

# IFF risk assessment

Preliminary report: Egypt

**Bojan NASTAV**

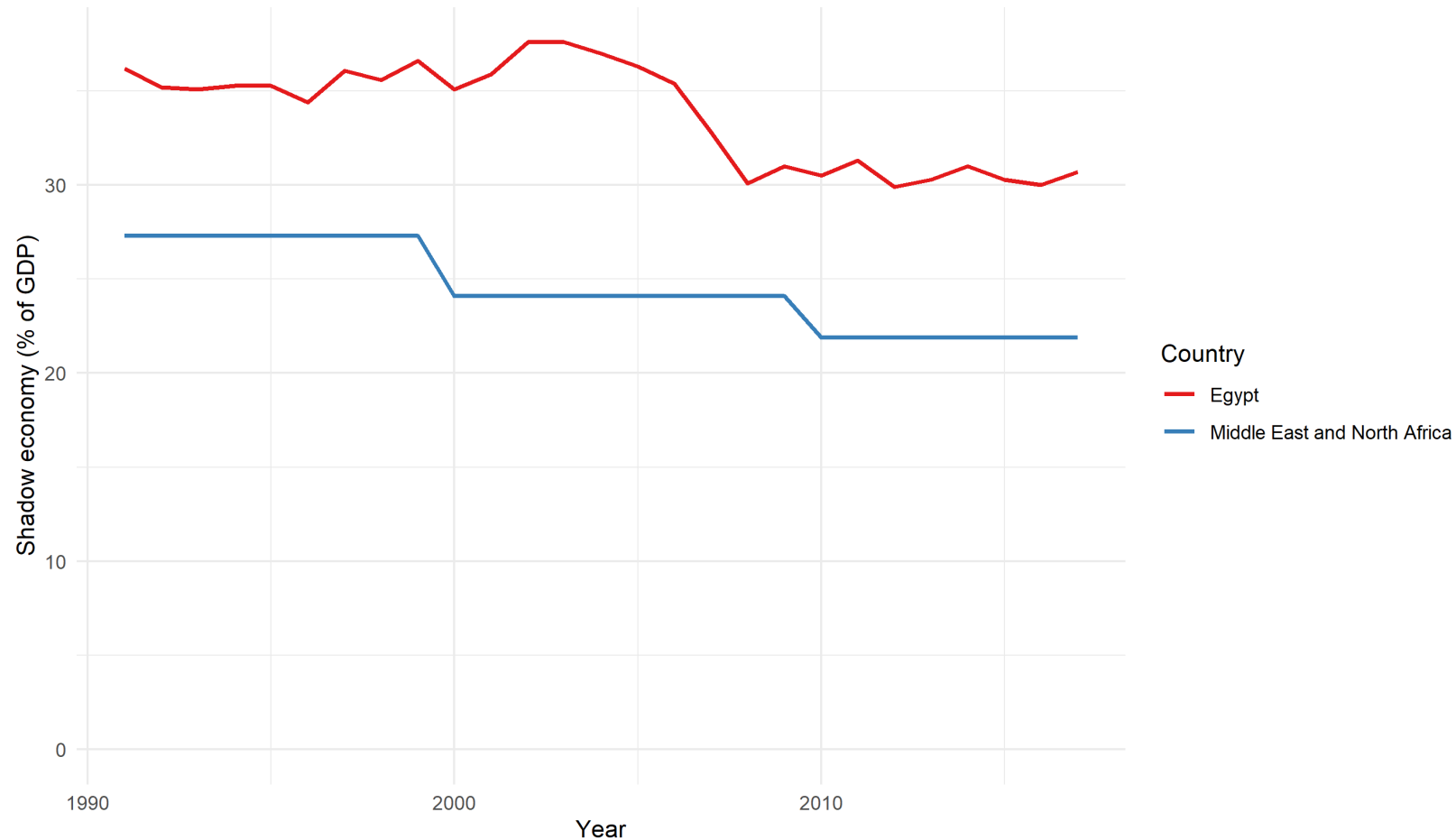


# Contents

- Identification – environment for IFFs
- Analysis – assessment of IFFs
- Evaluation – response to IFFs

# Identification

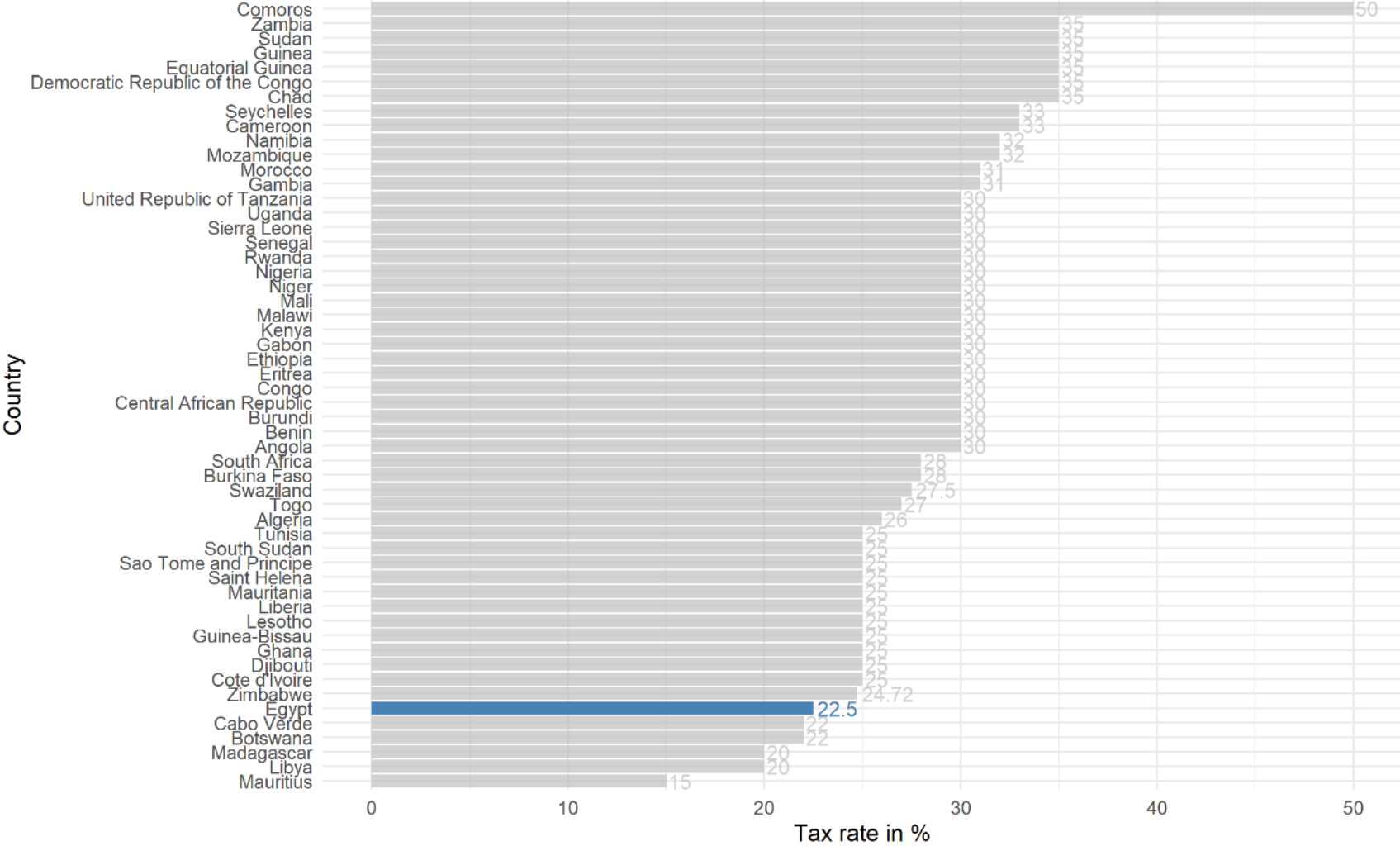
Figure 1. Estimates of shadow economy in Egypt as a percentage of GDP from 1991 to 2017



Source: Medina and Schneider (2019); IMF (2021)

# Identification

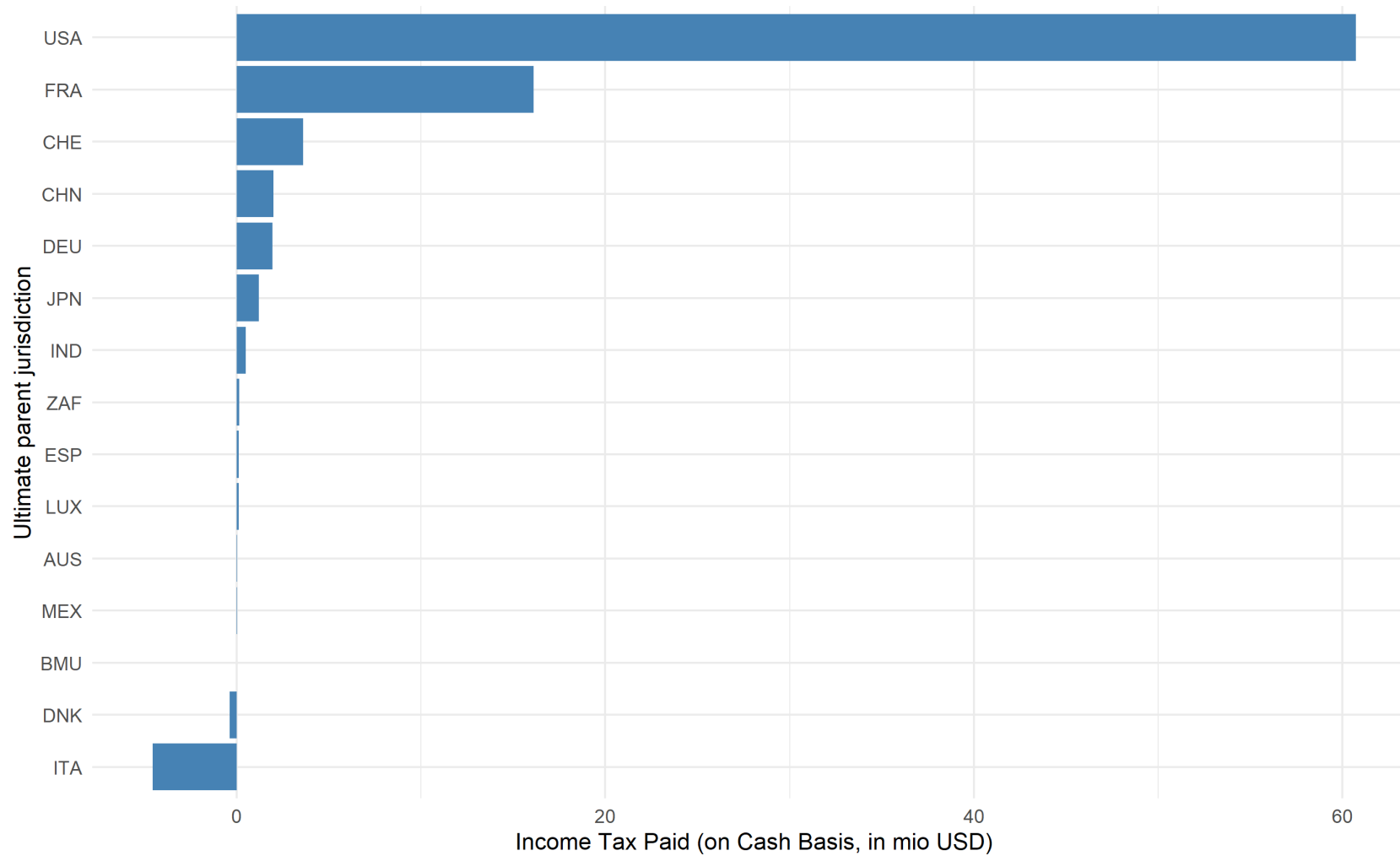
Figure 2. Statutory corporate tax rates in countries in Africa, percentage, 2020



Source: Tax Foundation (2021)

# Identification

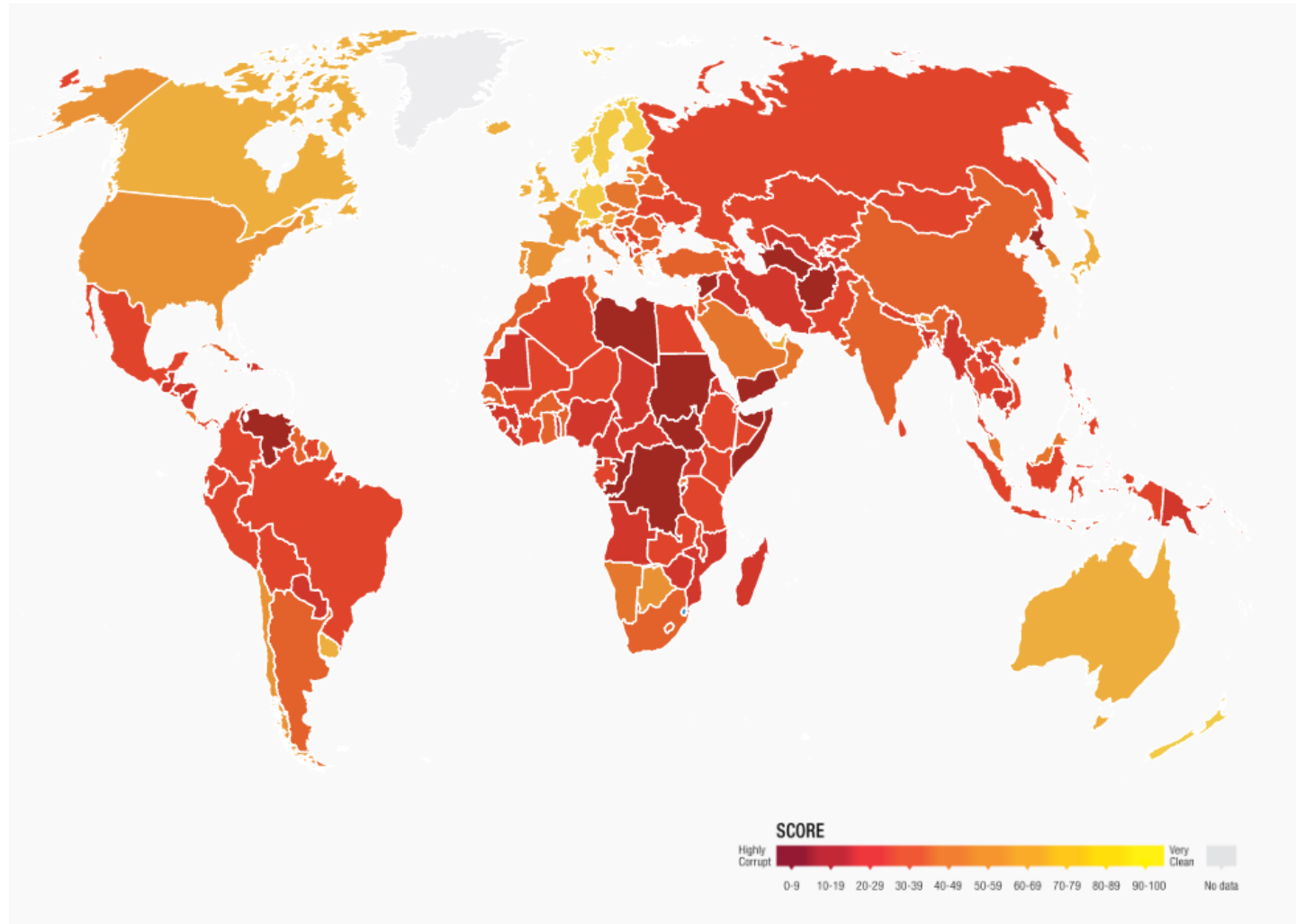
Figure 3. Income taxes paid in partner jurisdiction Egypt by MNE units by their ultimate parent jurisdiction



Source: OECD (2021a)

# Identification

Figure 4. Corruption Perceptions Index 2020



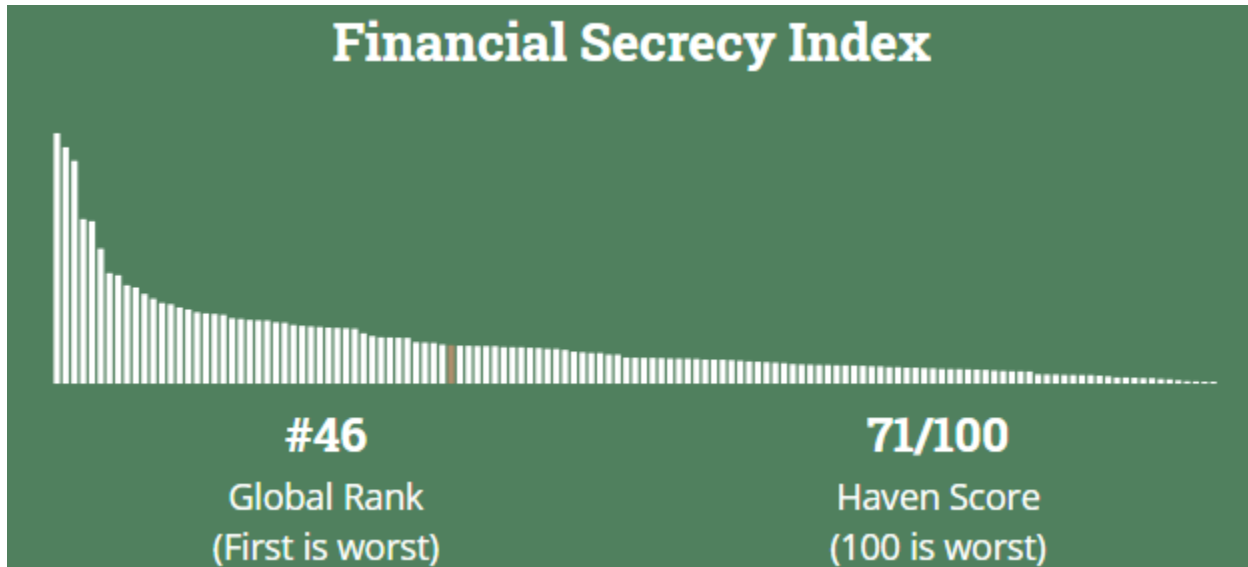
Source: Transparency International (2021a)

# Identification

- Financial system
  - OECD CRS ✗
  - Locational statistics BIS ✗
  - IMF derived portfolio investment by non-residents ✗
  - Cross-border banking liabilities, bilateraly, CBE ✓

# Identification

- Financial system

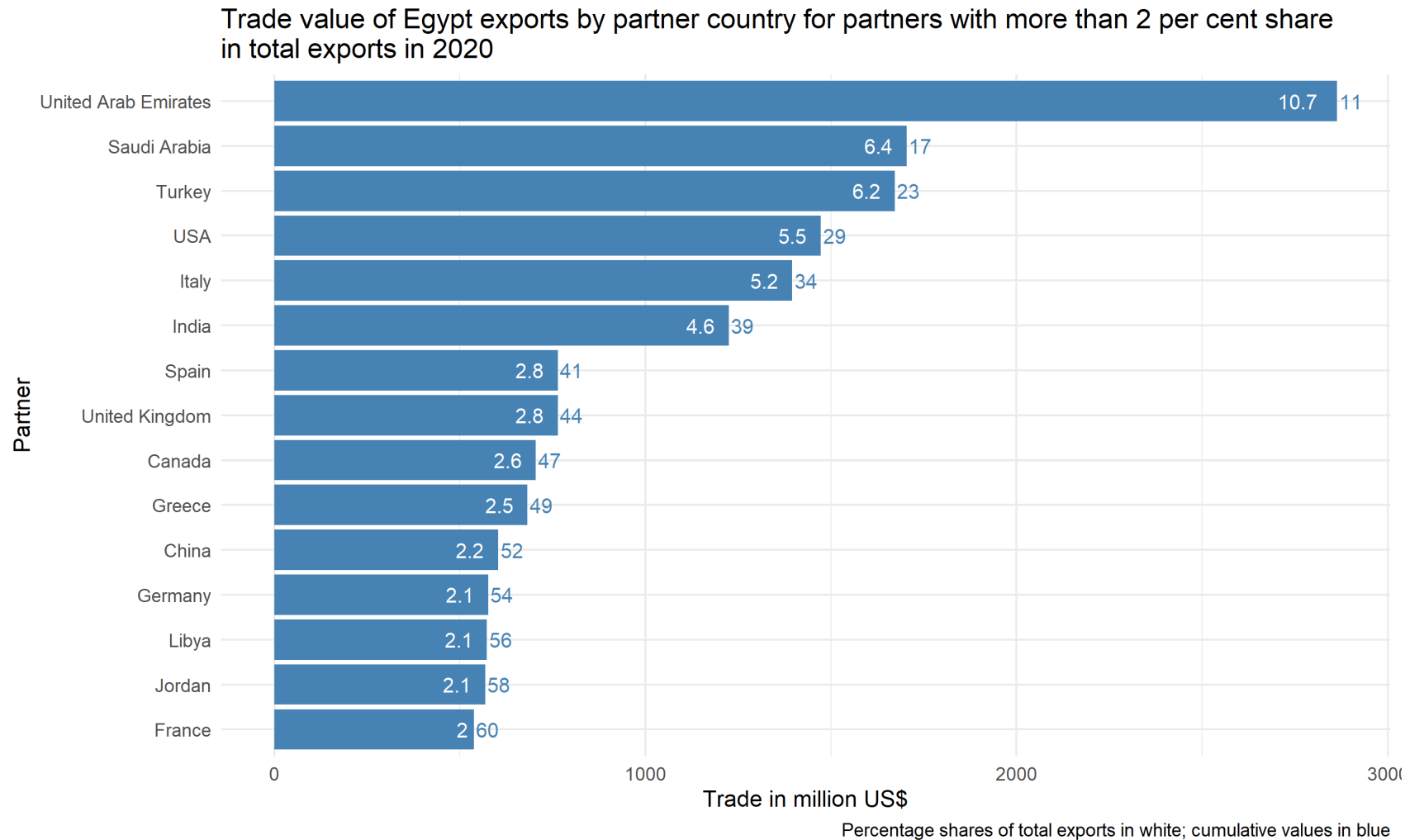


Source: TJN (2021)



# Identification

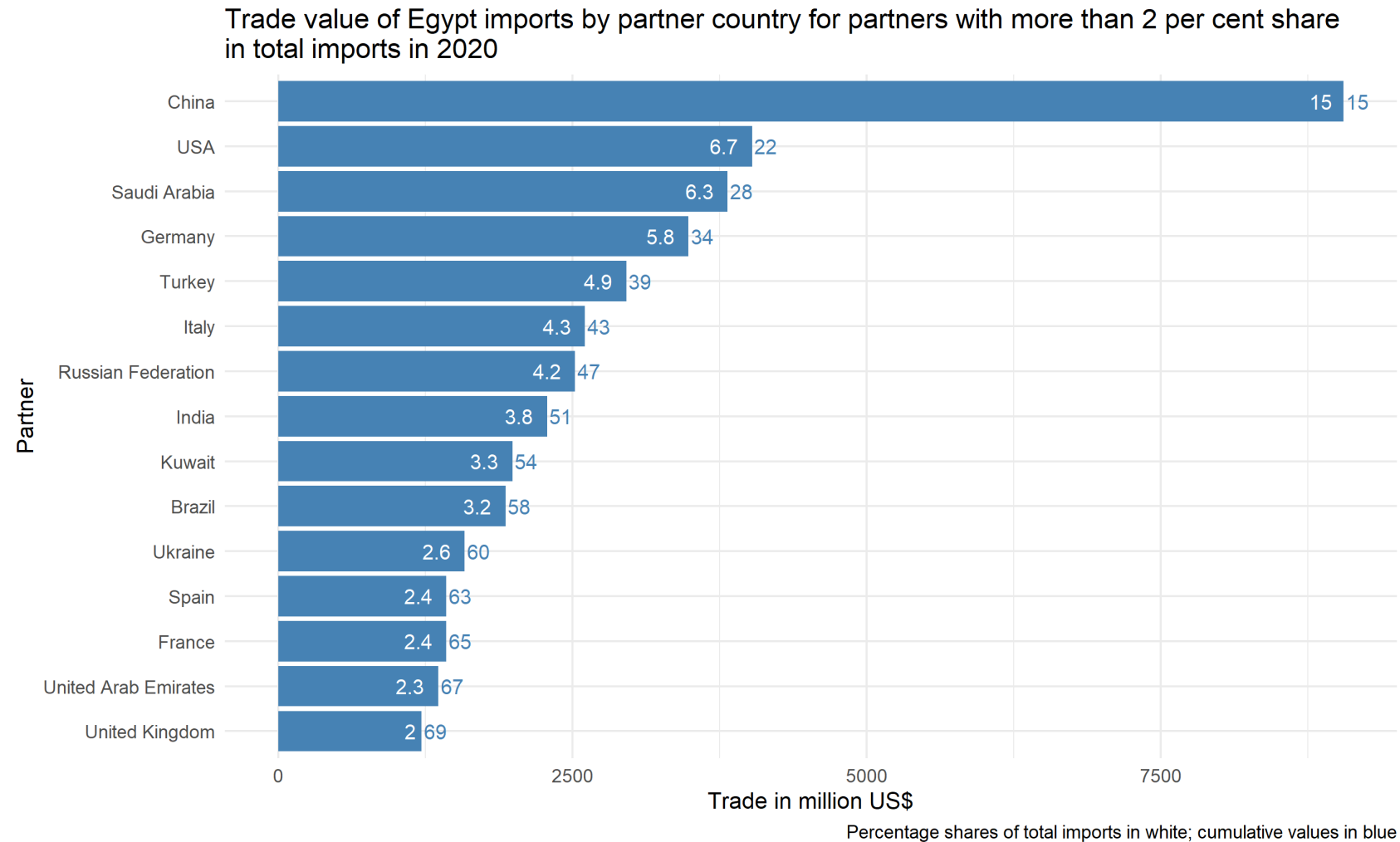
Figure 5. Egypt exports by partner country, 2020



Source: UN Comtrade (2021)

# Identification

Figure 6. Egypt imports by partner country, 2020



Source: UN Comtrade (2021)

# Identification

- Trade discrepancies (before any adjustment!)

*Table 1. Egypt imports and exports with mirrored values (from World), 2020, USD billions*

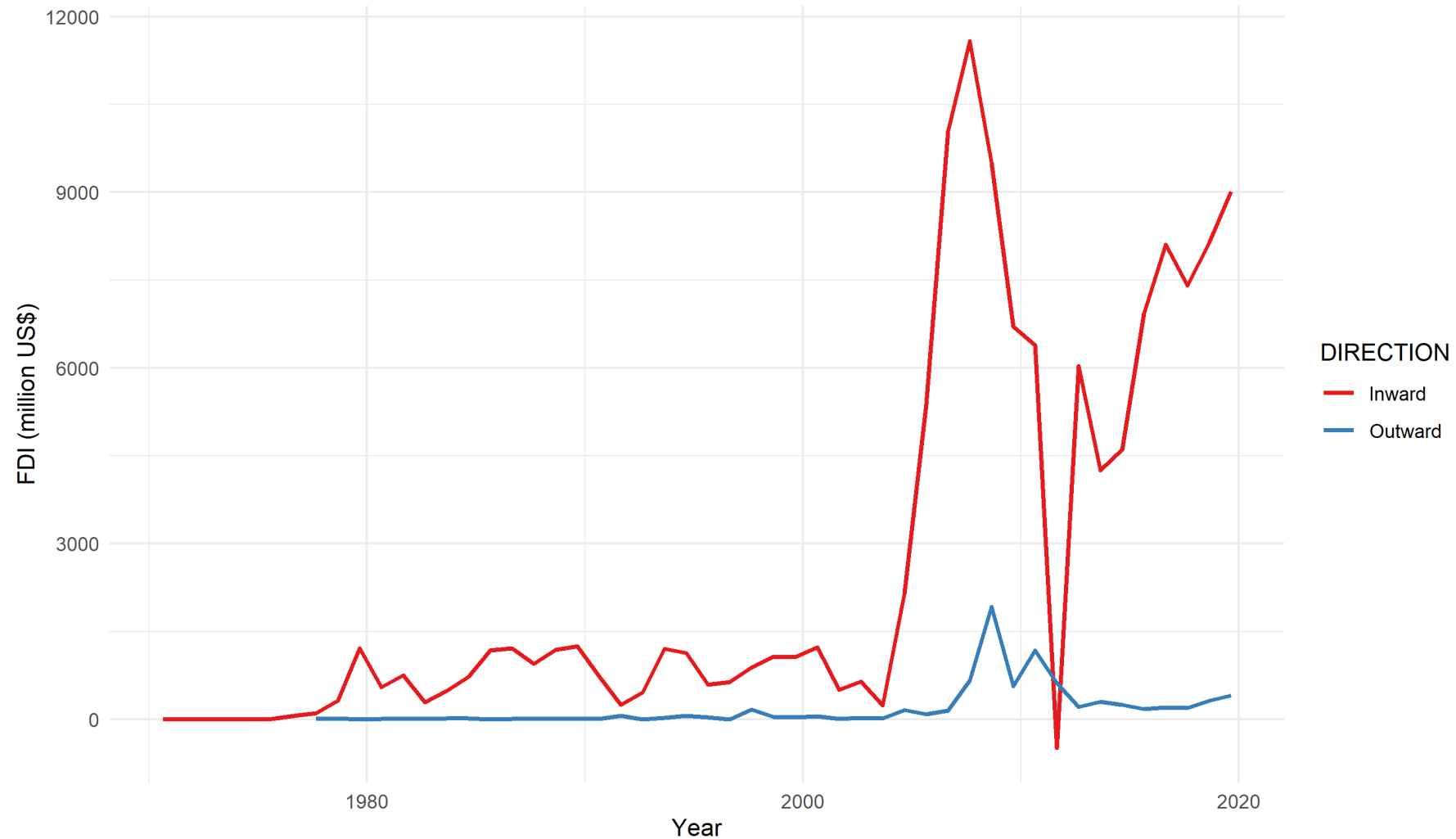
	Value	Mirrored value	Discrepancy
<i>Imports</i>	60.3	70.0	-9.7
<i>Exports</i>	26.8	28.3	-1.4

*Source: UN Comtrade (2021)*

- Medstat II (European Commission, 2009)
- Commodity-level

# Identification

Figure 7. Inward and outward FDI flows for Egypt



Source: UNCTAD (2021)

# Identification

- Taxation



Source: TJN (2021)

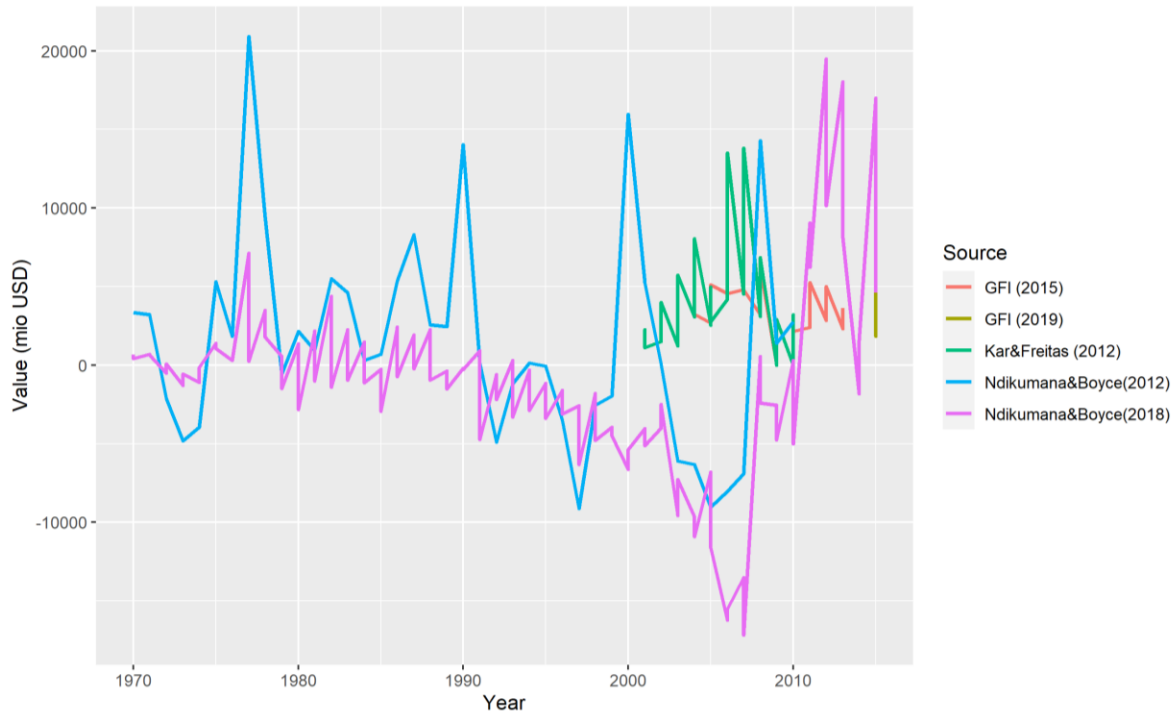
# Analysis

Based on information available to you, which IFFs are most relevant for your country?	Count
IFFs from aggressive tax avoidance	1
IFFs from illegal commercial and tax practices	7
IFFs from illegal markets	8
IFFs from corruption	3
IFFs from exploitation-type activities and financing terrorism	3
Or more specifically, for example:	
IFFs from tax evasion by individuals	3
<i>IFFs from trade misinvoicing</i>	5
<i>IFFs from multinational profit shifting</i>	3
<i>IFFs from smuggling of migrants</i>	5
<i>IFFs from drugs markets</i>	5
IFFs from corruption	4
Industry-specific IFFs: IFFs from extractive industries	0

# Analysis

- Commodities and service categories prone to IFFs
  - Specific areas as per work:
    - CBE: purchase of real estate, precious metals or motor vehicles, currency exchange on the black market, shell companies
    - FRA: drugs markets, fraud crimes, illegal migration, corruption, and arms trafficking crime
    - Customs: cash or negotiable tools for bearer such as checks, payment orders, precious metals as well as prohibited or smuggled goods, and manipulating values, quantity, and types of goods
  - Preliminary but aggregated studies -> in-dept national expertise required

# Analysis



Country	Cumulative IFFs (1970–2008) US\$ Billion	Share in Africa's Total IFFs
Nigeria	217.7	30.5%
Egypt	105.2	14.7%
South Africa	81.8	11.4%
Morocco	33.9	4.7%
Angola	29.5	4.1%
Algeria	26.1	3.7%
Côte d'Ivoire	21.6	3.0%
Sudan	16.6	2.3%
Ethiopia	16.5	2.3%
Congo, Republic of	16.2	2.3%

Source: ECA (2015)

**Appendix Table 1. Annual total misinvoicing as a share of total non-oil trade with the world, Arab countries and the region, 2008 - 2015 (Percentage)**

Country	2008	2009	2010	2011	2012	2013	2014	2015	Cumulative
Egypt	11.1	10.8	11.7	11.4	10.8	11.8	11.9	13.3	11.7

Source: ESCWA (2018)

Country	Profits Shifted (M)	Profits booked (M)	Tax Revenue Loss (M)	PS (%GDP)	PS (%Potential base)	TRL (% tax revenue)	TRL (% corp. tax revenue)	TRL (%health)	TRL (%education)
Egypt	6,401	4,851	2,330	2.19	56.88	6.17	19.54	51.47	27.94

Source: Garcia-Bernardo & Janský (2021)



# Evaluation

- Several national policies are in place in Egypt to address the IFFs.
- Cooperation among agencies
- Challenges

# Evaluation

- Priorities for statistical work
  - Short vs long-term; immediate actions
  - Data availability review
  - Forming a national expert group
  - Pilot testing plan
  - Training
  - Compilation
  - Action plan
- Methodological work
- Coordinated approach: national statistical centre to measure IFFs, cooperation platform

# Evaluation



vii. Which type(s) of IFFs would you be most interested to measure?	
IFFs from aggressive tax avoidance	3
IFFs from illegal commercial and tax practices	7
IFFs from illegal markets	6
IFFs from corruption	4
IFFs from exploitation-type activities and financing terrorism	5
Or more specifically, for example:	
IFFs from tax evasion by individuals	3
IFFs from trade misinvoicing	6
IFFs from multinational profit shifting	4
IFFs from smuggling of migrants	5
IFFs from drugs markets	3
IFFs from corruption	4
Industry-specific IFFs: IFFs from extractive industries	2

ix. Which methodology you think is the most appropriate for your country?	
#1 – Partner Country Method (PCM) + (see UNCTAD, 2021, p. 29)[1]	5
#2 – Price Filter Method (PFM) + (see UNCTAD, 2021, p. 41)	1
#3 – Global distribution of MNEs' profits and corporate taxes (see UNCTAD, 2021, p. 51)	0
#4 – MNE vs comparable non-MNE profit shifting (see UNCTAD, 2021, p. 55)	3
#5 – Flows of undeclared offshore assets indicator (see UNCTAD, 2021, p. 64)	1
#6 – Flows of offshore financial wealth by country (see UNCTAD, 2021, p. 67)	3

ii. What kind of support, training and guidance would be needed for your office/country?	
Training courses	6
Methodological materials	5
Practical guidelines including instructions	7
Help with data cleaning	4
Linking and analysis	6

# Next steps?

- Review
- Feedback
- Refine within Expert Group
- Build national pilot testing plan to measure IFFs in Egypt

<https://stats.unctad.org/iffs>



TAX AND COMMERCIAL  
ILLICIT FINANCIAL FLOWS

*National validation Workshop of pilot activities for measuring IFFs in Egypt – 22 Nov 2021*

<https://unctad.org/meeting/national-validation-workshop-pilot-activities-measuring-illicit-financial-flows-iffs-egypt>