



Citizenship- and Residency-by-Investment schemes expose EU to corruption risk

By investing large sums of money, the wealthy can obtain the right to reside in the EU or even become EU citizens. But new investigations have revealed that Citizenship and Residency-by-Investment schemes could be vulnerable to abuse by the criminal and the corrupt. In 2018, the Commission will be issuing a report into these schemes. To safeguard the security of all Member States it is critical that the Commission acts to ensure the integrity and transparency of these risky schemes.

Citizenship- and residency-by-investment schemes allow people to invest large sums of money in property, government bonds, or businesses, in return for residency status and a fast-track route to citizenship. In some countries, the wealthy can secure citizenship immediately.

At least 12 EU Member States offer these schemes.¹ For governments, they are a means to generate inward investment. For the wealthy elite, they are means to secure the right to live and work throughout Europe. Yet, as recent investigations have shown, there is a darker side to golden visas.

WHAT'S THE PROBLEM?

Recent investigations by the OCCRP have revealed how, across Europe, the schemes are mired in secrecy. When combined with substantial investments and questionable arrangements between governments and private agencies, this raises serious concerns

Austria, Bulgaria, Cyprus, France, Greece, Hungary, Ireland, Latvia, Malta, Netherlands, Portugal and the **UK** all offer golden visa schemes with investments ranging from €250,000 to €10m+.

'Residency-by-Investment' schemes offer temporary or permanent residence in return for investment. Citizenship can often be acquired subsequently after varying periods of residency.

'Citizenship-by-Investment' schemes offer citizenship immediately or very swiftly, i.e. a very short or no period of residency, in return for investment. These schemes have been in operation for around 30 years.

'Passports for sale' or 'golden visa' describes both schemes more generally. Sometimes the term 'immigrant investor programme' is used.

about the integrity of the European single market and the individuals who are buying access to it.

In September 2017 the Guardian newspaper revealed that business executives implicated in the controversial **Brazilian Lava Jato** ('Car Wash') corruption scandal, and relatives of an **Angolan politician** who has been accused of bribery secured access to Europe via Portugal's investor visa scheme.²

Their investigations also uncovered how **billionaire Russian oligarchs and Ukrainian elites** accused of corruption acquired EU citizenship through the Cypriot golden visa scheme.³

For these people, golden visas are attractive because not only do they provide access to a luxury lifestyle, they offer an opportunity to evade law enforcement and prosecution in their home country. These schemes are effectively a 'get out of jail free' card that allow nefarious individuals to continue their corrupt activity in European Member States, enjoying freedom of movement and the rights conferred by residency and citizenship.

To stop the criminal and corrupt from enjoying safe haven in the EU, applicants must be subject to stringent scrutiny and the schemes themselves must be subject to rigorous oversight.

HIGH-RISK

By their nature, golden visas and passports are high-risk instruments. Firstly, the criminal and the corrupt are likely to find visas that offer passage to luxury destinations attractive and they are also more likely to have the funds readily available to pay for them.

FACILITATOR OF A REFUGEE CRISIS

Rami Makhlef is the cousin of Bashar al-Assad. He was designated by the U.S. in 2008 for his role in aiding corruption in Syria. In January 2011, Makhlef was granted Cypriot citizenship. In May 2011 he was designated by the EU for bankrolling his cousin's regime. His Cypriot citizenship was withdrawn in March 2013.

ALLEGED DARK NET 'MASTERMIND'

In July 2017 a young Canadian national, **Alexandre Cazes**, was found dead in a Thai jail cell. He had been arrested as part of an international investigation into AlphaBay – a dark net marketplace for illicit goods and services – which he is accused of creating and operating. The US Department of Justice complaint states that Cazes had obtained citizenship in Antigua & Barbuda before his alleged criminality was exposed and was in the process of securing similar status in Cyprus at the time of his apparent suicide.

Secondly, the demand for golden visas tends to be highest from countries – especially China and Russia⁴ – with significant outward illicit financial flows or corruption-related political instability.

Moreover, the visa involves a substantial financial transaction between an individual and the state.

It is therefore essential that EU Member States carry out in-depth due diligence checks on individuals applying for visas to ensure that they do not inadvertently

facilitate money laundering or allow criminals to gain access to the EU by accepting the investment.

VULNERABLE TO UNDUE INFLUENCE

Most countries offering golden visas assert high standards for checks and integrity of process, but in recent years, government auditors in several jurisdictions have identified weaknesses with the way schemes operate.⁵ For example, an independent inspection of the UK scheme found that the government failed to keep adequate records of the decision-making process.⁶

In 2014, Portugal's programme was in the spotlight over allegations that the scheme was subject to "corruption, money laundering, and influence peddling" for which several government officials were put on trial last year.⁷ The government has since claimed that its golden visa scheme "strictly follows all legally established security procedures" and that authorities have "adequate tools which safeguard lawfulness and security".⁸

However, weaknesses such as these are serious as they make the schemes susceptible to abuse of power, undue influence, and bribery.

The money involved in these schemes is considerable. Portugal has accrued over €3bn since its scheme was established in 2012⁹ and over the last four years, the Cypriot scheme has reportedly brought over \$4bn USD to government coffers.¹⁰

It is critical to the safety of every Member State and the integrity of European objectives around security that countries offering golden visas are not so dazzled by

the potential profit that they neglect to subject applicants to thorough in-depth due diligence or exercise stringent oversight of the decision-making process.

WHAT CAN THE EU DO?

In 2018 the European Commission will publish a report on national schemes granting EU citizenship to investors.¹¹

This report must scrutinise all the RBI and CBI schemes currently operating in Member States and assess both their vulnerability to corruption and the efficacy of the due diligence applied to prospective applicants.

To ensure the integrity of the EU single market and safeguard EU objectives of sincere cooperation, security, and justice, the Commission must undertake EU-wide action and must, at minimum, issue guidelines to Member States that set due diligence, operational integrity, and transparency standards to prevent the abuse of these schemes by the corrupt and criminal.

ENHANCED DUE DILIGENCE

All primary applicants for CBI and RBI schemes should be subject to the most comprehensive form of enhanced due diligence checks (EDD).

If the application is for more than one person, all secondary applicants over the age of 13 must be vetted to the same standard.

The following methodology should form the basis for best practice:

- Publicly available information must be combined with locally collected business intelligence and fully assessed.

- Checks must be conducted in local languages and across multiple jurisdictions if relevant for the given applicants.
- Systems must be in to quality assure the EDD reports.
- Information provided by the subject must be verified.
- There must be no time restrictions on how long the due diligence process should take.

In order to assess the risk associated with an applicant, the following checks must be adopted as standard:

- **Source of funds verification.** The investment, which must be made via the applicant's personal bank account, must be subject to anti-money laundering checks and the legitimacy of its provenance must be verified.
- **Global compliance checks.** The subjects' names (in their all variations) should be checked against comprehensive sanctions and terrorists lists, lists of politically exposed people, as well as regulatory and law enforcement advisories globally.
- **Full English and local language media and internet searches.** Searches should be conducted using naming combinations that allow for coverage of all and any spelling, transliteration and naming variation of the subjects' names.
- **Asset searches in all jurisdictions that the applicant has resided or had**

significant presence or business

presence. Checks of available real estate and/or motor vehicle/vessel registrations to identify any assets that may be owned.

- **Individual business interest checks in all jurisdictions that the applicant has resided or had significant presence or business presence.** Checks of any firms that the subject may be currently or formerly associated as a director, shareholder or any other substantial capacity.
- **Undisclosed citizenship.** Checks to identify if the applicant has any additional citizenship.
- **Education and employment verification.** Checks of public domain and contacts with institutions listed by the applicant to confirm employment and education records.
- **Civil litigation.** Checks of applicable court records.
- **Criminal litigation.** Checks of applicable court records.
- **Bankruptcy/insolvency.** Checks of applicable court records or records of other authorities that deal with insolvency.
- **Regulatory checks.** Checks against local regulatory bodies' blacklists.
- **Law enforcement checks.**
- **Business intelligence research.** Interviews with well-placed individuals to check for political

connections/exposure; any sharp or corrupt business practices; source of wealth and professional experience; links to organized crime; suggestions of involvement in money laundering and other illegal activities; dealings with sanctioned entities, and social and environmental responsibility.

OUTSOURCING DUE DILIGENCE

Governments maintain primary responsibility for accepting or rejecting applicants, but who carries out the due diligence checks varies between countries. In some jurisdictions, it is conducted by government agencies whilst in others it is outsourced to specialist agencies.

If a government chooses to outsource its EDD checks, it is critical that they adopt the following principles to avoid conflicts of interest or bribery risks from arising:

- The tendering process adheres to **open contracting principles**.
- More than one external agency is contracted and all selected agencies have a proven record of accomplishment in EDD.
- Agencies who are contracted to conduct EDD are precluded from marketing the schemes or providing additional services to applicants.
- Contracted agencies are not remunerated according to the number of successful applications processed.
- Any EDD 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 posed.

- Governments ensure that they fully understand how the sources and research techniques applied by the provider adhere to the principles on best-practice methodology outlined above.
- Only one government department is responsible for receiving and assessing EDD reports, and that their staff have sufficient training and resources to scrutinize the reports.
- A clear policy is established which stipulates that agencies must disclose any suspicious information uncovered by EDD checks to the relevant government department and law enforcement agency.

INTEGRITY PRINCIPLES

Finally, to safeguard the integrity of the schemes, the responsible government department need to:

- Ensure that the specific objectives, investment criteria, residency criteria and EDD standards of the scheme are published.
- Ensure that adequate notes and documents relating to decisions are kept for as long as the statutes of limitation of the falsification of documents and bribery offences allow.
- Strictly monitor successful golden visa recipients to ensure that residency requirements are fulfilled.

- Exercise sufficient oversight by ensuring that the schemes are regularly audited and the results published.
- Provide robust whistleblowing mechanisms for staff and citizens to report concerns and wrongdoing.
- Ensure that any suspicions about applicants arising from EDD processes are shared in a timely way with and between relevant domestic and international investigations agencies.
- Establish an open dialogue with citizens around the risk appetite, social and economic benefits or detriments of the

policy, and the regulatory and operational aspects of the scheme.

- Publish the names and countries of origin of successful applicants in an open-data CSV format.
- Publish statistics related to the success rate of applications and the number of instances when citizenship or residency is deprived due to breaches of the rules.
- Publish information relating to the collection and disbursement of funds raised through schemes in an open-data CSV format.

www.globalwitness.org

¹ Austria, Bulgaria, Cyprus, France, Greece, Hungary, Ireland, Latvia, Malta, Netherlands, Portugal and the UK all offer golden visa schemes.

<https://www.henleyglobal.com/citizenship-programs/>;
<https://www.artoncapital.com/citizenship-by-investment/>;
<https://www.artoncapital.com/residency-by-investment/>;
<http://www.goldenvisas.com/europe/>;
<http://www.goldenvisas.com/ireland/>; <http://business-investor-immigration.com/france/>;
<http://www.mysecondpassport.com/netherlands-residency/>;
<http://www.investorvisa.ae/citizenship-by-investment/latvia/>

² Pegg, D., Farolfi, S., Shaw, C., and M. Pereira. (2017). Corrupt Brazilian tycoon among applicants for Portugal's golden visas. The Guardian, 18 September.
https://www.theguardian.com/world/2017/sep/18/portugal-golden-visas-corrupt-brazilian-tycoon-among-applicants?CMP=tw_tgw

³ Pegg, D., Farolfi, S., and S. Orphanides. (2017). Cyprus 'selling' EU citizenship to super rich of Russia and Ukraine. The Guardian, 17 September.
<https://www.theguardian.com/world/2017/sep/17/cyprus-selling-eu-citizenship-to-super-rich-of-russia-and-ukraine>
 The billionaires investing in Cyprus in exchange for EU passports. The Guardian, 17 September.
<https://www.theguardian.com/world/2017/sep/17/the-billionaires-investing-in-cyprus-in-exchange-for-eu-passports>

⁴ Associated Press (2017). By the Numbers: China's Chase of 'Golden Visa' Abroad. 12 May.
<https://www.voanews.com/a/china-chase-of-golden-visa-abroad/3849941.html>; Dare-Hall, Z. (2014). *The countries offering passports to lure property investors*. Financial Times March. <https://www.ft.com/content/3d36db18-9fc3-11e3-b6c7-00144feab7de>; Migration Policy Institute (2014). *Selling Visas and Citizenship Policy Questions from the Global Boom in Investor Immigration*, p4.

<http://www.migrationpolicy.org/sites/default/files/publications/Investor-Visas-Report.pdf>; Transparency International UK (2015). Gold Rush: Investment visas and corrupt capital flows into the UK. October.
<http://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk/>

⁵ Congressional Research Service (2016). EB-5 Immigrant Investor Visa. 22 April.
<https://www.fas.org/sgp/crs/homesec/R44475.pdf>; US Government Accountability Office (2016). Immigrant Investor Program: Progress Made to Detect and Prevent Fraud, but Additional Actions Could Further Agency Efforts. September.
<https://www.gao.gov/assets/680/679723.pdf>

⁶ Independent Chief Inspector of Borders and Immigration (2013). An Inspection of applications to enter and remain in the UK under Tier 1 Investor and Entrepreneur categories of the Points Based system, Dec 2012-May 2013. 12 September.
<http://icinspector.independent.gov.uk/wp-content/uploads/2013/09/An-Inspection-of-Tier-1-PBS-Investor-and-Entrepreneur-Applications.pdf>

⁷ Associated Press (2017). Senior Portuguese officials stand trial in corruption case. 13 February.
<https://apnews.com/3c2be954c8f140578047e509403f5619>; Pegg, D., Farolfi, S., Shaw, C., and M. Pereira. (2017).

⁸ Pegg, D., Farolfi, S., Shaw, C., and M. Pereira. (2017).

⁹ Government of Portugal (2017). Golden Residence Permit Programme (ARI) – data from the 08th October 2016 to the 31st March 2017. <http://www.goldenvisas.com/wp-content/uploads/2017/04/SEF-Statistics-March17.jpg>

¹⁰ Onaran, Y. and Silver, V (2017). EU Passports for Sale lure rich Russians. Bloomberg, 11 March.

<https://www.bloomberg.com/news/articles/2017-05-11/eu-passports-for-sale-in-sunny-cyprus-lure-rich-russians-cash>

¹¹ European Commission - Press release, 2017 EU Citizenship Report: Commission promotes rights, values and democracy, 24 January 2017.
http://europa.eu/rapid/press-release_IP-17-118_en.htm

References for text boxes:

Rami Makhuluf

US Department of the Treasury (2008). *Rami Makhuluf Designated for Benefiting from Syrian Corruption*, 21/2/2008.
<https://www.treasury.gov/press-center/press-releases/Pages/hp834.aspx>

Kambas, M. (2013). *Cyprus rescinds citizenship of Assad billionaire cousin*. Reuters. 1 June.
<http://www.reuters.com/article/us-syria-crisis-cyprus-idUSBRE95006F20130601>

Council of the European Union, (2012). *Council Implementing Regulation (EU) No 266/2012 of 23 March 2012 implementing Article 32(1) of Regulation (EU) No 36/2012 concerning*

restrictive measures in view of the situation in Syria.
<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32012R0266&from=EN>

Alexandre Cazes

US Department of Justice, Office of Public Affairs (2017). *AlphaBay, the Largest Online 'Dark Market,' Shut Down*. 20 July. <https://www.justice.gov/opa/pr/alphabay-largest-online-dark-market-shut-down>

United States Of America, Plaintiff, V. Alexandre Cazes aka "Alpha02" aka "admin", 19/07/2017
<https://www.justice.gov/opa/press-release/file/982821/download> &
<https://www.justice.gov/opa/press-release/file/982826/download>

The Daily Observer (2017). *CIP citizen alleged mastermind behind world's biggest online black market*. 21 July.
<https://antiguaobserver.com/cip-citizen-alleged-mastermind-behind-worlds-biggest-online-black-market/>