

The Impact of Covid-19 on Electronic Trade (E-Commerce) and the Resulting Problems in Albanian Taxation

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Abstract: Covid-19 radically changed the way of living and working, significantly slowed down the development of economic activity, but on the other hand it caused an increase in e-commerce and the acceleration of the digital transformation. At a time when isolation and quarantine were in effect, businesses and consumers as a form of survival switched to the digital network, offering and buying more goods and services online and thus also increasing the e-commerce activity.

Based on statistical data, over 20% of businesses in Albania managed to market their products electronically, thus changing the concept of traditional buyers to online buyers. It is worth noting that all this change in consumer behavior seems to be permanent and not temporary. All this change in the economic life of the country, in the way of doing business, needs fiscal intervention, since in the Albanian market the electronic commerce is being seen as an opportunity to avoid taxes. At the same time, there have been interventions in the fiscal package by setting a settled price range for online purchases coming from abroad. This has been justified as an intervention to protect local business.

This paper aims to analyze how Covid-19 accelerated the increase in the convenience of online shopping in Albania, making possible the rapid development of e-commerce activity. The research methodology will be based on a market study in the form of a questionnaire addressed to consumers and aims to identify the factors influencing their online purchases, online payments, digital connectivity, changes to physical purchases, etc. Also, the paper will identify the difficulties and obstacles of the implementation of electronic commerce in Albania in the aspect of the individual and the business, focusing on the problems of today's market.

Key words: e-commerce, digital transformation, fiscal intervention, online shopper, traditional shopper

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Introduction

E-commerce refers to the activity of buying or selling products and services over the Internet and has been introduced to the global market for almost half a century. Unlike traditional trade where the seller meets the buyer physically, in e-commerce all communications between the parties (buyer-seller) are carried out only through virtual communications. E-commerce facilitates

businesses to reach their customers and in turn, facilitates buyers to choose what they want in the variety of products and services offered.

Technological developments, increased access to the Internet and the recognition of the benefits of this field, made every day more and more people want to make the online world a part of their daily life. According to

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Statista¹, in 2022 there will be around 5.03 billion internet users anywhere in the world. Although there is such a high number of Internet usage everywhere in the world, it should be noted that there are quite significant differences according to different countries. Internet penetration rate is very high in developed countries compared to developing countries. For this reason, the development of e-commerce has historically been more advanced in developed countries,

The presence of the Covid-19 pandemic at the end of 2019 brought radical changes to the way of living, acting and thinking. In this time of panic, many businesses that were not yet part of e-commerce, appreciated it as a new way of survival and adoption to adapt not only to customer demands but also to ensure their longevity in the market even from the pandemic wave. But from a form of survival, e-commerce is now considered a necessary alternative to doing business, based on the quick adaptation that customers had during the period of isolation². Also, World Bank economists Christoph Ungerer and Alberto Portugal strongly emphasize the importance of government and stakeholder intervention in developing e-commerce and increasing their security.

E-commerce in Albania during Covid-19 and after

For years, e-commerce has been considered by Albanian businesses as an impossible investment alternative. Low number of Internet users, low Internet speed, the existence of a weak digital system, lack of trust and above all the costs of businesses to adapt to e-commerce, were some of the reasons that have influenced the underdevelopment of online trade for products and services, compared to other developed and developing countries.

According to the Findex global survey in 2017³, only 7% of Albanians were found to buy products online, which compared to other countries of the Western Balkans⁴, at nearly 14%, Albania was positioned at the lowest level. Also, Albania was behind compared to other countries that have almost the same level of income as Moldova. But on the other hand, WB countries did not have a preferential position compared to the American market in which almost 70% of the population were online shoppers.

But Covid-19 and the awareness of businesses to develop their activity online, repositioned Albania higher than Montenegro, BiH and North Macedonia, with nearly 34% of online users, a position which reflected a rapid change in the development of e-commerce in Albania but still leaves room for improvement compared to other countries in the region and beyond.

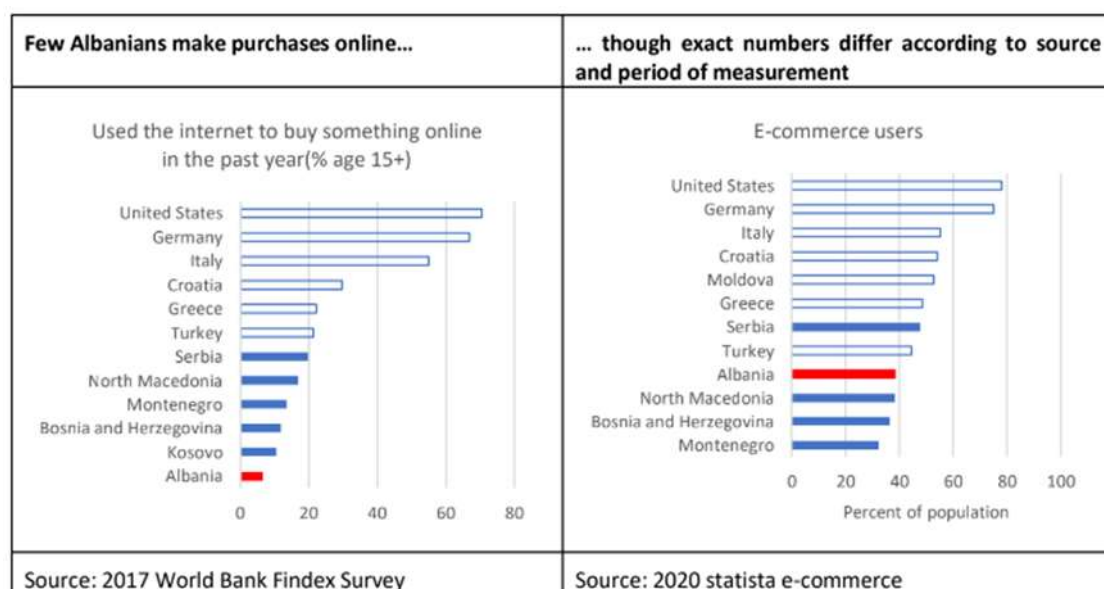
¹ <https://www.statista.com/statistics/617136/digital-population-worldwide/>

² Coibion, O., Y. Gorodnichenko, and M. Weber, Labor markets during the covid-19 crisis: A preliminary view.

2020, National Bureau of Economic Research

³ World Bank Global Findex Survey, 2017.

⁴ Westerns Balkan Countries include: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, and Serbia



Source: World Bank Findex Survey, 2017 & Statista 2020

Figure 1: E-commerce Users (in different years)

Mainly, online markets in Albania are characterized by:

- Online product sales (mainly imported) via social media and local stores rather than an official business website
- In general, few Albanian businesses sell their domestic products online, which is a consequence of the lack of liquidity and the information that entrepreneurs have regarding online sales.
- Product payments are usually made in cash (cash on delivery), and a small number of businesses also offer the possibility of online payments through various applications.
- Online purchases at international businesses that develop their activity outside Albania, are made through payments with bank cards (credit/debit) or PayPal.

Before 2017, in the absence of the development of a real online market in Albania, many young Albanians headed to foreign countries, placing online orders for the products they requested, making the payment via credit card, debit card or PayPal. The most

common sites they were directed to were mainly for clothing, accessories, electronics, books in websites such as Amazon, Asos, Ebay, Aliexpress, etc. But even these purchases were limited after the approval of the new fiscal package, which implemented some restrictions to online shoppers in the foreign market. According to this package¹, products worth more than 22 euros would be charged with customs tax, so over 22 euros, Albanian buyers would pay 22.4% of the value of the goods as tax (20% VAT and 2.4% customs tax). The purpose of reducing this amount for online purchases outside Albania was mainly decided by the government to promote the local product and encourage Albanian consumers to buy only within their territory. But in fact, this has only increased informality and increased the difficulty of controlling the introduction of foreign products into Albania, because in one form or another, all Albanian consumers continue to make purchases online outside of Albania, but they simply do not use the direct method (through the post office and

¹ [udhezim-nr02-date-15012018-si-dhe-manuali-per-vendosjen-ne-qarkullim-te-lire-te-dergesave-postare-dhe-](#)

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customs) of receiving the product, but use other indirect ways (through relatives, etc.).

But on the other hand, it was the new living conditions during the physical isolation as a result of the Covid-19, which further encouraged the acceleration of digitization in Albania. This is because, above all, electronic commerce was also evaluated as a key element in the fight against the virus, reducing the risk of increasing new infections, saving jobs even though working virtually, and businesses managed to meet the needs and wishes of customers. with their products without the need to meet physically. Most of the businesses that became part of e-commerce during Covid-19 managed to appreciate the benefits of e-commerce, and in a very short time, they were encouraged to make among the first strategic investments they would make for the business, it was that of a genuine online system that no longer included only the sale of online products but also offered different payment methods and the treatment of problems and disputes according to European standards.

An update of the World Bank Enterprise Survey 2020² claims that almost 20% of Albanian firms surveyed have started or increased online business activity during COVID-19. Also, according to the survey of the Albanian-Swiss Chamber of Commerce, we see that during 2020, 67% of Albanians made online purchases, surpassing those of the physical stores. Demands for issuing cards in second level banks (credit/debit cards) increased and many businesses are looking at it every day more and more as an ideal way of investing for the future.

The development of e-commerce in Albania has also changed the way online businesses work. In general, it has influenced the increase of their productivity, the reduction of costs, the

rapid update of the digital transformations and continuous improvements. According to INSTAT's Enterprise Information and Communication Technologies Survey, in 2022, about 13.8% of businesses have sold products/services online through special applications, social networks, or e-commerce websites. The highest percentage in online product sales is by businesses in the field of information and communication at around 31.6%, as well as businesses offering accommodation and food products at around 29.7%³.

Questionnaire analysis on the online shopping during and after the Covid-19

In addition to the various studies and reports published regarding the development of e-commerce in Albania, a questionnaire addressed to various individuals was carried out with the main purpose of studying their online shopping behavior during the covid-19 period. The focus of the questionnaire was to study the online purchases that different consumers have made, the steps they have followed in choosing the product, the payment methods as well as the problems or difficulties they see in relation to online commerce. The questionnaire was created and distributed electronically, and since it was addressed to Albanian consumers, it was prepared in the Albanian language so that it could be understood by all and was completed by 339 individuals⁴. The analysis of the questionnaire will show not only some conclusions for the respondents but at the same time it can serve as a comparative case with all other previous studies that have been done in relation to e-commerce.

Depending on the questions of the questionnaire aimed at online shopping during covid-19, its analysis is as follows:

² World Bank Document: Albania E-Commerce Diagnostic
Leveraging the Digital Trade Opportunity

³ INSTAT, 2022

⁴ The survey link:

https://docs.google.com/forms/d/e/1FAIpQLSe6oZQwKxVaZKj18hzFWIy777lQyrQgB-N08bTYVQf30I2zJw/viewform?usp=sf_link

- Out of 339 completed questionnaires, 70.3% belonged to the female gender and 29.7% to the male gender. Although over the years, everywhere in the world, online shopping has been seen with a greater interest by the female gender, the participation of the male gender in this survey, makes it possible for us to look at it in a more general and balanced perspective. Of the total number of respondents, 85.4% stated that they had made online purchases during Covid-19. While around 14.6% of them had not made online purchases as they had a low level of confidence regarding the quality of the advertised products, the mode of transport, data security, etc.
- Regarding the age groups of the respondents, almost 86.4% belonged to the age group of 18-35 years, 12.8% to the age group of 35-50 years and only 8% to the age group over 50 years. With such a large gap between age groups, it is not surprising that young people have a great interest in buying products online. First of all, they are more up-to-date with technological advancements compared to other age groups, they want to be always coherent with new innovations in the market, they are all good internet users, they tend to be more confident about trading online and are often evaluated as impulsive buyers, which affects the level of online purchases. Meanwhile, other age groups and mainly those over 50 years old, have a low percentage as online buyers and this is due to the lack of trust in electronic commerce in terms of achieving their expectations regarding the quality of the products, their access to the internet etc.
- In relation to the level of education, a very important question, it turned out

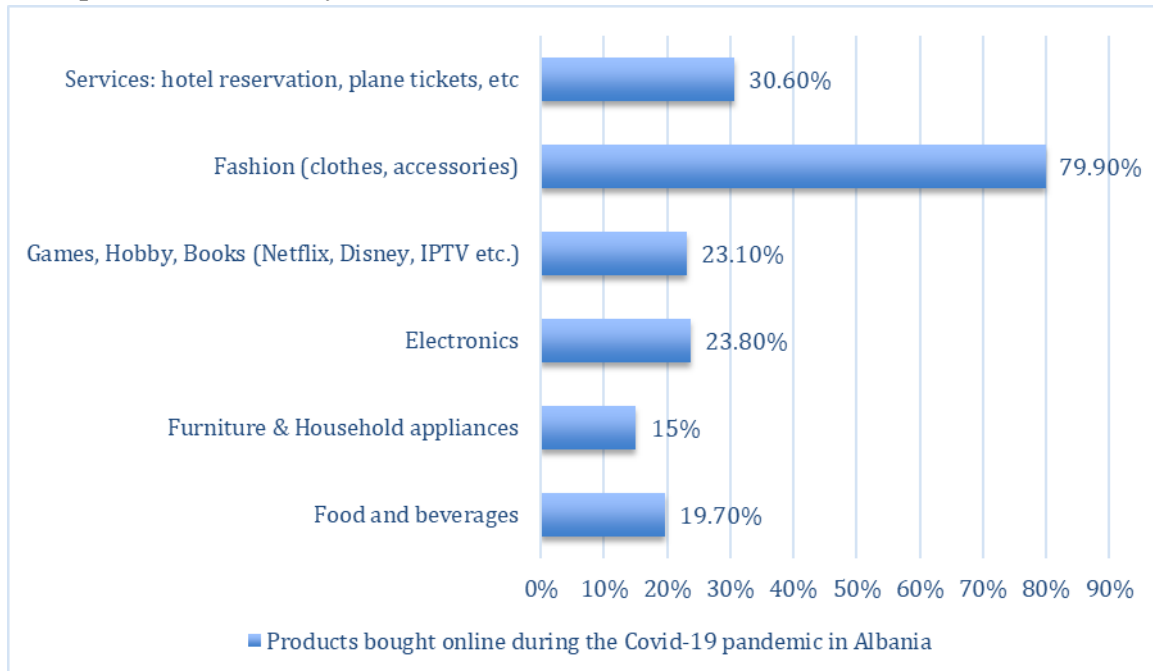
that 91.7% of the respondents had a university diploma and the rest had a high school diploma. Intellectual and professional training also affects personal education in understanding e-commerce. All individuals who have university diploma are not only better Internet users, but at the same time, they tend to believe more about the operation of online commerce, becoming online shoppers with the main goal of saving time and easy adaptation to market conditions.

- The monetary side is another important aspect that affects the purchase of various products both in physical stores and online. 50.6% of respondents stated that they received up to 50,000 ALL/month as personal income, 35.1% received between 50,000-100,000 ALL/month and 14.3% received over 100,000 ALL/month. Although the income level of the respondents was not relatively high, and considering the unpredictable expenses they would have during the time of Covid-19, they still claimed to have made online purchases, and often they were "impulsive" purchases" as a form of consolation to face the demoralizing situation in which they were.
- Interesting results were related to the most frequent products that respondents purchased during covid-19. From the chart below, it is clear the difference between fashion products such as clothes, accessories, etc. that almost 79.9% of the respondents had bought more in this industry compared to food products, furniture, electronic equipment, games or services. What remains interesting is that at the time of isolation, in an unforeseen situation regarding its duration, doubts about the continuity of life, or the return to

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normality, the main orientation of the respondents was towards clothes. One can clearly analyze the point of view they had regarding the situation they were experiencing. They considered online shopping as a comfort and with the prediction that very soon it would

be back to normal and the clothes bought would be worn. The same result is almost also from the survey conducted by INSTAT, where almost 84.8% of individuals in 2020 had made online purchases for clothes/shoes/accessories⁵.



Source: Results of the survey calculated by the author

Figure 2: Products bought online during the Covid-19 pandemic in Albania

- The main reasons why respondents made online purchases during Covid-19 were mainly to avoid physical contact, saving physical time, for the variety of online products compared to physical ones, etc.
- Regarding the payment methods, almost 84% of them made cash payment when receiving the product, while 33.2% of them used e-banking.
- The channel most used by respondents to order products online was Instagram at nearly 75.4%. But they also used the official website of the store (mainly for registered online businesses which offered a more

formalized and standardized online sale).

Different Barriers of e-commerce in Albania

Covid-19 gave a rapid development to e-commerce in Albania, but it still remains in the early stages and with many barriers or difficulties that must be overcome, before a full standardization and formalization as in developed countries.

- There is a law on electronic commerce which claims to theoretically regulate every issue of e-commerce, but in fact it does not regulate the minimum mandatory elements that an online

⁵ INSTAT, 2020

business site must contain. The service provider must provide relevant authorities and customers with some general information, including business name, company headquarters, website, email address and company registration details.

- Theoretically, there is a law for the protection of the consumer, but unfortunately there is still no clear control and assessment system for the consumer, online businesses and the problems that may be between the parties.
- There is a lack of trust from consumers in ordering a product that does not meet expectations regarding the declared qualities, as well as the risk of identification and theft of personal and monetary data.
- Most of the businesses that operate online, invest in a "scary" marketing of products through social networks encouraging the customer to make impulse purchases, but without the interest of returning them for other purchases. Usually the product marketed with the physical product has a lot of difference, which affects the disappointment of the customer and at the same time the loss of his trust from other businesses that offer online products. In this path, e-commerce is seen as a strong disincentive for formal businesses to consider an online sales channel.
- Lack of initiative from private businesses. The pandemic had to come, for many businesses to become aware of the necessity of operating in e-commerce. Although most of the businesses, mostly small, started to sell their products online through social networks, there are many other shortcomings that demotivate them towards the development of formalized

online activity. This is because: lack of liquidity, untrained staff to quickly adapt to new technological changes, lack of government support, lack of connection with the banking system on making payments, etc.

- There is no specific law that regulates the tax declarations of a business that operates online. Although in recent years in Albania, online taxation is being applied to every business, there are many online businesses, especially of small sizes, which do not register their electronic invoices, thus increasing even more the level of informality and the inaccuracy of online sales data. Unclear tax treatment keeps existing businesses away from e-commerce. The government should implement a complete regulatory system. (fiscal and accounting aspect). The existence of a strong regulatory framework helps increase confidence in the digital economy. To clarify the rights and responsibilities that online businesses must face.
- Poor digital infrastructure, which prevents online payments. The development of e-commerce in Albania is not realized only with the great desire of entrepreneurs to operate their online activity. A very fruitful cooperation is needed between the most important economic agents of a country: 1) the government and the legal framework that it designs, 2) financial intermediaries, in the standardization of the provision of online payments, 3) existing entrepreneurs in undertaking their initiative and investment towards the digital economy, as well as 4) consumers, to embrace this digital transformation as soon as possible

- One of the payment methods offered anywhere in the world, Paypal has a limited function in Albania, because it is not registered with the Bank of Albania to offer the opportunity of various transactions.
- There is no authorization, license, permit or similar requirement provided by Albanian law as a prerequisite to conduct e-commerce business.
- A large part of Albanian businesses is small and have low liquidity, which makes it difficult for them to invest in e-commerce.
- Logistics and customs. Postal services, logistics companies, and customs administrations must develop appropriate solutions to support e-commerce businesses.
- The Common Regional Action Plan 2021-24 has recently been drawn up, which consists of a group of representatives of EU state institutions and has as its own goal the unification and regulation of the operation of e-commerce in the region, focusing on several areas such as: digital activities, logistics and customs issues, the private sector, e-commerce legislation and consumer protection as well as electronic payments.

Conclusions and recommendations

Regardless on the number of businesses operating online in Albania increases, what is urgent for a controlled digital economy is the support of all online businesses from the government. Close cooperation between all economic agents is needed so that e-commerce works according to European standards, simultaneously protecting the business, the consumer, as well as the economy in the fight against informality.

Numerous recommendations have been published by the World Bank report on the regulation of e-commerce in relation to this point, but what I think is most important is the increase of customer confidence in online businesses, which can be achieved through their officialization by the government declaring that they are coherent in relation to e-commerce regulations. Also, a special law for consumer protection in e-commerce should be drafted, approved and distributed, including all mechanisms for resolving agreements or various penalties against online businesses in case this law is not respected. Undertaking e-commerce promotion and incentive campaigns by the government with the aim of not only increasing the number of businesses that will operate online, but also to make consumers aware of the new digital age. So far, the Joint Regional Action Plan 2021-2024 has been drafted, which reflects a joint reform of e-commerce in the countries of the Western Balkans. This plan can also serve as an orientation compass for the government in drafting the special law for online commerce.

The digital economy should be a priority of the government's strategy. The government through the legal framework can facilitate the adaptation of businesses and consumers to the digital economy. Also, it can help increase the security of e-commerce and should promote the further development of e-commerce.

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