☐	☐
Unfair competition	☐	☐	☐	☐	☐
Level of Corruption	☐	☐	☐	☐	☐
Fiscal instability/frequent changes in fiscal legislation	☐	☐	☐	☐	☐

20. 20. Do you think that Fiscalization has properly addressed the practical implementation of fiscal policies and measures for the formalization of the economy:

Mark only one oval.

☐ Fiscalization has reduced informality

☐ Fiscalization has increased informality

☐ Fiscalization has not brought any significant changes

☐ I do not know

☐ Other: _____

21. 21. Has Fiscalization affected the costs of fiscal administration?

Mark only one oval.

☐ Fiscalization has reduced administration costs

☐ Fiscalization has increased your cost of administration

☐ Fiscalization has not brought significant change in administration costs

☐ Other: _____

22. 22. How do you think the implementation of the new income law will affect the level of informality in your sector?

Mark only one oval.

☐ It will increase informality

☐ It will reduce informality

☐ It will have no impact

☐ I do not know

☐ Other: _____

23.

23. Please justify the above answer, Why
24.

24. From your point of view, what could be some effective incentives to reduce informality in your sector?
25.

25. In the field of Tourism, where some services have benefited from a reduction in VAT to 6%, do you think that this policy has reduced informality in this sector?

Mark only one oval.

☐

Yes, it has had a significant impact on reducing informality

☐

No, it has not had an impact on reducing informality

☐

I do not know

☐

Other:

26.

26. How would you rate the climate of doing business in the sector where you operate, based on the following elements:

Mark only one oval per row.

	Very favorable	Favorable	Somewhat favorable	Not favorable	Not favorable at all
Registration	☐	☐	☐	☐	☐
licensing	☐	☐	☐	☐	☐
Relations with public administration	☐	☐	☐	☐	☐
Legal basis, its complexity	☐	☐	☐	☐	☐
Fiscal burden	☐	☐	☐	☐	☐
Qualification of employees	☐	☐	☐	☐	☐
Borrowing procedures/costs	☐	☐	☐	☐	☐
Inspections	☐	☐	☐	☐	☐

PRODUCTIVITY AND INNOVATION

27. 27. From the following factors, directly related to your company, which can be considered the 3 main obstacles to integration in international value chains:

Check all that apply.

- ☐ Innovation and Technology in the company
- ☐ Management skills
- ☐ The quality of the company's workforce
- ☐ Availability of labor force
- ☐ Lack of information on the markets targeted by the company
- ☐ Competitiveness in the markets targeted by the company (Standards, procedures, fees, etc.)
- ☐ Foreign (company) ownership
- ☐ Financial support
- ☐ Higher quality marketing
- ☐ Other: _____

28. 28. Of the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains:

Check all that apply.

- ☐ Informality
- ☐ Access to Financing
- ☐ Infrastructure (roads, ports, airports, etc.)
- ☐ Logistics (storage, procedure, etc.)
- ☐ Trade facilitation
- ☐ Trade policies
- ☐ Access to Information and Communication Technology
- ☐ Other: _____

29. 29. Defining labor productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of other companies in the sector where you operate:

Mark only one oval.

- ☐ Much higher
- ☐ Somewhat higher
- ☐ Same
- ☐ Somewhat lower
- ☐ Much lower

30. 30. Defining labor productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies you cooperate with:

Mark only one oval.

- ☐ Much higher
- ☐ Somewhat higher
- ☐ Same
- ☐ Somewhat lower
- ☐ Much lower

31. 31. Does it happen to you during a working day, to suspend work due to a breakdown (eg power outage, the system does not work, you are waiting for another work process to finish, etc.)

Mark only one oval.

- ☐ Yes
- ☐ No *Skip to question 33*
- ☐ I dont know *Skip to question 33*

32. 32. If so, please specify in terms of time, approximately how many minutes these stops are:

Mark only one oval.

- ☐ Less than 10 minutes
- ☐ From 11 - 30 minutes
- ☐ From 31 – 60 minutes
- ☐ More than 60 minutes
- ☐ Other: _____

33. 33. Which of the following measures do you think are the top 3 that would help your company improve labor productivity?

Check all that apply.

- ☐ Increasing the salary of employees
- ☐ Improvement of working conditions
- ☐ Digitization of work processes
- ☐ Introduction of new production technologies
- ☐ Continuous training of employees in the workplace
- ☐ Cooperation with foreign businesses
- ☐ Other: _____

34. 34. If you as a company consider applying measures to increase labor productivity, how much do you think these measures will increase productivity?

Mark only one oval.

- ☐ 1%
- ☐ 2%
- ☐ 3-5%
- ☐ > 5%
- ☐ We have no such plans

35. 35. If you as a company consider applying measures to increase labor productivity, how much do you think these measures will increase the cost of your activity?

Mark only one oval.

- ☐ 1%
- ☐ 2%
- ☐ 3-5%
- ☐ > 5%
- ☐ We have no such plans

36. 36. What regulatory measures would you suggest to become part of economic policies aimed at increasing labor productivity in your company, choose up to 3 measures?

Check all that apply.

- ☐ Increasing the minimum salary
- ☐ Supporting companies with internal/external training
- ☐ State intervention through tax reduction/subsidy etc
- ☐ Support for companies in digitizing work processes and using AI;
- ☐ Support for companies in improving production technology;
- ☐ Support/promotion of companies that adopt improved working conditions
- ☐ Liberalization of procedures for qualified immigrants;
- ☐ Other: _____

37. 37. Has the salary increase in public institutions affected the salaries in your company:

Mark only one oval.

- ☐ Yes
- ☐ No
- ☐ I don't think it should have an impact
- ☐ Other: _____

38.

38. What place does the development and introduction of innovation occupy (how much attention is paid to it) in your company? Rate from 1 to 5 where 1=Not at all and 5=Very much)

Mark only one oval.

☐ 1

☐ 2

☐ 3

☐ 4

☐ 5

39.

39. Does your company have a dedicated R&D fund?

Mark only one oval.

☐ Yes, we have a dedicated fund

☐ No, we do not have a dedicated fund, but on a case-by-case basis
Skip to question 41

☐ No, we don't because we don't need it Skip to question 41

☐ Other: _____

40.

40. Please state what % of the budget goes to Research and Development

41.

41. Does your company have a dedicated employee training fund?

Mark only one oval.

☐ Yes

☐ No, we do not have a dedicated fund, but according to the cases
Skip to question 43

☐ No, we don't because we don't need it Skip to question 43

☐ Other: _____

42.

42. Please specify what % of the budget goes to employee training.

43.

43. Please express other comments or suggestions on issues related to fiscal administration and the investment climate for further consideration during the work of the Investment Council.

BUSINESS CHALLENGES TO ENSURE COMPLIANCE WITH THE LEGAL AND REGULATORY FRAMEWORK

44. 44. How has the overall regulatory burden on your business changed over the past three years?

Mark only one oval.

- ☐ Increased
- ☐ Decreased
- ☐ It hasn't changed
- ☐ Other: _____

45. 45. Are you aware if initiatives have been implemented over the last three years at the central and local level to reduce the cost of compliance with the regulatory framework for business?

Mark only one oval.

- ☐ Yes
- ☐ No Skip to question 47
- ☐ I dont know Skip to question 47

46. 46. Please specify whether the initiatives have helped to save your business time and/or money?

Mark only one oval.

- ☐ Yes
- ☐ No
- ☐ I dont know

PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATION

47. 47. Which of the following areas causes an administrative burden for your enterprise, measured in man-hours and/or costs incurred? (Put the sectors causing a load in order of priority (1 = lightest load, 5 = heaviest load).

Mark only one oval per row.

	1	2	3	4	5
Labor legislation and other regulations of working life	☐	☐	☐	☐	☐
Tax Legislation	☐	☐	☐	☐	☐
Environmental legislation	☐	☐	☐	☐	☐
Competition legislation	☐	☐	☐	☐	☐
Personal data regulations	☐	☐	☐	☐	☐
Public procurements	☐	☐	☐	☐	☐
Consumer protection	☐	☐	☐	☐	☐
Legislation in the field of accounting and auditing	☐	☐	☐	☐	☐
Trade legislation	☐	☐	☐	☐	☐
Issues related to customs	☐	☐	☐	☐	☐
Number of inspectorates and/or frequency of inspections	☐	☐	☐	☐	☐

ANNEX II

SURVEY FINDINGS



PRIVATE SECTOR CHALLENGES: INFORMALITY, PRODUCTIVITY, AND INNOVATION

February 2024

PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATION

OBJECT & METHODOLOGY



METHODOLOGY

- Structured questionnaire
- Sent by email to companies
- Questionnaires completed anonymously online by 601 businesses
- The survey includes data reported during the period January - February 2024

MAIN CONCLUSIONS

01

IMPROVED COMMUNICATION

Communication with the central tax administration has improved and the improvement has been continuous.

02

WELL-ACCEPTED DIGITIZATION

Businesses are fairly satisfied with electronic services compared to 2022, even though there is still room for improvement, mainly in the elements of data reliability and customer service.

03

FISCALISATION

There is an increase in evaluation in terms of customer service in the fiscalisation system, increasing from 2022, but the need for the existence of a communication channel (call centre) to support users is still expressed. Fiscalisation is evaluated in its impact on reducing Informality in the country but with increased costs to businesses.

04

INCREASING LEGAL TRAINING

Businesses have increased their participation in GDT training - although still in low numbers.

05

PERCEPTION OF INFORMALITY

To a considerable extent, business accepts the existence of informality, more than in 2019, but less than in 2022. Agriculture, the processing industry, and services perceive more informality. Energy perceives less informality compared to other sectors. Informality in its highest form appears as tax evasion, unregistered work, and non-registration—a trend preserved over the years.

MAIN CONCLUSIONS

06

THE MOST IMPORTANT FACTOR

that promotes informality is the fiscal burden at the central level, which has replaced the unfair competition in the years 2019 - 2022. The new law on income continues to be considered as an element that will increase informality in the country.

07

THE REDUCTION OF VAT IN TOURISM

has reduced informality according to the perception of the sector itself.

08

THE BUSINESS CLIMATE

has improved in terms of registration and licensing but not in terms of the procedures/costs of borrowing and the fiscal burden in the country.

09

THE AVAILABILITY OF THE LABOUR FORCE

is considered the main disadvantage in 2024, at a time when in 2022, availability was the 4th factor in a row considered as an obstacle to integration. Informality is still considered the main obstacle to integration for Albanian companies.

10

PRODUCTIVITY

Companies feel they are equally productive domestically but are less productive when compared to companies operating abroad.

11

CONTINUOUS TRAINING

along with salary increases can bring an increase in labour productivity according to the perception of the business. To a significant extent, the business declares taking measures to increase productivity at work.

12

INCREASED STATE SUPPORT

towards subsidies, training, and technologies would help companies in the country increase productivity at work.

13

INNOVATION WAS CONSIDERED TO RECEIVE CONSIDERABLE ATTENTION

from companies during 2021 (the post-pandemic period), although not supported with a dedicated fund, compared to 2024. Companies in most cases train employees based on the needs of the moment and they do not have a continuous dedicated budget line for this.

14

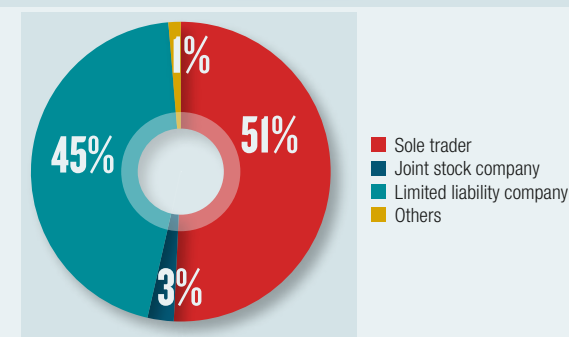
THE REGULATORY BURDEN

as an additional cost to the business is largely estimated to be the fiscal burden and the inspectorates (the number and frequency of inspections).

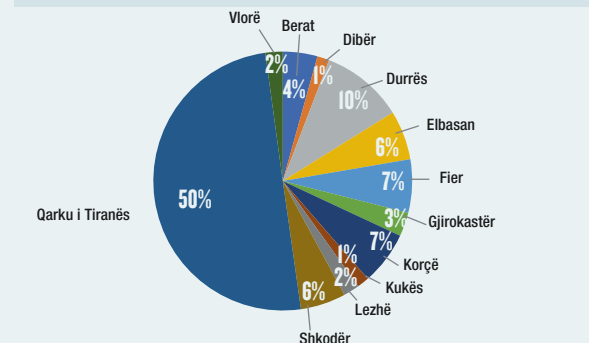
PRIVATE SECTOR CHALLENGES: INFORMALITY, PRODUCTIVITY, AND INNOVATION

601 BUSINESSES

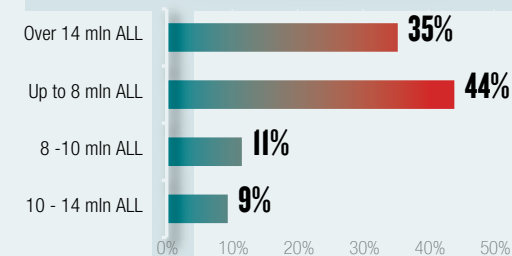
Organisational structure of your business (% of total):



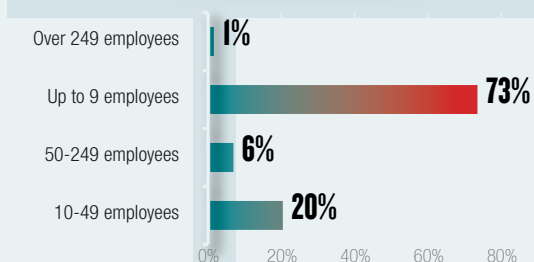
County where you carry out your activity (% of total):



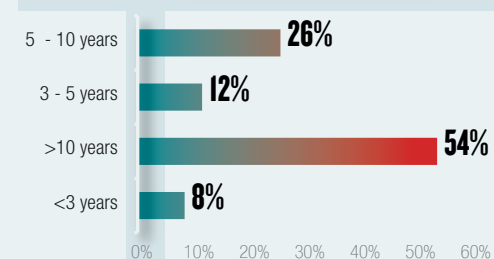
Size of your business by last year's turnover (% of total)



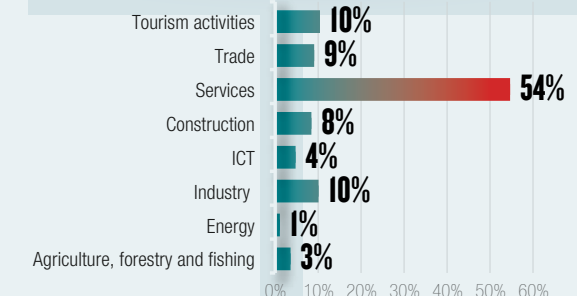
What is the average number of employees in your business (% of total)?



Age of your company (% of total)



Sector (% of total)



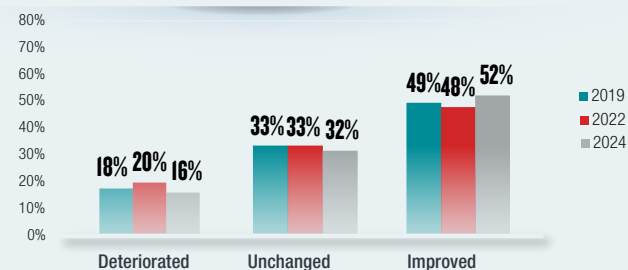
COMMUNICATION WITH GDT



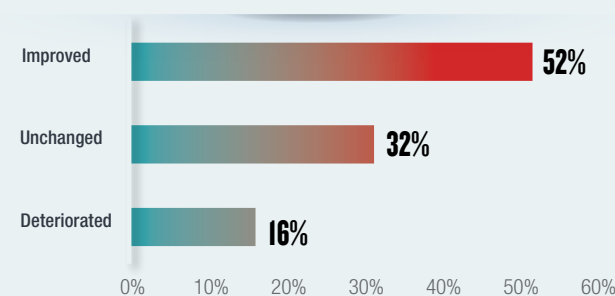
The comparison over the years shows that communication with the GDT **is perceived positively** and mostly not in deterioration.

52% of companies perceive communication as **positive/very positive**, while 32% consider communication unchanged.

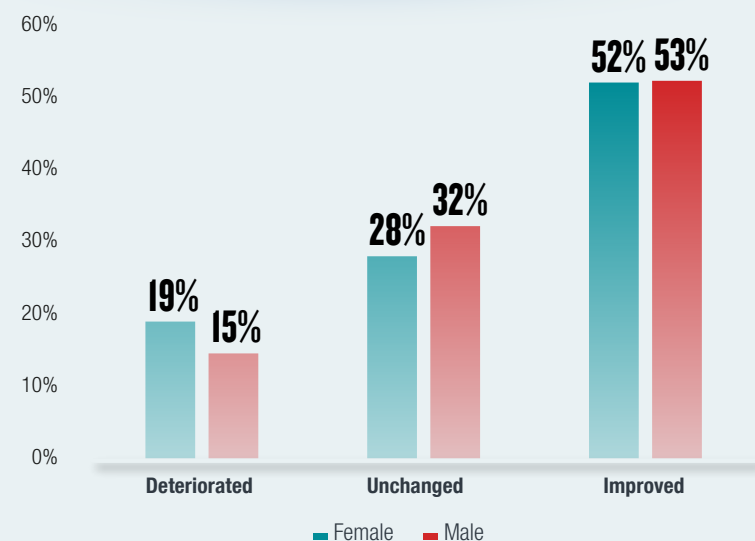
How would you rate the change in the communication of the tax administration in the last two years?



How would you rate the communication with the tax administration in the last two years (% of total)? (2024)



How would you rate the communication with the tax administration in the last two years (% of total)? (2024)



The perception is the same for female administrators as well as male ones.

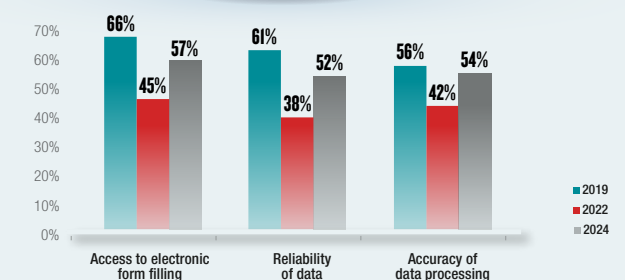
SATISFACTION WITH THE ELECTRONIC SERVICES OF THE GDT



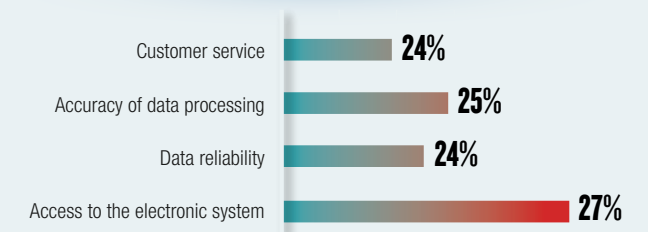
Satisfaction with electronic services, **although increasing compared to 2022**, is still lower than in 2019 across all three evaluated elements.

Access to the electronic services of the **GDT is the most highly rated element by businesses**, while customer service and data reliability have the lowest ratings from users for the year 2024.

Rate your satisfaction with the electronic services of the General Directorate of Taxes
"satisfied/very satisfied"



Satisfaction with GDT electronic services (2024)
"very satisfied"

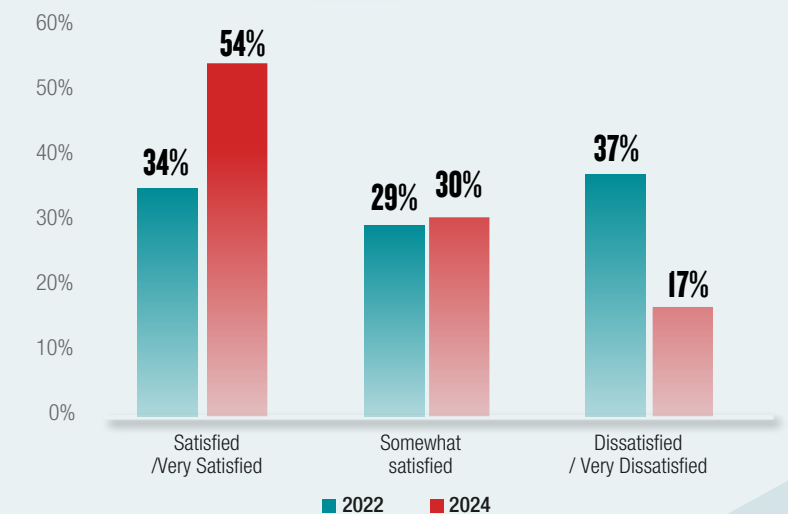


FISCALISATION - CUSTOMER SERVICE



Compared to 2022, there is an **increase in the rating of customer service** regarding the fiscalisation process.

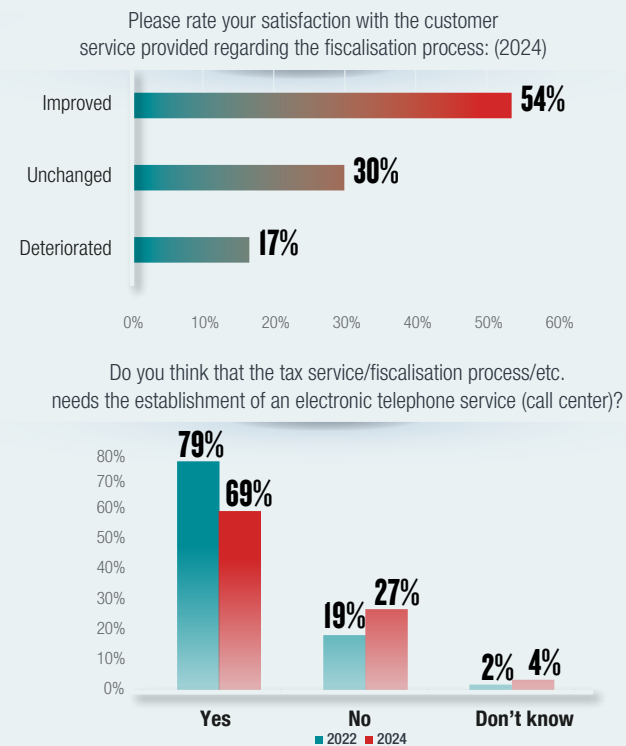
Rate satisfaction with customer service provided in connection with the fiscalization process:



FISCALISATION - CUSTOMER SERVICE



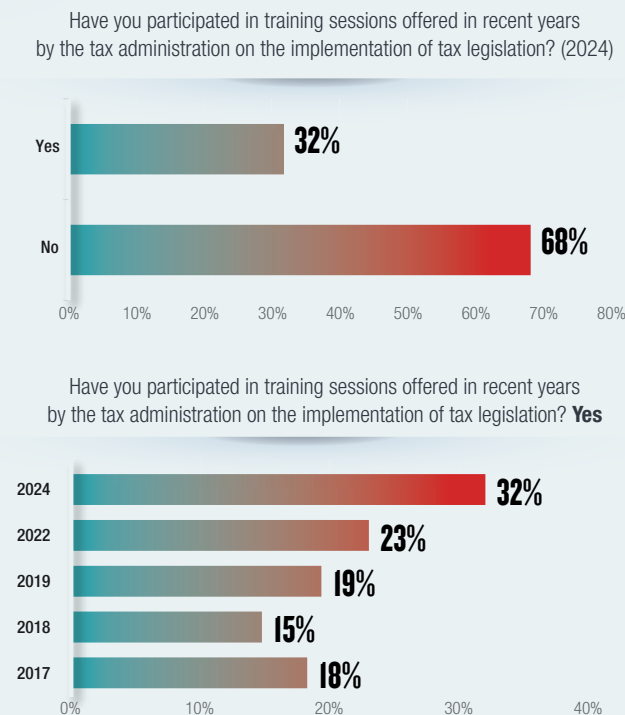
Roughly **1 in 6** companies express satisfaction with the customer service regarding the fiscalisation process, but 1 in 7 companies express that this service needs the establishment of a call centre to respond to users. The same trend as two years ago.



LEGAL TRAINING - GDT



Despite the low number of businesses participating in GDT training compared to previous years, **there is an increase in the number of businesses** participating in such training.



PRIVATE SECTOR CHALLENGES: INFORMALITY, PRODUCTIVITY, AND INNOVATION

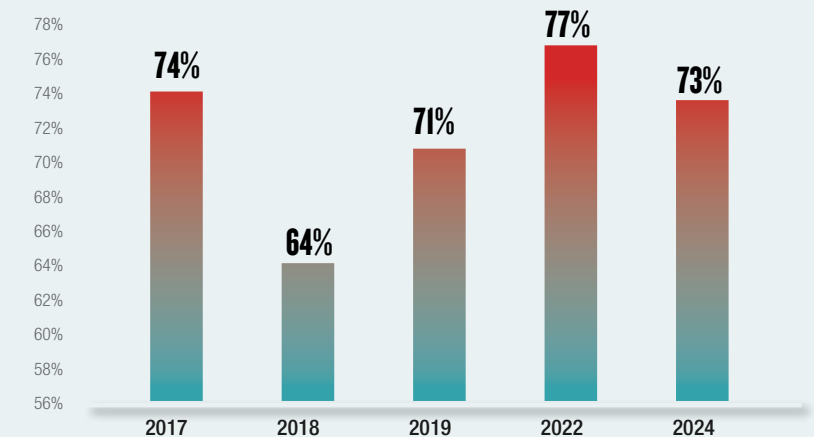
INFORMALITY



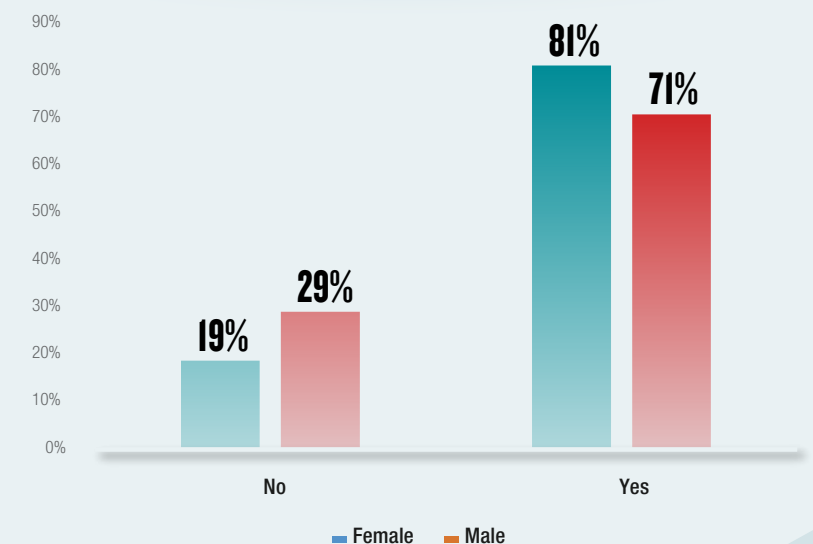
Businesses' **perceptions of informality continue to be at high levels**, with more than one in seven companies believing they face informality in their activities.

The trend is somewhat lower compared to 2022, although it **is increasing compared to 2019**.

Please determine whether you face competition from informal activities in the sector in which you operate? **Yes**



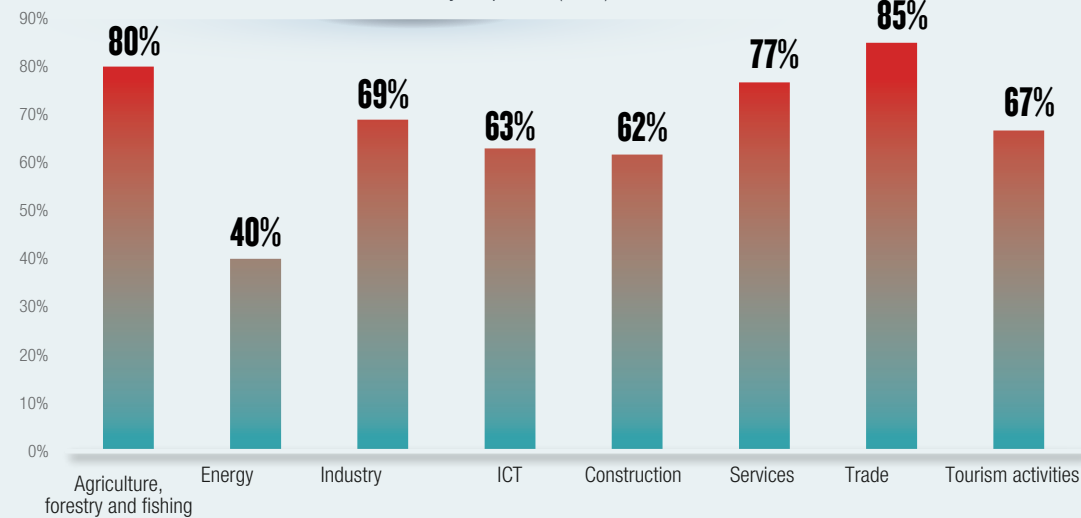
Please determine whether you face competition from informal activities in the sector in which you operate? (2024)



Female administrators perceive informality higher than male administrators.

INFORMALITY

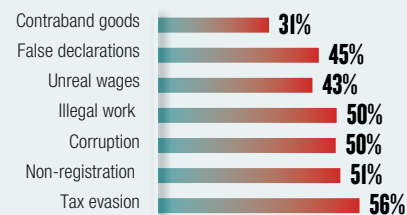
Please determine whether you face competition from informal activities in the sector in which you operate? (2024) **Yes**



“Agriculture, trade, and services are the sectors with the highest perception of informality.”

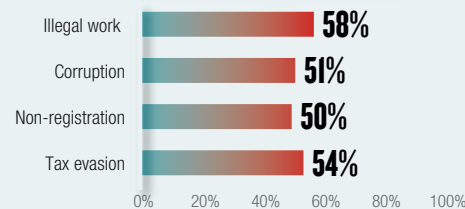
INFORMALITY
- BUSINESS PERCEPTION

Please assess the nature of informality in your sector: (2024)

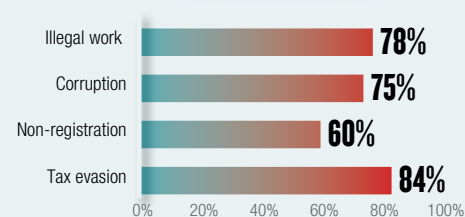


“Tax evasion is confirmed as the main form of informality in years, followed by undeclared work and non-registration.”

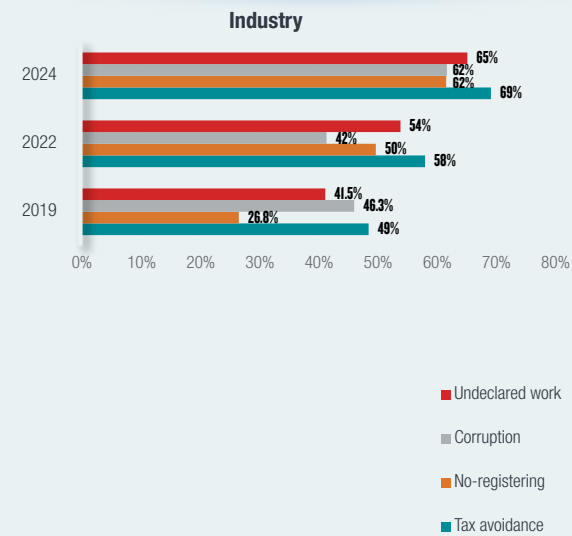
Please assess the nature of informality in your sector: (2022)



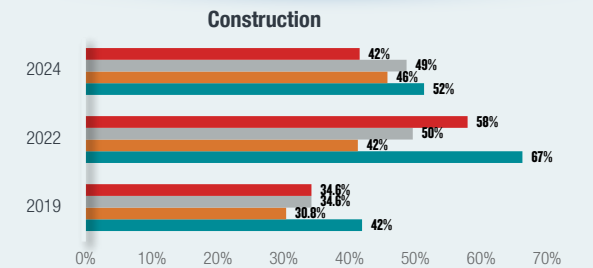
Please assess the nature of informality in your sector: (2019)

PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATIONNATURE OF INFORMALITY
BY SECTORS

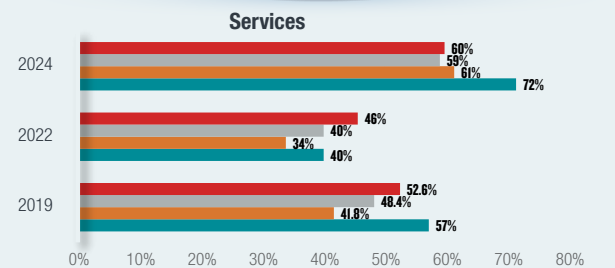
Please rate the nature of informality in your sector (2024)



Please rate the nature of informality in your sector (2022)

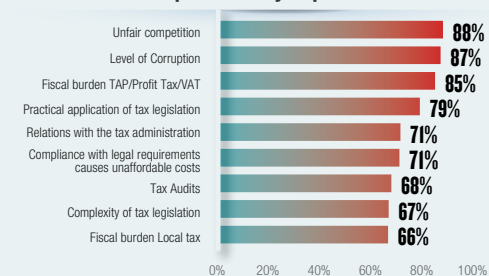


Business perception on the nature of informality (2019)

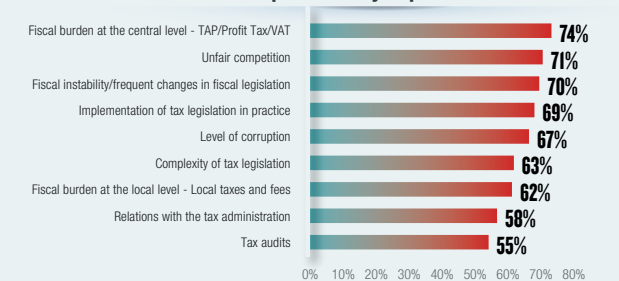
THE MOST IMPORTANT FACTOR
THAT PROMOTES INFORMALITY

“The perception of businesses during the years 2019 and 2022 that unfair competition was the primary factor driving informality has been replaced by the central fiscal burden in 2024.”

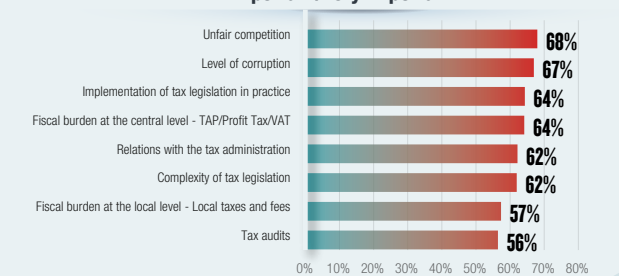
For each of the listed factors, determine the level of influence on a business's decision to engage in informal activities: (2019) **"important/very important"**



For each of the listed factors, determine the level of influence on a business's decision to engage in informal activities: (2024) **"important/very important"**



For each of the listed factors, determine the level of influence on a business's decision to engage in informal activities: (2022) **"important/very important"**



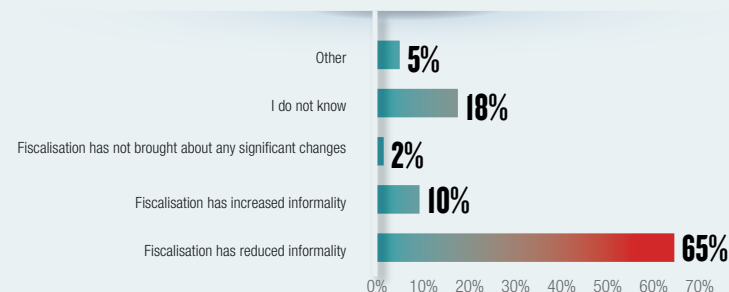
INFORMALITY



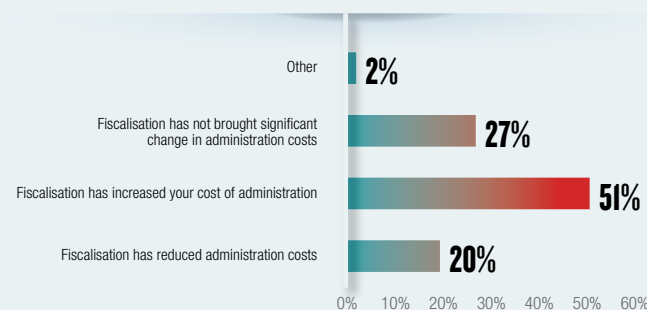
Fiscalisation has influenced the **reduction of informality** based on the perception of businesses, according to 65% of respondents.

Meanwhile, half of the companies perceive **an increase in administrative costs**.

Do you think that fiscalisation has properly addressed the practical implementation of fiscal policies and measures for the formalization of the economy? (2024)



Has Fiscalization affected the costs of fiscal administration? (2024)



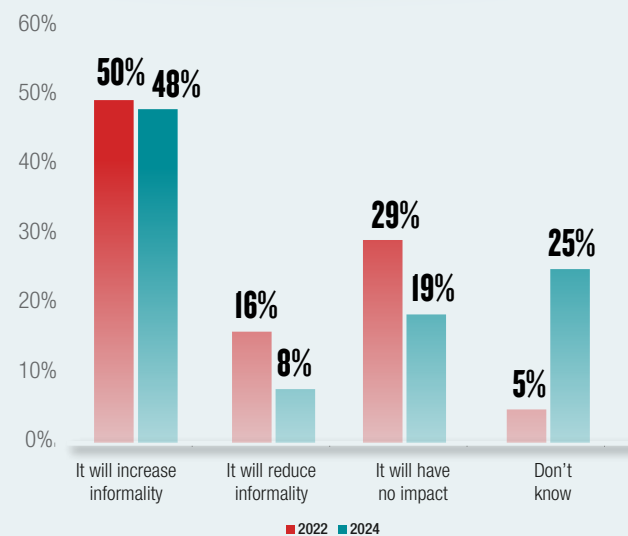
THE NEW LAW ON INCOME



48% of companies perceive that **the new law on income will increase informality** in the country; the same trend as two years ago when this law was announced.

The difference in this case involves companies that are doubtful about the effects of the new Law on Income.

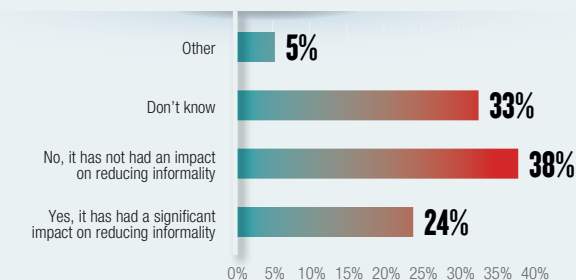
How do you think the implementation of the new income law will affect the level of informality in your sector?

PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATIONREDUCTION OF VAT
IN TOURISM

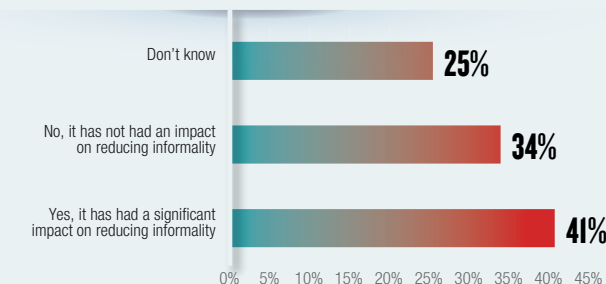
38% of all companies believe that the reduction in VAT in tourism **has not resulted in a decrease in informality**.

Meanwhile, within the tourism sector itself, 4 out of 10 companies believe that **the reduction in VAT has had a noticeable impact** on decreasing informality.

In the field of tourism, where some services have benefited from a reduction in VAT to 6%, do you think that this policy has reduced informality in this sector? (2024)



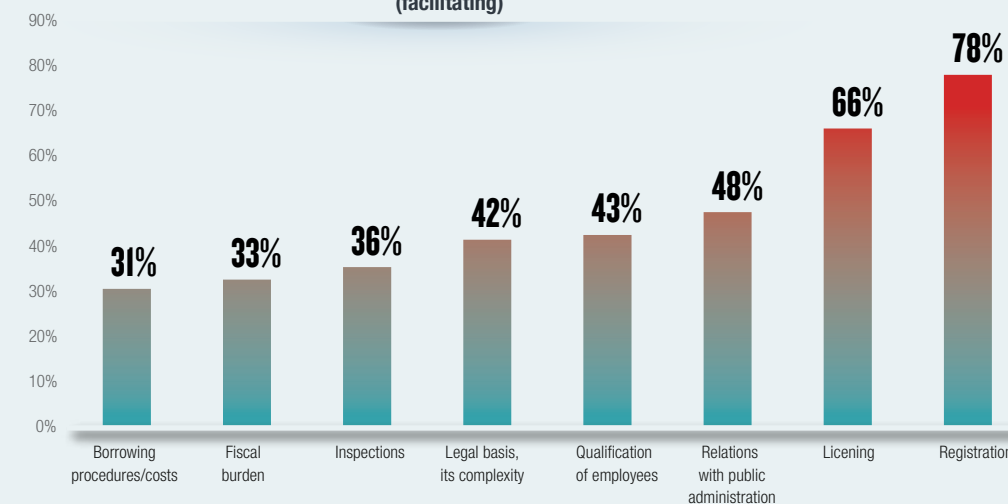
In the field of tourism, where some services have benefited from a reduction in VAT to 6%, do you think that this policy has reduced informality in this sector? (2024)

BUSINESS
ENVIRONMENT

Registration and licensing are considered the most favourable elements by the respondents.

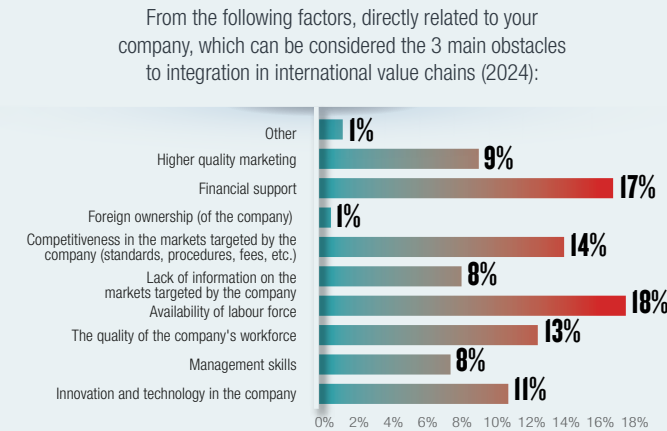
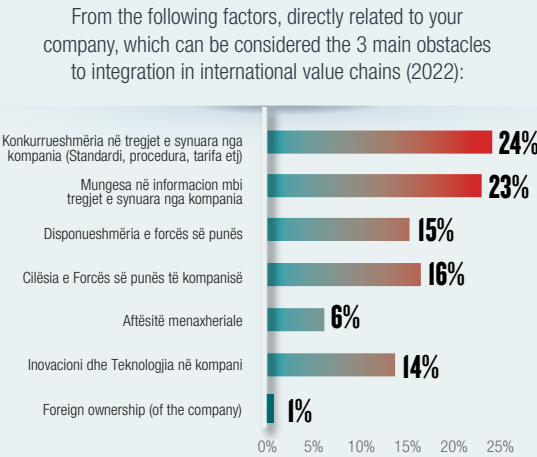
Meanwhile, procedures/costs of obtaining credit and fiscal burden are the least favourable elements for the surveyed companies.

How would you rate the climate of doing business in the sector where you operate, based on the following elements? (2024)
(facilitating)



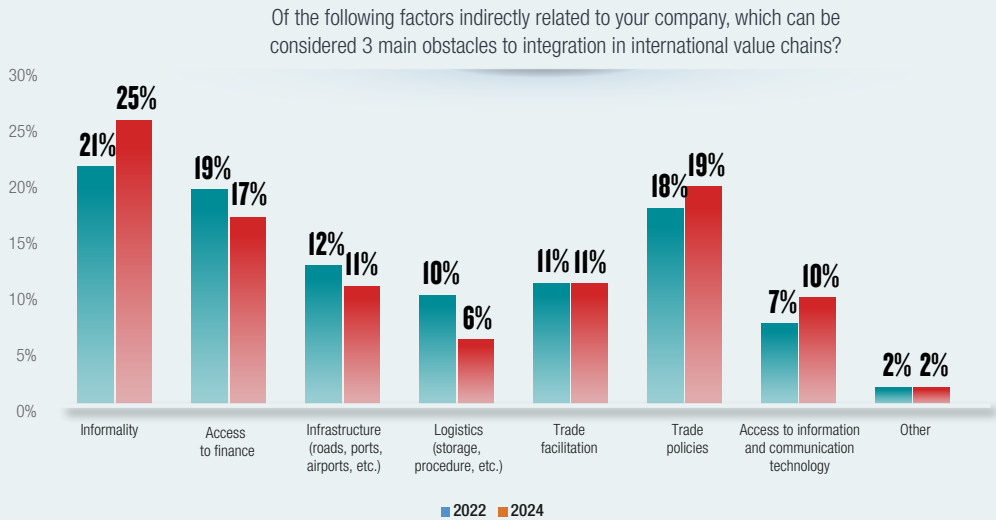
COMPETITIVENESS

“ In 2024, **the availability of the workforce is considered unfavourable**, while in 2022, availability was the fourth factor in line.



“ In 2024, **informality, trade policies, and access to finance** are considered the main barriers to integration.

Informality was also the main barrier identified in 2022, while in second place was access to finance, followed by trade policies.

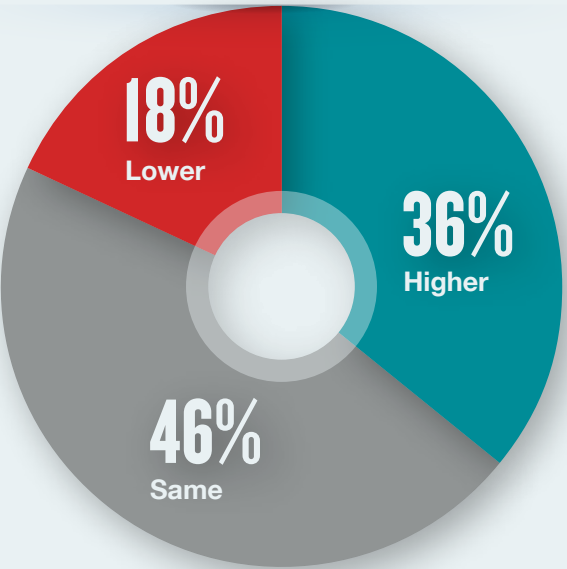


PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATION

PRODUCTIVITY

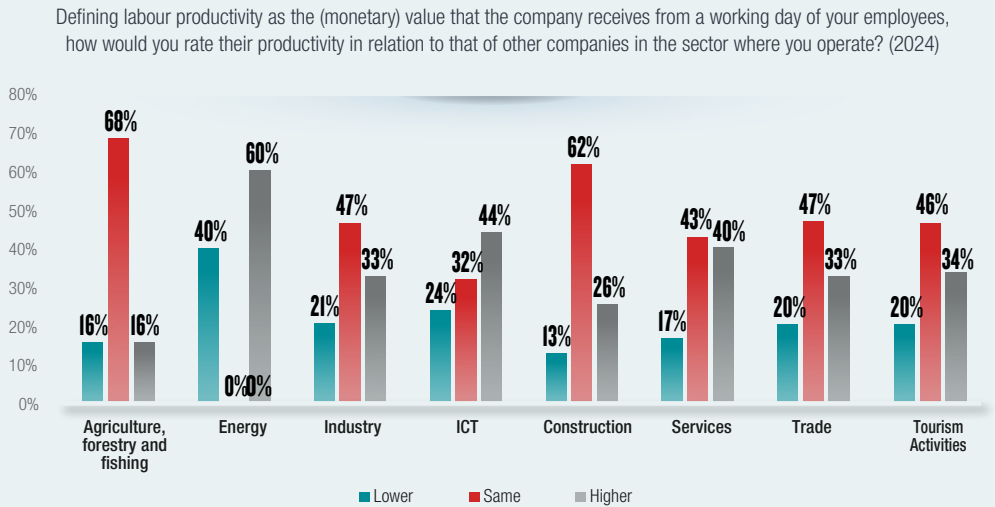
Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of other companies in the sector where you operate? (2024)

“ More than 4 out of 10 companies **perceive themselves as equally productive** as their competitors in the country.



“ Sectors such as energy or ICT **consider their staff to be more productive** than the competition within the country.

While traditional sectors consider their staff **to be equally productive** within the country.

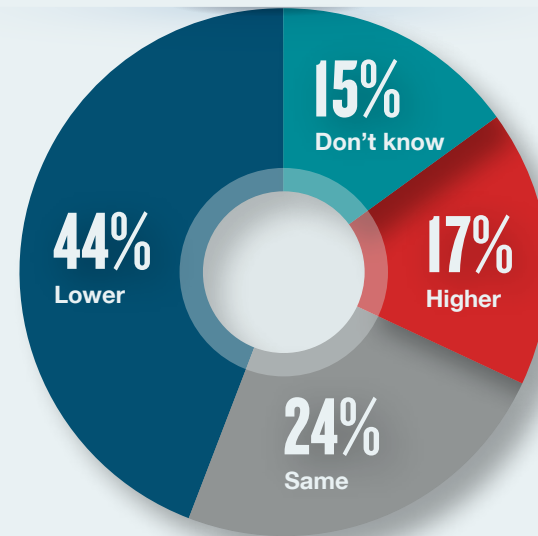


PRODUCTIVITY

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies you cooperate with? (2024)

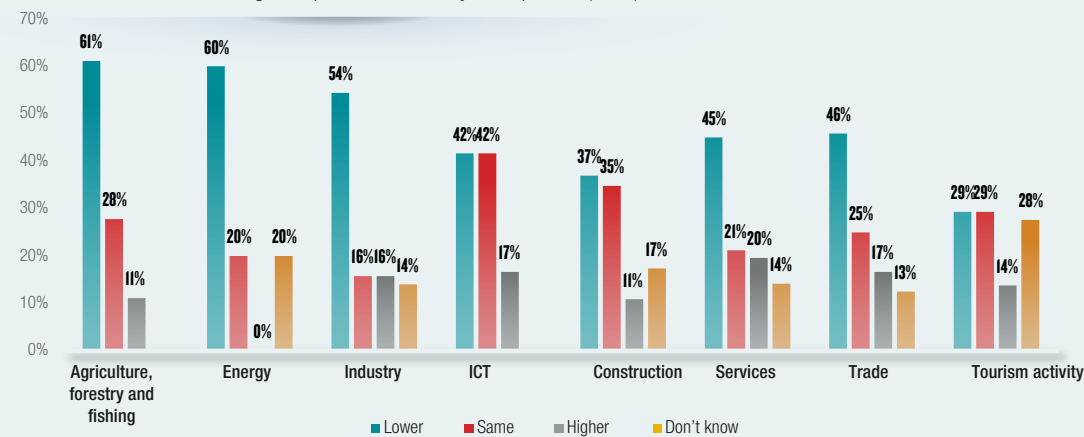


More than 4 out of 10 companies **perceive themselves as less productive** than their counterparts outside the country.



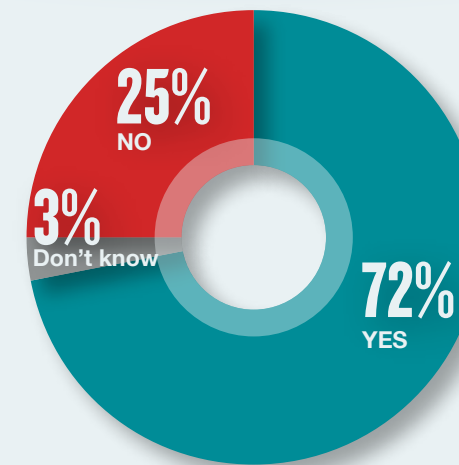
Tourism and ICT perceive a productivity **to some extent equal to the foreign competition**, in contrast to other sectors that perceive to be much less productive than the foreign competition.

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies with which you cooperate? (2024)

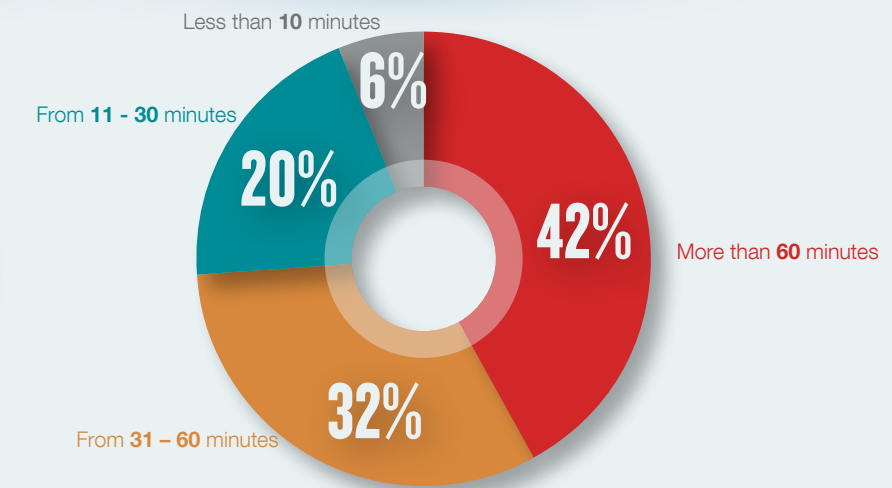
PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATION

PRODUCTIVITY

Does it happen to you during a working day, to suspend work due to a breakdown (e.g. power outage, the system does not work, you are waiting for another work process to finish, etc.)? (2024)

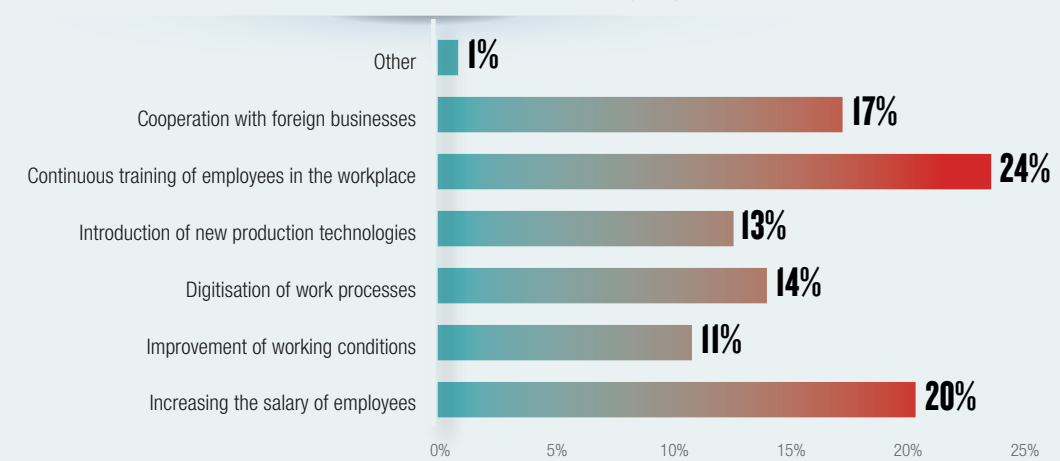


If so, please specify in terms of time, approximately how many minutes these stops are (2024):



Continuous employee training, along with increasing employee wages and collaboration with foreign businesses, are considered the main measures to increase productivity.

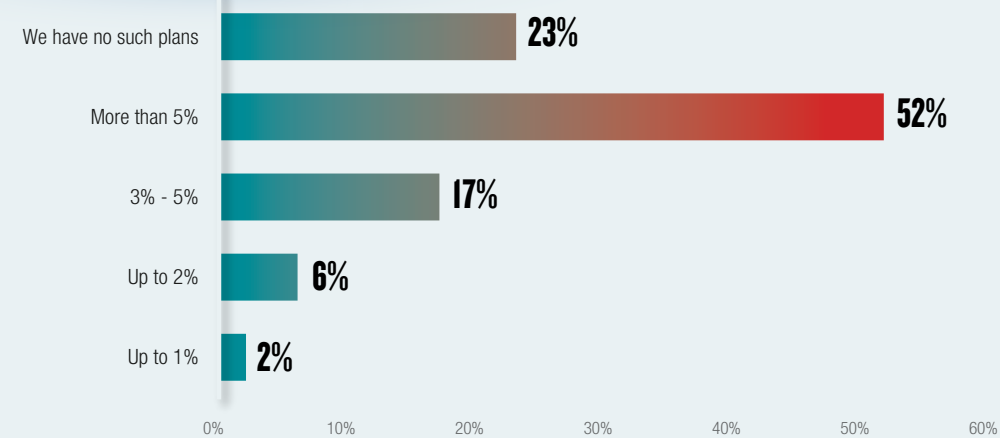
Which of the following measures do you think are the top 3 that would help your company improve labour productivity? (2024)



PRODUCTIVITY

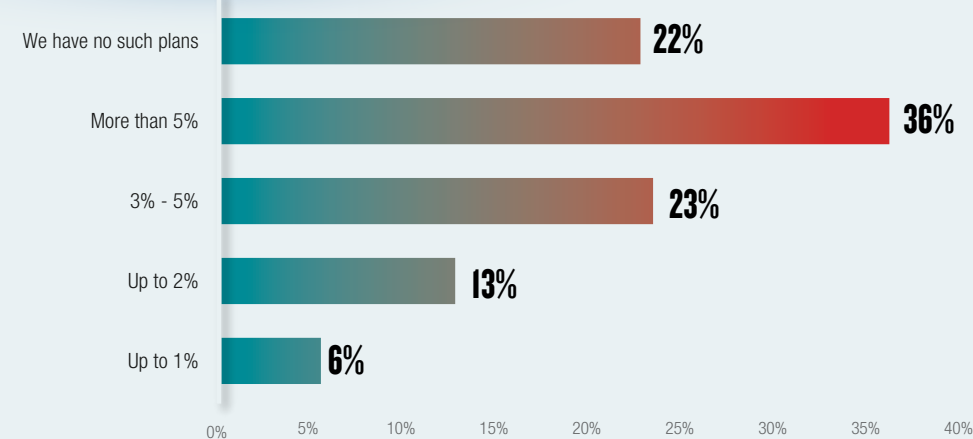
“ 77% of companies plan to take measures to increase their productivity at work, with **1 in 2 companies aiming for an increase of more than 5%.** ”

If you as a company consider applying measures to increase labour productivity, how much do you think these measures will increase productivity? (2024)



“ **36% of companies expect an increase of up to 5% in response to taking measures to increase productivity.** ”

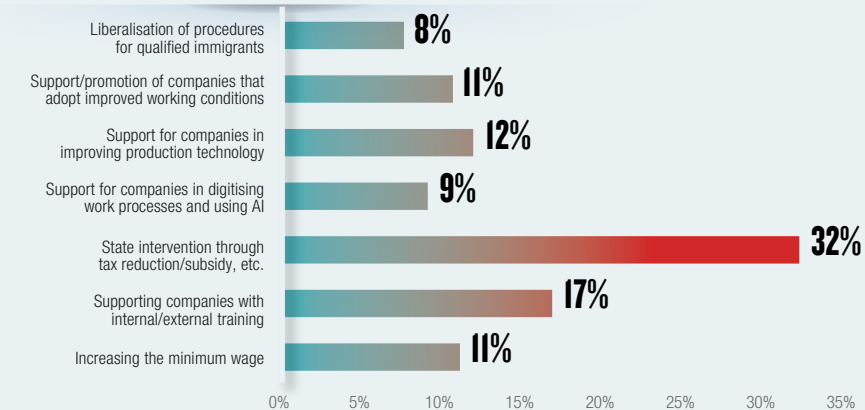
If you as a company consider applying measures to increase labour productivity, how much do you think these measures will increase the cost of your activity? (2024)



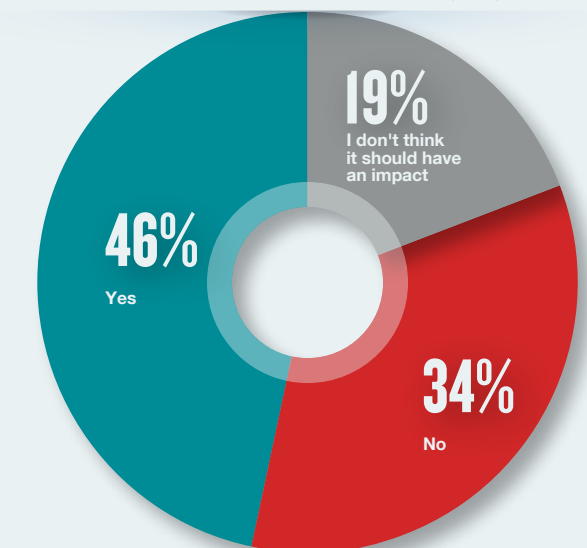
“ **46% of companies declare that they have increased wages** following the government's policy to increase wages in the public sector. ”

“ **State intervention, such as tax reduction/subsidies,** is considered the most supported regulatory measure by businesses (1 in 3 companies). ”

What regulatory measures would you suggest to become part of economic policies aimed at increasing labor productivity in your company, choose up to 3 measures? (2024)



Has the salary increase in public institutions affected the salaries in your company? (2024)



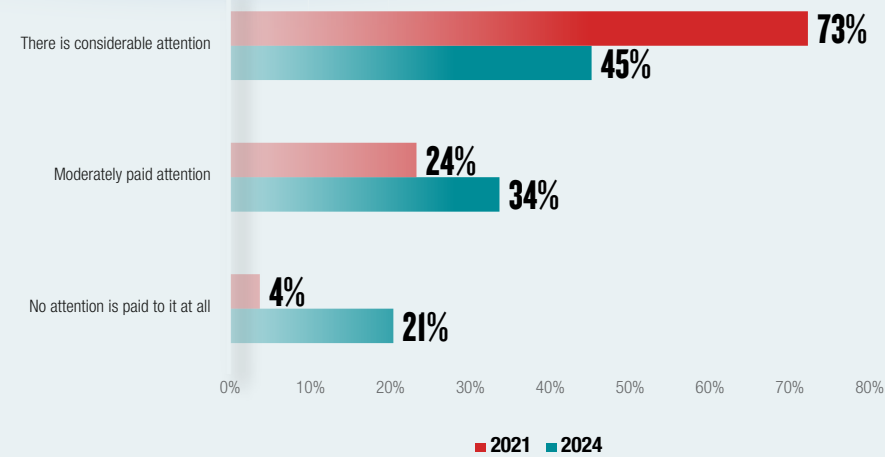
INNOVATION



More than 4 out of 10 companies **pay considerable attention to innovation in their company**, while 1 out of 5 companies do not pay any attention at all.

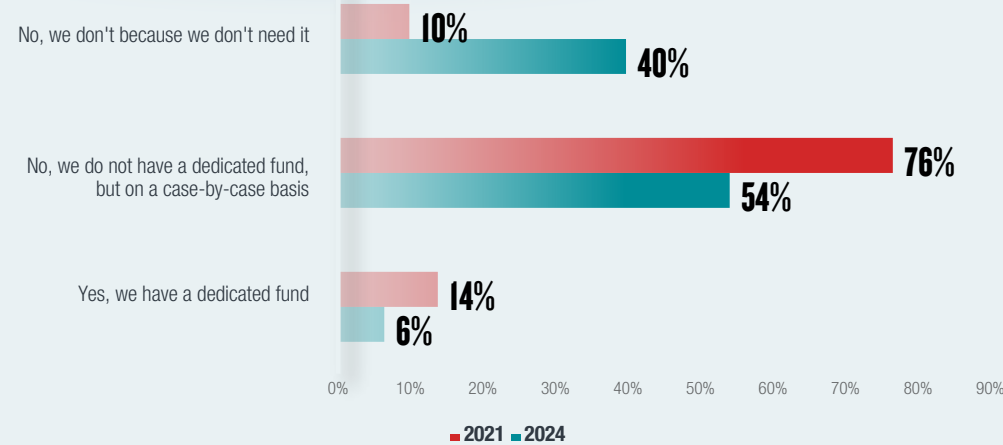
The **data shows a deterioration** compared to 2021.

What place does the development and introduction of innovation occupy *(how much attention is paid to it)* in your company?



In general, funds related to R&D are allocated on a case-by-case basis, **with only 6% reporting having a dedicated fund for R&D**, indicating a deterioration compared to 2021.

Does your company have a dedicated R&D fund?

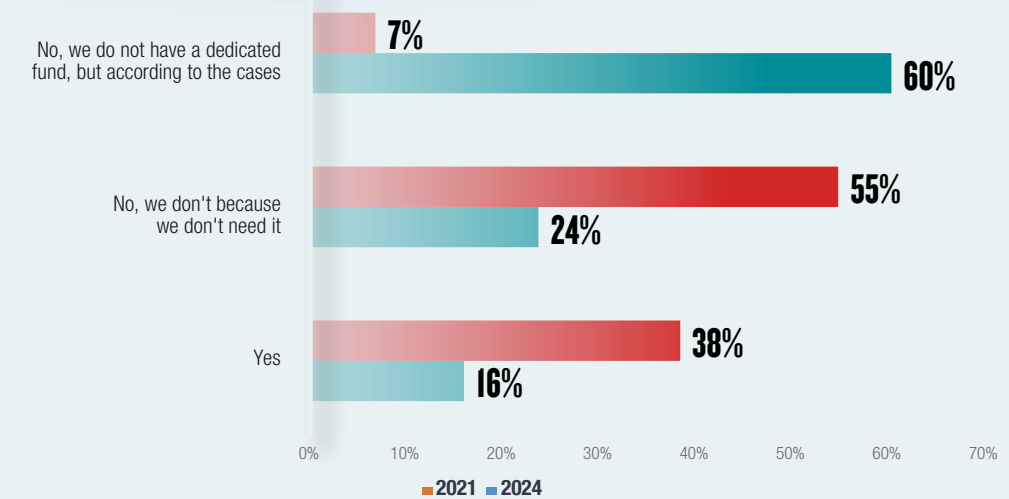
PRIVATE SECTOR CHALLENGES:
INFORMALITY, PRODUCTIVITY,
AND INNOVATION

INNOVATION

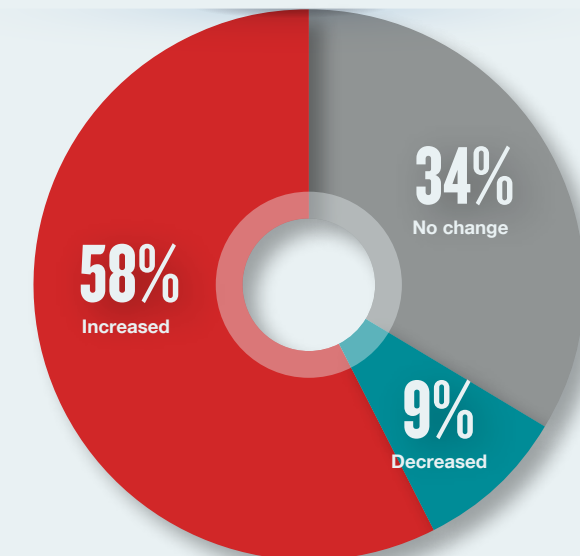


It appears that **companies train employees only** on an ad hoc basis and do not have dedicated funds for training.

Does your company have a dedicated fund for employee training?

REGULATORY
BURDEN

How has the overall regulatory burden on your business changed over the past three years? (2024)



6 out of 10 companies have **declared an increase in the regulatory burden** on businesses in the last 3 years.

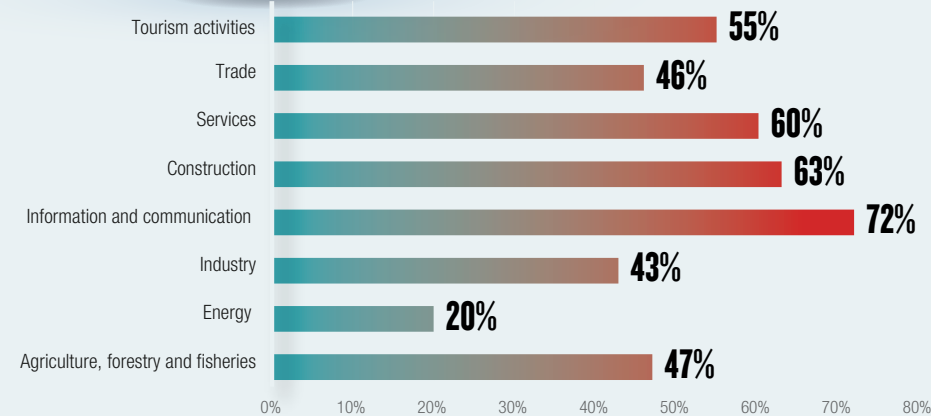
REGULATORY BURDEN



The information and communication, construction, and services sectors perceive an increase in the regulatory burden in the last three years.

The energy, industry, and agriculture sectors perceive less of an increase in the regulatory burden.

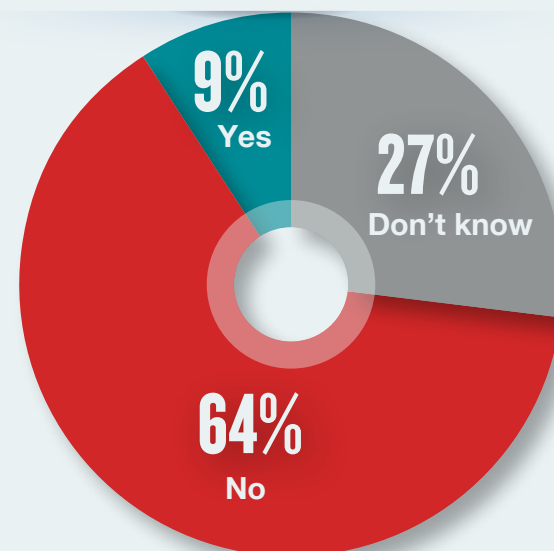
How has the overall regulatory burden on your business changed over the past three years? (2024)
"It has grown"



Are you aware if initiatives have been implemented over the last three years at the central and local level to reduce the cost of compliance with the regulatory framework for business? (2024)



64% are unaware of any initiatives to reduce compliance costs within the regulatory framework.



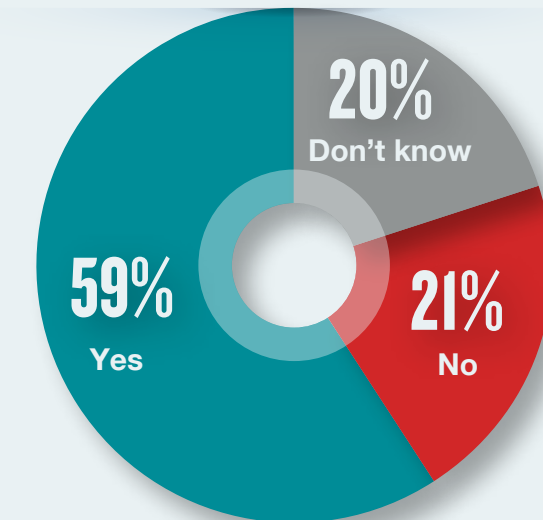
PRIVATE SECTOR CHALLENGES: INFORMALITY, PRODUCTIVITY, AND INNOVATION

REGULATORY BURDEN



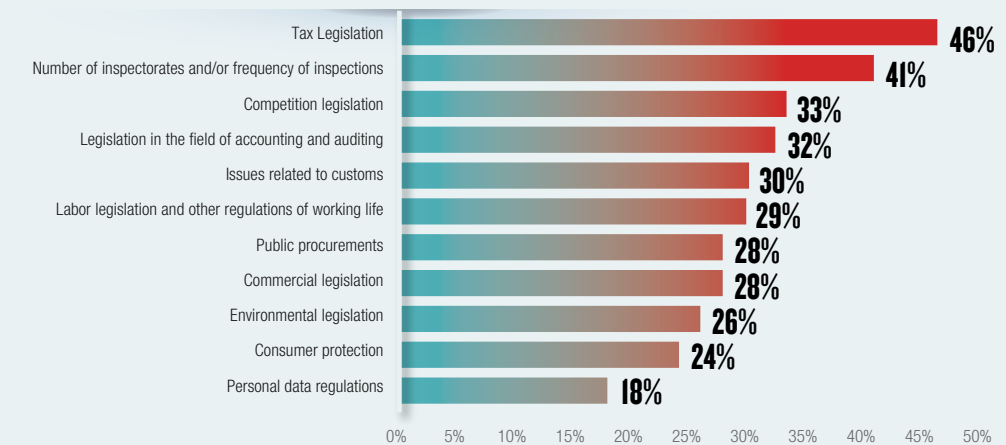
Out of the 9% of companies that declare they are aware of measures to reduce compliance costs within the regulatory framework, almost 6 out of 10 companies report that the incentives have saved time/money in their operations.

Please specify whether the initiatives have helped to save your business time and/or money? (2024)



Tax legislation is assessed as the area with the heaviest administrative burden for companies, followed by inspections/inspection frequency.

Which of the following areas causes an administrative burden for your enterprise, measured in man-hours and/or costs incurred? (2024)



ANNEX III

FISCAL POLICY AND
VAT IN ALBANIA

Fiscal policies have a significant impact on the economy, affecting the performance of public revenues, the behaviour of economic agents, economic growth, redistribution of income, investment, and employment, as well as macroeconomic stability. Fiscal policies related to VAT have an impact on:

- » Consumption
- » Investments
- » Competition
- » Public finances

Impact on consumption: Changes in VAT rates can affect consumer decisions. An increase in the VAT rate can lead to higher prices for goods and services, which can reduce consumers' purchasing power and market demand for them. Conversely, a reduction in the VAT rate, making products cheaper, stimulates con-

sumption, which goes directly to increasing demand, but also supply, influencing productivity growth.

Investment incentives: Fiscal policies related to the VAT rate can also have an impact on business investments. Such tax incentives for certain sectors or specific investments can encourage businesses to invest more in them, which leads to economic growth.

Domestic and international competitiveness: Policies related to VAT can affect domestic competition positively when they do not promote differentiation within a sector or industry, as well as in the international market when they do not match the same applications with the region or beyond. High VAT rates can make domestic products more expensive than imported products, weakening domestic businesses' competitiveness.

Management of public finances: VAT revenues represent a significant part of the tax revenues collected by the government. Therefore, tax policies related to VAT play a decisive role in managing public finances and financing investments and public services.

SOME IMPACTS OF POLICIES RELATED TO THE IMPLEMENTATION OF VAT.

Reduced VAT for accommodation structures:

Included in the scope of the reduced VAT rate of 6% are all accommodation service structures (hotels and some other supplies of goods and services), positively impacting the perception of the reduction of informality, according to an important part of respondents.

Meanwhile, the application of a reduced VAT rate for the tourism sector according to the legal basis in force is presented:

- a) The reduced rate of VAT is applied to the accommodation service in accommodation structures, specifically for sleeping including breakfast. It does not apply to other services such as bars, restaurants, swimming pools, etc.
- b) The reduced rate of VAT is applied to any service provided within the accommodation structures "Hotel/Resort with five stars, special status", and which are holders of a registered and internationally recognized trademark "brand name".

Exempt VAT above a threshold for investments:

The importation of machinery and equipment is exempt from the application of VAT to carry out investment contracts with a value of over 500 Mln ALL. Previously, this exemption threshold was ten times lower. The immediate increase of this threshold creates a gap beyond which only a limited number of businesses, mainly those operating in the field of energy, benefited. But

in the current situation when almost 90% of businesses in the country are considered small and medium, they are not encouraged to invest.

VAT exempted for the importation of yachts and other watercraft, which are used for tourism and entertainment purposes:

This measure is not in accordance with the European VAT directive, directly influencing the increase of exemptions without bringing much efficiency. The impact may be partially due to a limited number of operators but without influence on the tourism sector in general. Meanwhile, weighty interest groups in the sectors where they operate demand a reduction in the VAT rate for some basic food products, but which have not yet taken a seat at a discussion table.

VAT reduced unevenly for some services of the same nature:

The supply of services and part of goods, from accommodation structures, five-star hotels/resorts, and structures certified in agrotourism, is taxed at a reduced VAT rate of 6%. However, this norm is applied differentiated even between the above structures and within a structure. One group applies the reduced rate only for sleeping, another applies this rate for any type of supply of goods or services, while the agribusiness group cannot apply the reduced rate for the sale of drinks of any kind. Such differentiations, in addition to complicating the implementation, increase the administrative cost of the tax administration and the risk of evasive tendencies.

Implementation of VAT in the agro-processing and agricultural sectors.

Starting from 2022, changes made to the fiscal policy have increased the burden on businesses, farmers, and consumers themselves.

A. The VAT compensation scheme for agro-processors was completely changed.

With the provisioning of the zero rate of compensation, this scheme has become difficult to implement effectively since there is no longer an incentive for the participants, whether farmers or collectors-processors. In this case, the following policy only increased the difficulties and sectoral problems, starting from informality, cost increases, and reduction of benefits for actors. The perception of the increase in informality by the respondents is significant and must be understood correctly. It would be good if a study had been carried out on all the problems of this sector, with the involvement of the ministries of finance and agriculture, representatives of the agro-processing sector, and the farmers themselves, then to conclude with appropriate fiscal policies.

B. VAT on the supply of agricultural inputs.

The supply of agricultural inputs (chemical fertilizers, pesticides, seeds, and seedlings) has been exempted from VAT. However, it was included among the taxable supplies, with a tax scarf of 10%, which nevertheless affected the increase in the price of these inputs.

Frequent change of the VAT registration threshold. In the last ten years, the VAT registration threshold has changed three times. From ALL 5 million to 2 million (which resulted in increased costs for thousands of small businesses), and became ALL 10 million only after two years. Without being influenced by the positions of each interest group involved in the field of VAT implementation, such changes have a considerable impact on the taxpayer's base for VAT; therefore, it is recommended that comprehensive studies precede such changes.

ANNEX IV

IC RECOMMENDATIONS FOR THE FISCAL POLICY 2015-2023

"FOR IMPROVING THE QUALITY OF DIGITAL PUBLIC SERVICES TO BUSINESSES" - OCTOBER 2023

RECOMMENDATION 11

Re-engineering of administrative practices and procedures related to the filing of financial statements, taking advantage of the functionalities offered by digitisation, as an opportunity to reduce the administrative burden for both business and administration. Currently, there is an increased administrative burden for the business related to the filing of financial statements according to different formats in two institutions, respectively GTD and NBC, according to legal obligations arising from two different laws. Specifically, based on Law No. 9723, dated 03.05.2007, "On the National Business Centre", amended, article 43, point 3 (a), entities are obligated to submit annual financial statements, the business performance

report and the audit report, maintained in accordance with legal requirements when the retention of these documents is mandatory. Their submission is currently done online at NBC in electronic format and by July 31 of the following year. Meanwhile, a similar obligation is also imposed on businesses based on Article 22 of Law No. 25/2018 "On accounting and financial statements", requiring the submission of financial statements and explanatory annexes to the GDT within 7 months from the reporting date (March 31 of the following year). Based on the goal of the digitisation to streamline the process of information and procedures, to simplify and facilitate the bureaucratic steps that are performed or administered by public administration institutions and to increase their efficiency according to the one-stop shop concept, unification of the above procedures would be a reasonable measure, with mutual benefits and would require only a few legal amendments.

"FROM LOW WAGES TO LABOUR PRODUCTIVITY" - APRIL 2023

RECOMMENDATION 4

- » Part-time staff and social contributions: The pervasive issue of undeclared employment, directly linked to the informal economy and low productivity in MSMEs, persists despite various measures taken. This systemic problem is evident in both fully unregistered and partially undeclared employment. Our observations and feedback from businesses, particularly in the services and tourism sectors, confirm that inflexible social and security contribution systems are key drivers of this issue. Employers are required to make full monthly contributions for part-time employees or those who work only a few days per month. Furthermore, undeclared employment contributes to high employee turnover rates, particularly in the tourism sector, which struggles to sustain yearround, full-time employment due to its seasonal nature. To tackle these intertwined issues could be facilitated the implementation of proportional social and security contributions for part-time employment while advocating for fair hourly wages. When determining monthly, weekly, or daily rates, workers should receive compensation equivalent to that of a full-time employee as mandated by the country's labor laws. Overtime pay should not be factored into the calculation of minimum wages, as it constitutes noncompliance to require overtime work to meet the legal minimum wage. Part-time employees should receive a minimum wage proportional to their working hours²⁴.

Other

- » The establishment of a working group focused on also the allowances and bonuses, which are already old as notions and the fiscal treatment must be adjusted to have the appropriate fiscal treatment. Also, the government should support regarding the fiscalization of salaries, i.e. CATS system to allow calculation of gross and net salary. The system should allow the business to upload the payroll document from excel directly into the system, since payroll takes up a large amount of finance department work. Support can be given through grants or guarantees for sectors that have potential and needed support that can be offered in this direction as well as for sharing the cost of training for employees in order to keep them on the job as long as possible.
- » In the fiscal system, the TIPS system should be supported by reporting it separately since all foreign tourists prefer to pay by card. If the TIPS system were to be included in the fiscal system, it would enter the business turnover, which would also be accompanied by the payment of tax.
- » Aiming the reduction of the cost of using credit cards, increasing the number of transactions is one of the main criterias to be considered, but the best solution would be to set up a national switch (vetting operator) which does not bear the costs of international operators. The Albanian Association of Banks and commercial banks should engage in a proactive manner in this direction, since the BSH has constantly instructed this element to the banks.

IC SECRETARIAT'S SUGGESTIONS ON DRAFT-BIDS 2021-2027 – JUNE 2021

- » Sustainability, harmonization and simplification of fiscal policy measures towards investments and SMEs - may be the moment to think about a "guillotine/substantial fiscal reform" stabilization of the fiscal legal and sub-legal framework. Frequent changes over the years, although in most cases have consisted regarding the provisioning of incentives and mitigation measures for certain categories of taxpayers, have created many tax exemptions and fragmentations in rules and specific criteria applicable to specific categories of taxpayers, which if not well-managed can produce the counter effect in terms of formalizing the economy. For their good governance, in the short term, the following are required: (1) additional resources, an efficient, fast, non-bureaucratic and accountable administration; (2) transparency of sectoral incentives applicable to investors and stakeholders through the preparation of a systematic inventory (periodically updated). While in the medium term, it is suggested the substantial revision and preparation of new laws such as Law 9920/2008, "On tax procedures", " Law 9632/2006 "On the local tax system", and especially Law 8438/1998 "On income tax" which has been object of previous discussions and does not properly reflect the economic context of business and individuals. This component is very important and should be part of the serious commitment of the government and the MFE as the institution responsible for

- the implementation of BIDS to enable the efforts to deliver the expected results, as well as to increase trust in institutions and governance after the COVID-19 health crisis and the earthquake. of November 2019.
- » Continuity between the proposed new strategy and the legal and regulatory initiatives undertaken in recent years to improve the investment climate and make transparency of their current status to the stakeholders involved. While the Strategy highlights its connection with the strategic objectives of the Albanian government and the national and international legal framework, it does not highlight some of the legal initiatives such as: the draft law "On the Support and Development of Innovative Startups", or the draft "On Unified Investments Law" which have been previously and extensively consulted also in dedicated IC meetings. It is not clear whether the strategic vision regarding the legal framework is oriented towards further prolongation of law 55/2015 "On Strategic Investments" and the maintenance into force of law 7764/1993 "On Foreign Investments", or the approval of the draft "On Unified Investments Law" already prepared with the assistance of IFC. Also, although the Strategy has a separate reporting section on the progress of TEDA, it does not provide a consolidated strategic approach or plan, on how to implement them according to law spirit, attracting foreign investment in this area, nor a link to structural measures such as the establishment in 2019 of the Albanian Investment Corporation.

PROPOSALS ON ECONOMIC RECOVERY ALBANIA POST COVID-19 – JUNE 2020

- » In the context of previous analyses and suggestions made by IC during the past 5 years, it is worth reemphasizing the following elements. They could create positive momentum and a competitive package comparing to other countries of the region, as requested by business associations and chambers of commerce, as well as would converge with the ambitions for the adoption of the unified investment law within 2020.
- » The importance of formalizing the economy (analysed by the IC since 2015), remains an important challenge for the country and especially for tourism, agriculture, services, etc., where informality is displayed in various typologies and a determining factor to underpin fair competition. Both crises caused by the earthquake and Covid-19, create premises for increased informality, but also make it difficult for the government to provide timely support to beneficiaries.
- » Stabilization of the fiscal legal and sub-legal framework²⁵. Frequent changes over the years, although in most cases have consisted on the provisioning of incentives and mitigation measures for certain categories of taxpayers, have created many tax exemptions and fragmentations, in rules and specific criteria applicable to specific categories of taxpayers, which if not

²⁵ This is especially related to tax procedures and relevant guidelines which have been amended more than 17 times whenever it has been deemed necessary to address an ad-hoc issue rather than integrally, by creating therefore inconsistencies in some cases between the law and these guidelines.

well-managed can produce the counter effect in terms of formalizing the economy. For their good governance, in short-term the following are required:

- o additional resources, an efficient, fast, non-bureaucratic and accountable administration;
- o transparency of sectoral incentives applicable to investors and stakeholders through the preparation of a systematic inventory (periodically updated).

While in the medium term, it is suggested the substantial revision of laws such as law 9920/2008 “On tax procedures”, law 9632/2006 “On the local tax system” and especially the law 8438/1998 “On income tax” which has been object of previous discussions and does not properly reflect the economic context of business and individuals.

We emphasize that the preparation of new laws in these areas would first enable a responsible tax system towards the needs of the economy for the formalization of enterprises and individuals. On the other side, they would: (i) enable a greater coherence of rules with the business requirements and procedures requested by enterprises; (ii) avoid existing discrepancies with the secondary legislation which makes it difficult the implementation of the rules into practice; (iii) further simplification of business-administration procedures in light of the fiscalization reform expected to be implemented from September and technological developments; (iv) as well as pave the way for reform in terms of income tax by establishing the equality and justice of the fiscal system at the core of the taxation of individuals and corporations, in terms of recognizing deductible expenses in

favour of individuals, income thresholds and the way they are taxed, extending the deadline for the carryforward of tax losses to businesses from 3 years to 5-7 years despite the initial amount of investment, by supporting as such the new “greenfield” investments.

Other

Fiscal reform with a focus on competitiveness, stability, capital inflows, transparency in the use of public funds

- » Develop a fiscal reform that promotes competitiveness focused on a) tax reduction to become competitive among countries in the region, b) this measure should last at least 5 years so that businesses can plan long-term investments, c) lower tax rate for strategic investments. Other ways may be to encourage taxpayers who prepay annual taxes by deducting a certain percentage of the taxes. To be considered deductible expenses, public donations, schools, hospitals, etc. (AMCHAM/DIHA/National Chamber of Diaspora).
- » Adopting the medium-term income strategy as soon as possible, with a special focus on “tax expenditures”; setting time limits on tax relief measures for the COVID-19 pe-

riod, and timely VAT refund (EUD).

- » Transparent procedures on assessing and approving all investments involving public funds; strengthening institutional capacity to monitor and assess PPP fiscal risk, concession contracts, and state-owned companies (EUD).
- » Orientation of fiscal support from emergency measures to temporary job creation programs: a) Facilitating the participation of SMEs in public procurement, b) public works with an emphasis on SMEs, c) building SME support programs focused on promoting productivity growth, d) applying tax deductions up to 80% of costs in these areas up to a maximum ceiling (limit may be a company’s turnover/number of employees) (WB).
- » Developing and implementing an escalating tax system based on property and balance sheet (BoA).

Complete performance review for all concession agreements for national assets given in concession. Detailed verifications to prove that the conditions of the proposed business plan have been met or not. Verifications for improvement in terms of increasing jobs

ANNEX V

MORE ON PRODUCTIVITY

PRODUCTIVITY AND FISCAL STANCE

Productivity at the country level reflects the way resources (labor and capital) are allocated across sectors and firms. Misallocation of resources within a country is found to be an important source of differences in productivity. Tax policy and tax administration are important factors in addressing productivity challenges. Tax systems can boost productivity by reducing resource allocation distortions. Fiscal policy can often affect the allocation of capital and labour, inducing productivity growth (IMF, 2017).

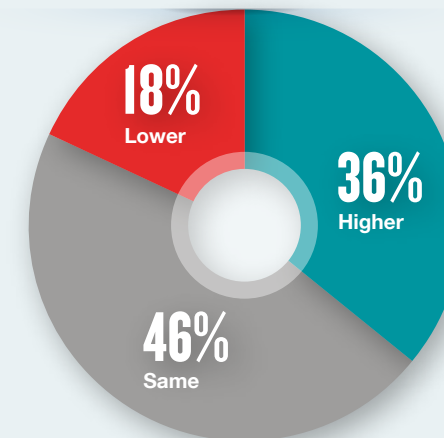
The low productivity of the Albanian economy is mirrored in the low competitiveness of the economy. Albania scores poorly in the competitiveness index, especially in the dimensions related to business sophistication, organizational culture or research and development.

Investments have not been able to transform the production structure of the country and the transition to industries with high levels of value-added or productivity. As a result, businesses seem to be stuck in a low productivity trap, which needs to be addressed carefully as part of the structural reforms (Xhepa and Liperi 2021).

The level of productivity among sectors, or within a sector is important in defining policies to tackle it (IMF, 2017). The Investment Council surveyed the diversity of productivity of labor among 601 companies at the national level. One in two companies reports having productivity similar to that of its competitors at the sectoral level. However, when companies were asked to indicate their productivity against their competitors in the regional market, one in two companies reported having a lower labour productivity than their competitors (see Figure 1).

Figure 1. Firms' productivity vs. competitors

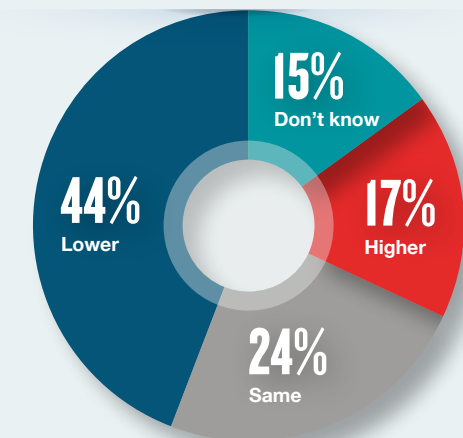
Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of other companies in the sector where you operate:



Source: Investment Climate Survey - IC

The perception that productivity as compared to competitors is similar does not apply to all sectors. Three patterns of labour productivity variation at the sectorial level were observed. There are sectors with a structure dominated by companies reporting to be leaders in the productivity of labour comparatively to the rest of the firms in the sectors, such as energy and ICT sector. Traditional sectors such as agriculture, trade, construction, or services for which companies report to perceive no productivity dispersion at the sectoral level, responding that productivity among different companies is of the same level. These sectors manifest features of a perfectly competitive sector, with many similar firms operating. Productivity per firm characteristics shows that firms operated for more than 10 years in the market, as well as companies with high number of employees (higher than 250) self-report that a productivity of labour is higher than that of competitors. Among SMEs the productivity of labour

Defining labour productivity as the (monetary) value that the company receives from a working day of your employees, how would you rate their productivity in relation to that of foreign companies you cooperate with:



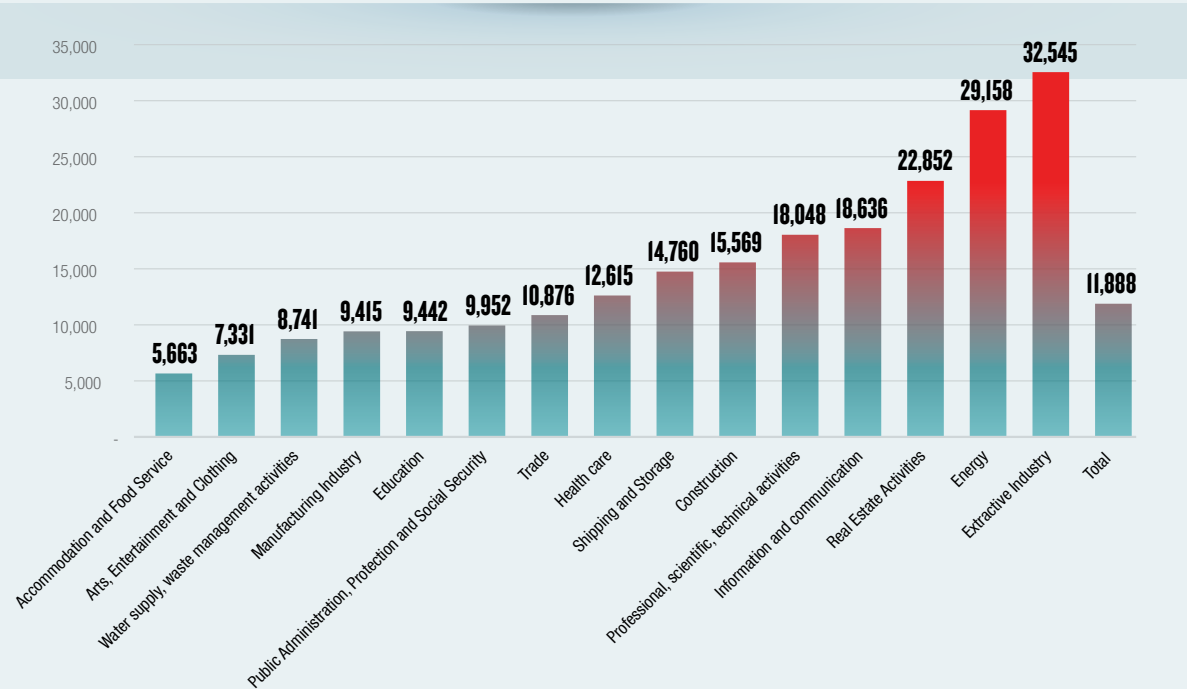
is reported similar to that of competitors.

PRODUCTIVITY ANALYSES USING ENTERPRISE SURVEY DATA

The enterprise survey data provides consolidated sectoral balance sheet data, which were used to analyse productivity.

We used the sectorial output and number of employers at year-end to estimate **labour productivity**. The average value added created per employee for the period 2019-2022 amounts to 11,888 Euro/Year. Traditional sectors and the public sector *have a productivity nearly to the national average. This category includes the construction, processing industry, transport, trade, accommodation, and food industry (tourism included), which have a value-added per employee around the national average.* **Sectors with the highest labour productivity (measured as value added per employee) are extractive industries, energy, professional services, real estate sector, followed by the ICT sector (see figure 2).**

Figure 2. Average Labour Productivity per Employee (in Euro, Annual 2019-2022)



Source: Enterprise Survey (ASN) and IC own calculations.

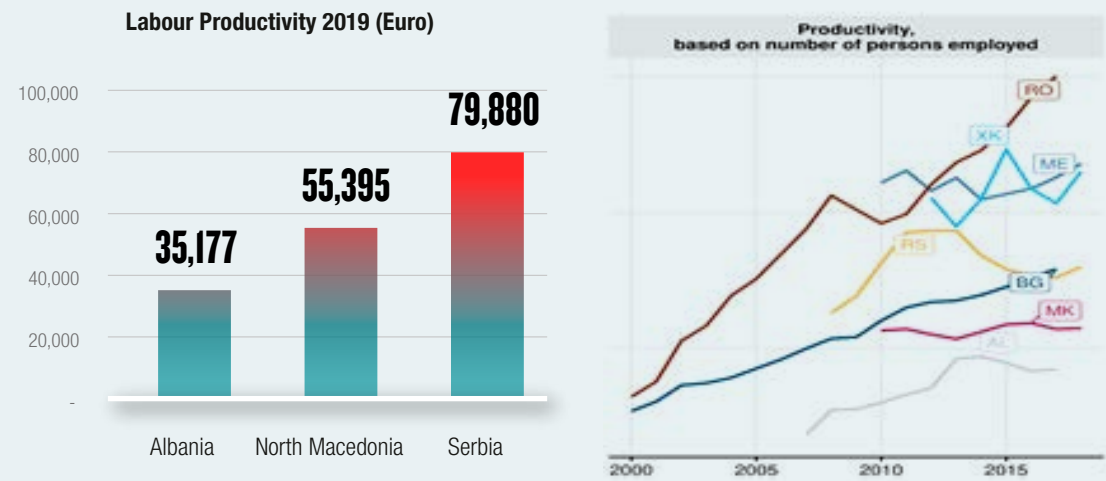
The dynamics of labour productivity, measured as the average growth rate of value-added created per employee during 2019-2022, shows that, on average, labour **productivity among all sectors has increased** by 11% (see Appendix 1). Sectors that have high productivity in value show a slowdown in productivity for 2019-2022; energy, ICT and construction are among the sectors with a slowdown in **productivity of labour**. Among the fastest-growing productivity sectors are accommodation and food (tourism), processing and extracting industry followed by the recreation and entertainment sector. The health sector is also experiencing an increase in productivity, followed by the public administration, defence and social protection sectors.

Sectors that have the highest labour productivity, such as energy and ICT, are also sectors with new investments and updated technologies. When asked about productivity if compared to foreign competitors in the IC survey, the perception that companies have lower productivity than the **foreign companies** they compete with is dominant even at the sectoral level. Companies operating in the construction, trade, ICT, and tourism sectors perceive a productivity that is aligned and similar to their foreign competitors. Companies that operate in agriculture, energy, services, and industry report have a disadvantage compared to their foreign competitors that relate to low productivity of labour.

Previous research does confirm the low productivity of labor in Albania comparably to the regional economies of Albania. Labour productivity, measured as the ratio of the total output to the number of employees, is half that of economies in the region (e.g. Serbia and Montenegro) and even lower if compared to Bulgaria or Croatia (see Figure 2). Given the fact that labour productivity is closely related to technology, companies through the

IC survey were asked to identify if they face situations when work needs to be stopped due to technological problems. 72% of companies reported that they face such problems, for 94% of respondents, the production process stopped due to technology problems for 30 to 60 minutes. Data from the Enterprise Survey (2019-2022) confirms a positive (and significant) correlation between labour productivity and investments (correlation coefficient of 0.37).

Figure 3. Labour productivity compared to regional economies



Source: WiiW Productivity of Western Balkan Countries and Xhepa and Liperi (2022)

Figure 4. Labour productivity vs. Investment Productivity (2019-2022)

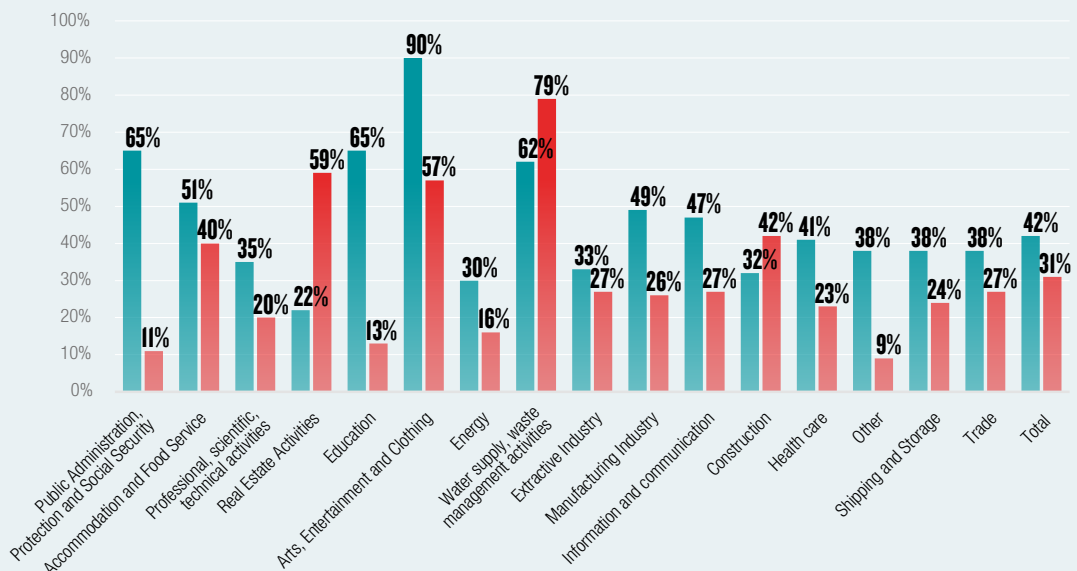


Source:
Enterprise Survey
(ASN) and IC own
calculations.

R&D investments are among the most important investments in improving productivity. Companies were asked to identify if they invest in R&D investments and if yes, they were asked to indicate if having a dedicated budget for that purpose. Only 6% of companies have confirmed to have a budget dedicated to R&D. In 2024 the propensity of companies investing in R&D has declined by 8% (14% of companies have confirmed to invest in R&D in 2021). 54% of companies have declared to have an ad-hoc budget for R&D, while 40% report not having a budget at all. Companies were asked to identify their commitment to innovation as part of their company strategy. 54% of companies reported being very dedicated/concerned to innovation, 34% reported having some attention/dedication to innovative business practices, 21% of companies report not having an interest at all. *The share of companies having innovation as part of*

their company strategy has declined noticeably if compared to the same survey performed in 2021. At the national level, on average share of labor cost to value added is 42%, and capital (investments) is 31%. Sectors in which value-added share from investments is higher than that of labour are real estate, energy, water, and waste management. In other sectors, such as the accommodation and food (tourism) sector, extractive industries, processing industry, ICT, trade, and transport, the share of investments in value-added and labour in value-added are almost proportional. Labour and capital are combined in value creation in a one-to-one ratio, causing high conditionality of productivity labour. Un-skilled or unproductive labour would undermine the productivity of capital, and similarly, unproductive technology of production would cause labour productivity to be sub-optimal.

Figure 5. Share of labor and capital (investments) in value-added (average 2019-2022)



Source: Enterprise Survey (ASN) and IC own calculations.

To further understand how interlinkages between labor and capital affect sector productivity, the stochastic frontier methodology was used. The estimation assumes that inputs are combined through a Cob-Douglas production technology to produce output. The optimal output level that can be produced given inputs, labour, and capital (or investments) is called the production possibility frontier (PPF).

$$Output_{it} = A * Labour_{it}^{\beta_1} * Capital_{it}^{\beta_2} v_{it} + \varepsilon_{it}$$

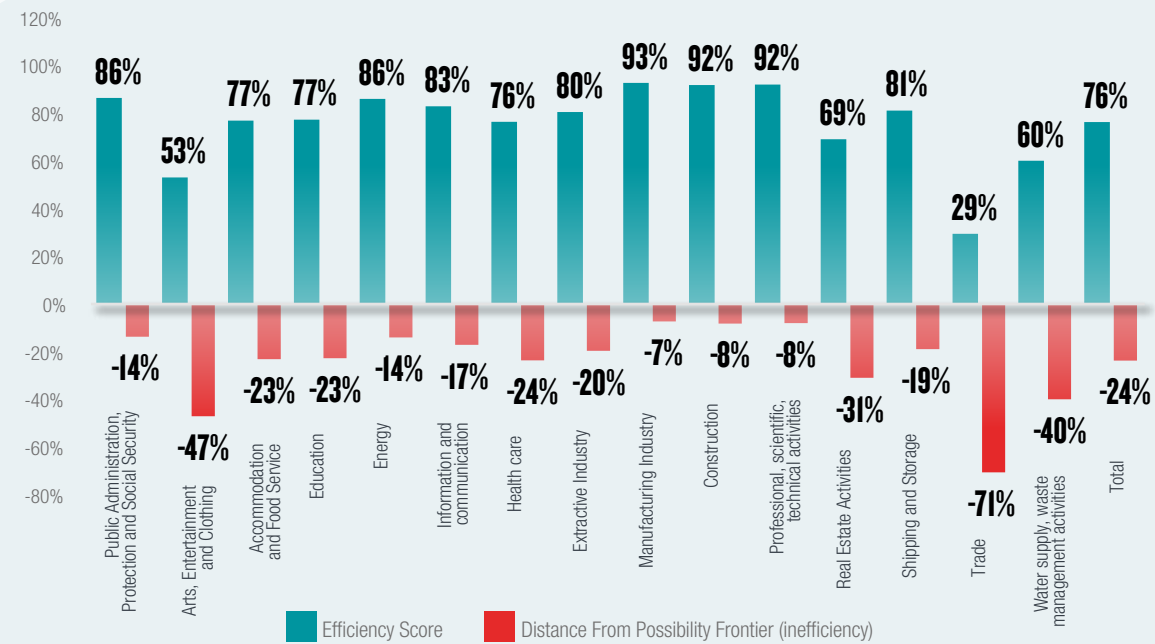
The production possibility frontier was estimated using data from Enterprise Survey, where output was production (in million Lek), labour was measured by expenses of the company on employees (including wage, social insurance, and other expenses on staff), the capital was measured by total investments (depreciated and in million Lek as reported in the balance sheet). Data were provided at the sectorial level for the time frame 2019-2022. The stochastic frontier estimations were performed using the Maximum Likelihood method with panel data. This estimation generates the maximal expected output. Using the inverse Shepard output efficiency formula, the relative loss in output due to inefficiency is given by the stochastic term .

$$D_0(x^0, y^0) = \frac{Actual\ Output}{Maximal\ Expected\ Output} = \eta_2$$

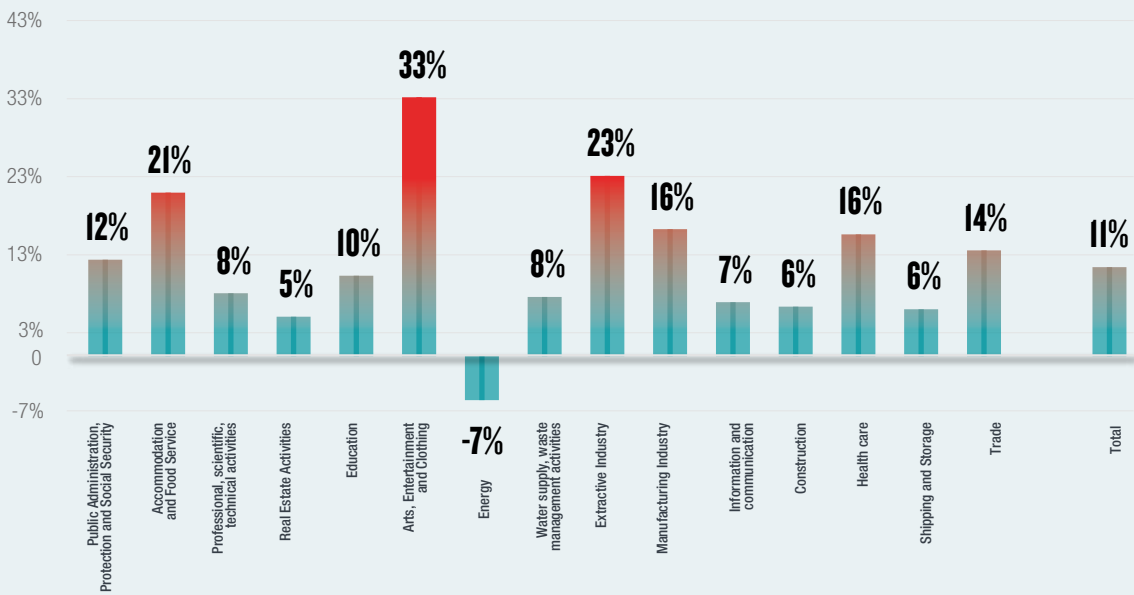
After the PPF is estimated, actual production data are compared with the frontier, and the distance of real data from the PPF determines

the sector efficiency (or inefficiency). If sectors are found to be at a lower production level than the optimal, there is space for efficiency gain improving the productivity of resources or resource allocation. Results show that at the national level, the efficiency is lower than optimal by 24%. *Combining resources (materials, labour, and capital) more productively will enable the economy to produce 24% more output with the same resources. The optimal output level produced is driven by labour productivity, and investments in technology and assets have a weak impact on output level if compared to labour.* Sectors that have reached closer to the production possibility frontier are the processing industry (93%), construction (92%), and professional services followed by energy. The sector that is low at value creation and as a result very inefficient is trade, water, and waste management followed by the entertainment and recreation sector and real estate sector. The tourism sector, ICT and extractive industries in-inefficiencies are close to the national level and they could improve their output level through productivity by at least 20%. The deviation of output from the optimal frontier is *in line with the business perception on productivity, industries (such as energy and construction) where firms report to have high productivity are on the optimal production frontier, while traditional sectors (tourism, industry) report productivity improvement space similar to the distance from the optimal production. The high inefficiency in trade, entertainment and recreation or real estate sector shows a deviation that is more a misallocation of resources.*

Figure 6. Sectorial Efficiency and Inefficiency Score - Stochastic Frontier Estimations



Appendix 1. Average Change Rate of Labour Productivity (In %, Yoy 2019-2022)



Appendix 2. Stochastic Frontier Analyses

Variables	-coefficients	t-statistics
Intercept	0.233	14.512***
Labour	0.0738	14.454***
Capital		
Primary Materials	0.0087	2.169**
Investments	0.0039	1.78*
Investment in Technology	0.00049	0.0191
Public administration and defence; compulsory social security	0.0547	6.154***
Arts, entertainment and recreation	0.1204	16.648***
Accommodation and food service activities	0.0492	6.87***
Education	0.0698	7.3551***
Electricity, gas, steam and air conditioning supply	0.0193	1.657
Human health and social work activities	0.0351	4.512***
Information and communication	0.0416	6.768***
Mining and quarrying	0.0157	3.091***
Manufacturing	0.0375	4.2877***
Construction	-0.801	-9.214***
Other service activities	0.0374	4.733***
Professional, scientific and technical activities	-0.6192	-7.824***
Real estate activities	-0.436	-6.8701***
Transportation and storage	0.026	3.766***
Trade	0.018	1.719*
Water supply, sewerage, waste management	0.0814	11.081***
	0.756	
Mean Efficiency	62.034	
Log Likelihood Value	64	
Number of Observations	16	

ABOUT INVESTMENT COUNCIL IN ALBANIA

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

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