GLOBAL FINANCIAL INTEGRITY

Egypt: Potential Revenue Losses Associated with Trade Misinvoicing

Global Financial Integrity

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We are pleased to present here our analysis, *Egypt: Potential Revenue Losses Associated with Trade Misinvoicing.*

Trade misinvoicing is a reality impacting Egypt and every other country of the world. Imports coming into a country can be over-invoiced in order to shift money abroad, or imports can be under-invoiced in order to evade customs duties or value-added tax (VAT). Similarly, exports going out of a country can be under-invoiced in order to shift money abroad. Exports are occasionally over-invoiced; for example, in order to reclaim VAT taxes. Regardless of which method is used, the results are the same: large amounts of tax revenues are not being collected.

Global Financial Integrity finds that trade misinvoicing is the most frequently utilized mechanism facilitating measurable illicit financial flows (IFFs). Misstating import and export values on invoices submitted to customs authorities has become normalized in much of commercial trade. We are dealing with a systemic problem that merits serious concerted attention. While there are many channels for IFFs in the global economy, this report is focused exclusively on the IFFs that flow through the international trading system of regular imports and exports.

Parties to trade who engage in misinvoicing do so because it is profitable to them. That is, they will incur some costs (including the potential cost of getting caught), but do so because the expected financial benefits of misinvoicing are larger than their expected costs. While those parties benefit from misinvoicing, there are social costs to nations affected by such activity. The taxes that go uncollected as a result of trade misinvoicing deprive governments of desperately needed tax revenues for funding basic government services such as health, education, transportation and long-term public investment. And while governments lose money, illicit actors gain money which can be used to finance criminal activity.

While any country may be affected by misinvoicing, the problem is particularly acute for developing countries where productive capacities and domestic tax bases may be limited. The social costs of trade misinvoicing can undermine sustainable growth in living standards in developing countries, as well as exacerbate already pronounced inequities in the distribution of income and wealth. Moreover, by depressing government revenues and exacerbating inequality, those social costs can also impede progress in the developing world on important social goals, such as commitments to achieve the internationally-agreed Sustainable Development Goals (SDGs).

In this analysis, we seek to provide an approximate measure of tax revenues lost to the Egyptian government due to trade misinvoicing. We illustrate this by using data for 2016 (the most recent year for which comprehensive data for Egypt are available). For that year, we can reasonably identify potential revenue losses of approximately **US$1.6 billion**, which is equal to about **4.1 percent of total tax revenue collections** in Egypt in 2016.

This is a conservative figure, as it does not include many types of trade misinvoicing and other IFFs that do not show up in official trade statistics. Moreover, the detailed data available for estimating trade misinvoicing in Egypt comprise a fraction of all of that country's trade flows.

Furthermore, we take one aspect of this problem – the estimated losses of US$358 million in customs duties due to import under-invoicing in 2016 – and subject it to an in-depth analysis utilizing detailed bilateral trade data. In this in-depth exploration, we examine Egypt's imports according to major commodity groups as listed among the United Nations Harmonized System (HS) product codes at the two-digit level. We find that, in 2016, Egyptian imports essential oils (HS 33), vehicles (HS 87), machinery (HS 84) and meats (HS 2) and, more generally, imports from Ireland, China and Switzerland, were prone to potential revenue losses for the government of Egypt due to under-invoicing (See Figures 2 and 3). In particular, under-invoiced imports of essential oils (HS 33) from Ireland appear to have been particularly acute in 2016. Under-invoicing associated with imports of essential oils (HS 33) from both Switzerland and the Netherlands were also highlighted as a potential risk for revenue losses, as were nearly half of all imports from China (See Figure 4).

All researchers working on this issue of trade misinvoicing are constantly seeking better data and better analytical methodologies. Even as we work toward these goals, what is most important is to appreciate the order of magnitude of the problem and the potential for realizing increased trade tax revenues that could be used for development if the problem is curtailed.

To help governments reduce the degree of trade misinvoicing, Global Financial Integrity has developed a tool – **GFTrade** – that can be used by customs officials to compare the declared prices on invoices of imports and exports in real time (i.e. while goods are still in the port) against prices for the same product traded between the same two trading partners over the previous 12 months. The comparison enables customs agencies to flag any invoices with prices that may be overstated or understated and that could be indicative of trade misinvoicing for further investigation. This tool can greatly assist governments to reduce trade misinvoicing and realize increased trade tax revenues.

Global Financial Integrity thanks the Ford Foundation for its support of these efforts.

Tom Cardamone
President and CEO
June 2019

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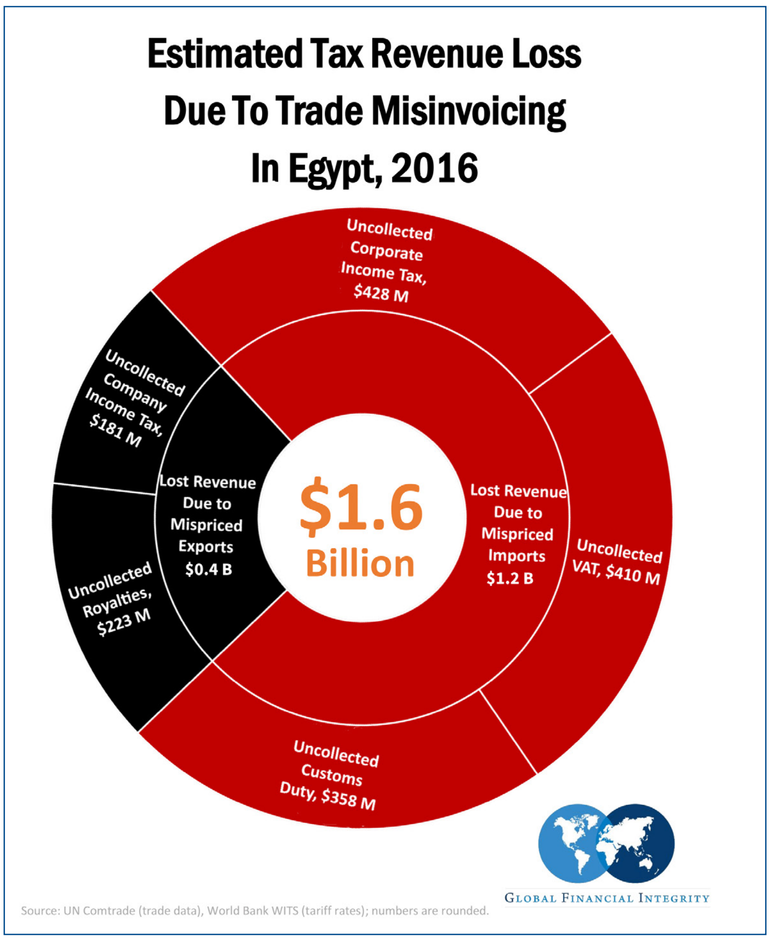
Executive Summary

This report analyzes Egypt's bilateral trade statistics for 2016 (the most recent year for which sufficient data are available), as published by the United Nations (Comtrade). The detailed breakdown of bilateral Egyptian trade flows in Comtrade allowed for the computation of trade value gaps that are the basis for misinvoicing estimates. Import gaps represent the difference between the value of goods Egypt reports having imported from its partner countries and the corresponding export reports by Egypt's trade partners. Export gaps represent the difference in value between what Egypt reports as having exported and what its partners report as imported.

In addition to identifying the trade gaps in Egypt's 2016 imports and exports with its partners, the report also estimated the potential loss of tax revenue associated with the gaps. The analysis shows that the estimated potential loss of revenue to the Egyptian government is approximately **US$1.6 billion** for 2016. To put this figure in context, this amount represents **4.1 percent of the value of Egypt's total government revenue collections in 2016**. Put still another way, the estimated value gap of all misinvoiced imports and exports was US$8.5 billion, which is equivalent to 10.5 percent of the country's total trade of US$80.6 billion in 2016.

The total estimated potential lost revenue of US$1.6 billion is comprised of misinvoiced imports and exports. The portion of government revenue potentially lost due to import misinvoicing in 2016 was approximately US$1.2 billion. This amount can be further divided into its component parts: uncollected value-added tax (VAT) (US$410 million), uncollected customs duties (US$358 million) and uncollected corporate income tax (US$428 million). The potentially lost revenue due to misinvoiced exports in 2016 was approximately US$404 million. This amount can be further divided into its component parts:



uncollected corporate income tax (US$181 million) and uncollected tax from royalty payments (US$223 million) (See Table 2).

Trade misinvoicing occurs in four ways: under-invoicing of imports or exports, and over-invoicing of imports or exports. In the case of import under-invoicing, fewer VAT taxes and customs duties are collected due to the lower valuation of goods on the invoices. When import over-invoicing occurs (i.e. when companies pay more than would normally be expected for a product), corporate revenues are lower, making taxable income levels lower and consequently less income tax is paid. In cases of export under-invoicing, the exporting company collects less revenue than would be anticipated and therefore reports lower taxable income, subsequently paying less income tax.

Total misinvoicing gaps related to imports in 2016 can be broken down by import under-invoicing (US$3.2 billion) and import over-invoicing (US$2.6 billion). These figures represent the estimated value of the gap between what was reported by Egypt and its trading partners. The estimated loss in government revenue is a subset of these amounts and is based on VAT tax rates in 2016 (13.0 percent), customs duties in 2016 (calculated by WITS tariff data on line by line basis) and corporate income taxes on profit in 2016 (16.3 percent), which are then applied to the value gap. Export misinvoicing gaps were US$1.1 billion for export under-invoicing and US$1.6 billion for export over-invoicing. Lost corporate income taxes in 2016 (16.3 percent) and royalties (20.0 percent) are then applied to export under-invoicing amounts to calculate lost government revenue (See Table 2).

The study also includes a more in-depth exploration of the US$358 million in tax revenues from customs duties that Egypt is estimated to have been lost due to import under-invoicing in 2016 by examining imports according to major commodity groups as listed among the United Nations Harmonized System (HS) product codes at the two-digit level.[1] We examined Egypt's imports to identify particular products that appeared to be at especially high risk for trade misinvoicing in 2016 (See Figure 2).

We also examined Egypt's imports in 2016 to identify particular trading partners that appeared to be at high risk for trade misinvoicing both in terms of their percentage total imports to Egypt, as well as in terms of their dollar values of estimated lost customs revenues. The under-invoiced imports with the potentially highest risk for revenue losses by dollar values included essential oils (HS 33) at US$202.5 million, vehicles (HS 87) at US$21.1 million, machinery (HS 84) at US$12.8 million and meats (HS 2) at US$12.3 million (See Figure 2). The partner countries associated with largest potential dollar values of losses included Ireland (US$145.6 million), China (US$85.4 million) and Switzerland (US$28.2 million) (See Figure 3).

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[1] This analysis of Egyptian imports for 2016 is intended to be illustrative. The estimates of potential revenue losses could be evaluated over more refined commodity groups such as HS-4 digit and HS-6 digit groups. GFI will provide such more highly refined estimated groupings upon request.

In terms of looking at both at high risk for revenue losses by both under-invoiced imports and trading partners, the analysis finds that essential oils (HS 33) from Ireland appears to have been particularly acute in 2016. Under-invoicing associated with imports of essential oils (HS 33) from both Switzerland and the Netherlands were also highlighted as a potential risk for revenue losses, as well as nearly half of all imports from China were potentially at risk for revenue losses (See Figure 4).

We conclude by listing a series of steps that Egypt can take at the national and international level to address the problem of trade misinvoicing in particular and the problem of illicit financial flows (IFFs) more generally. GFI commends Egypt for becoming a member of the Middle East and North Africa Financial Action Task Force, a regional body of the Financial Action Task Force in May 2009 and for implementing country-by-country reporting in October 2018. On the issue of beneficial ownership (requiring the true owners of companies be identified), Egypt adopted its Anti-Money Laundering Law, or Law No. 80, in 2002, which addresses beneficial ownership. GFI recommends that Egypt consider making its beneficial ownership legislation part of its customs law as it would allow Egyptian Customs authorities to understand whether their borders are being used to facilitate illicit activity through trade and provide law enforcement authorities with a clear trail when pursuing investigations for customs fraud. On tax information exchange, Egypt joined the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) in 2016, but, as of November 2018, the Status of Commitments Report listed Egypt as among those “developing countries having not yet set the date” for the first automatic exchange of information (AEOI) with partner countries.[2] GFI recommends that Egypt set a date for beginning AEOI and that Egypt should consider signing on to support the Addis Tax Initiative (ATI), a group of 55 countries committed to enhancing the mobilization and effective use of domestic revenues and to improving the fairness, transparency, efficiency and effectiveness of their tax systems.

GFI also recommends that Egypt consider adopting its online tool – **GFTrade** – designed by GFI to build the capacity of customs authorities to better detect misinvoicing as transactions are occurring and take corrective steps in real time.

At the international level, GFI recommends that Egypt use its diplomatic clout in the international arena to support a number of policy initiatives that require international cooperation to curtail IFFs. Of particular importance are international efforts to increase transparency in the global financial system, measures related to reducing the secrecy of tax havens and anonymous companies and efforts to curtail money laundering techniques. GFI recommends that Egypt and other world leaders take pro-active steps to support ongoing international efforts on these issues.

[2] https://www.oecd.org/tax/transparency/AEOI-commitments.pdf

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I. The Four Main Types of Trade Misinvoicing and Their Common Purposes

GFI undertakes an analysis of a country's recent trade with its partners in order to identify four types of trade misinvoicing that are common sources of tax evasion. Trade misinvoicing is a method for moving money illicitly across borders, which involves the deliberate falsification of the value, volume or quality of an international commercial transaction of goods or services by at least one party to the transaction. This typically happens when exporters and importers submit false information about shipments on invoices to customs authorities when shipping exports or receiving imports. It should be noted, however, that such activities take place alongside legitimate trade, which provides a good cover for illicit financial flows (IFFs).

Figure 1. The 4 Main Types of Trade Misinvoicing and Their Common Purposes

IFF Outflows	**Import Over-Invoicing**	— to shift money abroad (evade capital controls, shift wealth into a hard currency, etc.); — overstating the cost of imported inputs to reduce income tax liability; — to avoid anti-dumping duties
	Export Under-Invoicing	— to shift money abroad (evade capital controls, shift wealth into a hard currency, etc.); — to evade income taxes (lowering taxable income levels); — to evade export taxes
IFF Inflows	**Import Under-Invoicing**	— to evade customs duties or VAT taxes; — to avoid regulatory requirements for imports over a certain value
	Export Over-Invoicing	— to exploit subsidies for exports; — to exploit drawbacks (rebates) on exports

Figure 1 describes the four standard types of trade misinvoicing. These include two ways of illicitly sending funds *into* other countries (IFF inflows) and two ways of illicitly sending funds *out* of a country (IFF outflows). In each case, either method could be used by manipulating invoices for either imports or exports. Each of these four pathways is described below:

Import over-invoicing is done for the purpose of shifting money abroad. For example, instead of paying US$100 per unit for an import, you can arrange for the invoice to read US$120 per unit and upon payment put the extra US$20 into a foreign bank account. Therefore, although you are actually paying US$100 per unit for the goods, the falsified invoice enables you to pay US$120, with US$100 going to the actual producer and US$20 going someplace else, often into an offshore account. Import over-invoicing is a common method of illegally moving money out of developing countries and results in *illicit outflows* of funds from a country. There are many reasons why people seek to move money out of developing countries. GFI believes the most common reasons include efforts to shift wealth from countries with weak currencies (whose value often fluctuates and depreciates on world markets) into hard currencies like US dollars, British pounds or EU euros (whose value is more steadily retained). Simple tax evasion is also a major reason.

Similarly, ***export under-invoicing*** can also be used for shifting money abroad. Other purposes include evading the payment of export taxes and lowering the levels of a company's taxable income. In this method, the invoice is falsified to show that the price of goods being exported is lower than the actual price being paid by an importer abroad. This second type of trade misinvoicing is done by exporters who are attempting to pay a lower tax on exports and/or is used by companies as an accounting maneuver to officially lower apparent profits and thus, to pay a lower corporate income tax rate. This practice often plagues high-value natural resource exports from African countries. The High Level Panel on Illicit Financial Flows from Africa found that IFFs are most evident in Africa's resource-exporting countries. Therefore, the use of export under-invoicing also results in *illicit outflows* of money from developing countries, while also denying export and income taxes owed to the government.

Trade misinvoicing is also used to bring illicit funds into countries. A key method of *illicit inflows* includes ***import under-invoicing***. This third type of trade misinvoicing is often used for the purpose of evading the payment of customs duties and value-added taxes (VAT) paid on imports. For example, instead of paying US$100 per unit, you can arrange for the invoice to read US$50 per unit and save on the duties and VAT that would have been payable at the higher unit price. Upon paying the invoice at US$50, you still owe the remaining US$50 to the original producer abroad and therefore must also have a separate means of shifting money abroad in order to complete the transaction. In other words, import under-invoicing is sometimes done with an additional mechanism for shifting un-taxed money out of the country to meet the actual balance due. Import under-invoicing is also common method for evading capital controls (legal limits on how much money can be brought into or out of a country). Since more wealth is being imported into a country than is actually being declared, import under-invoicing results in *illicit inflows* of funds into a country.

Lastly, ***export over-invoicing*** is also used to bring illicit funds *into* countries. In this fourth major type of trade misinvoicing, the prices listed on export invoices are falsified to show that exports are priced at higher levels than what importers abroad have invoiced. While this may result in exporters paying higher amounts of export taxes than are actually due, such tactics are used to benefit companies that are seeking to abuse various government export incentives programs, such as customs duty and VAT tax drawbacks (rebates). In many countries, there are special government programs designed to encourage exports by offering rebates on the duty and VAT for the costs of any imported materials used in the local production of goods before they are exported. Export prices can also be inflated to receive larger export subsidies from the government. While intended to promote exports, these government programs can create incentives for companies to falsify the price of their exports in order to maximize the benefits of rebates or take advantage of export subsidies. In such cases, companies can earn more through receiving such government rebates and subsidies than they pay in additional (inflated) export taxes. Because this results in more money coming into an economy than is supposed to (if exports have been priced accurately), export over-invoicing also results in *illicit inflows* of funds into a country.

In summary, there are four standard types of trade misinvoicing: under-invoicing and over-invoicing of both exports and imports. Two of these types of trade misinvoicing result in *illicit outflows* of money out of an economy and two result in *illicit inflows* of money into an economy. Common reasons for illicit outflows are to evade taxes and shift wealth from weak currencies into hard currencies, while common reasons for illicit inflows are for evading taxes and laundering the proceeds from and/or financing of the illegal activities of transnational criminal organizations. While much attention is often given to the problem of illicit outflows from developing countries, the problem of illicit inflows is often just as big of a problem. In both cases, the result is that taxes are not being paid to governments, resulting in less revenue available for public health, public education and other essential government services.

While a great deal of attention has been placed on the issue of profit shifting/abusive transfer pricing by multinational corporations, GFI believes that trade misinvoicing is a major component of IFFs and is likely equivalent to the revenue losses attributed to tax evasion and profit shifting by multinational corporations. For example, the International Monetary Fund (IMF) estimates the revenue losses to developing country governments from tax evasion and profit shifting at US$200 billion per year.[3] This is about the same as GFI's 20 percent estimate of tax and revenue losses due to the US$1 trillion in trade misinvoicing per year in developing countries. Despite this similar scale of revenue losses, the problem of trade misinvoicing has not received the same degree of attention as tax evasion and profit shifting.

[3] International Monetary Fund, "Corporate Taxation in The Global Economy," March 2019, https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650.

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II. Egypt: An Illustration of Potential Revenue Losses Due to Trade Misinvoicing

This section describes the trade gap analysis undertaken by GFI of Egypt's trade with its partners in 2016 and estimates the potential revenue losses by the Government of Egypt due to trade misinvoicing during that year.

A. GFI's methodology for trade gap analysis

To undertake a trade gap analysis, GFI uses data provided by the United Nations Comtrade (Comtrade) database, which each year collects reported data from most countries about their annual imports and exports.[4] For this analysis, GFI used the Comtrade data for Egypt in 2016 to cross reference Egypt's reports on its exports and imports against the corresponding reports submitted by all of Egypt's trade partners around the world for 2016. In these data sets, we looked for gaps in export and import statistics that are suggestive of trade misinvoicing.

Egypt reported to UN Comtrade a total value of nearly US$58.1 billion in imports and US$22.5 billion in exports for a total value of trade of US$80.6 billion in 2016. After compiling Egypt's trade data and that of its trade partners for 2016, we then eliminated three different sets of trade data from consideration. We first eliminated all cases of "orphaned" imports – meaning those records in the database for which Egypt reported a value for imports of a commodity or good from a particular country while that country reported no exports of that good to Egypt in that year. Next, we eliminated all cases of "lost" exports – meaning records of exports reported by Egypt's trade partners as goods shipped to Egypt in a particular year, but which were not reported as imported by Egypt in that year.

After eliminating all cases of "orphaned" and "lost" records from the Comtrade data for Egypt in 2016, we then focused our analysis on the remaining "matched values" trade data sets, i.e., trades for which both Egypt and its trading partners reported values for that year. However, in order to be kept for consideration in the trade gap analysis, these "matched values" sets of trade flows must have three features to be considered useful for our analysis: 1) non-zero values for the trade must be reported by both the reporting country and its partner; 2) non-zero volumes (quantities) for the trade must be reported by both the reporting country and its partner; and 3) the volumes must be reported in the same physical units of measurement by both the reporting country and its partner. Any of the sets of matched values that did not comply with all three criteria were also eliminated as "others". Eliminating the "others" therefore reduces the number of remaining "matched" trades with which to use our trade gap analysis.

[4] In earlier reports, GFI used data from the Direction of Trade Statistics (DOTS) database produced by the International Monetary Fund (IMF). In its January 2019 multi-country report, "Illicit Financial Flows to and from 148 Developing Countries: 2006-2015," GFI drew from both the IMF DOTS database as well as the UN Comtrade database. While both databases have strengths and limitations, GFI decided to draw from the UN Comtrade database for this and future reports, primarily because of the scale and depth of the detailed data it provides.

After eliminating all cases of “orphaned”, “lost” and “others” records from the Comtrade data for Egypt in 2016 and applying other treatments to the data (see below), we were left with the remaining sets of “matched” trades with which we used to conduct our trade gap analysis. In our trade gap analysis, we identified any gaps found in the reporting data when the reported values by both partners did not match. For example, if Egypt reported paying US$5 million for alarm clocks imported from China in 2016, but China only reported exporting US$3 million in alarm clocks to Egypt in 2016, this would represent a trade gap of US$2 million. With Egypt as our focus, this would reflect a case of import over-invoicing by Egypt.

Limitations of GFI’s trade gap analysis methodology

GFI regards this illustrative estimate of potential revenue loss from trade misinvoicing in Egypt as very conservative. This means the actual amount of lost tax revenues could be much higher, however, we are limited by the constraints inherent in the international trade data reported by countries to Comtrade.

This section describes several limitations to the methodology used for our trade gap analysis. Firstly, even after eliminating all cases of “orphaned”, “lost” and “others” records, there are a number of reasons why trade gaps may appear in the Comtrade data for the sets of matched values we use in our analysis. These include: human error; countries that report on the same goods but use somewhat different 6-digit HS product codes than those used in the Comtrade system; delays in reporting (shipments exported late in one year may not be reported as imports by the partner country until early in the next year); and the problem of re-exports and transit-trade, in which international cargo may temporarily be unloaded from one ship and reloaded onto another ship in one or more countries during the journey from the original exporter country to the final import destination country, where consequently goods are mistakenly listed as imports to, or exports from, incorrect locations. All of these factors can result in measurement errors and partner misattribution that can undermine the reliability of trade gaps as a proxy for misinvoicing.

GFI attempts to mitigate some of these potential distortions in the Comtrade data by applying certain treatments. For example, GFI applies new updated data from Switzerland, which prior to 2012 did not report flows of gold and other precious metals in Comtrade data; GFI applies new data from Hong Kong (a major re-export and transit-trade port) that attempts to clarify the original exporters and final destination importers that transit through Hong Kong as re-exports; and GFI attempts to lessen the distortionary impact of reporting errors in the volumes reported for each matched trade by applying a system of weighted measures to the raw trade data that are intended to improve the reliability of the trade misinvoicing estimates. These quality control adjustments work to *lower* the estimated degree of misinvoicing.

Additionally, another factor is that exporters and importers report a different price for the same goods, because importers report the actual cost of the good, as well as additional costs for shipping and related transport insurance, known as the cost, insurance and freight (CIF) price, whereas the exporter reports a lower freight-on-board (FOB) price. Therefore, some countries report import values to Comtrade on a CIF basis only, while others report on an FOB basis. Consequently, GFI addresses these price differences by applying a statistical regression that converts all CIF prices to FOB prices for any two countries trading any particular good that can be used for the entire Comtrade database over the 1997-2016 period; and then the statistical model was applied to all Egyptian import transactions in 2016, adjusting them to an FOB basis.

Secondly, GFI makes an assumption that where trade gaps are found between developing and industrialized countries, the trade misinvoicing is occurring on the part of the developing country. This assumption is based on the fact that checks, controls and oversight are qualitatively better in customs authorities in industrialized countries and because GFI believes one of the overriding incentives for trade misinvoicing is to transfer wealth from weak currency countries to hard currency countries. Because many developing countries suffer from exchange rate volatility and higher inflation rates than industrialized economies, their weak currencies do not store value as well as hard currencies, such as US dollars, British pounds, EU euros, Japanese yen, Swiss francs, etc.

However, while these various limitations and methodological measurement problems associated with GFI's trade gap analyses can explain some portion of the identified trade gaps, the remaining outstanding gaps are still so considerable in size and scale that GFI concludes that trade misinvoicing continues to be a massive problem. Because many of the aspects of trade misinvoicing are by their nature hidden and therefore inherently difficult to measure with precision, GFI remains focused on orders of magnitude. For example, the large scale of the problem was underscored in our January 2019 report, *Illicit Financial Flows to and from 148 Developing Countries: 2006-2015*, which found that the estimated potential illicit flows in and out of the developing world between 2006 to 2015 amounted to magnitudes within 20 percent of total developing country trade with advanced economies, on average, over the ten-year period.[5]

[5] This refers to the analysis undertaken by GFI using UN Comtrade data (See Table II-1 on p.8 of the GFI 2019 report). In the other analysis, which was based on the IMF's DOTS data, the estimated magnitudes were between 20 and 30 percent of total developing country trade, on average, over the ten years (See Table I-1 on p.2 the GFI 2019 report).

Since these estimates are based only on the trade misinvoicing that is able to be detected by its trade gap analysis methodology, GFI believes such estimates are very conservative and that the actual scale of illicit financial flows (IFFs) is much larger. This is because there are other aspects of trade misinvoicing that cannot be captured by our trade gap analysis and there are a range of other types of IFFs that fall well outside the realm of trade misinvoicing. These other aspects include the following:

Same invoice faking: Our trade gap analysis cannot capture incidences of "same invoice faking", in which both the importer and the exporter have colluded in advance to agree on the prices they will each declare on their respective falsified import and export invoices. In such cases, no gap appears between the export and import documents. This approach is widely used by both multinational corporations and long-term trading partners and is difficult to detect. However, **GFTrade**, a global trade pricing database tool developed by GFI, enables "same invoice faking" to be detected;

Services and intangibles: Comtrade and other types of available trade pricing data cover only merchandise goods. Very few trade in services data in developing countries are reported to Comtrade. Therefore, even as trade in services as a percent of total world trade has been increasing, a range of misinvoicing in trade in services cannot be detected in our trade gap analysis. Such trade misinvoicing in services includes falsified invoices for management fees, interest payments, licenses, etc., which have become commonly used avenues for overcharges as a way to shift money out of emerging market and developing countries. An additional factor is that the pricing of services is far more subjective than the pricing of commodities, which have generally clear input costs, etc.;

Cash transactions: Sometimes used in commerce and often used in criminal transactions, cash transactions and bulk cash smuggling do not show up in the trade data and subsequently cannot be captured in our trade gap analyses;

Informal value transfer systems: Our trade gap analyses cannot detect transactions that utilize mechanisms which avoid the immediate movement of payment, such as hawala and flying money transactions. These techniques are being increasingly leveraged as commerce becomes more internationalized.

Because these other forms of trade misinvoicing and IFFs are less able to be measured and analyzed, GFI believes its estimates of the trade gaps and potential lost revenue are likely to be conservative and that the scale of the problem is in fact much greater than can be detected through trade gap analyses. While the precise value of IFFs may not be known, the associated lost tax revenues represent a major leakage of public resources that could have otherwise been used for development purposes. Such losses of tax revenues undermine efforts by countries to mobilize more domestic resources in accordance with their commitments under the internationally-agreed upon Sustainable Development Goals (SDGs), particularly Goal 16.4.1., which call for countries to "significantly reduce value of inward and outward illicit financial flows."[6]

Statistical treatments of the basic Comtrade data

As mentioned above, gaps can arise in bilateral trade data for a variety of reasons, many of them reflecting legitimate factors. GFI has attempted to address as many such factors as possible, given the limitations of available data. In this section, these adjustments and treatments to the data are summarized.

Swiss gold trade

Asymmetries in the types of trade that countries report can give rise to trade gaps that are unduly large, not because of trade misinvoicing, but because one country may be reporting trade in goods that its partner country does not report. Such was the case with Switzerland's policy to not report its exports and imports of gold on a bilateral basis dating back to the early 1980s. As a result, it would be the case that some countries (such as Egypt) would report imports of gold from Switzerland, even as Switzerland reported no gold exports to those other countries (in effect, Swiss gold would be an "orphaned" import for those countries). However, because Switzerland resumed reporting its gold trade on a bilateral basis beginning in 2012, the newer Comtrade data no longer reflect the distortions. For prior years, however, they remain. To mitigate the remaining distortions, GFI adjusted the bilateral trade data in Comtrade using gold trade data published by Switzerland in recent years.

Hong Kong re-exports

Over time, trading hubs for in-transit trade and re-exports have become increasingly important in international trade, displacing the older direct point-to-point arrangements between trade partners. This is because it is more cost efficient for shipping lines to unload and reload goods onto different ships during different legs of a journey than it is to use the same ship for the entire route. As the volume and efficiency of trade worldwide has increased in recent decades, transshipments through trading hubs increasingly complicate the measurement of misinvoicing when using the country-partner trade methodology used by GFI. In general, there are insufficient data to correctly disentangle the original exporters and ultimate destination countries from the interim trade flows through such hubs. However, in the case of Hong Kong (a major trade hub with nearly all of the

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[6] United Nations, "Sustainable Development Goals," https://sustainabledevelopment.un.org/?menu=1300.

country's exports consisting of re-exports, with much of that from mainland China), data are available. GFI purchased re-export data from the Hong Kong Census Office and implemented these adjustments at the 6-digit level of commodity detail for the period from 2000 through 2016.

Transport margins

As mentioned above, most countries report the value of their imports on a "cost, insurance, and freight" (CIF) basis whereas they report the value of their exports using the "free on board" (FOB) valuation. To enable direct comparisons of import and export values, all import values must first be converted to an FOB basis. GFI implemented these adjustments in two steps: 1) A statistical model linking CIF/FOB margins for any two countries trading any particular good was developed by the trades analyzed by GFI in the Comtrade database over the 2001-2016 period; and 2) The statistical model was then applied to all Egyptian import transactions, adjusting them to an FOB basis.

There has been an enormous amount of research into the nature of transport costs in trade in recent decades and the statistical work performed by GFI, in particular, builds upon the research reported in recent years by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) and the Organization for Economic Co-operation and Development (OECD).[7] GFI's model for converting CIF values into FOB values extends the determinants of transport margins developed by CEPII (namely, the role of such factors as distance between trade partners, contiguity, the degree to which a country is land-locked, and "world" prices for individual commodities) and includes factors such as the presence of trade agreements between partners (which should lower the costs of trade) and categorical factors as to whether either or both trade partners are developing countries (proxies for the quality of a country's infrastructure), among others. This is a less extensive list of factors than that used by the OECD, but using more elaborate infrastructure indexes and per capita income in the country pairs (as included in the OECD's work) would reduce the number of countries for which transport costs could be estimated. GFI's work follows the OECD's decision to restrict the Comtrade data included to only "reliable" observations, a step not included in the CEPII work.[8] GFI's estimated equation qualitatively supported the findings of both the CEPII and OECD research.[9]

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7 Miao, G. and Fortanier, F., "Estimating CIF-FOB Margins on International Merchandise Trade Flows," Working Paper, Statistics Directorate, Committee on Statistics and Statistical Policy, Organization for Cooperation and Development, Paris, March 2016, http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=STD/CSSP/WPTGS(2016)8&docLanguage=En; See also Gaulier, G. and Zignago, S. "BACI: International Trade Database at the Product-Level. The 1994-2007 Version," CEPII Working Paper Number 2010-23, Centre for Prospective Studies and International Information (CEPII), October 2010, http://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf.

8 Specifically, GFI followed the OECD in including in the statistical model only those matched trades for which: (a) the associated trade volumes differ by less than 5 percent, and (b) the ratio of the import price per unit (CIF) to the corresponding export price was not less than 1 and not greater than 2. The OECD argued persuasively that CEPII's inclusion of all matched transactions (including those for which import prices were below the associate export prices) biased downward CEPII's estimated CIF/FOB margins.

9 GFI's research on transport margins is work still in progress. A more detailed presentation of GFI's estimated model of transport margins used here is available upon request.

Shrinkage adjustments to enhance robustness and reliability

In order to reduce the distortionary effects of statistical outliers in the data, GFI applies a weighted formula. The use of weighted measures (rather than the raw trade gaps) in the Comtrade estimates is intended to improve the reliability of the trade misinvoicing estimates.[10] It should be noted that a different weight will apply to every matched record in Comtrade; for a given developing country, the weights will vary over time, by commodity traded and by trading partner.

This weighting scheme, frequently used in the literature, effectively shrinks the arithmetic value of the dollar-denominated trade gap by a factor that increases as the associated volume gap rises.

That is, the dollar value of a dollar-denominated trade gap is assigned a higher value the closer the associated matched volume reports are; conversely, a larger volume discrepancy means a lower weight was placed on the dollar-denominated trade gap. Generally, this might be interpreted as a reliability weight for set of matched values in the Comtrade data; in effect, this also serves to privilege trade gaps that appear more likely to be due to misinvoicing. Other interpretations of this weighting scheme are possible.[11] Additionally, other specifications for weighting are possible; see, for example, Ten Cate (2007)[12] and Gaulier & Zignano (2010).[13]

B. Estimates of trade misinvoicing and potential revenue losses in Egypt in 2016

Table 1 shows the results of GFI's trade gap analysis for Egypt in 2016. The first column shows the values of total imports and exports as officially reported by Egypt to Comtrade. The second column shows GFI's adjustments to those values based on a number of treatments of the data that are detailed above in sub-section, 'Statistical treatments of the basic Comtrade data'. The third column shows the sum of the values of trade records that were classified as "orphaned", or those records in the database for which Egypt reported a value for imports of a commodity from a particular country while that country reported no exports of that good to Egypt in that year. The fourth column shows the sum of the values of trade records that were classified as "others", or those records for which one or both parties to the trade did not report non-zero values, non-zero volumes (quantities), or did not report the volumes in the same physical units of measurement. The fifth column shows the

[10] The weighting scheme is described in formal terms as follows: Let QD and QA denote, respectively, the reported volume of trade (of a particular good in a particular year) between a developing country reporter (D) and its advanced-country trade partner (A). The weight applied to the trade gap in value terms was specified as the following: $\{1 - |QD – QA|/\max(QD,QA) \}$.

[11] United Nations Economic Commission for Latin America and the Caribbean, "Economic Survey of Latin America and the Caribbean: The 2030 Agenda for Sustainable Development and the challenges of financing for development," 2016, p. 124, https://www.yumpu.com/en/document/view/56699132/economic-survey-of-latin-america-and-the-caribbean-2016.

[12] Arie ten Cate, "Modelling the reporting discrepancies in bilateral data," CPB Memorandum 179, CPB Netherlands Bureau for Economic Policy Analysis, April 2007, https://ideas.repec.org/p/cpb/memodm/179.html.

[13] Guillaume Gaulier and Soledad Zignago, "BACI: International Trade Database at the Product-Level. The 1994-2007 Version," CEPII Working Paper Number 2010-23, Centre for Prospective Studies and International Information (CEPII), October 2010, http://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf.

sum of the values of trade records that were classified as “lost”, or those records which correspond to shipments reported as exports by Egypt’s trade partners as shipped to Egypt in 2016, but which were not recorded as imports by Egypt in that year. Finally, the sixth column on the far right shows the sum of the values of trade records that were classified as “matched” sets, or those records in the Comtrade database for which both Egypt and its partner country on a particular trade reported values in 2016. The matched sets, which are determined after both the “orphaned” and “others” records have been eliminated from consideration, are the figures used in the trade gap analysis.

Table 1. GFI’s Analysis of Comtrade Data for Egypt in 2016 (in millions of US dollars)

	Total Reported by Egypt	Total Adjusted by GFI	Orphaned	Others	Lost[14]	Matched Values
Imports (CIF basis)	58,053	$54,842	$12,101	$14,378	$5,624	$28,363
Exports	22,507	$20,679	$5,624	$1,285	$12,101	$13,770

Within Egypt’s US$58.1 billion in imports reported in 2016, we identified sets of matched value trades with its partners valued at US$28.4 billion for use in our trade gap analysis. Within these sets of matched trades for Egypt’s imports, we identified trade gaps valued at US$5.8 billion. This included cases of import under-invoicing (US$3.2 billion) and import over-invoicing (US$2.6 billion). Again, these figures represent the estimated value of the gap between what was reported to Comtrade by Egypt and its trading partners for 2016.

To then make an estimate of the amount of tax revenue that Egypt has lost from such misinvoicing, we applied the following:

- VAT taxes on imports applied at 13.0 percent for 2016;
- Customs duties on imports, calculated using WITS tariff data on a line by line basis;
- Company income taxes applied at 16.3 percent for 2016

Similarly, within Egypt’s US$22.5 billion in exports reported in 2016, we identified sets of matched trades with its partners valued at US$13.8 billion for use in our analysis. Within these sets of matched values for Egypt’s exports, we identified trade gaps valued at US$2.7 billion. This included gaps valued at US$1.1 billion for export under-invoicing and US$1.6 billion for export over-invoicing.

[14] Note that the figures representing “lost” exports and “orphaned” imports are mirrored reflections of one another. The “lost” figures are not included in GFI’s analysis because in this case our focus is on Egypt, and by definition, “lost” refers to goods that officially never arrived, i.e. records of exports reported by Egypt’s other trade partners as goods shipped to Indonesia, but which were never reported by Indonesia as being imported – so they do not figure into any of Egypt’s official imports data. In contrast, Egypt’s “orphaned” imports are included in GFI’s analysis because these are officially reported by Egypt as imports of goods from other countries, even though those countries did not report them as exports to Egypt.

Table 2. Trade Misinvoicing and Estimated Potential Revenue Losses in Egypt in 2016
(in millions of US dollars and percent of actual collections)

	US$Millions	% of Total Collections by Revenue Type
Import Value Analyzed	**28,363**	-
Import Under-Invoicing	3,154	-
VAT %, lost revenue	410[15]	5.8%
Customs duty %, lost revenue	358[16]	13.1%
Import Over-Invoicing	2,624	-
Company income tax %, lost revenue	428[17]	3.4%
Export Value Analyzed	**13,770**	-
Export Under-Invoicing	1,113	-
Company income tax %, lost revenue	181[18]	1.5%
Royalties, lost revenue	223[19]	29.4%
Export Over-Invoicing	1,591[20]	-
Total Potential Revenue Losses	**1,600**	

To the estimate of US$1.1 billion in export under-invoicing, we applied the company income tax rate of 16.3 percent and royalties rate of 20 percent. (For export over-invoicing, there are no associated revenue losses at the customs authorities. However, because export over-invoicing is often used to take advantage of tax rebates, export subsidies and other government incentive programs designed to facilitate exports, governments do end up losing tax revenue on these secondary effects by overpayment of rebates and subsidies, although the precise amounts of such losses are difficult to calculate). The results of this analysis are presented in Table 2.

Based on this analysis of trade misinvoicing in Egypt in 2016, we found that the potential loss of tax revenue to the Egyptian government was approximately US$1.6 billion for that year. To put this figure in context, this amount represents 4.1 percent of the total government revenue collected in 2016.21 Put still another way, the estimated value gap of all misinvoiced imports and exports was US$8.5 billion, which is equivalent to 10.5 percent of the country's total trade of US$80.6 billion in 2016.

[15] The VAT rate on imports in Egypt in 2016 was 13.0%. Source: PricewaterhouseCoopers "Worldwide Tax Summaries: Egypt Corporate - Other taxes," http://taxsummaries.pwc.com/ID/Egypt-Corporate-Other-taxes.

[16] GFI used WITS tariff data to calculate the specific tariff rate on a line-by-line basis for each country partner and each commodity at the 6-digit HS code in order to derive this total amount of lost customs duties in US Dollars.

[17] The income tax on corporate profits in Egypt in 2016 was 16.3%. Source: PricewaterhouseCoopers "Paying Taxes 2016: The Global Picture," p. 112, https://www.pwc.com/gx/en/paying-taxes-2016/paying-taxes-2016.pdf.

[18] The income tax on corporate profits in Egypt in 2016 was 16.3%. Source: PricewaterhouseCoopers "Paying Taxes 2016: The Global Picture," p. 112, https://www.pwc.com/gx/en/paying-taxes-2016/paying-taxes-2016.pdf.

[19] Worldwide Tax Summaries: Corporate Taxes 20`16/2017," See "Egypt: Royalties to non-residents" on p. 119, https://www.pwc.com/gx/en/tax/corporate-tax/worldwide-tax-summaries/assets/wwts2017-africa.pdf.

[20] We do not provide revenue loss associated with cases of export over-invoicing because it is difficult to discern the level of tax rebates taken by companies. Export over-invoicing is often used to take advantage of tax rebates and other government incentive programs designed to facilitate exports, and can often lower exporters' taxable income by overstating the value of exports.

[21] Source: OECD Stat, "Details of Tax Revenue – Egypt" (See the row, "Total Tax Revenue," and the last column on the right for year 2016), https://stats.oecd.org/Index.aspx?DataSetCode=REVEGY.

Table 2 shows the results of the trade gap analysis and estimates of lost tax revenues for Egypt in 2016. The total estimated potential lost revenue of approximately US$1.6 billion is comprised of misinvoiced imports and exports. The portion of government revenue potentially lost due to import misinvoicing in 2016 was approximately US$1.2 billion. This amount can be further divided into its component parts: uncollected VAT tax (US$410 million), uncollected customs duties (US$358 million) and uncollected corporate income tax (US$428 million). The potentially lost revenue due to misinvoiced exports in 2016 was approximately US$404 million. This amount can be further divided into its component parts: uncollected corporate income tax (US$181 million) and uncollected tax from royalty payments (US$223 million) (See Table 2).

III. Key Commodities and Trade Partners at High-Risk for Trade Misinvoicing

This section undertakes an in-depth examination of the cases of import under-invoicing involving the US$358 million is estimated lost customs duties, as indicated in Table 2.

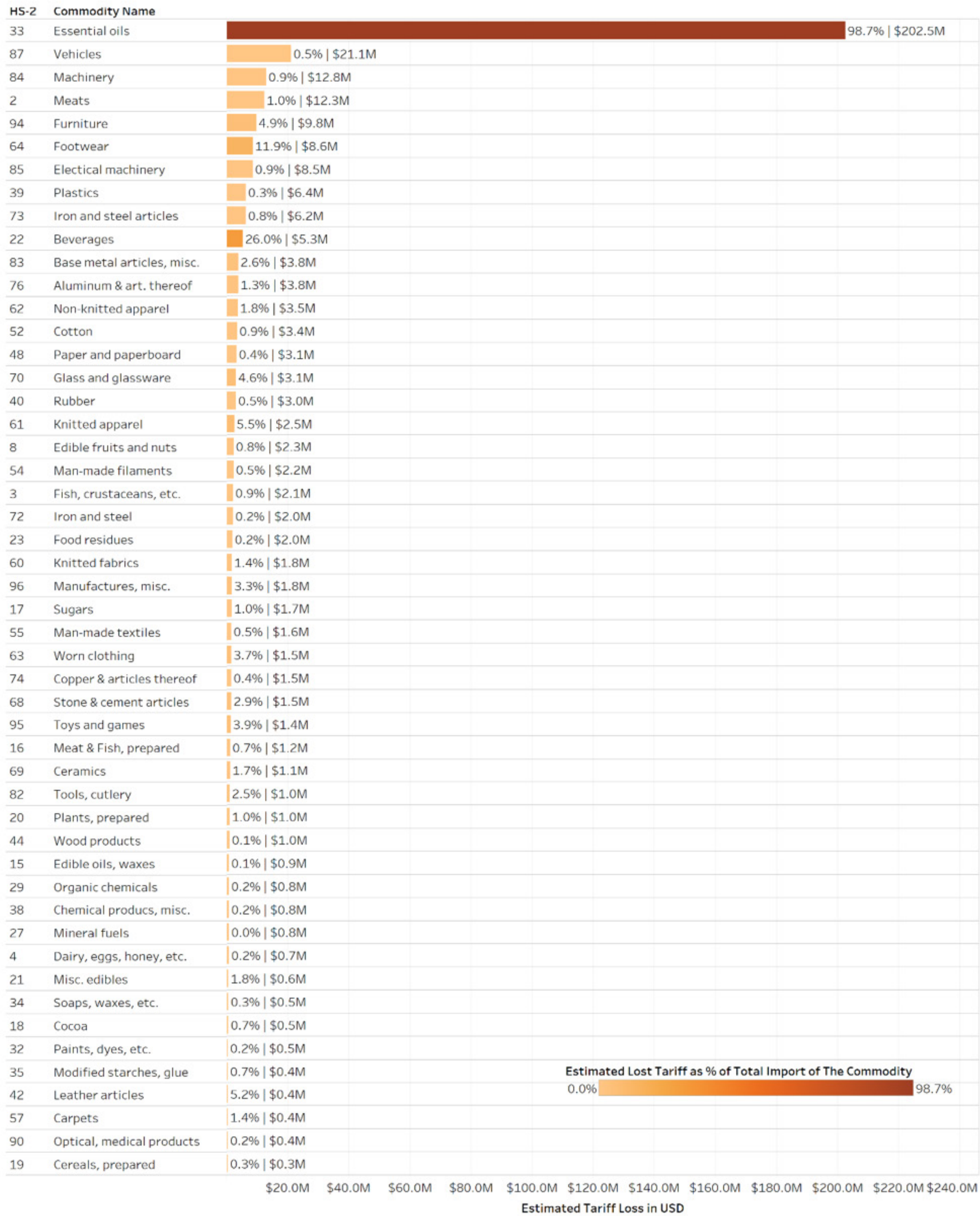
By adding up the product of detailed tariff rates and import under-invoicing by commodity, GFI estimated the potential loss of import duties due to import under-invoicing to be US$358 million in 2016, or about 13.1 percent of total customs duties collected.[22] In this section, we break down that total in an effort to identify the particular commodities and trade partner countries that appear to be the highest risk in terms of their susceptibility to revenue loss. Figure 2 below represents the top 50 revenue losses due to under-invoiced Egyptian imports by commodity groups according to their 2-digit HS product codes. Figure 3 represents the top 50 revenue losses from under-invoiced Egyptian imports, according to partner country traders. Finally, Figure 4 offers a combined look at both sets of data at the same time.

In Figure 2, the estimated customs duties losses due to under-invoiced Egyptian imports in 2016 are represented in two ways: the length of the bar represents the revenue losses by value in millions of US Dollars, and the color of the bar shows the revenue losses as a percent of total value for the Egyptian imports for each commodity group. Figure 2 shows two things; firstly, that the largest potential revenue losses by dollar values included imports of essential oils (HS 33) at US$202.5 million, vehicles (HS 87) at US$21.1 million, machinery (HS 84) at US$12.8 million and meats (HS 2) at US$12.3 million. Additionally, Figure 2 shows that in relative terms, some of the largest potential revenue losses as a percent of total imports in their product groups included essential oils (HS 33) at 98.7 percent of its product group, beverages (HS 22) at 26.0 percent of its product group, and footwear (HS 64) at 11.9 percent of its product group (the darker shaded bars).

However, it is difficult to make strong conclusions about the revenue risks based on misinvoicing estimates by commodities alone. A similar difficulty arises when we consider revenue risks stemming from under-invoiced imports by Egypt's trade partners (see Figure 3). The data presented in Figure 3 shows that under-invoiced imports from Ireland (US$145.6 million), China (US$85.4 million) and Switzerland (US$28.2 million) were among the highest estimated customs duties losses by dollar values. By contrast, partner countries associated with the largest potential dollar value of losses as a percent of total imports from these countries included Ireland (241.9 percent), Switzerland (27.1 percent) and Hungary (3.5 percent).

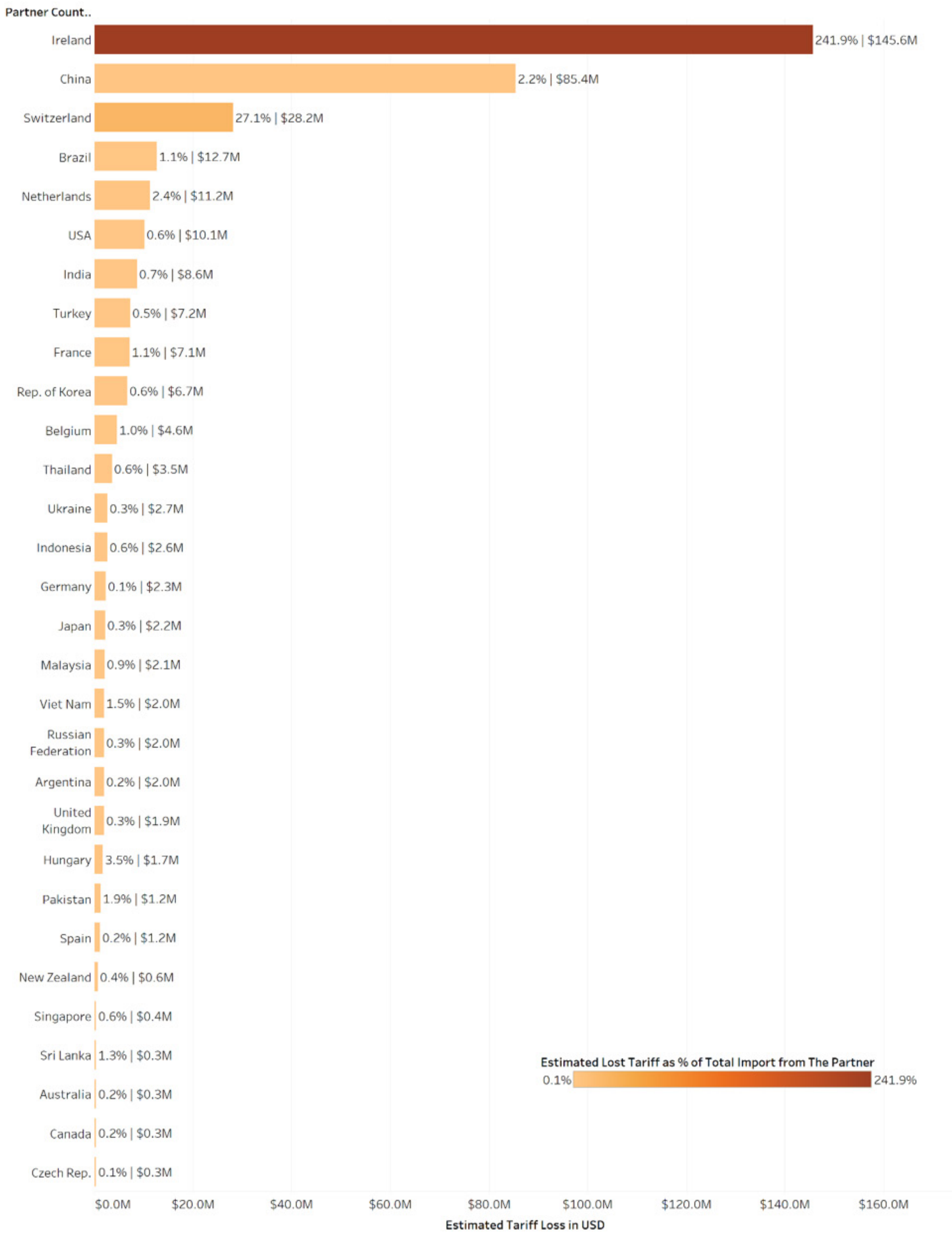
[22] This estimate corresponds only to estimated losses on import duties; it does not include potential losses on domestic VAT revenues as applied to imports (see Table 2). For estimated potential losses on VAT revenue from imports, GFI estimated such losses at nearly US$410 million for 2016 (See Table 2).

Figure 2. Top 50 Commodities Ranked by Estimated Tariff Losses Due to Import Under-invoicing in Egypt, 2016 (in millions of US dollars)



Source: UN Comtrade (trade data), World Bank WITS (tariff rate)

Figure 3. Top 30 Partner Countries Ranked by Estimated Tariff Losses Due to Import Under-invoicing in Egypt, 2016 (in millions of US dollars)



Source: UN Comtrade (trade data), World Bank WITS (tariff rate)

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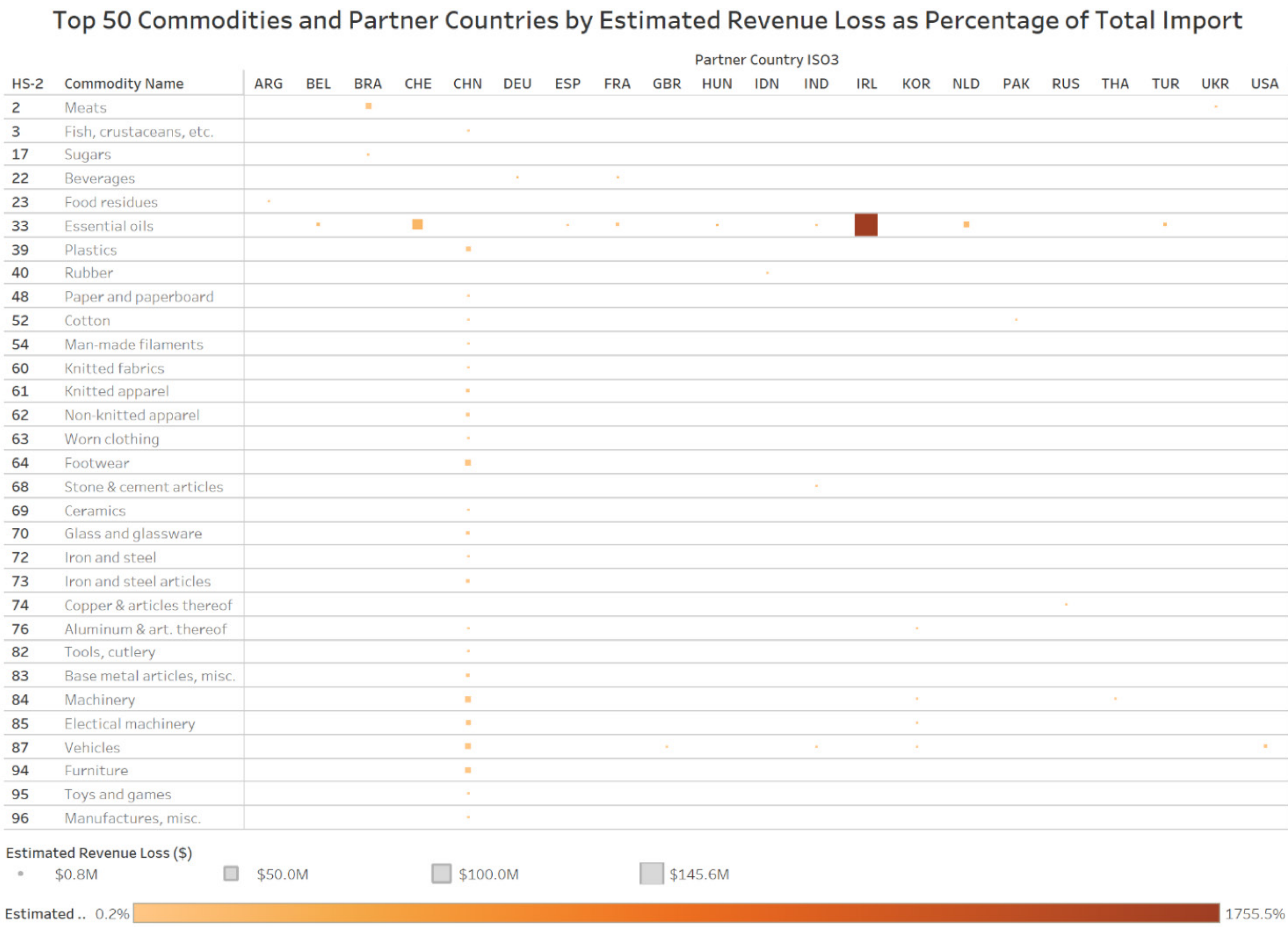
Again, it is difficult to make strong conclusions about the revenue risks based on import under-invoicing estimates by only considering the source of Egyptian imports. A more promising approach toward identifying such risks may be to compare potential revenue losses by commodity-country pairs in a way that allows comparisons in terms of dollar magnitude and relative terms at the same time. This is depicted in Figure 4.

Each row in Figure 4 corresponds to a different HS 2-digit commodity and each column corresponds to a different country exporting to Egypt. The boxes depicted for each commodity-country combination convey both the dollar magnitude of the potential revenue losses (the size of the box) and the magnitude of the potential losses relative to total imports of the given commodity (row) from a given country (column). The number of boxes in each row indicates the degree to which revenue losses from under-invoicing of that particular commodity are distributed across many countries (risks associated with particular countries). Similarly, the number of boxes in each column indicate country-specific revenue risks to Egypt. Figure 4 shows that the revenue risks on under-invoiced imports of essential oils (HS 33) from Ireland appears to have been particularly acute in 2016. Under-invoicing associated with imports of essential oils (HS 33) from both Switzerland and the Netherlands were also highlighted as a potential risk for revenue losses. Additionally, Figure 4 shows that nearly half of all imports from China were potentially at risk for revenue losses.[23]

[23] This analysis of Egyptian imports for 2016 is intended to be illustrative as well. The estimates of potential revenue losses could be evaluated over more refined commodity groups such as HS-4 digit and HS-6 digit groups. GFI will provide such more highly refined estimated groupings upon request.

Figure 4. Top 50 Imports Ranked by Estimated Tariff Losses Due to Import Under-invoicing in Egypt in 2016 (in millions of US dollars)



Source: UN Comtrade (trade data), World Bank WITS (tariff rate)

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IV. Conclusion

The estimates presented in this report – that Egypt potentially lost approximately **US$1.6 billion** in tax revenues due to trade misinvoicing in 2016 – are intended to illustrate the magnitude of the problem. The estimates also reflect the massive social costs of such revenue losses, given the huge need for increased public investment in health, education, agriculture and transportation in Egypt. While imprecise, the estimates highlight the need for policymakers to take steps to curtail such losses and reduce social costs. Because trade misinvoicing is a major type of illicit financial flow, any steps Egypt takes to curtail trade misinvoicing can support its national efforts to mobilize more domestic resources for achieving the Sustainable Development Goals (SDGs).

Steps Egypt can take at the national level to address trade misinvoicing

GFI recommends the following steps that Egypt can take to curtail revenues losses due to trade misinvoicing:

The relevant legislation in Egypt that addresses trade misinvoicing is its Customs Law No. 66 adopted in 1963. There are several applicable provisions on trade misinvoicing: Articles 22 and 24 require that a correct and accurate valuation of the goods for import and export be provided; Article 118 imposes a fine that equals one quarter of the customs duty for providing incorrect data on the origin and type of goods; Article 121 and 122 of the law state that "Submitting false and fabricated documents or invoices" is a form of smuggling that can be punished by imprisonment and/or a fine not less than five hundred pounds (US$30) and not exceeding ten thousand pounds (US$600).[24] GFI recommends that the penalties under Article 122 are insufficient to deter criminals and that the language be amended so that the penalty is the amount of the customs duty that would have otherwise been lost, plus an additional penalty for filing false/fabricated documents.

In 2008, USAID assisted the Egyptian Customs department in establishing a risk management system to channel commodities into a red and green channel. While the formulation of a channel streamlines the process of goods declaration, what would further enhance the Egyptian government's ability to collect tax revenue is for Egypt to consider adopting GFI's online tool – **GFTrade** – designed by GFI to build the capacity of customs authorities to better detect misinvoicing as transactions are occurring and take corrective steps in real time. By drawing upon the most up to date price data for traded goods as reported by over 30 major economies including China, the United States, EU 28 and Japan, the GFTrade tool enables customs officials to quickly and easily use real-time price comparisons to determine if the prices for goods listed on invoices submitted by local importers or exporters are priced outside the typical ranges for comparable products as declared by their trade partner within the last year. Using the tool, customs officials can

[24] https://www.wipo.int/edocs/lexdocs/laws/en/eg/eg049en.pdf

identify invoices with unusually higher or lower prices and flag such invoices for further investigation when warranted. GFTrade is an essential tool to assist governments in maximizing domestic resource mobilization and tackling the problem of trade misinvoicing.

Steps Egypt can take at the international level to tackle IFFs

In terms of tackling the problem of illicit financial flows (IFFs) more broadly, GFI recommends that Egypt use its diplomatic clout in the international arena to support a number of policy initiatives that require international cooperation to curtail IFFs. Of particular importance are international efforts to increase transparency in the global financial system, measures related to reducing the secrecy of tax havens and anonymous companies, and efforts to curtail money laundering techniques. Specifically, GFI recommends that Egypt and other world leaders take pro-active steps to support ongoing international efforts on the following issues:

Beneficial Ownership: Egypt adopted its Anti-Money Laundering Law, or Law No. 80, in 2002, which addresses beneficial ownership (requiring the true owners of companies be identified). However, the country has not been the subject of a FATF (or FATF-style) Mutual Evaluation or IMF assessment exercise within the last three years. GFI recommends that Egypt consider making its beneficial ownership legislation part of its customs law. GFI also recommends that Egypt should take steps to encourage all governments to establish public registries of beneficial ownership information on all legal entities and that all gatekeepers to the financial system should know the true beneficial owner(s) of any account or client relationship they open;

Anti-Money Laundering: Building on its Anti-Money Laundering Law (Law No. 80), Egypt became a member of MENAFATF in May 2009. GFI recommends that Egypt encourage all governments to adopt and fully implement all of the FATF anti-money laundering recommendations; laws already in place should be strongly enforced;

Country-by-Country Reporting: Egypt implemented country-by-country reporting (CBCR) in October 2018.[25] Reporting requirements were established by the Egyptian Tax Authority as part of Egypt's regulation of transfer pricing documentation required of foreign investors;

Tax Information Exchange: Egypt joined the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) in 2016, bringing its global membership to 135. However, as of November 2018, the Status of Commitments report listed Egypt as among those "developing countries having not yet set the date" for the first automatic exchange of information

[25] Deloitte, "Egypt Releases Updated Transfer-Pricing Guidelines," Global Transfer Pricing Alert, 2018-032, November 12, 2018, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-global-transfer-pricing-alert-18-032-12-november-2018.pdf.

(AEOI) exchange of tax information with partner countries. GFI recommends that Egypt set a date for beginning AEOI and encourage all governments to actively participate in the worldwide movement towards the automatic exchange of tax information as endorsed by the OECD and the G20;[26]

Addis Tax Initiative: Egypt has not officially signed on to support the Addis Tax Initiative (ATI), a group of 55 countries which have committed to enhance the mobilization and effective use of domestic revenues and to improve the fairness, transparency, efficiency and effectiveness of their tax systems.[27] GFI recommends that Egypt join the ATI and encourage all governments to do so as well, in order to further support efforts to curb IFFs as a key component of the development agenda. IFFs must be curtailed if domestic resource mobilization initiatives are to stand any chance of succeeding.

[26] https://www.oecd.org/tax/transparency/AEOI-commitments.pdf
[27] See current signatories to the Addis Tax Initiative: https://www.addistaxinitiative.net/#slider-4

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About GFI

Global Financial Integrity (GFI) is a Washington, DC-based think tank, producing high-caliber analyses of illicit financial flows, advising developing country governments on effective policy solutions and promoting pragmatic transparency measures in the international financial system as a means to global development and security.

Every year, roughly US$1 trillion flows illegally out of developing and emerging economies due to crime, corruption, and tax evasion—more than these countries receive in foreign direct investment and foreign aid combined. Many developing countries have failed to grow past the point where foreign aid is no longer necessary. For years, development economists were puzzled by the lack of growth in developing economies despite large inflows of aid. By drawing attention to the problem of illicit financial flows, GFI has contributed to solving this puzzle. Today, GFI is committed to constructively engaging with policymakers worldwide to develop effective, pragmatic policy solutions to address illicit financial flows.

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