



Egyptian Initiative  
for Personal Rights



# VEILS OF SECRECY

Evaluating the IFC's role in enhancing tax and ownership  
transparency in development projects

[THE CASE OF EGYPT]

# **Veils of Secrecy**

**Evaluating the IFC's role in enhancing tax and ownership transparency in development projects**

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# 1. Introduction

The International Finance Corporation (IFC), a member of the World Bank Group, is the largest development institution in the world that focuses exclusively on private-sector operations in developing countries. The IFC finances its operations through issuing bonds in international capital markets. IFC prides itself on its consistent AAA rating from the credit-rating agencies Standard and Poor's and Moody's, which gives it privileged access to capital markets that might not be available to its clients.

**Despite being a development agency, the IFC's reliance on capital markets means it has the same profit incentive as any private sector operation, with the potential for tension arising between its developmental and profit-making goals.<sup>1</sup>**

The IFC has been operating in Egypt since 1995 and has worked with dozens of different companies across different sectors, mainly through lending or holding equity in the investee company, as well as by providing technical support. We have found through our research that the IFC invests in operations that are deeply involved with some of the most secretive offshore jurisdictions in the world, where information about the real owners of these companies is in many cases obscured. The use of such secrecy jurisdictions normally goes hand in hand with aggressive tax-planning schemes used to circumvent the law (without necessarily breaking it) to significantly reduce corporate tax bills and conceal the identity of the owners of the enterprise.

The issue of tax avoidance has attracted a great deal of attention especially after the economic meltdown of 2007–2008, which prompted many governments around the world to implement austerity programs. The austerity programs in many cases have deepened economic stagnation, setting a vicious circle in motion that the world seems still to be struggling to break. This made the immense amounts of wealth hidden in offshore secrecy jurisdictions a crucial issue—not to mention the immense amount of taxes lost due to such practices and its impact on developmental and economic rights.

Many countries, including Egypt, have been trying to close such tax loopholes to minimize the damage of this practice. However, every time a new loophole is closed, another one is opened by methods of “creative” accounting. When we spoke with a corporate lawyer working on mergers and acquisitions, he explained that the trend now is shifting from “offshore jurisdictions” to “treaty jurisdictions,” referring to a move to countries with favorable double tax treaties to reduce a corporation's tax bill.<sup>2</sup> Terms such as “treaty shopping” and “treaty jurisdictions” are becoming the new trend. This makes it a bit more difficult because “treaty jurisdictions” are not as obvious as traditional “offshore jurisdictions” and might sound wholly legitimate; the reputational risk of establishing a conduit company in Dubai or the Netherlands (potential treaty jurisdictions) is far less than doing so in the British Virgin Islands or Panama (classic offshore jurisdictions).

1- [http://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/ifc+governance/funding/ourfunding](http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/funding/ourfunding).

2- Baker, 2013. Improper Use of Tax Treaties, Tax Avoidance and Tax Evasion. United Nations. [http://www.un.org/esa/ffd/tax/2013TMTTAN/Paper9A\\_Baker.pdf](http://www.un.org/esa/ffd/tax/2013TMTTAN/Paper9A_Baker.pdf).

**We expect and would hope that development organizations such as the IFC, the arm of the World Bank lending to the private sector, would be more sensitive to issues of corporate transparency and tax efficiency—or lack thereof—due to their negative developmental impact.**

The IFC developed its own transparency policies in 2012 and 2014. The first is the Access to Information Policy, hereafter referred to as “the IFC disclosure policy,”<sup>3</sup> and the second is the Use of Offshore Financial Centers in World Bank Group Private Sector Operations, hereafter referred to as “the IFC offshore policy.”<sup>4</sup> Yet, disappointingly, these improvements did not consistently improve corporate malpractice. As will be discussed in detail throughout the report, we have identified and detected many cases of aggressive tax avoidance by IFC investee companies during all time periods and across various sectors using a wide variety of techniques.

In an interview with Walid Labadi, the IFC country manager in Egypt, EIPR asked if the policy had improved transparency standards in relation to tax havens and if it had influenced the selection of companies to finance through loans and/or equities. “Most of what the IFC does is that we invest in a particular project company and we monitor very closely how they use and distribute their money, so we already had in place a lot of restrictions on what those companies could do,” said the IFC Egypt chief.

“The policy was successful in terms of encouraging countries and companies to move forward in transparency and there has been a big impact in terms of forcing and compelling offshore tax-haven jurisdictions to improve their transparency,” he continued. However, Labadi does not think it dramatically changed the way IFC does business since, he said, development finance institutions (DFIs) like the IFC were already consistent with this approach all over the world. **Labadi also said that no proposals have ever been rejected by the IFC in Egypt due to debtor-related offshore activity.**

Given the veils of secrecy that characterize issues of tax avoidance and evasion, our research will inevitably have many gaps. We discuss this in more detail in the methodology section (Annex 1). However, these shortcomings are not the result of negligence or laziness at part of the researchers, but rather the unavailability of key information and data needed to form as close a picture to reality as possible.

Urgent action is necessary, and institutions like the IFC and the World Bank Group have considerable leverage and are well-positioned to tackle the issue of tax transparency in the private sector. We explain in detail the shortcomings of our findings, but if anything, our findings and estimates are understated. Aware of methodological challenges, our research team, whenever faced with a choice, always opted for the more conservative estimate or evaluation to avoid the typical accusations of exaggeration.

3- <http://www.ifc.org/wps/wcm/connect/98d8ae004997936f9b7bffb2b4b33c15/IFCPolicyDisclosureInformation.pdf?MOD=AJPERES>.

4- <https://www.ifc.org/wps/wcm/connect/67e4480044930e24a2f7aec66d9c728b/OffshoreFinancialCenterPolicyrecent28June+26precent2C+2014precent29.pdf?MOD=AJPERES>.

## 2. Background

Current democracies are based on social contracts and one of the key components of these contracts are tax policies: everyone has to pay their fair share of taxes in order to finance and maintain a minimum quality and availability of public goods and services.<sup>5</sup> Tax avoidance/evasion using tax havens is becoming a key issue for developed and developing countries alike. **The wealthiest people and corporations use tax havens to avoid paying their fair share of taxes, which puts our social contract and social stability in danger.**<sup>6</sup>

The fairness and transparency of tax policies can be seen from different perspectives. Martti Vihanto from the Turku School of Economics and Business Administration claimed that tax evasion might be an example of legitimate defiance against an autocratic government that diverts its tax revenues to its own corrupted disbursements.<sup>7</sup> Vihanto's argument ignores how tax avoidance/evasion techniques are often used by the very same corrupt officials of autocratic governments. Hebous and Lipatov, in a paper published by Oxford University Centre for Business Taxation, have in fact highlighted how corrupt autocratic officials use tax havens to store their assets and conceal bribery by officials. In their paper, they found that in addition to the exploitation of tax havens by multinational corporations, **“tax havens are often cited as components of sophisticated money laundering schemes employed by corrupt officials.”**<sup>8</sup>

Moreover, tax avoidance/evasion is becoming more widespread in democracies. The effective corporate tax rate of companies in the US—one of the world's largest democracies—has declined from 30 to 20 percent in only 15 years from 1998 to 2013 and almost two-thirds of this decline is linked to profit shifting using low- or zero-tax jurisdictions.<sup>9</sup>

In developing countries where the Sustainable Development Goals (SDG) are far from being realized and the enforcement of tax laws are weak partly due to international harmful tax competition<sup>10</sup> as a method of attracting investments, tax losses are much bigger, making the realization of SDGs more difficult.

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5- Gabriel Zucman, 2015. *The Hidden Wealth of Nations: the Scourge of Tax Havens*. University of Chicago Press. Forward by Thomas Piketty, p. 9.

6- Ibid.

7- V. Martti, 2003. “Tax Evasion and the Psychology of the Social Contract.” Department of Economics, Turku School of Economics and Business Administration. *Journal of Socio-Economics* 32, pp. 111–25.

8- H. Shafik and L. Vilen, 2011. “A Journey from a Corruption Port to a Tax Haven.” Oxford University Centre for Business Taxation.

9- Gabriel Zucman, 2014. “Taxing across Borders: Tracking Personal Wealth and Corporate Profits.” *Journal of Economic Perspective* (8:4), pp. 121–48.

10- A term adopted by the OECD in their 1998 report, “Harmful Tax Competition: An Emerging Global Issue,” one of the first publications to raise global awareness of tax avoidance.

**The IMF has estimated that the cost of tax avoidance and profit shifting using tax havens is 30 percent higher in developing countries than in OECD countries,<sup>11</sup> and the average losses due to such tax avoidance were a staggering 1.3 percent of the GDP.<sup>12</sup> In Africa, an estimated 30 percent of the total financial wealth is believed to be hidden in tax havens.<sup>13</sup> This percentage rises to above 50 percent in the oil rich countries of the Middle East.<sup>14</sup> In Egypt, according to the Tax Justice Network, the annual cost of tax avoidance was estimated to be LE68 billion in 2012 (around \$10 billion at that time's exchange rate).**

An official report in Egypt has put forward the same estimate.<sup>15</sup> Total tax revenue in FY 2011/2012 was LE207 billion, which means that about a third of all tax revenues are lost due to tax avoidance and evasion.<sup>16</sup> Tax avoidance/evasion in developing countries is a common privilege granted to the politically connected wealthy individuals and firms that we will spotlight in this report.

The IMF also recognizes that tax avoidance in Egypt is a serious problem. An unpublished IMF report obtained by EIPR states that “a significant share of [FDI flowing into Egypt] originates from jurisdictions with a very low [corporate income tax] rate and/or very low cross-border withholding tax (WHT) rates on dividends, interest and royalties.” The IMF report says that this is “often suggestive of aggressive tax planning, as [multinational corporations] may indirectly channel their FDI through those jurisdictions to benefit from low taxation.”<sup>17</sup>

More progressive tax policies and actions to stop tax avoidance are indispensable in order to tackle wealth concentration, rising inequality, and increasing poverty. According to Credit Suisse's 2014 Global Wealth Report, the richest 10 percent in Egypt owned 61 percent of the total wealth in 2000. Their share of total wealth increased to 65.3 percent in 2007. In 2014, their share of wealth climbed to 73.3 percent.<sup>18</sup>

**Tax avoidance usually refers to a legal reduction in taxes, while tax evasion indicates an illegal practice.<sup>19</sup> However, based on an examination of some types of avoidance mentioned in this report, we believe that the distinction between legal and illegal is blurrier than this avoidance/evasion binary implies.**

The OECD, which started moving against tax avoidance in 1998, believes that for a global economy to succeed, governments must move forward to intensify their cooperation to guarantee an international

11- Oxfam, April 2016. “The IFC and Tax Havens: The Need to Support More Responsible Corporate Tax Behaviour,” p. 2.

12- IMF working paper, May 2015. “Base Erosion, Profit Shifting and Developing Countries,” p. 21.

13- Gabriel Zucman, 2015, p. 10.

14- Ibid.

15- Dev Kar and Sarah Freitas, 2012. Illicit Financial Flows From Developing Countries: 2001-2010. [http://iff.gfintegrity.org/documents/dec2012Update/Illicit\\_Financial\\_Flows\\_from\\_Developing\\_Countries\\_2001-2010-WEB.pdf](http://iff.gfintegrity.org/documents/dec2012Update/Illicit_Financial_Flows_from_Developing_Countries_2001-2010-WEB.pdf).

16- Ministry of Finance, 2012. Actual tax revenue at the end of the FY2011/2012.

17- International Monetary Fund, December 11, 2017. Arab Republic of Egypt: Selected Issues. [Unpublished].

18- Credit Suisse, October 2014. Global Wealth Review.

19- Jane G. Gravelle, 2015. “Tax Havens: International Tax Avoidance and Evasion.” Cornell University ILR School. Congressional Research Service.

framework against this growing international phenomenon.<sup>20</sup> In other words, a transnational social contract is needed in a global economy where countries are so economically interdependent that one country's tax policies hinder another country's attempts to design a tax policy that would work for the welfare of its people.<sup>21</sup>

**Box 1: What is base erosion and profit shifting (BEPS)?\***

Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations.

Corporate tax-planning strategies aim at moving profits to where they are taxed at lower rates and expenses to where they are relieved at higher rates. This usually happens by associating more profit with legal constructs and intangible rights and obligations in low- or no-tax locations, thus reducing the share of profits associated with the real operations taking place in higher-tax jurisdictions. This leads to the erosion of the corporate tax base in a manner that is not intended by domestic policy.

This generally makes the overall tax regime of the country increasingly regressive and hence leads to greater inequality. It also puts pressure on the provision of quality public services and could lead to larger budget deficits and more sovereign debt, forcing the country to employ tough austerity programs with a further impact on the provision and quality of public services.

*\*Based on OECD definitions*

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20- OECD, 2000. "Towards Global Tax Co-operation." Report to the 2000 ministerial council meeting and recommendations by the committee on fiscal affairs.

21- Christians, Allison, August 2008. "Sovereignty, Taxation, and Social Contract." University of Wisconsin Law School. Legal Studies Research Paper Series Paper no. 1063.

### 3. Definitions and the research questions

We have collected information about all IFC investments in Egypt from 1995 to August 2017, which totals 93 investments. The collection of this data was based on IFC's own disclosure, as published on its website in the investment summary. We conducted additional desktop research to gather more information about the IFC investee companies.<sup>22</sup>

This paper first referred to the lists of countries identified as tax havens by the EU, the government of Belgium, and the OECD. We extended our list to include additional countries with very low- to no-tax rates, which academic studies and different leaks show were and still are used as tax havens or as a destination for profit shifting. So, for example, while in 2016 the IFC removed the United Arab Emirates from its blacklist as a tax haven, we still consider it as such if a UAE shell or conduit company was identified as linked to the investment. An Egyptian government official explained to us in an interview how companies use double tax treaties (DTTs) as a means to shift profits to Dubai. However, we are aware that many multinational UAE companies enter the Egyptian market as foreign investors, and needless to say, these are not counted as a tax-haven shell company in such cases. We therefore limit our definition to conduits or shell companies registered on paper in the UAE and by no means include companies with a real presence and operations there. The same applies to Ireland, the Netherlands, and Switzerland, which are popular offshore destination for tax-avoidance purposes, but unlike typical island tax havens, they are sizable legitimate economies that are likely to house companies which make native and honest investments.<sup>23</sup>

Looking at the IFC portfolio, which includes 93 investments dating back to 1995, we tried to answer a few transparency-related questions about such investments in an effort to establish the following:

- 1) Whether the relationship between the IFC and the investee company is one of equity (shareholding) or loan.
- 2) Whether information about the beneficial owners of the investee company is clearly set out on the IFC's website.
- 3) Whether information about the beneficial owners of the investee company is easily accessible on the company's website or through a quick Internet search.
- 4) Whether the investee company has shareholders that are registered in a tax haven.
- 5) Whether the investee company has a subsidiary or an associate company registered in a tax haven.
- 6) Whether the company is registered in a free zone in Egypt.
- 7) Whether the investee company has been involved in any corruption cases in or outside Egypt.
- 8) Whether the investee company has any connection to a political personality.

22- Our raw data of companies can be accessed by following this link: <https://goo.gl/Xs4ZXu>.

23- Javier Garcia-Bernando et. al., 2017. "Uncovering Offshore Centers: Conduits and Sinks in the Global Corporate Ownership Network." *Scientific Reports*. <https://www.nature.com/articles/s41598-017-06322-9>.

Because quantitative data can only tell part of the story, we have also selected three companies financed by the IFC as case studies, to provide more detailed and qualitative accounts on the use of offshore secrecy jurisdictions. This we hope will give a more meaningful analysis of the complexity and diversity of tax-planning schemes using tax havens and secrecy jurisdictions. For more on the methodology, please see Annex 1.

## 4. Our findings

**The IFC has improved its disclosure policy twice since 1995 and adopted a policy to address issues of offshore investments. Yet, the private-sector lending arm of the International Bank for Reconstruction and Development continued to conceal significant important information about its business partners in Egypt.**

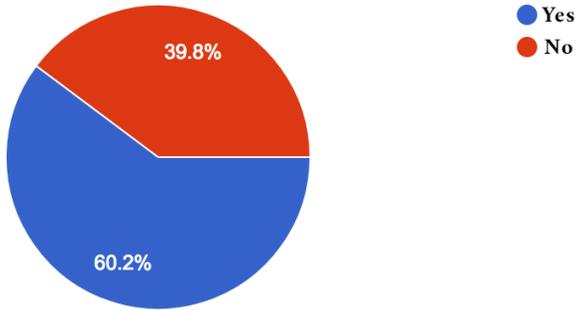
In fact, the IFC portfolio showed a tendency to partner with investors who are politically exposed, and in some cases without revealing such connections in its disclosure information. It also continued to finance and partner with companies with undisclosed beneficial owners, who also engaged in aggressive tax planning. In the following seven figures, we will visually present our findings after examining all 93 IFC investments spanning more than two decades. This will then be followed by more qualitative and detailed analysis of three case studies.

### **Box 2: What is beneficial ownership?**

A beneficial owner is the real person who ultimately owns, controls or benefits from a company or trust fund and the income it generates. The term is used to contrast with the legal [...] company owners and with trustees, all of whom might be registered as the legal owners of an asset without actually possessing the right to enjoy its benefits. Complex and opaque corporate structures set up across different jurisdictions, make it easy to hide the beneficial owner, especially when nominees are used in their place and when part of the structure is incorporated in a secrecy jurisdiction.

*Source: Transparency International Anti-Corruption Glossary*

**Figure 1: Is information on beneficial ownership available on the IFC website?**



According to the IFC’s own disclosure policy<sup>24</sup>, the IFC should disclose a summary of investment information (SII), including information about “the shareholders of the project or investee company.” From our research, we find that this disclosure is incomplete.

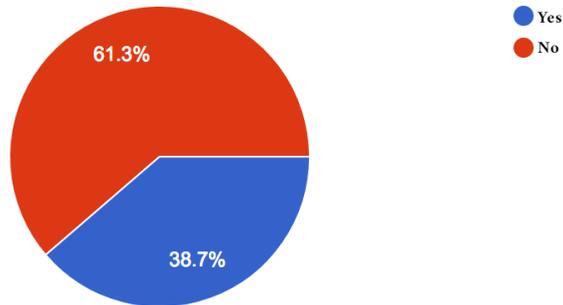
As shown in the chart above, in almost 40 percent of the IFC investments, full information about beneficial ownership did not exist.

In many cases, only a part of the shareholding structure was disclosed. In other cases, the IFC would refer to a company as a shareholder without providing sufficient information on who is behind this company. Needless to say, many of these companies are registered in secrecy jurisdictions where ownership information is not made public.

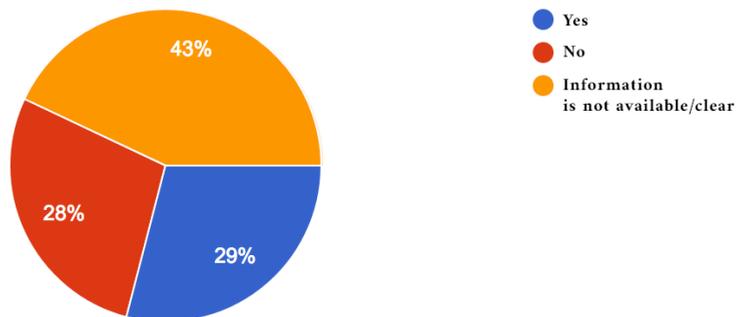
The researchers also found very vague descriptions of ownerships. In many cases, descriptions such as “the remaining 8.8 percent are owned by individuals<sup>25</sup>,” and “remaining shareholders are mainly institutional and retail investors<sup>26</sup>” were employed.

Best practices as set by many international organizations, including the OECD, now recommend developing a beneficial ownership register<sup>27</sup>, and some countries go as far as making this beneficial ownership register public, such as the UK<sup>28</sup>. As a development institution whose projects concern the public, the IFC should make it a rule to collect and disclose full and complete information on beneficial ownership information.

24- <https://www.ifc.org/wps/wcm/connect/01596a004997b2e29c9afcb2b4b33c15/AIPInformationRoutinely-MadeAvailablebyIFC.pdf?MOD=AJPERES>.  
25- Fawry for Banking and Payment Technology Services, <https://disclosures.ifc.org/#/projectDetail/SII/31920>.  
26- Petroceltic International Public Limited Company, <https://disclosures.ifc.org/#/projectDetail/SII/33324>.  
27- <https://tax.thomsonreuters.com/blog/checkpoint/OECD-Highlights-Tax-Transparency-and-Beneficial-Ownership>.  
28- <https://companieshouse.blog.gov.uk/2016/04/13/the-new-people-with-significant-control-register/>.

**Figure 2: Is information on the beneficial owners clearly mentioned on the company's website?**

A large majority of IFC investee companies do not disclose their ownership information on their website or make it available to the public by other means. In these cases, the researchers, who are trained to look for shareholding information, failed to find beneficial ownership information on the company's website or through a quick search online in 61.3 percent of the cases. We recommend that the IFC use its leverage to encourage and incentivize investee companies to disclose complete beneficial ownership information.

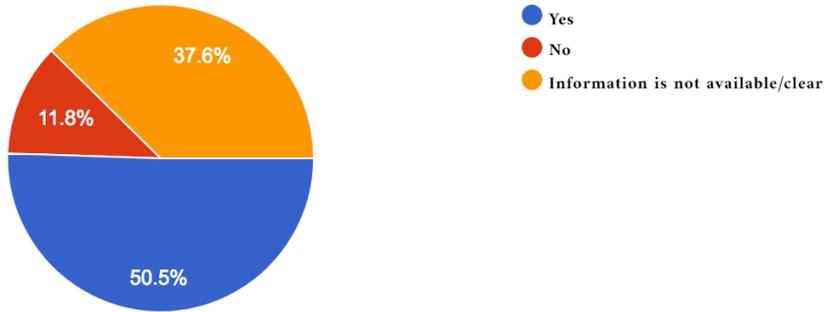
**Figure 3: Does the company have any shareholders registered in tax havens?**

In only 28 percent of the IFC investments, it was clear that the investee company did not have shareholders registered in tax havens. In 43 percent of the cases the information was not readily available or clear, and in 29 percent of the cases the shareholders owned their stake through a tax-haven offshore vehicle.

It should be said that the use of special purpose enterprises registered in offshore tax havens does not imply any illegal activities, even if they are typically associated with tax avoidance schemes. However, in many cases that we had the chance to assess qualitatively, offshore companies registered in tax havens helped conceal the identity of political personalities (see the EFG-Hermes case study below). Although many of the creative accounting schemes used to reduce the company's tax bills are perfectly legal, they do have the same economic impact as the criminalized practices of tax evasion on the erosion of the tax base<sup>29</sup> and how it affects the quality of public services provided.

29- <http://www.oecd.org/tax/beps/>.

**Figure 4: Does the company have any subsidiaries registered in tax havens?**

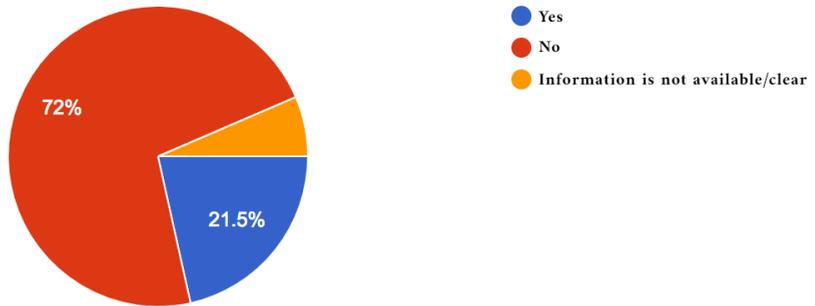


More than half the companies we researched had subsidiaries or associates in tax havens. This is a conservative estimate due to our conservative definition of what a tax haven is and the fact that we could not establish in 37.6 percent of the cases whether the company has a subsidiary/associate company in a tax haven because the information was not available.

In other words, we can only confirm that 11.8% percent of the companies did not have a subsidiary/associate in a tax haven.

This figure should not come as a surprise; Oxfam International, in a similar study<sup>30</sup> on IFC investments in sub-Saharan Africa in 2015, revealed that 51 of the 68 companies that were lent money by the IFC use tax havens. It is beyond this study's scope to examine each and every IFC investee company's use of subsidiaries and associate companies in tax havens, but the case studies below provide examples of how some IFC investee companies were implicated in creative accounting schemes and the use of tax havens to conceal sensitive ownership information. We believe that in many cases, offshore vehicles registered in tax havens had a legitimate purpose and conducted their businesses in accordance with the legal standards of the concerned jurisdictions.

30- <https://www.oxfam.org/en/research/ifc-and-tax-havens>.

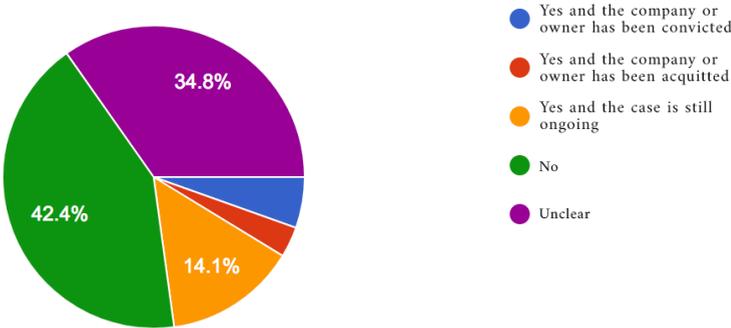
**Figure 5: Is the company registered in a local free zone?**

In addition to international offshore centers, it is important to consider “onshore” or “domestic” tax havens. Free zones within Egypt provide tax incentives on a par with those provided by international offshore centers. Our research shows that 21.5 percent of the IFC investee companies are registered in a free zone. Although the impact of the proliferation of onshore free zones on the erosion of the tax base is a burgeoning topic of discussion, their real impact has not yet been rigorously researched and analyzed. However, more and more of the literature associates their proliferation with growing harmful tax competition. This research gap should be properly addressed by international and national institutions and civil society.

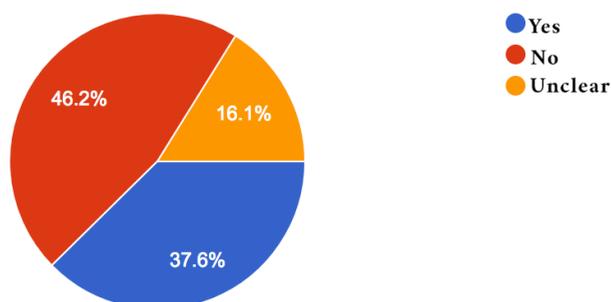
A recent unpublished report by the International Monetary Fund on Egypt states: “[Free zone] companies operate outside the scope of the Egyptian Tax Authorities [ETA] and do not submit income statements. [Free zones] can thus effectively be used as domestic tax havens, enabling tax avoidance and jeopardizing domestic revenue mobilization.” The report also is concerned that the ETA “has no information about the scope and operations in free zones, making it impossible to assess its revenue costs (likely substantial). The benefits are also unclear, but international evidence suggests that incentives are typically not decisive for investment<sup>31</sup>.”

31- International Monetary Fund, December 11, 2017.

**Figure 6: Has the company or any of its beneficial owners been involved in corruption proceedings inside or outside of Egypt?**



A total of 21 IFC investee companies or one of their owners have been subject to corruption charges in or outside of Egypt. Thirteen of these cases are still undergoing and did not yet come to a conclusive end; three have been acquitted of the corruption charges, and five were convicted. This suggests that there might be room for IFC’s due diligence process to be further tightened to ensure that their business partners are not involved, or likely to be involved, in any form of wrongdoing.

**Figure 7: Is the company related to any politically exposed persons (PEPs)?**

The researchers have found political connections in more than one-third of all IFC investee companies in Egypt. The World Bank study “Jobs or Privileges<sup>32</sup>” highlights how politically connected firms in Egypt have a drastic impact on growth and competition. The study identifies areas where the privileges granted by such political connection undermine growth and competition as follows:

- Politically connected firms are insulated from competition through various barriers to entry.
- Politically connected firms enjoy privileged access to subsidized inputs and assets.
- Large firms in politically connected industries are more likely to be located in an industrial zone.
- Politically connected firms benefit from discretionary policy implementation.
- Privileges to politically connected firms undermine private-sector development and job creation.
- Privileges to politically connected firms suppress the firm dynamics associated with job creation.

Given the cronyist nature of the business environment in Egypt, it is understandable that partnering with politically connected firms might provide an easy entry point to certain markets and industries. However, IFC’s heavy support for politically connected firms feeds this vicious circle and places more obstacles in the face of governance, competition, growth, and employment. The IFC should do more to break this vicious circle and extend its support to politically unconnected firms that rely on innovation, create jobs, and can only operate on a level playing field.

32- Schiffbauer, M. et al., 2015. “Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa.” <http://www.worldbank.org/en/region/mena/publication/jobs-or-privileges-unleashing-the-employment-potential-of-the-middle-east-and-north-africa>.

## 5. Case studies

### Case Study 1: EFG Hermes: an intimate political connection, heavy use of tax havens, and alleged insider trading

EFG-Hermes was established in 1996 in a merger between the Egyptian Financial Group (EFG) and Hermes Financial Services and quickly grew to become the largest investment bank in Egypt and the region.

**From its very inception, EFG-Hermes had a political connection with Gamal and Alaa Mubarak, the sons of former deposed President Hosni Mubarak, through a complex network of offshore companies in the British Virgin Islands, Cayman Islands, and Cyprus<sup>33</sup>.**

The IFC also had a close connection with EFG-Hermes through loan and equity deals amounting to about \$200 million from 2000 until 2009. The last loan and equity agreement, concluded on September 22, 2009, is worth \$80 million in loans and \$20 million in equity that is still active, according to the IFC website<sup>34</sup>.

The political connection was established through a company called Pan World Investments. The company is owned by the Mubarak sons as revealed by the Panama Papers and earlier by EIPR<sup>35</sup>. The company (as shown in Figure 8) established its private equity connections and indirect ownership in Egyptian companies through an extensive network of offshore companies established in Cyprus, the BVI, and Cayman Islands.

The Mubarak sons involvement with EFG-Hermes private equity business was a well-kept secret until the revolution of 2011, when court proceedings against the family of the former president revealed new information. The nature of modern business and the extensive network of companies in secrecy jurisdictions, along with weak disclosure regulations, make it increasingly possible to conceal the ownership information of politically exposed persons (PEPs). It is not clear if the IFC was aware of the Mubaraks' ownership in a major subsidiary of EFG-Hermes, but what is certain is that no information on this connection was disclosed by the IFC or EFG-Hermes at any point before the 2011 revolution.

When we asked the IFC about whether they knew about Gamal Mubarak's involvement with EFG-Hermes as part of their due diligence process, they responded in an email correspondence: "Integrity due diligence was a rigorous part of the appraisal, including looking the company's structure. Our analysis was based on the disclosure that the client made to us and to the public at the time, as EFGH is a listed company."

This unholy connection was subject to a number of investigations and at least one court case, in which the Mubarak sons and former EFG-Hermes senior executives are accused of insider trading, profiteering, and amassing hundreds of millions of dollars from manipulating the stock of Al Watany Bank of Egypt<sup>36</sup>. As of October 12, 2017 the trial is still underway.

33- <https://www.madamasr.com/en/2016/10/20/feature/economy/how-every-dollar-became-12000-in-less-than-a-decade-for-gamal-mubarak/>.

34- <https://disclosures.ifc.org/#/projectDetail/SPI/28833>.

35- <https://eipr.org/en/press/2016/04/panama-papers-investigation-mubarak-family-companies-british-virgin-islands>.

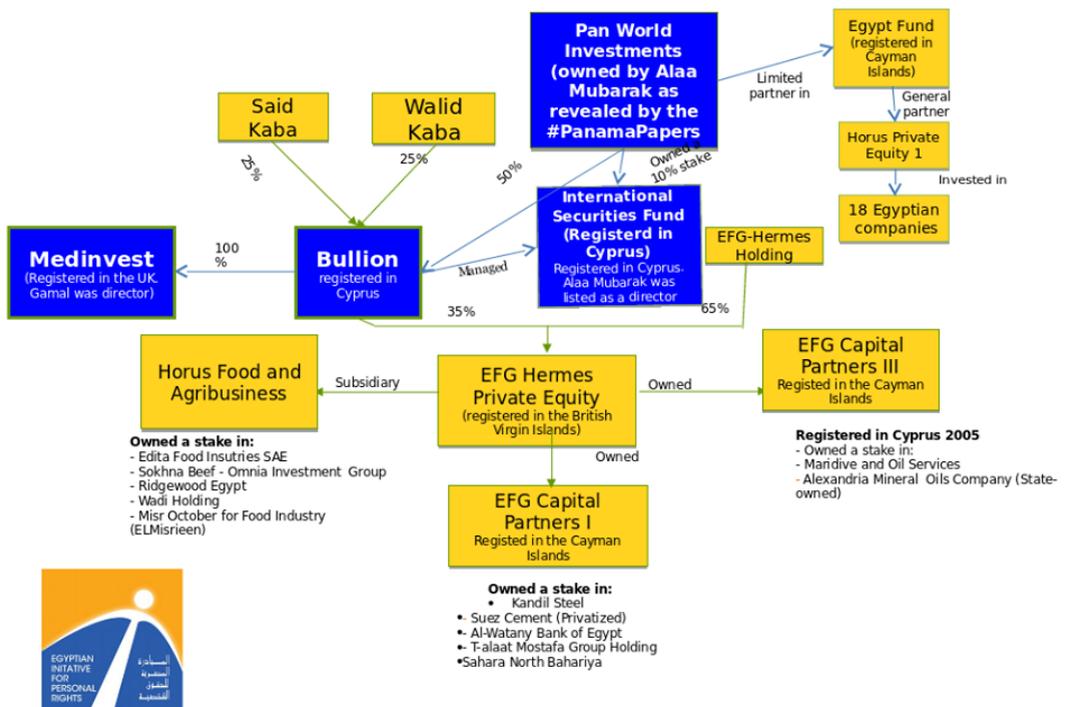
36- <http://www.nytimes.com/2012/05/31/world/middleeast/mubaraks-sons-charged-with-insider-trading.html?mcubz=3>.

**EFG-Hermes might also have been involved in an aggressive tax-avoidance scheme using its extensive networks of offshore jurisdictions<sup>37</sup>.**

Mada Masr in October 2016 published<sup>38</sup> a contract signed between the holding company and its BVI subsidiary, EFG-Hermes Private Equity, represented by Gamal Mubarak, showing how profits were shifted through such agreement to the offshore company in the low-tax jurisdiction of the BVI. The investigation, which is based on official court documents, estimates that the Mubarak sons have made at least \$21 million from their well-kept secret connection with the company without making any serious investment. A judicial committee's report in the insider-trading case affirms that at least LE497 million in profits were shifted to the BVI subsidiary, of which the Mubarak sons owned at least 17.5 percent, between July 2003 and December 2009. The report also notes that there is no indication that EHPE paid any taxes on these profits.

Before such agreements were scrutinized in the post-2011 period, EFG-Hermes's financial statement noted, "The effective tax rate for 2008 decreased substantially to 10 percent, from 13.1 percent in 2007, as revenues from outside of Egypt and non-taxable entities increased<sup>39</sup>."

**Figure 8 Pan World Investment's stake in local businesses through a chain of companies that end in secrecy jurisdictions**



37- <https://www.madamasr.com/en/2014/03/05/feature/economy/the-largest-office-buildings-in-the-world-you-probably-never-heard-of/>.

38- <https://www.madamasr.com/en/2016/10/20/feature/economy/how-every-dollar-became-12000-in-less-than-a-decade-for-gamal-mubarak/>.

39- <http://efghermes.com/en/InvestorRelations/Annualprecent20Reports/EFGprecent20Hermesprecent20Annuprecent20Reportprecent202008precent20NEW.pdf>, p. 13.

## Case Study 2: The curious case of the Orascoms

**The Orascom Group, owned by the Sawiris family, is one of the largest recipients of IFC funds in Egypt, despite its intensive use of tax havens and secrecy jurisdictions.**

In total, two Orascom companies (Orascom Construction Industries NV and Orascom Constructions Ltd.) received a total of \$435 million in equity and loans over two decades from the IFC. In 2012, Orascom Construction, one of the Sawiris family's flagship companies, received a \$100 million loan.

The IFC regional chief Mouayed Makhlof issued a statement to hail the occasion<sup>40</sup>: “By supporting a group like Orascom Construction, we want to send the signal that Egypt has a long-term potential. This investment fits with our strategy of boosting confidence in Egypt’s private sector.” According to an email response from the IFC to EIPR, the current share of the IFC in “both OCI NV and OC Ltd are quite small (less than 1 percent). IFC has a 0.48 percent stake at OC Ltd and 0.55 percent at OCI NV.”

The different Orascom companies, however, have a long history of large-scale tax avoidance, some of which landed them in the courts.<sup>41</sup> The Orascom Group owns many subsidiaries in low-tax jurisdictions that do not seem to run any real operations or have any significant physical presence. Many of these subsidiaries are all located at the same address. For instance, **Cyprus is home to more than a dozen of Orascom’s shell companies. One of the family’s largest companies, Orascom Construction Industries (OCI), established by Nassef Sawiris, has alone created ten subsidiaries sharing the same address in the Cypriot city.**<sup>42</sup> **This address is also shared by other companies created by the other two brothers, Naguib and Samih.**

It is not clear why these companies, sharing the same address, were created in Cyprus, where OCI has no operations, according to its website. The nature of their activities is also unexplained. OCI did not respond to our repeated requests for an interview, nor did the investment relations department reply to the questions we sent by email.

The family holds together a majority of shares in the group that recently demerged into two separate groups: “The members of the Sawiris Family (being principally the founder Onsi Sawiris and his sons Nassef Sawiris and Samih Sawiris) individually own non-controlling interests in OCI NV and collectively own 53.9 percent of OCI NV’s outstanding shares,” reads a paragraph in the prospectus of demerger, published in 2015.<sup>43</sup> Yet, not all the companies created in Cyprus are mentioned in the prospectus as subsidiaries of the mother companies, Orascom Construction Ltd. and OCI NV.

The IFC stresses the importance of transparency to ensure corporate governance and has improved its transparency and disclosure policies twice over the past two decades. Yet, all the available documents regarding the Orascom investments do not mention the shell companies. In its 2017 Q2 financial statement, OCI NV wrote that in its operations in various foreign jurisdictions, “the statutory income

40- IFC, 2012. “IFC Loans \$100 Million to Orascom Construction, Supporting Egypt’s Building Sector.” <https://ifcextapps.ifc.org/ifcext%5Cpressroom%5Cifcpressroom.nsf%5C0%5CC52B7E-6C19564A4B85257A1A003817B6>.

41- Al-Ahram, 2013. “Maslahat al-Dara’ib: Jami’ al-Watha’iq Tu’akkid Khudu’ Safaqt Uraskum Lafarj li-Daribat al-Dakhl.” <http://gate.ahram.org.eg/News/318056.aspx>.

42- [https://opencorporates.com/companies/cy?action=search\\_companies&commit=Go&controller=searches&order=&q=OCI&utf8=%E2%9C%93](https://opencorporates.com/companies/cy?action=search_companies&commit=Go&controller=searches&order=&q=OCI&utf8=%E2%9C%93).

43- Orascom Construction Prospectus, 2015. <https://www.dfsa.ae/Documents/PROSPECTUS/Orascom%20Construction%20Limited-Prospectus%20-%20final%2008032015.pdf>.

tax rates vary from 0.0% to 42.2%.” However, according to the OCI website, none of the company's operations are in a zero-tax jurisdiction.

After the lack of response from OCI, we approached the IFC to ask if they have any information or documents regarding OCI's operations in zero-percent tax jurisdictions, and the IFC responded that they do not have such documents. **The Sawiris group has a history of tax-avoidance schemes.** For instance, in 2012, when the IFC was preparing its last financing package to OCI, the Egyptian Tax Administration accused the Sawiris family conglomerate of using a web of shell companies in a tax-avoidance incident dating back to 2007, when OCI reported LE22.8 billion earned from selling shares to the French cement group Lafarge; the sale involved shares worth LE68.6 billion, according to the documents presented to the Egyptian financial sector regulator, EFSA.<sup>44</sup>

OCI was also politically connected, as its CEO, Nassef Sawiris, was close to the inner circle of the then-ruling National Democratic Party.<sup>45</sup> After 2011, OC created an alliance with the largest public-sector construction company, Arab Contractors; when the CEO of Arab Contractors became the prime minister in 2014, OC secured a tender to dig three tunnels under the Suez Canal<sup>46</sup>.

Now Sawiris is the largest contributor to the Tahia Masr (Long live Egypt) fund, created and headed by the current president, Abdel Fattah El Sisi.<sup>47</sup> The richest man in Egypt made sure to convey to the media that he had donated the LE 2.5 billion he was supposed to pay allegedly owed in taxes, after being cleared of tax-evasion charges.<sup>48</sup>

Nassef's brother Samih said in an interview with Reuters, “We made a lot of money in this country over the years, and we owe it to the people to give back some of it because, to be very blunt and very honest, we paid very little taxes because of the huge tax incentives that were given to investors.”<sup>49</sup>

### Case Study 3: The good of renewable energy, the bad of opacity, and the ugly of tax avoidance

In July 2017, the IFC approved an investment of \$635 million to multiple regional and international investors for the construction, operation, and maintenance of 11 solar plants of 500 megawatts total capacity. The project of Benban, Aswan is part of Egypt's solar Feed-In Tariff (FIT) program which is expected to be the world's largest solar photovoltaic generation park, with investments up to \$2 billion, financed by the IFC, the European Bank for Reconstruction and Development (EBRD), the Multilateral Investment Guarantee Agency (MIGA), and a number of other lenders<sup>50</sup>.

44- Al-Ahram, 2013.

45- Rabab El-Mahdi and Philip Marfleet, eds., 2013. Egypt: The Moment of Change. London: Zed Books.

46- Orascom Construction Annual Report (2016), P 6. [http://www.orascom.com/media/cms\\_page\\_media/47/Orascom%20Construction%20Limited%20Annual%20Report%202016.pdf](http://www.orascom.com/media/cms_page_media/47/Orascom%20Construction%20Limited%20Annual%20Report%202016.pdf).

47- <http://www.ahram.org.eg/News/41362/5/336957/القسط-«تحييا-مصر»->اقتصاد/ناصف-ساويرس-مليار-جنيه-لصندوق-«تحييا-مصر»-  
aspx.

48- Khalifa Adham, 2014. «Nasif Sawiris: 2.5 Milyar Junayh li-Sunduq Tahya Misr.» al-Ahram. <http://www.ahram.org.eg/NewsQ/336957.aspx>.

49- <https://uk.reuters.com/article/uk-egypt-investment-sawiris/egypts-floating-pound-already-a-success-billionaire-sawiris-says-idUKKBN1611YO?il=0>.

50- IFC, July 2017. Press release “IFC Board Approves Investment in World's Largest Solar Photovoltaic Generation Park in Egypt”. <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/55CD41C2C16FA3B685258169002FC942>

This financing went to 13 solar energy projects during the period 2016-2017, after the IFC had adopted its offshore policy in 2014<sup>51</sup>. **We found out that at least 11 out of the 13 solar energy companies have offshore subsidiaries registered in tax havens.**

One of these companies is Alcazar Energy, which will own three plants in full and a 75-percent stake in another project company, receiving total loans of \$70 million from the IFC<sup>52</sup>. Alcazar, with projects in Egypt, Jordan and Turkey, had two companies registered at the same address in the British Virgin Islands and went inactive in 2015. Moreover, Alcazar, which is based in the UAE, was identified by the IFC itself as an offshore entity, or what it calls “an asset holding entity.” The IFC told us in email correspondence that their offshore policy applies to the UAE-based company, which means they consider it as such.

“The UAE-based entity is actually an asset holding entity with operations in Dubai. Nevertheless we treated it as an intermediate jurisdiction that is subject to our OFC policy,” the IFC Egypt Office told us in an email correspondence.

The UAE is an illustrative example of how difficult it is to judge a jurisdiction as a tax haven.

The UAE levies no tax on income or capital gains on companies and individuals.<sup>53</sup> In light of the country’s DTT with Egypt, asset-holding companies based in the UAE, with no apparent operations there, might not be subject to any capital gains tax in either territory. This may be the case with Alcazar Energy.

The company’s website states that it has no projects in the UAE,<sup>54</sup> and it is not clear exactly what benefit the company is gaining by basing the holding company in Dubai. However, when we spoke to professional corporate lawyers, who preferred to remain anonymous, they agreed that since the company is established in the Dubai International Financial Center free zone, it is likely to be a UAE tax resident. UAE tax residents operating from free zones can benefit from the DTT between the UAE and Egypt and pay no tax on capital gains or dividends generated from their operations in Egypt. This is because the DTT ensures they are not subject to those taxes in Egypt, and the UAE free-zone companies are also not subject to those taxes.

Another company involved in the Benban project is Taqa Arabia, which is 60.4-percent owned by Qalaa Holding through direct and indirect ownership. Taqa Arabia is one of the solar energy companies financed by a loan of \$24 million, approved by the IFC board in July 2017 to help the company invest in the feed-in-tariff program in Benban, Aswan.<sup>55</sup>

**The database of Open Corporates shows that Taqa has 17 companies in the Netherlands registered at the same address and five companies in the United Kingdom, with two of them at the same address, plus one company registered in the Bahamas, one in Cyprus, one in Guernsey, two in Mauritius, and one in Panama.**

According to an investigative report conducted by the Tax Justice Network and published by Mada Masr in October 2014, Qalaa Holding paid extremely low levels of corporate tax and heavily relied on a structure that extends to the most secretive financial jurisdictions in the world. The then-latest annual report of Qalaa Holdings showed that it had 38 companies registered in the BVI, five in Mauritius,

51- [https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/solutions/due+diligence](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/due+diligence)

52- <https://disclosures.ifc.org/#/landing>

53- PricewaterhouseCoopers, taxes on corporate profits, United Arab Emirates. Last updated January 30, 2018.

54- Alcazar Energy website. <http://alcazarenergy.com/our-projects/>.

55- IFC project informational portal. Summary of Investment Information, Taqa Arabia Solar, <https://disclosures.ifc.org/#/projectDetail/SII/37637>.

and one in Luxembourg, which accounts for almost one-third of its total subsidiaries.<sup>56</sup>

The same report added that according to a document published on the company's website, it has paid LE2.72 million in corporate taxes in the ten years since it was founded, and it made approximately LE1.317 billion in post-tax profits. In other words, Qalaa Holding paid an effective corporate tax rate of 0.2 percent. However, the company spokesperson denied that their offshore activity is being used for tax avoidance, explaining to Mada that those activities only provide more flexible corporate structures.<sup>57</sup>

The IFC offshore policy that became effective in June 2014 confirms in its due diligence that "IFC will only undertake an investment after it has satisfied itself that the structure of the transaction is legitimate and not designed to be used for tax evasion, tax abuse or other illegitimate purposes."

However, **The International Consortium of Investigative Journalists (ICIJ) database shows that 11 out of the 13 investment companies financed by the IFC in Benban are domiciled and/or have subsidiaries in tax havens.** All of their agreements were discussed in 2016 and 2017. The narrowly defined list of tax havens adopted by the IFC explains this contradiction.

The IFC played another role in the Benban project. Along with the other big financing institutions, it opposed the Egyptian government's wish for a Cairo-based arbitration center, instead insisting on the World Bank's International Center for the Settlement of Investment Disputes (ICSID) as the arbitration center of choice. The 2016 Renewable Energy Map report published by Friedrich Ebert Stiftung confirms that the biggest challenge in the first stage of the project was to finance the companies under contracts that did not allow for international arbitration. The government complied at the second stage, adjusted its terms, and accepted the ICSID conditions. It was only then that the DFIs, including the IFC, agreed to provide financing.<sup>58</sup> This was confirmed by Labadi during our interview with him.

#### Recent measures taken by the Egyptian government to tackle tax avoidance\*

1. **Egypt has recently been following a cautious approach in signing new DTTs.** This type of tax agreement, constructed to attract FDI by preventing double taxation in both the original country of investment and the host country of investment, has been proven to be used in aggressive tax planning and full tax avoidance instead of avoiding double taxation. &??
2. **Egypt has been renegotiating some of its problematic DTTs.** The Egyptian tax authorities have made a list of the DTTs that contain features that restrict its ability to levy withholding tax on royalties or taxes on branch remittances and dividends. In the meantime, Several DTTs are being renegotiated in line with the OECD/UN models.
3. **Egypt has embraced several measures to address BEPS that matches the approach of the OECD.** These include transfer pricing regulations, rules against debt shifting, a general anti-avoidance rule, and measures against treaty shopping.

\* *Based on an interview conducted with Amr Al-Monayer, who was Egypt's deputy minister of finance for tax policies at the time of the interview; he later resigned his post.*

56- <https://www.madamasr.com/en/2014/10/31/feature/economy/from-eu-money-to-egypt-via-tax-havens/>.

57- George Turner, October 2014. "From EU Money to Egypt, via Tax Havens." Mada Masr. <https://www.madamasr.com/en/2014/10/31/feature/economy/from-eu-money-to-egypt-via-tax-havens/>.

58- Friedrich Ebert Stiftung, February 2017. "Renewable Energy Map 2016." [http://www.fes-egypt.org/fileadmin/user\\_upload/documents/publication/Final\\_RE\\_Brochure\\_FES\\_Feb2017.pdf](http://www.fes-egypt.org/fileadmin/user_upload/documents/publication/Final_RE_Brochure_FES_Feb2017.pdf).

## 6. Recommendations

1. The IFC should amend its offshore policy to explicitly state that all beneficial ownership information must be disclosed on its website, and use its leverage to encourage its investee companies to become more transparent with their beneficial ownership information.
2. The due diligence process should be more transparent and more focused on tax avoidance through aggressive tax planning, using both international tax havens and domestic tax havens (free zones). A summary and key findings of the due diligence report that does not compromise sensitive information that could expose the company to its competitors should be made available to the public.
3. The IFC's portfolio is concentrated in large, politically connected firms. This may be less risky for the institution and more profitable, but it hinders development, employment, and inclusive growth, as SMEs are generally more labor intensive. It also crowds out smaller firms—the real backbone and largest employer in any economy—depriving them of much needed technical and financial support by the IFC.
4. Many of the IFC investee companies were implicated in corruption cases. This is a worrying sign and likely demonstrates that its due diligence processes should be more rigorous and extensive.
5. The IFC should also become more aware and serious about any sensitive political connections its investee companies might have and benefit from. In a country like Egypt, which consistently ranks as “corrupt” in the Corruption Perception Index, political connections are often used to secure firms privileges over their competitors. This hinders job creation and distorts competition and the healthy development of the private sector, especially for the non-connected SME sector.

## List of Annexes

### Annex 1: Methodology

The methodological challenges in conducting research like this are immense, from the lack of an agreed-upon definition of what a tax haven is to the unavailability of information and data about offshore jurisdictions due to the secrecy they entail. The research team worked to find innovative ways of overcoming these challenges with all available tools, for we find it unacceptable for the lack of sufficient information to restrict our ability to conduct research; this would simply mean that those who work to restrict access to such information will have triumphed in their mission.

As obvious as it might sound, it was extremely difficult for the research team to unearth information about structures that are in many cases designed to conceal information. As evident from our findings, in about one-third of the cases the information was unclear/non-existent. This report therefore does not claim to give a full picture, but it does offer a glimpse based on the data we managed to attain and, perhaps more importantly, the information we did not manage to obtain.

We have collected information about all the IFC investments in Egypt from 1995 to August 2017, which totals 96 investments, of which three are still pending approval. The data was collected using IFC's own disclosure, as published on its website in the investment summary, as well as an online search to gather more information about the IFC investee companies.

This research combines both quantitative and qualitative research methods in an attempt to evaluate the IFC portfolio in Egypt in terms of transparency and its aversion to corruption. We used quantitative data analysis, three case studies and three in-depth interviews, with a senior corporate lawyer in Egypt who preferred to remain anonymous, the IFC Country Manager Walid Labadi, and the Egyptian Deputy Minister of Finance for Tax Policies Amr al-Monayer.<sup>59</sup> The interviews were extremely helpful in deepening our knowledge about the issue at stake, but in no way do the views presented in this paper reflect the views of the interviewees.

The quantitative data analysis<sup>60</sup> helped to answer a number of transparency-related questions about such investments in order to establish the following:

1. Whether the relationship between the IFC and the investee company is one of equity or loan.
2. Whether information about the beneficial owners of the investee company is clearly set out on the IFC's website.
3. Whether information about the beneficial owners of the investee company is easily accessible on the company's website or through a quick Internet search.
4. Whether the investee company has shareholders that are registered in a tax haven.
5. Whether the investee company has a subsidiary or an associate company registered in a tax haven.

59- Amr al-Monayer had resigned from his post by the time this report was drafted.

60- The findings of this survey can be seen at: <https://goo.gl/Xs4ZXu>.

6. Whether the company is registered in a free zone.<sup>61</sup>
7. Whether the investee company has been involved in any corruption cases in or outside Egypt.
8. Whether the investee company has any connection to a political personality.

The case studies are meant to complement the general statistical data and address the gaps therein by giving us a closer understanding of the real and diverse uses of offshore tax havens, bilateral tax treaties, and other models of aggressive tax planning.

A primary methodological challenge faced by the research team concerned the definition of the concepts employed, such as “tax haven” and “political connections.” “Tax haven” is not a technical or legal term with an agreed-upon definition. Also, jurisdictions that are widely described as tax havens differ in their nature, uses, and compliance with international best practices and standards. Moreover, the use of vehicles registered in tax havens could be anything from legal and legitimate to perfectly legal though not legitimate” to outright illegal. Quantitative analysis does not tell us much about these nuances beyond the fact that the use of tax havens is widespread.

Likewise, quantitative analysis of political connections and the intersection between business and politics gives us some idea of the extent to which business and politics are intertwined. However, these political connections differ significantly in their strength, magnitude, and purpose. Quantitative analysis stops short of answering these more qualitative questions. For these reasons, we conducted a qualitative analysis of three case studies of IFC investee companies based on previous research and available information.

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61- A free zone is a regional zone defined by the Egyptian investment law as exempt from taxes and custom duties, among other privileges.

## Annex 2: What is a Tax Haven?

A tax haven is a jurisdiction that may be a state, a microstate, or a region within a state that has low tax rates, and where funds, capital, and profits are transferred to help natural and legal persons avoid paying due tax on their profits, income, or/and wealth, whether legally (tax avoidance) or illegally (tax evasion). These jurisdictions usually provide maximum secrecy for financial and investment transactions because high levels of transparency would limit the movement of money into the jurisdiction and therefore subvert its role as a tax haven.

There is no agreed-upon definition for a tax haven, despite many attempts to create one, for the following reasons:

- 1) It is difficult to identify a clear tax rate under which a jurisdiction would qualify as a tax haven. In Ireland, for example, the income-tax rate is 12.5 percent which is very low relative to Ireland's European neighbors, whose tax rates reach 40 percent and more. However, the Irish tax rate does not go as low as zero percent as is the case in many other jurisdictions such as the Gulf countries or some Caribbean islands.
- 2) It is difficult to determine whether the goal of the low-tax rate is to attract funds for the purpose of tax avoidance/evasion or simply to attract real investments. Some states with a rentier income are not incentivized to collect taxes, as is true of the Arab Gulf states, which rely almost exclusively on income from oil. Some low-tax jurisdictions attract real investments, and some depend almost exclusively on artificial profit shifting to offshore vehicles with no real operations (SPEs) incorporated exclusively for that purpose.
- 3) Some jurisdictions act as partial tax havens for specific types of taxes. Belgium, for example, has no capital gains tax and is considered a tax haven for only that kind of tax, especially given its very high personal income and corporate tax rates.

Accordingly, for the purpose of this report, we can provide a working definition for a tax haven which is divided into two main groups:

1. The typical or perfect tax havens are jurisdictions with very small populations that are characterized by high levels of secrecy, low rates on most types of taxes, and the pervasiveness of SPEs. We rely on a few sources to determine which jurisdictions qualify as "perfect tax havens," including a scoring based on the Financial Secrecy Index,<sup>62</sup> the corporate tax rates of the different countries, the Belgian government's list of tax havens, and the European Union's recent black and gray lists of tax havens (officially called "non-cooperative tax jurisdictions").<sup>63</sup> Each of these lists have their shortcomings. For example, the EU's list has been criticized for not including any EU member states that often act as tax havens, such as Luxembourg.
2. Many jurisdictions also act as a "partial or potential tax havens." These offer tax incentives on specific types of taxes such as capital gains, but have a sizable economy and population besides offering tax and financial services. For the methodological difficulty of establishing whether these jurisdictions act as tax havens in each of our 93 cases, we mostly excluded these types of potential tax havens unless it was clear that companies registered there were shell companies. This inevitably made our estimates of how many IFC companies have links to tax haven jurisdictions much more conservative.

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

63- <https://home.kpmg.com/xx/en/home/insights/2016/03/tmf-belgium-new-tax-haven-jurisdictions-list-for-dividends-received-deduction.html>.

Based on this criteria, the researchers prepared a short list of 22 jurisdictions that act as perfect tax havens (see Table 1). Adding the list of tax havens issued by the Belgian government (see Table 2) and after removing duplications, our working list of tax havens for the purpose of this research consisted of 43 jurisdiction as follows:

Abu Dhabi, Ajman, American Samoa, Andorra, Anguilla, Bahamas, Bahrain, Barbados, Belize, Bermuda, Bosnia and Herzegovina, British Virgin Islands, Cayman Islands, Dubai, Gibraltar, Grenada, Guam, Guernsey, Ireland, Jersey, Korea (Republic of), Kyrgyzstan, Kuwait, Kosovo, Liechtenstein, Macao, Macedonia, Maldives, Isle of Man, Macau, Marshall Islands, Micronesia, Moldova, Monaco, Mongolia, Montenegro, Namibia, Nauru, Oman, Palau, Panama, Uzbekistan, Paraguay, Qatar, Ras al Khaimah, Saint Lucia, Samoa, Serbia, Sharjah, Switzerland, Timor Leste, Trinidad and Tobago, Tunisia, Turks and Caicos, Turkmenistan, Umm al Quaiwain, and Vanuatu.

<b>1</b>	<b>Country</b>	<b>Corporate tax Rate</b>	<b>SPE pervasiveness</b>	<b>Secrecy</b>
2	Andorra	10	Yes	High
3	Anguilla	0	Yes	High
4	Bahamas	0	Yes	High
5	Bermuda	0	Yes	High
6	Belize	NA	Yes	High
7	British Virgin Islands	0	Yes	High
8	Cayman Islands	0	Yes	High
9	Gibraltar	10	Yes	High
10	Guernsey	0	Yes	High
11	Ireland	12.5	Yes	Medium
12	Isle of Man	0	Yes	High
13	Jersey	0	Yes	High
14	Lichtenstein	12.5	Yes	High
15	Macao	12	Yes	High
16	Maldives	0	Yes	N/A
17	Nauru	0	Yes	High
18	Palau	0	Yes	N/A
19	Switzerland	9	Yes	High
21	Turks and Caicos Islands	0	Yes	High
22	Vanuatu	0	Yes	High

**Table 2: The 2016 list of “tax haven” jurisdictions issued by the Belgian government**

1	Abu Dhabi
2	Ajman
3	Andorra
4	Bosnia and Herzegovina
5	Dubai
6	Gibraltar
7	Guernsey
8	Jersey
9	Kyrgyzstan
10	Kuwait
11	Kosovo
12	Liechtenstein
13	Macao
14	Macedonia
15	Maldives
16	Isle of Man
17	Marshall Islands
18	Micronesia
19	Moldova
20	Monaco
21	Montenegro
22	Oman
23	Uzbekistan
24	Paraguay
25	Qatar
26	Ras al Khaimah
27	Serbia
28	Sharjah
29	East Timor
30	Turkmenistan
31	Umm al Quaiwain

<b>Table 3: EU “black” and “gray” lists of non-cooperative tax jurisdictions</b>	
<b>Non-cooperative tax jurisdictions (black list)</b>	
1	American Samoa
2	Bahrain
3	Barbados
4	Grenada
5	Guam
6	Macau
7	Marshall Islands
8	Mongolia
9	Namibia
10	Palau
11	Panama
12	Saint Lucia
13	Samoa
14	South Korea
15	Trinidad and Tobago
16	Tunisia
17	United Arab Emirates
EU’s “gray list”	
1	Albania
2	Andorra
3	Armenia
4	Aruba
5	Belize
6	Bermuda
7	Bosnia and Herzegovina
8	Botswana
9	Cape Verde
10	Cayman Islands

11	Cook Islands
12	Curaçao
13	Faroe Islands
14	Fiji
15	Former Yugoslav Republic of Macedonia
16	Greenland
17	Hong Kong
18	Isle of Man
19	Jamaica
20	Jersey
21	Jordan
22	Labuan Islands
23	Liechtenstein
24	Malaysia
25	Maldives
26	Mauritius
27	Montenegro
28	Morocco
29	Nauru
30	New Caledonia
31	Niue
32	Oman
33	Peru
34	Qatar
35	Saint Vincent & Grenadines
36	San Marino
37	Serbia
38	Seychelles
39	Swaziland
40	Switzerland

41	Taiwan
42	Thailand
43	Turkey
44	Uruguay
45	Vanuatu
46	Vietnam