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Corruption Risks Associated with Citizen- and Resident-by-Investment Schemes

This scoping note is a draft. It was prepared by the OECD as background material for the session "Residency for Sale? Mitigating 'Golden Visa' Abuse" of the OECD Anti-Corruption and Integrity Forum 2019.

Contents

Introduction

1. Residency-by-investment and citizenship-by-investment schemes (RBI/CBI schemes) allow foreign individuals to obtain residence rights or citizenship through investment or against a flat fee. These schemes are sometimes referred to as 'economic citizenship', 'investor residency programmes', or 'golden visas'. If misused or abused, these schemes could carry risks of economic crime and corruption deriving from insufficient due diligence and weak governance of the programmes.

2. This scoping note outlines some of the possible risks of corruption and economic crime associated with RBI/CBI schemes, and presents potential areas for future reflection which could facilitate developing appropriate policy responses to mitigate the risks.

1. What are RBI/CBI schemes?

3. RBI/CBI schemes allow foreign individuals to obtain permanent residence rights or citizenship in exchange for local (financial or real estate) investments or against a flat fee.[1] These schemes are sometimes referred to as 'economic citizenship', 'investor residency programmes', or 'golden visas'. RBI/CBI are directed at passive investors[2], rather than entrepreneurs or investors who will be actively involved in operating a business they have created or in which they have invested as a sole proprietor or as a partner.

4. The design of RBI/CBI schemes varies across jurisdictions, but most involve an up-front investment, in the public or private sector or in real estate, combined with application fees and an amount to cover due diligence costs. Some programmes allow for either a large non-refundable contribution to the treasury or to a national development fund, which finances strategic investment in the domestic economy, or an investment in real estate (which can be re-sold after a specified holding period). Other programmes provide the option to invest in a redeemable financial instrument, such as government securities.[3]

5. The inflows of funds from these programmes may be substantial, with significant macroeconomic implications across various sectors of the economy, which is particularly the case for small jurisdictions.[4]

Box 1. Defining CBI and RBI schemes

The definitions of RBI and CBI schemes vary. In its 2018 study, Transparency International has focused on schemes in EU countries which involve a large and passive form of investment, and which tend to offer a faciliatated route to citizenship or residence with limited requirements for physical presence. The European Commission states in its 2019 study that CBI involves granting a citizenship with less stringent conditions than under ordinary naturalisation regimes and, in particular, without prior residence in the country concerned. RBI schemes, in turn, involve granting residence rights in exchange for investment.

1. OECD (2018)
2. "Passive investors" are those who invest capital in a business without playing any role in management or operations; investors who buy stocks, bonds or other instruments for a fixed period; or investors who purchase residential real estate without commercial intent, with the intention of holding the real estate for a fixed minimum period. In this case, the jurisdiction does not need to take into account the entrepreneurial characteristics, intentions or background of the investor, as they have no bearing on the use of the capital.
3. OECD (2018)
4. IMF (2015)

A definition developed by the OECD based on analysis of schemes in OECD countries suggests that CBI schemes involve immediate granting of nationality in exchange for a certain investment. RBI schemes, in turn, grant a residence permit or visa with a fixed validity, either permanent or temporary and renewable, allowing eventual eligibility for naturalisation, subject to the standard criteria. In OECD countries, some provisions may exist in RBI schemes to simplify transition from temporary to permanent residence, but the path to citizenship is largely the same for RBI investors as for other legal foreign residents.

Sources: European Commission (2019), *Investor Citizenship and Residence Schemes in the European Union*; Transparency International (2018), *European Getaway – Inside the murky world of golden visa*

2. Why do countries offer RBI/CBI schemes, and what benefits do they offer to jurisdictions and investors?

6. Many jurisdictions may offer RBI/CBI schemes as a means to attract additional sources of foreign direct investment. The economic downturn of the late 2000s and the bursting of a real estate bubble in a number of countries prompted an expansion in OECD countries offering RBI for real estate purchases, with the purpose to prop up the real estate market – especially but not exclusively for high-end properties. Similarly, countries which saw their access to credit diminish and public and private borrowing costs increase also introduced RBI in financial assets.

7. Individuals may be interested in RBI/CBI schemes for a number of reasons, including greater mobility, thanks to visa-free travel or mobility within the EU; better education and job opportunities for themselves or their families; or the right to live in a country with more stable political or economic conditions. While almost all OECD countries and most developed countries provide temporary residence permits for foreign entrepreneurs and active investors in businesses, not all countries offer RBI.

8. Investors in such schemes generally accept lower returns on their investments for benefits offered via RBI/CBI schemes. These include, for example, favourable conditions for permits in the receiving country. In some jurisdictions, investors are offered facilitated or expedited immigration procedures. This is particularly true in countries where migration procedures are long and complex. Additionally, citizens from advanced countries represent an important share of applicants to some RBI/CBI schemes, generally motived by lower tax regimes.

9. Most OECD countries grant investors an initial temporary renewable visa allowing residence in the country, access to work and eligibility for permanent residence under the same or better conditions as other temporary permit holders. There are some countries which grant permanent residence immediately (such as the US under its EB-5 visa). Others grant only temporary permits; since extended or frequent absence from the country may lead to permit withdrawal or ineligibility to acquire permanent residence for holder of temporary residence permits in most OECD countries, exemptions from residency requirements may be granted to investors (such as Spain, Latvia and Portugal). In these countries, application for nationality can occur after a minimum residence period, which varies according to the country.

10. OECD countries subject resident investors to the same requirements for access to nationality as other foreigners. There is a strong general case for creating a channel for naturalisation: access to the nationality of the country of destination can help foster integration process. For this reason, a number of OECD countries have residency requirements of as little as two to three years prior to requesting naturalisation, although other requirements such as language proficiency are generally applied. There is no compelling argument to make naturalisation more difficult or the residency period longer for investors than for other immigrants. Due diligence on the source of funds and criminal background checks are concentrated at the initial permit issuance phase, and most countries require further documentation of all applicants for naturalisation, depending on their individual situations. However,

residency requirements can be justified, since they allow foreigners to develop the local experience, network and host country language proficiency which favour long term integration.

11. Citizen-by-investment programmes without or with minimum residency requirements mostly exist outside of the OECD. Providing citizenship enables the investor to enjoy all the benefits associated to citizenship of the host country.[5]

3. Who offers and who uses RBI/CBI schemes?

12. According to a preliminary analysis carried out by the OECD[6], more than 100 jurisdictions, offer some form of RBI or CBI schemes. Recent research indicates a number of these schemes are relatively new: for example, approximately half of OECD countries have enacted some form of visa, or residency for investment since the 2008 financial crisis.[7] Some OECD jurisdictions, such as the United Kingdom and the United States, have established residence by investment programmes already in the 1990s.

13. While some jurisdictions provide data concerning their RBI/CBI schemes to some extent, in most cases the information is scarce. Based on available information, over 100 000 residencies or citizenships have been granted in EU countries offering RBI/CBI schemes since their establishment (since 2008).[8]

14. Among OECD countries, Spain introduced a temporary renewable visa in 2009, setting the property value threshold at EUR 160 000. This was lifted to EUR 500 000 in 2013. Spain's bond purchase threshold was set at 2 million, 1 million for private shares or funds, and investment projects required to be "of general interest". By 2016, 2 600 real-estate buyers had spent more than 1.3 billion, while about 300 investors had bought 100 million in financial assets. Latvia introduced an investor permit scheme in 2010. When created, investors could buy property; invest in a business; or purchase government bonds. Most investors opted for the real estate purchases, as the threshold was lower. The investor permit scheme is considered to have brought in much-needed investment – about EUR 1.2 billion by 2016, concentrated in the property sector – but the investment programme cannot be linked with an increase in foreign business, and most permit-holders spend little time in Latvia. Portugal also introduced a property-purchase visa, in 2012, with a threshold of EUR 500 000. In the first 30 months, about 1 800 visas were issued for real estate purchases. Greece followed in 2013, with a real-estate investment threshold of EUR 250 000. The United Kingdom's investment visa, initially set at GBP 1 million; the UK Home Office issued a record 1 170 temporary renewable permits in 2014, prior to imposing a higher threshold.[9] Since then, issuance has fallen to a few hundred annually.

15. According to available information, clients of RBI/CBI schemes in recent years increasingly come from China, followed by Russia, with a steady rise in clients from the Middle East, though to a much lesser degree.[10] The main applicants for Latvian RBI were Russians, while most of the RBI property buyers in Spain and Portugal were Chinese.

16. Some non-OECD jurisdictions offer CBI schemes or investment schemes which provide a more direct route to citizenship without, or on the basis of very limited, residency requirements. In these jurisdictions, applicants obtain a residence permit, which must be held for a specific period ranging from six months to one year prior to acquiring citizenship. The process for obtaining citizenship does not require residing in the country. Additionally, in those cases where a jurisdiction offers both,

5 OECD (2011)
6 . OECD (2018)
7 . Cooley, A., & Sharman, J. (2017)
8 European Commission (2019)
9 OECD (2016)
10 . IMF (2015)

residence-by-investment and citizenship-by-investment schemes, investments to obtain residence can facilitate acquisition of citizenship.[11]

17. Increasingly, RBI/CBI schemes are facilitated and implemented for both, clients and offering jurisdictions by a host of intermediaries, including law firms, investment advisers, and real estate companies. Further, anecdotal evidence suggests there may be only a small number of such firms operating in this field. Notable examples include Henley & Partners, Arton Capital and CS Global Partners. The industry is represented by the Geneva-based Investment Migration Council (established in October 2014) and the London-based Global Investor Immigration Council. According to a study carried out by Transparency International EU, many of the intermediary companies are also responsible for carrying out due diligence and administration of the schemes on governments' behalf.[12]

4. How do thresholds vary for granting CBI/RBI?

18. One of the challenges in ensuring a successful CBI/RBI schemes is pricing: setting the right threshold for investment and calibrating the corresponding granted rights. Thresholds vary even among RBI for real estate investment, as noted above. While there may be competition among countries to offer the easiest access, setting the threshold too low risks weakening the expected benefits of investment and heightening the schemes' exposure to risk (i.e., higher numbers of applicants and investments requiring a heightened challenge for quality assurance and legal and regulatory compliance). For example, in recent years, a number of jurisdictions have increased their price threshold: in the United Kingdom, following advice from the government-appointed independent Migration Advisory Committee[13], the minimum price for investors was doubled in 2015. Latvia doubled its minimum real-estate threshold in 2014 and increased its financial investment requirements. The United States has proposed to increase the threshold for its EB-5 RBI programme. New Zealand doubled the investment amount to about USD 2.1 million. Introducing a programme grants immediate permanent residence for qualifying investments in 2017, Estonia set the threshold at EUR 1 million. In 2016, however, France lowered its threshold, which had been the highest in the OECD at EUR 10 million, to 300 000.[14]

19. In general, evaluation of the impact of investor programmes for the receiving jurisdiction is challenging because it is not simple to identify what investments were made exclusively due to the existence of the RBI provision which would not have been otherwise made. While investment through RBI schemes can be tallied, as noted above, comparisons with pre-RBI investment have rarely been conducted. Canada offered a passive investor scheme requiring applicants to "park" money interest-free with the government for five years, in exchange for permanent residence[15]. This programme was found to be of little added value to the country and was eliminated. Most new programmes in OECD countries require that the investment bring some added value, through job creation or innovation, as well as imposing requirements such as language knowledge or prior business experience[16].

20. Another factor in setting a price on the value of a residence permit is whether investors are expected to settle in the country and receive access to public benefits such as health care, education and social services for themselves and their family members. Countries where RBI beneficiaries are not expected to reside or use services do not have to take these potential costs into account, but may have to consider the reaction of other countries to which their RBI and CBI investors acquire access.

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11 European Commission (2019)
12 Transparency International EU (2018)
13 MAC (2014), OECD (2016)
14 OECD (2018b)
15 OECD (2011)
16 OECD (2018b)

21. As noted, only a few OECD countries prevent foreign investors from residing in the country while managing their investment.

5. How could RBI/CBI schemes pose risks of corruption and economic crime?

22. Beyond their potential macroeconomic risks[17], RBI/CBI schemes—if misused, abused, and exploited—can help hide or facilitate financial and economic crimes, including bribery and corruption, tax crimes and money-laundering. RBI/CBI schemes can be means to evade law enforcement in the country of origin, including confiscation of assets.

23. Possible risks of corruption and economic crime stemming from misuse or abuse of RBI/CBI schemes include:

- **Risks of money laundering:** RBI/CBI schemes in many jurisdictions could allow individuals or entities misuse the schemes for money laundering purposes. Insufficient measures to verify applicants' background and the origins of the invested funds, and their weak implementation can allow individuals or entities investing via RBI/CBI schemes to misuse them for laundering purposes of illicitly obtained funds. The risk can be particularly elevated if the beneficiary of RBI/CBI schemes is a politically exposed person (PEP), who, according to the Financial Action Task Force, can be in positions that could be abused for money laundering offences[18]. Analysis by the European Commission also revealed that insufficient due diligence could allow criminals to infiltrate by exploiting the RBI/CBI schemes.[19] These risks have been recognised by certain jurisdictions which have launched investigations related to RBI/CBI schemes (see box 2).

Box 2. Jurisdictions launch investigations of CBI/RBI schemes

The United Kingdom suspended Tier 1 (Investor) visa programme in December 2018 to tackle related money laundering, corruption and organised crime related risks. Majority of the beneficiaries of the programme came from Russia, China and the United Arab Emirates with more than 1000 visas granted between September 2017 and 2018. The purpose of the suspension is to set up strengthened frameworks of due diligence and background checks, with audits of all financial and business interests of the applicants by a UK-based auditing service. Investment in government bonds will be no longer possible, as applicants will be required to invest in UK trading companies. The UK also reported that measures are planned to seize illicit funds in the context of the visa programme.

Portugal launched an investigation in 2014 of potential bribery and money laundering of Portuguese officials in relation to granting residency rights to non-EU citizens. However, the 2014 investigation was concluded with the claim that the scheme is legally compliant. The FATF 2017 Mutual Evaluation Report of Portugal, however, states that the risks of corruption of the local RBI scheme remain particularly high.

The **Central Bank of Greece** began an investigation in the end of 2018 of credit card purchases of real estate by Chinese citizens for the purposes of the RBI scheme in Greece, which may have potentially violated the Greek legislation regarding the RBI schemes and Chinese capital outflow restrictions. The Greek RBI scheme requires a minimum of €250 000 investment in real estate, carried out via bank transfers or cheques.

Sources: Transparency International (2018), *European Getaway – Inside the murky world of golden visa*; FATF (2017), *Anti-Money Laundering and Counter-terrorist Financing Measures – Portugal*; Financial Times (2018), *Probe into Chinese buying Greek villas on credit cards*; The Guardian (2018), *UK 'golden visa' scheme to be suspended due to corruption fears*; The New York Times (2018), *What are Britain's 'Golden Visas' and why are they being suspended?*; Reuters (2018), *Britain suspends $2.5 million golden visas to tackle money laundering*

17. For example, the IMF warns that inflows under RBI/CBI programs are volatile and vulnerable to sudden-stop risks, which can be particularly harmful in small economies. (IMF, 2015)
18. FATF (2013)
19. European Commission (2019)

- **Risks of tax evasion:** the OECD analysed over 100 RBI/CBI schemes in jurisdictions committed to the Automatic Exchange of Information between tax authorities under the OECD/G20 Common Reporting Standard (CRS). The analysis revealed that certain schemes could potentially be abused for the purposes of avoiding CRS reporting. In particular, documentation issued under RBI/CBI schemes could be used to misrepresent an individual's jurisdiction of tax residence, thereby avoiding reporting to the individual's actual jurisdiction of tax residence. Schemes that have been identified as potentially high-risk for these purposes are those that meet both of the following criteria:

    - The scheme imposes no or limited requirements to be physically present in the jurisdiction in question; and

    - The scheme is offered by either: (i) low/no tax jurisdictions; (ii) jurisdictions exempting foreign source income; and/or (iii) jurisdictions with a special tax regime for foreign individuals that have obtained residence through such schemes;

  The OECD published guidance that is designed to help financial institutions to identify and prevent cases of CRS avoidance through the abuse of potentially high-risk RBI/CBI schemes.[20]

  At the same time, jurisdictions may also adopt measures to mitigate the CRS-related risks of potentially high-risk RBI/CBI schemes, such as the implementation of a spontaneous exchange of information mechanism about individuals that have obtained residence or citizenship rights through CBI/RBI programmes with all original jurisdictions of tax residence. This measure ensures that the actual jurisdiction of tax residence is informed about their taxpayer's newly acquired foreign residence rights and can take this information into account in its risk assessment and tax compliance work.

  To ensure that the spontaneous exchange mechanism is effective in practice, it needs to be underpinned by robust due diligence standards to ensure that tax administrations are able to accurately determine the actual jurisdiction(s) of tax residence of new applicants of CBI/RBI programmes.

- **Risks related to corruption:** as noted, insufficient due diligence involved in RBI/CBI schemes could allow their misuse for the purposes of money laundering or hiding funds obtained via corrupt activities, and to avoid confiscation of the funds and prosecution in home jurisdiction.[21] Opaque governance structures, including lack of transparency and internal control could also elevate the risk of bribery, for example, in exchange of expediting and facilitating application processes. The involvement of intermediaries (see box 3), such as advisory firms, also increases the schemes' corruption risk. With only a small number of firms with opaque ownership structures operating in the industry, the risk of corruption is further elevated.[22]

[20] OECD (2018)

[21] European Commission (2019)

[22] For example, according to the *OECD Foreign Bribery Report,* 75% of the 427 foreign bribery cases concluded between the entry into force of the OECD Anti-Bribery Convention in 1999 and 2014 involved payments through intermediaries. (OECD (2014), OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Public Officials, OECD Publishing, Paris, https://doi.org/10.1787/9789264226616-en. See also: OECD (2009), Typologies on the Role of Intermediaries in International Business Transactions, OECD Publishing, Paris, http://www.oecd.org/corruption/anti-briberytypologyreports.htm)

Box 3. Intermediaries' involvement in the Hungarian RBI scheme

The features of the former Hungarian Investment Immigration Program, introduced in 2013, suspended in March 2017 and terminated in 2018, showcase the risks of corruption deriving from the involvement of intermediaries in the process of granting residency through investment schemes. Non-EU citizens were allowed to obtain permanent residency in Hungary with a minimum of €300 000 investment in special government bonds, however, the funds did not need to be directly invested in the government bonds, but could be transferred through intermediary companies, in most cases registered outside of Hungarian territory and operating with opaque ownership frameworks. These companies charged a commission fee of €29 000 from the Hungarian State Debt Management Agency, and a service fee from the applicants ranging from €40 000 to €60 000 per application. As a result, the scheme, which issued more than 6 000 visas, was exposed to a high risk of corruption and money laundering.

Sources: European Commission (2019), *Investor Citizenship and Residence Schemes in the European Union*; Transparency International (2018), *European Getaway – Inside the murky world of golden visa*, EU report

6. Existing policy recommendations for ensuring due diligence to safeguard RBI programmes

24. The OECD Centre for Tax Policy[23] has identified possible ways for financial institutions to identify tax related risks deriving from certain CBI/RBI schemes. The authors of the IMF 2015 Working Paper[24] have focused on risks to macroeconomic and financial stability deriving from RBI/CBI schemes, also covering governance and integrity related issues and providing policy recommendations in this area.

25. Based on the analysis of corruption and economic crime related risks of RBI/CBI schemes in EU jurisdictions, Transparency International has developed policy recommendations for governments and the EU aiming at mitigating these risks (see annex 1).[25] The European Commission's recent report also explores challenges concerning RBI/CBI schemes in the EU Member States and outlines possible ways to tackle them.[26]

7. Possible areas for future analysis

26. The interlinkages between crimes that RBI/CBI schemes could be used to facilitate or hide, and their cross-border nature call for a multilateral and multi-faceted approach in tackling the challenges. Further research could help fill in the current gaps in data and information on the practices concerning RBI/CBI schemes, and to address the existing ambiguities in defining the schemes. Mapping of the risks related to corruption and economic crime could be a step towards determining appropriate policy responses. Areas for possible further analysis include:

- International co-operation and information sharing between authorities, and mutual legal assistance[27];
- Due diligence measures related to residency and citizenship applications[28];

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23 OECD (2018)
24 Xu, Xin; El-Ashram, Ahmed; Gold, Judith (2015)
25 Transparency International (2018)
26 European Commission (2019)
27 Mutual legal assistance is covered in the OECD Convention on Combating Bribery of Foreign Public Officials in International Transactions and in the 40 Recommendations of the FATF.
28 Application of the FATF Guidance regarding Politically Exposed Persons could be considered when relevant. Guidance available at: http://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-PEP-Rec12-22.pdf.

- Governance and transparency frameworks of RBI/CBI schemes;
- Monitoring of RBI/CBI schemes in terms of conditions, use and impact;
- Monitoring measures to address abuse (e.g. revoking visas, citizenship, or other rights upon discovery of misuse);
- Asset recovery related considerations.

ANNEX 1 –Transparency International's guidance for governments in the EU to mitigate the risks related to CBI/RBI schemes[29]

WHAT NATIONAL GOVERNMENTS NEED TO DO

Enhanced due diligence

Understanding the background of golden visa applicants and their family members is the primary way in which governments can make an informed decision on whether an individual can gain access to the EU without posing risks. Therefore, it is critical that all applicants are subject to the most comprehensive form of enhanced due diligence checks. In particular, to ensure that golden visa programmes are not abused by the corrupt and the criminal, the following should be part of any assessment conducted by golden visa authorities:

» Independent verification. All information and documents provided by the applicant must be independently verified by the responsible government agency.

» Source-of-funds and source-of-wealth verification. The amounts being invested must be transferred via the applicant's personal bank account and must be subject to anti-money laundering checks. In addition, checks must be conducted to ensure the applicant's wealth is not disproportionate to their known lawful sources of income. Sufficient information should be obtained that give an indication of the volume of wealth to be reasonably expected of the applicant, and of how it was acquired.

» Civil and criminal litigation. In addition to police records and security checks, governments must conduct checks of applicable court records to verify whether the applicant is or was subject to civil or criminal proceedings.

» In-depth interview or analysis. Due diligence checks should include interviews with well-placed individuals to check for political connections/exposure; any corrupt business practices; source of wealth and professional experience; links to organised crime; suggestions of involvement in money laundering and other illegal activities; dealings with sanctioned entities; and social and environmental responsibility.

» Processing time. There must be no restrictions on how long the due diligence process should take.

» Dependents and benefactors. All applicants over the age of 13 years should be subject to enhanced due diligence. There should be no leeway for the corrupt and the criminal to gain residency or citizenship by posing as the "dependents" of family members who apply as the "main applicants". Similarly, given the possibility of applicants relying on benefactors to make their investment, the benefactor must be subject to the same checks.

Integrity Principles

Governments maintain primary responsibility for accepting or rejecting applicants, using due diligence findings to inform their decision. In some jurisdictions, government bodies undertake due diligence themselves, whilst in others, they may hire specialist agencies to conduct the checks that will then be factored into the final decision. If this key step in the application process is handed over to specialist agencies, it is critical that governments adopt a set of measures to avoid conflicts of interest or bribery risks. These measures include the following:

» The selection of specialist agencies adheres to open contracting principles.[176]

» Agencies contracted to conduct enhanced due diligence are barred from marketing the schemes or providing additional services to applicants.

» Contracted agencies are not remunerated according to the number of successful applications processed.

» Any enhanced due diligence report that identifies risks is discussed with the relevant agency to ensure that the government has a comprehensive picture of the type and level of risk at hand.

» Governments ensure that they fully understand how the sources and research techniques applied by the provider adhere to the principles of best-practice methodology outlined above.[177]

While enhanced due diligence is a critical component of preventing the corrupt and the criminal from taking advantage of golden visa programmes, what really matters is how governments assess due diligence findings and the level of risk they are willing to take when selecting applicants. Foreign nationals are being awarded with citizenship and residency, along with all the rights that come with them, for life. Governments should use due diligence to assess the risks an applicant poses not only to the country but also to the EU as a whole. The bar needs to be set high, and golden visas should be given only to individuals with exceptional track records.

29 Transparency International (2018)

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