

IFF risk assessment for Egypt – draft report – summary

This IFF risk assessment looks at Egypt’s vulnerability to IFFs from all four main categories of IFFs (tax and commercial, illegal markets, corruption, and exploitation-type and financing terrorism). Existing research, literature and knowledge (through the Self-assessment Questionnaire, SAQ) have been exploited to produce this report, and combined, they indicate where activities or circumstances seem to be most conducive to IFFs in Egypt. The following are the main observations from the preliminary draft report.

1. **Shadow economy** is estimated to be above the region’s average, hovering at more than 30 per cent of GDP in Egypt (Medina and Schneider, 2019). With strong links of shadow economy to illegal IFFs (including, but not limited to trade misinvoicing, tax evasion and also illegal markets), persistence and presence of the former may indicate the prevalence of the latter in Egypt.
2. Statutory **corporate tax rate** in Egypt places the country in a group of less taxed economies, itself potentially an indication of some involvement in the inward IFFs due to profit-shifting activities of multinational enterprises (MNEs). Detailed and effective tax rates need to be examined, and potentially applied (given data availability, e.g., exploiting OECD CbCR¹) in a method to measure these flows.
3. **Corruption** appears to be of some concern in Egypt (Corruption Perceptions Index is ranking country 117 out of 180 in 2020; one place up from 2012 score), although the country is not ranking as the most critical country in the overall perceived as highly corrupt region. Egypt has ratified the United Nations Convention against Corruption and making steps to fight off the phenomenon, including activities by and with UNODC ROMENA.
4. **Financial system of Egypt is estimated to be relatively vulnerable to tax abuse**, with TJN IFF vulnerability tracker’s financial secrecy index ranking Egypt at 46 (out of more than 130 countries; 1 being the worst). Egypt is not a signatory to OECD’s Common Reporting Standard (CRS) nor is the country providing data to the Locational statistics of Bank of International Settlement (BIS); International Monetary Fund (IMF) does not report Egypt’s data on derived portfolio investment by non-residents. Lack of internationally reported data may increase the potential to conduct IFFs. However, SAQ inputs reveal that cross-border banking liabilities and their bilateral country level breakdown are nationally available by the Central Bank of Egypt
5. Egypt is an open economy, with main trading partners of exports countries in neighbourhood (United Arab Emirates, said Arabia and Turkey), the USA and notably also Italy and India (all above 5 per cent shares in Egypt’s total exports). Imports, on the other hand are dominated by China, followed by the USA, Saudi Arabia and Germany. Various estimates of trade misinvoicing by external parties (e.g., GFI, ESCWA, Nicolaou) have been processed; moreover, nationally supported exercise to reconcile trade statistics with the EU has addressed the issue of trade gap in the past. All these reveal that **trade misinvoicing** may be a very important aspect of IFFs in Egypt.
6. Nationally relevant types of IFFs appear to be IFFs from **illegal commercial and tax activities** (e.g., trade misinvoicing and tax evasion by individuals through transfer of wealth) and **illegal markets** (e.g., drugs smuggling, trafficking of persons). **Aggressive tax avoidance** appears to be of less of an interest or relevance, partly due to data (un)availability, and partly of linking these activities to

¹ https://qdd.oecd.org/subject.aspx?Subject=CBCR_REQ

corruption. Nevertheless, the method to address profit shifting of MNEs has been proposed as an appropriate method to test. Corruption and exploitation-type and terrorism financing are also relevant, yet clear methodologies and data availability may pose serious limitations in their statistical measurement at this stage.

7. Existing research points to the inherent challenges of applying non-consistent methodologies and data sources, leading to a significant amount of volatility in results. Regardless, they point to important trends that IFFs in Egypt are among the highest in Africa and require for measurements to provide more reliable estimates of IFFs as evidence base for policy formulation in Egypt. **Political buy-in is present and national stakeholders engaged**, yet data availability and statistical capacity, including **methodologies to measure IFFs, are still missing** or scarcely available.
8. Some of the obstacles reported in national actions to measure IFFs were referring to **difficulties in communication** with foreign agency counterparts, hence collaboration was slowed down significantly. However, these seem to have been handled with **drawing up agreements and protocols to support joint actions**. These were also actively set up at a national level so support within-country collaboration and increase efficiency in their work to combat IFFs in Egypt.
9. **Centrally coordinated activities for measurement of IFFs**, including both collection of data, compilation and dissemination of statistics, are deemed as a proper activity to support IFF measurement in Egypt. All relevant agencies, including financial investigation units and customs, should be brought into play. Establishing a cooperation platform to exchange ideas, share knowledge, access data in a statistically safe environment may properly address the issues and support related activities.
10. Setting up of an **Expert group to measure IFFs in Egypt**, composed of statisticians, other relevant technical personnel of national agencies, as well as national experts, is an important step towards measurement of IFFs in Egypt. Followed by detailed examination of data availability and pairing up with the IFF risk assessment review, a **national plan to pilot test methodologies** will be drawn up, starting from the identification and later delivery of specialised training, compilation and dissemination of experimental statistics on IFFs in Egypt, resulting also in an **action plan to draw up short and long term priorities for national statistical work on IFFs**.