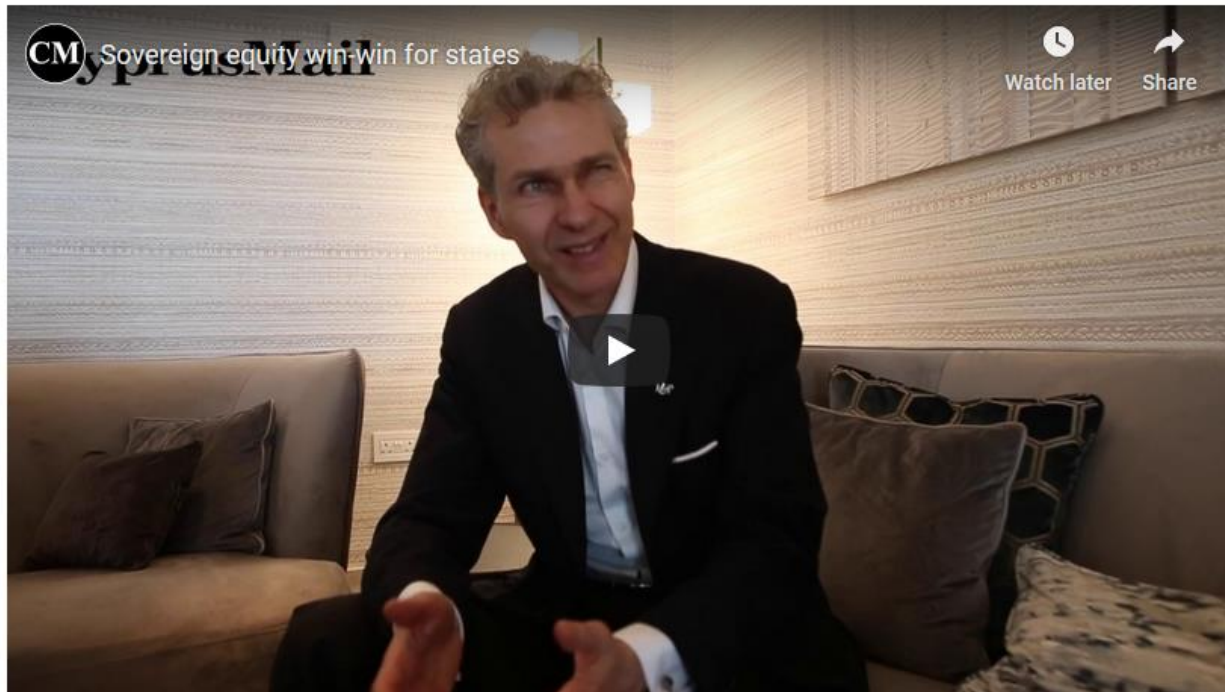


Sovereign equity win-win for states

By CM Guest Columnist March 9, 2020



Chairman of global citizenship and residence consultancy firm Henley & Partners Dr Christian Kaelin was in Cyprus last week to address a workshop titled ‘Looking Ahead – the Future of the Cyprus Investment Programme.’ Below are his answers to our questions about the growing industry of investment migration



At this year's Davos gathering Henley reported that it built on the concept of sovereign equity and that 30 countries recognised its potential. Can you explain what sovereign equity actually is and what its potential is?

Sovereign equity is the idea that instead of selling debt to finance their spending, countries sell their equity. In terms of investment migration, this means that a country that hosts a programme encourages inbound investment from wealthy individuals and entrepreneurs, thereby improving its national standing. As the country improves, so does the value of the individual's investment. It leads to a very powerful win-win situation for sovereign countries and wealthy investors alike.

Sovereign equity can endow nations with a considerable source of sustainable revenue without them having to further increase debt. This capacity to raise the equity of sovereign states – to provide 'sovereign equity' – has the invaluable potential to reduce inequality between states, and it is a phenomenon uniquely facilitated by investment migration.

Moreover, it is not only a source of sustainable income, but a proven driver of foreign direct investment. This twin dynamic can mitigate the problems of many countries related to sovereign debt, which ultimately provides greater national autonomy and prosperity.

Sovereign equity enables governments to achieve fiscal balance and economic growth without increasing their debt.

Henley & Partners has advised governments on the implementation and operation of investment-related residence and citizenship programmes. What are the main factors that enhance a country's attractiveness and create favourable conditions for foreign direct investment?

There are many factors that affect a country's attractiveness for FDI. For instance, the location, geography, business and education opportunities, quality of life, technology, corporate governance, functional bureaucracy, healthcare systems and even the simple potential of a country all play an important role in whether it can attract significant capital inflows.

If we are talking about attracting funds from investment migration in particular, then all the same factors still apply. However, given the great value of global mobility to investors seeking alternative residence or citizenship, a passport that enables visa-free travel to many desirable destinations is also a big drawcard.

What are the main things that put off potential citizenship applicants from investing in a country?

Investing in alternative citizenship is always a highly personal decision and therefore quite difficult to generalise about. Nonetheless, some of the factors that might propel individuals away from investing in a particular country are: a prohibitive investment requirement; a lengthy time to citizenship; burdensome residence requirements; complicated and volatile domestic politics; a lack of religious, ethnic, or sexual tolerance and freedom; high levels of violence and crime; a poor human rights record or weak democratic institutions; the threat of too much government interference or corruption; the prospect of meeting onerous tax obligations, and so forth.

You consider Austria, Malta and Cyprus to be the top tier of citizenship-by-investment countries (sufficiently clear in law and processes, and having sufficient reputation and transparency, you say). Where is Cyprus placed and why?

According to our 2020 [*Global Citizenship Program Index*](#), which analyses citizenship programmes based on 10 separate factors, Cyprus is in joint-2nd position with a score of 72 out of 100, and it was in 2nd position in the previous year too. The *Global Citizenship Program Index* analyses the following 10 factors: Reputation; Quality of Life; Visa-free or Visa-on-arrival Access; Processing Time and Quality of Processing; Compliance; Investment Requirements; Residence Requirements; Relocation Flexibility; Physical Visit Requirements; Transparency

For each programme, a score out of 10 is allocated for each factor. Subsequently, each factor is assigned equal weight (10%) to arrive at a composite score.

In the 2020 ranking, Cyprus scored 10 for Relocation Flexibility, 9 for Visa-free/Visa-on-Arrival Access, Residence Requirements, and Physical Visit Requirements, and 8 for Quality of Life, making the Cyprus Investment Programme a premium option for potential investors.

However, we have consistently looked to provide discreet advice to multiple Cypriot governments, as has the industry association Investment Migration Council, as regards enhancing the processing of applications, with particular relevance to ensuring the most rigorous due diligence / AML / source of wealth investigations are executed.

What would the Cyprus government have to do to top the rankings?

As mentioned, there is only one country ahead of Cyprus on the [Global Citizenship Program Index](#) in 2020. In fact, since the index was first created in 2015, Cyprus has always been ranked 2nd. This is an excellent result. The factor Cyprus scored the lowest on is Investment Requirements as at €2 million the Cyprus Investment Programme has one of the highest investment requirement of all the programmes on the index. In return for this investment, however, investors are receiving a host of benefits.

Cyprus is currently ranked 16th on the [Henley Passport Index](#) with a score of 174, which is also extremely good. Naturally, the country will move up the ranking by signing more bilateral visa-waivers with other countries.

We would however advise Cyprus as an EU member and as a major international financial centre that it is worth investing in the most rigorous due diligence systems possible for its CBI programme that can both act as a deterrent against any nefarious penetration but also provide a level of comfort for vital external stakeholders – particularly those to the north west.

In formulating the Henley Passport Index that ranks each country, do you take into account any other factor than the number of countries that can be visited visa-free?

The beauty of the [Henley Passport Index](#), which I conceptualised and created 14 years ago, is its simplicity. This index is the original ranking of all the world's passports according to the number of destinations their holders can access without a prior visa, and no other factors. The ranking is based on exclusive data from the International Air Transport Association (IATA), which maintains the world's largest and most accurate database of travel information and enhanced by ongoing research by the Henley & Partners Research Department. We also now have valuable and interesting historic data which is widely used in academic research and to inform expert commentary and analysis on global mobility trends and travel freedom.

There are often unflattering claims about people seeking second citizenship. How does Henley ensure that it would not be applying for citizenship on behalf of people that might have been involved in suspect activities?

We recognise that the business we operate in is sometimes perceived as controversial. A lot of work with media and the public at large still needs to be done to build a better understanding of our industry and the benefits it can offer. We appreciate that our industry is still relatively young and, in combination with continued technological growth, this makes for a lot of ambiguity: it is not always straightforward to separate fact from fiction, especially in the media and online.

To put the industry into perspective, approximately 1,000,000 grants of citizenship occur in the EU in a single year. By contrast, just over 1,000 new citizens have come into the EU through citizenship-by-investment (CBI) every year, less than 0.1% of that total. While minimal to no due diligence is done on those naturalised through other channels, extensive due diligence is done on 100% of those naturalised through CBI programmes.

Henley & Partners understands how important it is, especially in today's political climate, to be absolutely scrupulous in applying the strictest due diligence to all applicants. To that end, Henley & Partners is committed to working closely with all stakeholders to ensure that the highest levels of due diligence and international best practice are applied in the review of each citizenship application.

The most important element in any residence- or citizenship-by-investment programme is due diligence. Even then, as with private banks, a 100% success rate at filtering out 'bad' clients simply cannot be achieved.