

NARRATIVE REPORT ON EGYPT



PART 1: NARRATIVE REPORT

Egypt is ranked 71st in the 2020 Financial Secrecy Index, based on a relatively high secrecy score of 71 and a tiny global scale weight for the size of offshore financial services (0.03 per cent of the global market).

Introduction and background

Since 2011, Egypt has undergone one of the most politically unstable periods in its modern history. Change of regimes, governments and political instability have affected all walks of life and have created one of the country's most difficult economic situations in recent decades. The International Monetary Fund (IMF) has intervened as a lender of last resort to allow Egypt to rebuild its dwindling foreign reserves, which fell from US \$36 billion on the eve of the 2011 revolution to about US \$14 billion in 2013.¹

The IMF intervention came with a long list of conditions, including extreme austerity measures, the devaluation of the Egyptian pound, the introduction of value-added tax and the elimination of fuel subsidies. These measures had a transformative impact, leading to an increase in the official poverty rate from 27.8 per cent in 2015 to 32.5 per cent in 2018.² On the financial transparency front, the IMF conditions include mostly the transparency of monetary and fiscal/budgetary operations with no mention of the financial transparency of the private sector, including tax and ownership transparency.³

When it comes to financial transparency, Egypt still has many shortcomings and challenges. The overall financial transparency regime generally lags trends elsewhere despite some slight improvements. For example, Egypt joining the Global Forum on Transparency and Exchange of Information for Tax Purposes in 2016, yet it has not yet set a date for the first automatic exchange of information with partner countries.⁴ Egypt also has no plans to create a public registry of company beneficial ownership, whether online or offline.

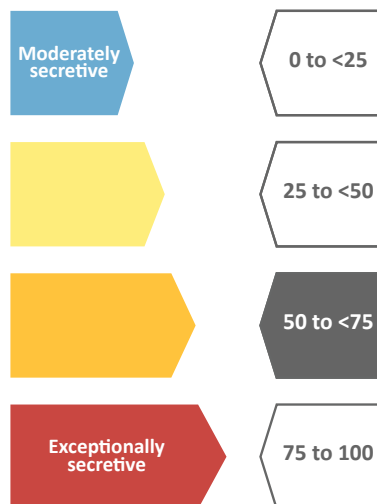
Moreover, a recent dispute between the Egyptian Tax Authority (ETA) and the Central Bank of Egypt (CBE) shows that tax authorities still have limited access to bank account information and that only a criminal investigation can allow them access to the bank account information of those indicted.⁵ The military's ongoing economic expansion also enlarges the realm of financial secrecy associated with the activities of that sector.

On the more positive side, Egypt implemented country-by-country reporting in October 2018 as part of a new set of rules regulating transfer-pricing documentation required from foreign investors.⁶ How much these rules are enforced, though, remains unknown due to their recent implementation and to the fact that Egypt has not undergone any Financial Action Task Force (FATF)-style review in the last few years. According to figures from non-profit Global Financial Integrity, the potential revenue losses resulting from trade misinvoicing alone amounted to about US \$1.6 billion, which represents approximately 4 per cent of Egypt's 2016 tax revenue.⁷ Trade misinvoicing is enabled by financial secrecy and the global offshore regime.⁸

Rank: 46 of 133

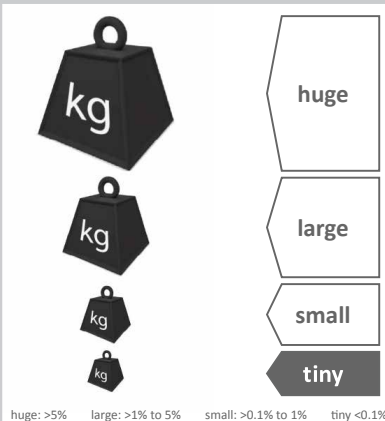
How Secretive?

71



How big?

0.03%



Egypt accounts for 0.03 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit

<http://www.financialsecrecyindex.com>.

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Beneficial ownership

As part of its Anti-Money Laundering law number 80 of 2002, Egypt requires that the true owners of companies be identified. Despite this, companies are only required to keep records of beneficial ownership and must only provide access to such records and documents upon request by judicial authorities.⁹ As a result, Egypt still has no public registries of beneficial ownership information. Global Financial Integrity in its 2019 report on Egypt recommended that all legal entities and gatekeepers in the financial system should know the true beneficial owner(s) of any account or client relationship.¹⁰ The situation is aggravated by the fact that there is not even an online public registry of nominal/legal ownership of companies.

Throughout the past two decades, secrecy jurisdictions have been widely used to conceal investments made by politically exposed persons and other investors in Egypt. For example, the sons of former President Hosni Mubarak hid their investments in one of the largest investment banks in the Middle East and Africa using an extensive web of offshore shell companies.¹¹ Much more recently, the Egyptian General Intelligence Service, or Mukhabarat, has hidden behind shell companies registered in the British Virgin Islands and Luxembourg to profit from a gas deal with Israel.¹²

Access to property ownership information is also severely restricted due to the fact that an estimated 70-90 per cent of land and property in Egypt is not registered.¹³ Not registering enables owners to avoid paying property transfer tax and registration fees and to manoeuvre around a lengthy and complex bureaucratic process.

The expanding role of the military in the economic life of Egypt makes financial secrecy all the more prevalent. Financial information belonging to land, businesses or companies owned by the military is considered a state secret, and publishing any information about them is punishable in a military court.

Private enterprises controlled by the military are prevalent and range from construction to fish farms to resorts.¹⁴ There is no clear legal framework for the classification of such information. However, there are disparate mentions of “defence secrets” (classified information) in the constitution, Military Provision Law, the General Intelligence Law, etc. The regulation of classified information in such laws is often used to prevent the spread of information rather than to regulate access to

it. Most information related to the defence sector, including its commercial activities, is considered a military secret and its dissemination is subject to severe penalties under law and can be prosecuted in a military court.¹⁵

Banking secrecy and tax information

Article 97 of the Central Bank Law guarantees banking secrecy in Egypt, hence providing access to bank accounts, including tax authorities, is prohibited.¹⁶ In August 2018, a dispute emerged between the Egyptian Tax Authority (ETA) and the Central Bank of Egypt after the ETA proposed a legislative amendment to combat tax evasion that would allow the finance minister to access the bank information of individuals and companies. Governor of the Central Bank, Tarek Amer, said that the bank would not under any circumstances accept a proposed amendment that would allow the ETA to access bank accounts belonging either to corporations or individuals.¹⁷

Despite this, banking secrecy is not an impediment to criminal investigation, according to articles 97 and 98 of the Central Bank law.¹⁸ The Cairo Appeals Court can obtain data or information held at any bank if deemed necessary for an investigation of a criminal offence. The prosecutor general may also directly order a bank to provide access to data or information held at that bank if deemed necessary for an investigation of a number of criminal offences, including money-laundering.¹⁹

Under article 8 of the Anti-Money-Laundering Law, financial institutions, professionals and non-financial businesses must inform the Unit for Combating Money-Laundering and the Financing of Terrorism of any activities suspected of constituting a predicate offence or of involving money-laundering or financing terrorism.

It is still unclear how these limited guarantees of access to bank information by law enforcement entities is applied in practice. Egypt has not been subjected to a mutual evaluation or assessment exercise in the spirit of the FATF mutual evaluation or IMF assessments within the last four years to measure the development and progress on this front.²⁰

Endnotes

- 1 <https://tradingeconomics.com/egypt/foreign-exchange-reserves>; 04.02.2020.
- 2 <http://english.ahram.org.eg/NewsContent/3/12/341838/Business/Economy/-percent-of-Egyptians-live-below-poverty-line-CAPM.aspx>; 04.02.2020.
- 3 <https://www.imf.org/en/Publications/CR/Issues/2017/01/18/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-44534>; 04.02.2020.
- 4 <https://gfintegrity.org/report/egypt-potential-revenue-losses-associated-with-trade-misinvoicing/egypt-2019/>; 04.02.2020.
- 5 <https://aawsat.com/english/home/article/1375011/egypt-government-dispute-over-secrecy-bank-accounts>; 04.02.2020.
- 6 <https://gfintegrity.org/report/egypt-potential-revenue-losses-associated-with-trade-misinvoicing/egypt-2019/>; 04.02.2020.
- 7 Egypt: Potential Revenue Losses Associated with Trade Misinvoicing GFI
- 8 <https://gfintegrity.org/issue/trade-misinvoicing/>; 04.02.2020.
- 9 Article 9 of Anti-Money Laundering law no. 80 of 2002
- 10 <https://gfintegrity.org/report/egypt-potential-revenue-losses-associated-with-trade-misinvoicing/egypt-2019/>; 04.02.2020.
- 11 <http://www.madamasr.com/en/2016/10/24/feature/economy/how-every-dollar-became-12000-in-less-than-a-decade-for-gamal-mubarak>; 04.02.2020.
- 12 <https://madamasr.com/en/2018/10/23/feature/politics/whos-buying-israeli-gas-a-company-owned-by-the-general-intelligence-service/>; 04.02.2020.
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- 15 Article 31 of the Military Provisions Law
- 16 <https://www.cbe.org.eg/en/AboutCBE/BankingLawDL/TheCentralBankTheBankingSectorandMoneyLawNo88for20.pdf>; 04.02.2020.
- 17 <https://aawsat.com/english/home/article/1375011/egypt-government-dispute-over-secrecy-bank-accounts>; 04.02.2020.
- 18 <https://www.cbe.org.eg/en/AboutCBE/BankingLawDL/TheCentralBankTheBankingSectorandMoneyLawNo88for20.pdf>; 04.02.2020.
- 19 <http://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/ExecutiveSummaries/V1503752e.pdf>; 04.02.2020.
- 20 <https://gfintegrity.org/report/egypt-potential-revenue-losses-associated-with-trade-misinvoicing/egypt-2019/>; 04.02.2020.

PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

- 80 1. Banking Secrecy
- 25 2. Trust and Foundations Register
- 100 3. Recorded Company Ownership
- 50 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 100 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

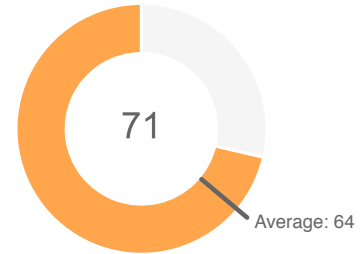
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 88 11. Tax Administration Capacity
- 0 12. Consistent Personal Income Tax
- 30 13. Avoids Promoting Tax Evasion
- 100 14. Tax Court Secrecy
- 25 15. Harmful Structures
- 60 16. Public Statistics

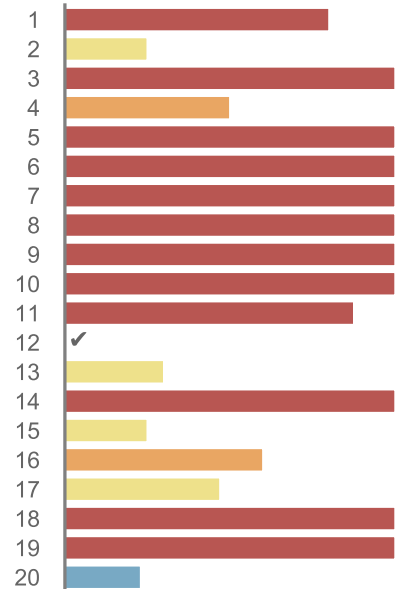
INTERNATIONAL STANDARDS AND COOPERATION

- 47 17. Anti-Money Laundering
- 100 18. Automatic Information Exchange
- 100 19. Bilateral Treaties
- 23 20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.