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IT'S RAINING PASSPORTS! THE ECONOMICS OF CITIZENSHIP INVESTMENT PROGRAMMES

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Small economies and particularly islands are often accused of finding creative means of sourcing income, at times bordering on legal yet dubious and debatable schemes. The most recent that has come under attack is the selling of citizenship or residency, with accusations of money laundering and tax evasion routes. Since such schemes attract the richer crust of society, the expectations are that such individuals have ulterior motives for requiring another country to reside in or be a citizen of. Can such schemes be viewed solely from such a negative perspective? Do they only entice persons with bad intentions or do such programmes also help in the economic development of these small countries? This paper looks at the schemes which are presently in place worldwide and then focuses on the recent scheme adopted by Malta. This programme has been met with significant resistance by the European Union, however, it needs to be acknowledged that other EU member states have similar citizenship/residency programmes. What role is the programme maintaining in the economic development of Malta? How successful has it been and what are the expectations for its future continuing process?

Keywords: island development strategies, Citizenship investment programme, Dual citizenship, Residency, Passports for sale.

Introduction

Many adjectives have been used to describe islands, some positive such as flexible, nimble, light, creative, resourceful, and others that paint economies that are vulnerable, weak, volatile, rent-seekers. Islands are often seen as havens of innovative means of securing revenue from unique sources, which are sometimes frowned upon as coming from dubious avenues. Research has shown that small islands, mainly due to their openness, have used unconventional strategies to survive in a global environment geared more for big scale. Small economies devise development strategies which do not necessarily follow traditional economics textbooks. Prasad (2004) states that 'the major development strategies pursued by small islands—such as the use ofExport Processing Zones (EPZs), offshore financial centers, remittances,aid and rent-seeking and deriving other unconventional sources ofincome—go against mainstream thinking in economics' (p.43). Other strategies mentioned by Prasad include, selling sovereignty, passports, fishing rights, internet domains, country codes, being used as bases for military and satellite business, engaging in peacekeeping operations,having shipping registries, philately, and trust funds. This present article focuses on Malta's recent scheme of citizenship acquisition through investment.

Malta adopted the Individual Investor Programme (IIP) in 2014 and this citizenship selling system seems to be causing concern in certain circles, with such programmes being considered controversial in the EU (Parker 2016). Being a member of the Schengen area, such a programme opens up citizenship not only to Malta but offers border-free travel to the other twenty-five Schengen members, visa-free travel to over 160 countries worldwide and the right of establishment in all 28 EU member states. Malta is not unique in offering a residency/citizenship programme in the European Union. This particular citizenship programme is the only one which was officially sanctioned by the European Commission (EC 2014). Furthermore,

> "By 2016, each EU Member State has adopted at least one legal mechanismfor facilitating investment-based migration, be it through the state's discretion tonaturalise, an investor citizenship scheme or a programme granting 'a path to citizenship' via residence rights."Džankić (2018)

In March 2018 the European Union (EU) issued statistics on the acquisition of citizenship in the EU. During 2016, a total of 994,800 persons had obtained citizenship of one of the EU28 member states. This reflected an 18% increase over the previous year. The countries which accounted for this increase were Spain, the United Kingdom, Italy, Greece and Sweden (which in total saw an increase of 123,200 over 2015). The biggest number of citizenship was granted by Italy, Spain, the United Kingdom, France and Germany, together accounting for 73% of the total. Of the almost million new citizens, 87% came from outside of the EU, mainly from Morocco, Albania, India, Pakistan and Turkey. On the other hand Ireland and Poland have both seen decreases in the number of persons being granted citizenship. In terms of population size, the highest number of citizenships granted came from Sweden (6.2 per thousand), Luxembourg (5.7) and Cyprus (5.5). Italy and Malta come in at fourth and fifth place respectively. The figure for Malta was 1,495, or a mere 0.15 % of the total.

So what is all the 'hullaballoo' about? (This term was used by the Maltese internationally renowned tenor, Joseph Calleja, when he spoke to protesters outside an IIP promotional event in London,organized by Henley and Partners, to which he was invited to sing, and where a small group of persons gathered to protest against the selling of Maltese passports).

The aim of this paper is to take a closer look at the Maltese programme and to analyse in what ways this can be viewed as another form of small economy development strategy, how the programme fits in the global picture of the country's development policies and what are the apprehensions that such a programme can invoke both locally and in the EU. The methodology used is based on desk research and interviews with representatives from Identity Malta, the National Development and Social Fund, critics of the programme and lawyers working for this programme's applicants.

The rest of the paper has four sections. The first section presents the literature, the second explains the individual investor programme (IIP) of Malta, the third analyses the situation and takes on the views of different stakeholders in the process and the fourth section concludes.

It's Raining Passports

Džankić (2012) traces back the idea of exchanging membership for money to Ancient Rome while the 'French sold noble titles going back to at least the 16th century' (Gamlen et al, 2017). Yet the revulsion of something 'sacred' gained through entitlement being sold to the wealthy is retained in the present spat of IIPs (ibid.). The modern version of the commercialization of citizenship started in the 1980s, but has intensified in the wake of the 2008 crisis (Džankić 2018, Parker 2016).Gamlen et al. (2017) have identified 60 such programmes worldwide. Such programmes are not homogeneous and the level of rights and obligations offered differ (Parker 2016). Yet no EU country, large or small appears immune to this type of 'investment'.

The obligation (investment) varies according to the size and type (donation or investment with returns), in tangible or intangible assets, and physical presence may or may not be required: and the right (residency or citizenship), is also different, it can be permanent, temporary or renewable.

The World Bank has a list of fifty small states. Twenty-four of these had/have some form of investment programme to attract foreigners and their wealth. There are a further ten small economies (not on the World Bank list), which have different forms of self-government and jurisdiction, and have enacted similar programmes. These 34 small economies are shown in Table 1. This may not be an exhaustive list and some programmes have been discontinued. Data shows that more than half of them are products of the 21st century and the oldest programme dates back to 1982.

Table 1. Small Economies and different forms of Investor Programmes

Small Economy	Date	Programme
Andorra	2012	Residence without Gainful Activity
Antigua & Barbuda	2013	Citizenship by Investment
Barbados The	-	Barbados Residence Programme, special entry permits
Bahamas	2011	Economic Permanent Residency
Belize	1988-2002	Citizenship by Investment
Botswana	-	Residency Programme by Investment
Cayman Islands	2003	Investor Residence
Comoros	2001	Comoros Economic Citizenship Program
Cyprus	2011	Citizenship by Investment
Dominica	1993	Citizenship by Investment
Estonia	1995	Article 10 Citizenship Act
Fiji	2003	Investor Permit
Gibraltar	1999	High Worth Investor Residency
Grenada	1994-2001, 2003	Citizenship by Investment Program
Guernsey	-	Immigration for Businesses….
Isle of Man	2001	Entrepreneur Visa….
Jersey	-	Immigration for Businesses….
Kiribati	1996-2004	Immigrant Investor Passport
Malta	2014	Individual Investor Programme
Montserrat	-	Economic Residency Programme
Marshall Islands	1987-1996	Investor Passport
Mauritius	2002	Permanent Residence Permit…
Monaco	2003	Business Investor Immigration Program
Montenegro	2008-2012	Article 12 Citizenship Act
Nauru	1997-2005	Citizenship by Investment Passport
Palau	2007	Elite Resident Visa
Samoa	2015	Samoa Citizenship by Investment Program
St Kitts and Nevis	1984	Citizenship by Investment
St Lucia	2015	Economic Citizenship by Investment Program
Seychelles	2013	Permanent Residency for Investors
Saint Maarten	2003	Investor Residency Visa
Tonga	1982-1996	Tonga Protected Persons Passports
Turks and Caicos	2013	Permanent Residence Certificate
Vanuatu	2011,2013,2015	Permanent Residence Program, Capital Investment Immigration Plan, and Economic Rehabilitation after Pam

Source: Adapted from Ganlen et al (2017) and other sources from countries' websites

However, that is not to say that only small countries provide for the selling of citizenship. In fact, the biggest programmes are run by the big developed countries, such as the US and Australia, apart from EU member states.

There are two strands to the literature that is emerging in this relatively new field of analysis: one strand is against the idea of selling citizenship, seeing it as a sacred bond with one's country which cannot be commodified and marketed as any other good (Shachar and Baubock 2014, Shachar 2018); and the other strand which sees no objection to the monetization of citizenship, since such rationale would equally apply to dual citizenship, and that the selling of citizenship actually shows how valuable it is rather than devalues it (Irving 2018).

Those that are against citizenship as an economic good, turn to ethical issues, moral values, commitment and bonds to the polity, responsibility towards other citizens, describing the true link between the individual and the state. This link is automatic at birth, but it can also happen after birth. At birth the link can be through territorial attachment (*ius soli*) or through descent (*ius sanguinis*)

(Zdankic 2014). After birth (*ius nexi*) this can happen through registration or naturalization. The more recent form in this regard is that of granting citizenship to investors (*ius pecuniae*). This latter form seems to have increased after the 2008 financial and economic crisis brought some countries into problem areas, where capital injections were needed but capital was short. Several European countries (Bulgaria, Hungary, Poland and Ireland) launched investor programmes between late 2012 and early 2013. Then Cyprus launched its own version in May 2013, followed by Malta in October 2013. Yet it seems the version introduced by Malta is the one that has 'attracted the most public and political attention' (ibid.p.388). The latest in this scurry towards attracting such investment are Moldova and Montenegro. Vanuatu is fighting the competition by reducing the price of citizenship while Antigua has become the first country to accept bitcoin for its citizenship programme.

Various negative connotations have been given to the practice of equating citizenship with money: dangerous liaisons (Shachar 2014), the end of citizenship (Spiro 2014), the price is the problem (Berton 2014), global mobility corridors for the ultra-rich (Barbulescu 2014), my Porsche for a Passport (Dzankic 2014), it corrupts democracy (Baubock 2014), hypocritical and random (Kochenov 2014), and it undermines European values (Swoboda 2014). The main contention is that citizenship cannot be considered as another economic good. Furthermore it creates inequality between those who can afford to buy themselves another nationality and those who cannot.

A few authors prefer just to present the facts, but take no sides as to the programmes' implications on the idea of citizenship. Even fewer have come out stating that they see no problem in this latest marketable good.

There is no standard method which all countries adopt. In fact there are different routes towards citizenship through investments. Some programmes demand investment in real estate (Cyprus, Spain); as a donation to a government fund (Comoros, Vanuatu); the buying of government bonds (United Kingdom, Canada); forms of business investments (Australia, Switzerland, Singapore); a bank deposit (Turkey, Latvia); or investment in art, culture, research or other activities which are in the public interest (Portugal, Ireland). There are different classifications for such programmes, either based on the number of visa free countries one can travel to, or the cheapest programmes available, or the fastest track ones. The visa free movement to countries ranges from 175 (UK, USA, Spain, Belgium and Netherlands) to 47 offered by Comoros.

Many countries allow dual citizenship and this complicates the discussion. If no country allowed this, then the problem would be partially easier, since the buyer would need to decide on his/her allegiance, and not divide his/her attention to more than one country. In this manner the argument that the selling of citizenship leads to there being no true connection with the country loses its logicwhen confronted with the issue of dual citizenship. Dual citizenship in fact has increased in past decades, and whilst many tolerate it, there are others who resist the separation of citizenship and political loyalty (Faist et al. 2004).

A negative element of these citizenship/residency investment programmes is the idea that they can be abused. Investigations by the Organized Crime and Corruption Reporting Project (OCCRP) say such programmes can find themselves harbouring criminals, money launderers and thus threaten the fight of the European Union against corruption (Transparency International EU 2018). The OCCRP has investigated eight EU member states (Austria, Bulgaria, Cyprus, Hungary, Latvia, Lithuania, Malta and Portugal) and the proposed programmes of two more countries new to the scene (Armenia and Montenegro). Real estate is often used in money laundering activities and such a 'Golden Visa programme facilitates it exponentially' according to the vice chair of Transparency International Portugal. Head of legal affairs at Transparency International Hungary sustained that,

> *"The Hungarian case is especially peculiar since profits from the Golden Visa programme do not appear to benefit the country but rather find their way into unknown pockets via companies, all but one of which are seated in offshore tax havens that trade in Hungary's Golden Visa bonds*"(ibid.)

Therefore, in some cases such programmes may be used as money laundering outlets, it would be naïve to say otherwise. Yet it would be prejudicialto say that all applicants and all programmes harbour only non bona fide persons. As another loophole in legal frameworks such programmes do have the potential to create pathways towards criminal activities, but it is up to the country to ensure transparency in the way citizenship is given and also accountability in terms of the revenues received and eventually used.

The Individual Investor Programme of Malta

There arethree ways how one can acquire Maltese citizenship: birth, registration and naturalization. Under Malta's Immigration Laws a person born in or outside Malta can be eligible for citizenship if s/he satisfies certain criteria. Registration is possible for certain categories: the spouse of a Maltese citizen after five years of marriage; widow/widower of a Maltese citizen; children who were born to a Maltese mother before 1 August 1989; and persons born abroad (second or third generations) whose ancestors had been born in Malta. The naturalization process also includes several instances: someone who had been formerly a Maltese citizen; a person born abroad to Maltese parents who became returned migrants; and a person with one parent who acquired Maltese citizenship. Furthermore, a person who obtains residency can apply for citizenship, however such cases are assessed on an individual basis and often take long years to be considered and finalized.

There are three possible ways in which to look at residency/citizenship: from a migration policy perspective, investment issue and thus taxation considerations, and also from citizenship policy. In Malta's case much of residency programmes have always been under the taxation realm.

Malta's residency programmes started even before Independence: one can even go back to the 1949 Aliens Ordinance to understand the legislative framework which governed residency permits offered to foreigners. With Independence in 1964, this Ordinance was tweaked to include taxation issues. Most of those accorded residency at the time were British and such residence was accorded on the basis of tax incentives. These were called the 'six penny settlers', meaning they were paying sixpence as tax for each pound of income.

Then a new government came on board in the 1970's and another Residency Scheme was created. Its legal basis was Art 7 of the Immigration Act, which however, was also linked to a tax preference and property ownership. Residence and work permits were under the remit of the Office of the Prime Minister, with just a brief period in the early 1980s when they became the responsibility of the Ministry of the Interior. In 1998 the said functions were, however, once again under the remit of the Ministry responsible for Home Affairs. In 1988 a new Permanent Scheme was launched by the Minister of Finance again linking the right of residence with the ownership of property and transfer of monies into Malta. Notwithstanding that the scheme was launched by the said Ministry, its implementation and the issue of permits remained the responsibility of the Office of the Prime Minister until as mentioned above the year 1998. There was an annual review of the beneficiary, ensuring that he or she still complied with the basic conditions. Residency permits were either asset-based or income-based, and provided that these should amount to at least Lm6000 (€13,980) for the main applicant and Lm1000 (€2,333) for each dependent. Income was taxed on a 15% tax rate, provided that the minimum the permit holder would pay was not less than Lm1000 (€2,333). There was one salient feature: they could not be employed unless there was approval by the Cabinet of Ministers.

Following EU membership in 2004, the scheme became a tax scheme (with its statutory framework under the Income Tax Act, Cap 123) with the possibility of physical residency. The Minister of Finance could issue a certificate of residence but not the residence permit. If the conditions continued to be in place the Certificate of Residence was permanent. The permit was initially renewed every year and later on every 2 and then 3 years. Those EU nationals with a Residence Permit could either retain the same scheme or opt out and be under general EU regulations. This Scheme continued until it was stopped in 2011, as it was being abused.

In 2013 Government launched another programme, under the Income Tax Act, designed to attract individuals who are not nationals of the EU, EEA or Switzerland and who are not long-term residents. Individuals benefitting from this Programme are not precluded from working in Malta, provided they satisfy the requisite conditions for obtaining a work permit. Beneficiaries may also have household staff providing a service in their qualifying property, as long as all the requisite procedures are satisfied. The benchmarks increased and the due diligence became stricter. The Ministry of Finance launched the following tax schemes with some form of link with residence and these are all catered for under the Income Tax Act (Cap 123): High Net Worth Individuals EU/EEA/Swiss Nationals Rules; Malta Retirement Programme Rules; Personal Retirement Scheme Rules; United Nations ("UN") Pensions Programme Rules'; and Highly Qualified Persons Rules. In 2015, the Malta Residence and Visa Programme was introduced. This constituted an important shift, since the new programme came under the Immigration Act (Cap 217).

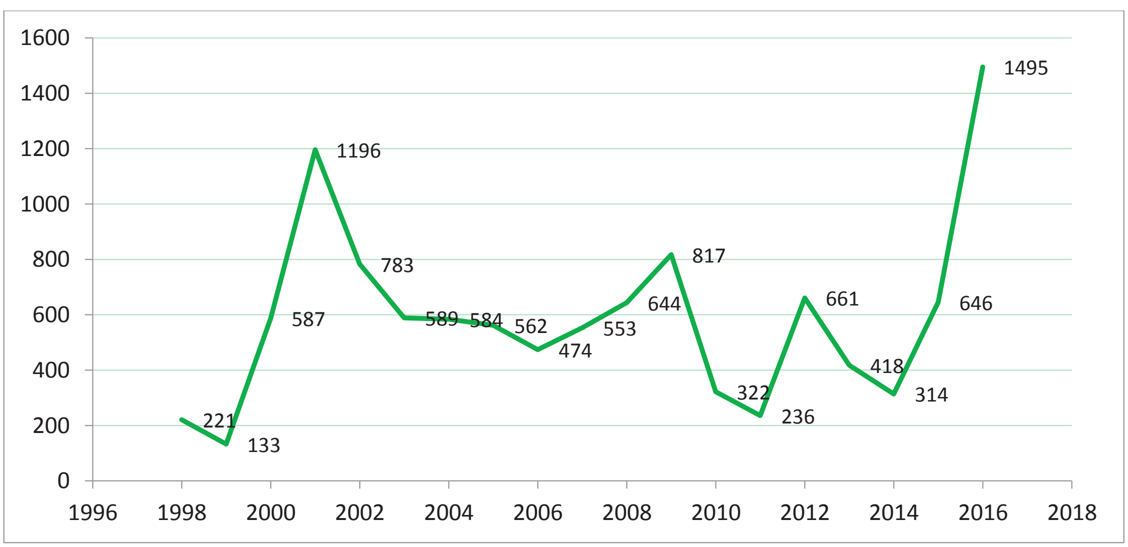
In November 2013, the Individual Investor Programme(IIP) was introduced via the Malta Citizenship Act, Cap 188 of the Laws of Malta. This was just a few months after a new government had been elected in March. The legislation also set up the role of the regulator, so that this programme, new to the island, could be implemented and more importantly monitored. The programme enables individuals, spouses and dependants to become Maltese citizens, provided they are supported by financial means. One of the conditions of the programme was its capping at 1,800 main applicants. By January 2018 there were 1,200 families who had applied for the programme. These generated €590 million in direct revenue to the Government of Malta. Of these, €363 million were deposited into the National Development and Social Fund (NDSF), which is managed by a dedicated legal entity, the NDSF Agency. Ten percent of proceeds are provided for administrative costs to Identity Malta and Henley and Partners. Seventy per cent of the remainder are allocated to the NDSF, while 30% become part of government's current expenditure.

The Individual Investor Programme (second version) was issued for consultation in January 2018. The main question was whether the capping should continue to be as set by law or whether it should be at the discretion of government.

The promotion of the programme is undertaken not only by Government but also by the concessionaire and the agents. So what is the attraction? According to the website of one of the agents, the range of benefits is wide, including: the high standard of living, security, hospitable and multilingual people, the visa-free travel, right to live, work, study or invest in the EU28 countries, excellent banking infrastructure, beneficial tax and double taxation agreements, no wealth taxes, the absence of worldwide taxation, and the remittance basis of taxation for resident non-domiciled persons. Therefore, the taxation element continues to have a significant role to play.

Graph 1 shows the number of citizenships granted by Malta in the past nineteen years. The data shows that in 2016 Malta saw a significant increase in the number of citizenships granted. However, in 2001 and 2002 there had also been a high number of citizenships granted. This could have been in connection with the imminent EU membership in 2004.

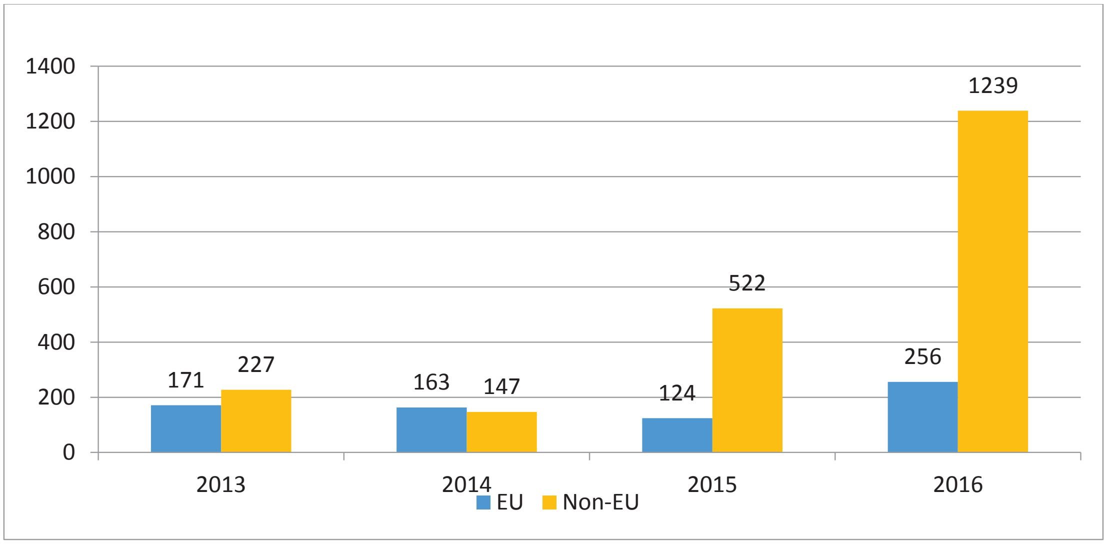
Graph 1. The Number of Citizenships granted by Malta, 1998 – 2016



Source: Eurostat

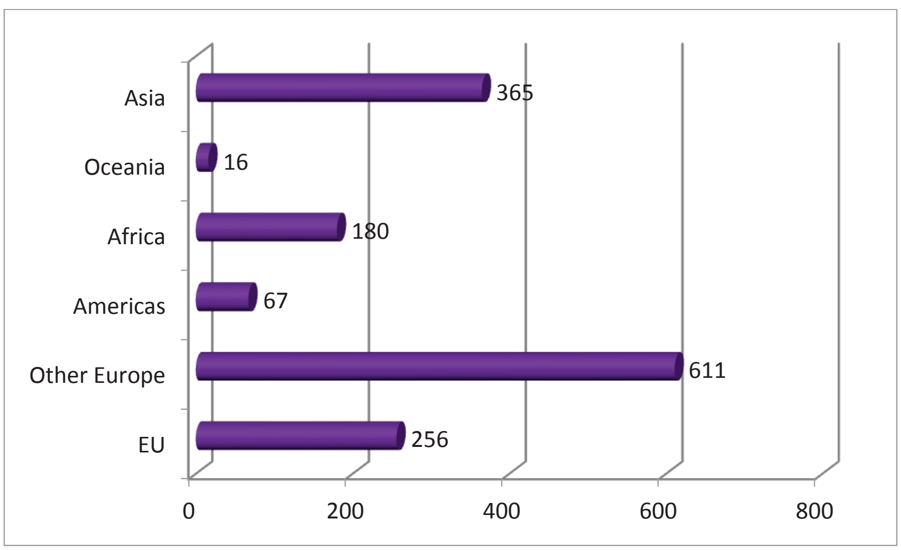
The number of new citizens in 2016 was 1,495,of which 256 (17.1%)were from another EU state, while 1,239 (82.9%) were from outside the EU. The majority of the latter came from other European countries, followed by Asia.

Graph 2. Citizenships by EU and Non-EU Applicants – 2013-2016



Source: Eurostat

Graph 3. Citizenships by Region - 2016



Source: Eurostat

The above paragraphs have given a detailed historical perspective of residency and citizenship programmes which Malta has adopted over the years. None have brought concerns such as the IIP introduced in 2014. The following section presents these implications in more detail.

Perceptions, Controversies, Challenges and Benefits

The following paragraphs look at the perceptions associated with the IIP in Malta and abroad. They also analyse the controversies that such a programme has brought with it both locally and especially in the EU. It discusses the challenges that this programme faces not only in the way it is presented now but also in relation to proposed changes and to the revenue derived from the programme. Finally it examines the benefits which such a programme can have in the economic and social development of the country now and for future generations.

Perceptions

Perceptions on the programme in Malta, as on most other political matters, are generally divided according to political allegiance. Those supporting the opposition, maintain that this 'passports-for-sale' scheme is disgraceful, selling our identity, money grabbing at all costs, and feel that this is something devious devised by an unethical government. Those supporting government feel this is a good means of obtaining revenue from people who can afford it, even though the spectre of increasing real estate prices looms in the background. However, few seem to realize that such programmes have been offered for the past three decades and many of them by similarly sized small states.

According to the website of the Premier Offshore Tax and Corporate Inc., Malta was among the top ten 'Second Passports and Citizenship by Investment Programs' for 2016. It was actually in third place, after Bulgaria and St. Lucia, and followed by Cyprus, Russia, Dominica, Antigua &Barbuda, St Kitts and Nevis, and Grenada. Seven out of the top ten were actually small states.

It also seems to be the perception that all applications are accepted and approved. However, as the IMF has pointed out, by October 2017 about 800 applications had been approved, with about a 20% rejection rate (IMF 2018, p.7). This means that one out of every five applications was not entertained.

Controversies

The Opposition led a determined campaign against the sale of citizenship, which led to new requirements being added to the original version of the programme. The leader of the Opposition actually labelled it 'the selling of our souls', even threatening that once in power, the Nationalist Party would renounce all passports issued and end the programme. It was finally given the green light by the European Commission, only because there was nothing in the EU treaty which effectively prohibited it. It remains the only programme officially approved by the EU.

By 2018, many law agencies were acting as agents to promote the programme and benefit from their involvement. The Opposition itself, though continuing to criticize it, is no longer saying it will remove the programme.

One of the controversies was related to clarifying the concept of residency, since some applicants appeared to be flaunting this criterion and not really residing in Malta. According to Prof. Kochenov, (a Dutch Professor acting as advisor to Government) residency is a legal status and does not necessarily mean physical presence. In fact a person can hold multiple residencies, which does not imply physical presence in all of them, in reality this would be a "physical impossibility" (Prof. Kochenov quoted in The Times of Malta, February 6, 2018).

Another controversy is the fact that when initially announced by the Government, the programme was meant to be temporary; however government is now proposing a second version of it. The European Commission's annual report shows that Malta has a surplus only because of the revenue gleaned from the programme, but would in reality have a deficit if IIP revenue was excluded. According to some of those interviewed this meant that government was rendering the country dependent on an unsustainable scheme of passport sales. Even the International Monetary Fund expressed its concerns over Malta's reliance on the IIP, stating that such proceeds are "volatile and difficult to predict". The report suggests that even the new IIP is nonetheless expected to pose a "challenge for long-term-fiscal adjustment." Malta is urged instead to identify "additional measures" in order to sustain its fiscal situation, "particularly if IIP revenue underperforms" (IMF 2018, p.11).

Perhaps one of the most controversial results of the programme was the increase in housing prices. Since there is a minimum threshold for property acquisition/rental, this seems to have raised prices to that level, encouraging developers to continue to develop or upgrade their property in order to be in a position to provide such for these high-income clients. This has resulted not only in a race to construct more and enlarge the supply, thus creating an environmental concern, but has also pushed up prices for the lower income group as well, since demand also is increasing, not only because of the programme's clients but because Malta has been witnessing phenomenal economic growth and has in the past few years attracted migrants in many spheres of the economy. In fact, in March 2014 the number of foreign workers in Malta was 21,000, which increased to 34,000 by September 2016 (Parliamentary Question MEDE, 28 March 2017), and continued to increase to almost 38,000 by March 2017. The figure had only been 900 persons in 2000. The IIP is seen as one of the reasons for the increase in house prices (European Commission, 2018,p.22). In fact the IMF suggests,

> Aligning the tax rate on rental income with tax rates on other sources of income, and introducing periodic reviews of the scope and parameters of the IIP, including the minimum real estate investment or leasing values, could curb housing demand pressure (IMF 2018, p.4).

However, after the lapse of five years these new citizens can sell their property or not rent out anymore. This might impact housing prices and push them down. According to IMF calculations, presently there is overvaluation in the market (IMF 2018, p.17).

Challenges

The IMF points out several challenges associated with the IIP. There is a fiscal challenge since such revenues can be "volatile and unsustainable". The IIP has already pushed upwards prices in the housing sector. This has been affected by significant investment in this commodity. Should supply be exaggerated, this might lead to bubbles in the property market. Another concern for the IMF is the risk associated with the due diligence process which, if not rigorous and thorough, might harbour risks of money laundering, in turn hurting the reputation of the financial sector in Malta, which continues to grow and develop. In spite of all the bad publicity, the financial services now accounts for 11% of the Maltese economy, continuing to register growth in 2017, with 2,180 licence holders, seeing an increase of 360 new entities in the past three years. Furthermore the financial sector is expected to continue to grow with new legislation on blockchain technology, cryptocurrencies and other forms of digital innovation and financial technology.

> "Excluding IIP revenues, staff project the structural fiscal balance to improve by a cumulative0.9 percent of potential GDP in 2018-22, but remain negative' (IMF 2018, p.11).

Another challenge is the fear that the due diligence process does not necessarily eliminate all the "shady" characters. Newspaper articles are agog with the names of billionaires who have acquired Maltese citizenship, dissecting their past and passing on juicy morsels of information to a captive and sensationalism-thirsty readership. The names of new citizens are published in the Government Gazette, but the names are listed together with other types of applicants for citizenship via naturalization. However, some big names stand out anyhow for the discerning individual.

Perhaps the biggest challenge that Malta faces is how to fend off the negative publicity that the programme seems to have spread on at least a regional level. According to some political commentators interviewed Malta needs to convince the EU authorities, the IMF, and the OECD that the due diligence undertaken is serious enough to work against tax evaders and money launderers. The OECD has threatened to blacklist Malta, because of concerns it has that the IIP may be abused and leading to tax avoidance. The OECD's centre for tax policy has informed the Maltese Finance Minister that it wants to look at "possible mitigating measures that could be taken to prevent misuse" of the IIP, or else risk being blacklisted. In fact the centre is currently compiling a list of potential programmes which can act as ways of circumventing the common reporting standard for the automatic exchange of tax and financial information on a global level, offering openings to money launderers and tax evaders.

Moreover, the European Commissioner for Justice Vera Jourova said the Commission is preparing to crack down on EU governments who awards citizenship to rich people from outside the bloc, over concerns of 'dirty money'. Eight member states have come under scrutiny, especially since the Commission has concerns over where the money is actually derived from. Therefore the challenge in the future for the member states in the EU (including Malta) who have such programmes is whether they are able to convince the EU that they have stringent enough policies to mitigate against money laundering and corruption. Even though member states are free to set their own criteria for citizenship, the Commission is questioning the stringency of the due diligence process investigating sources of wealth and is expected to issue guidelines.

Benefits

The financial benefits to the country cannot be ignored. In 2015, the revenue accruing to the NDSF and the Consolidated Fund was 50 million, which shot up to 172 million in 2016. This amounted to 0.5% and 1.7% of the GDP respectively. The IMF projected that this amount would reach 230 million in 2017, the equivalent of 2.1% of GDP or 5.4% of fiscal revenue. However, the actual benefits from the investment that can be generated through the NDSF were still not evident by November 2017 (IMF 2018, p. 7).

This may have put pressure on the NDSF to show that the revenue generated through the IIP and managed by the Agency can be put to beneficial use to Maltese society. In fact in recent months, several projects and investments by the Fund have been announced. At times such investments have themselves been subject to criticism.

According to a statement issued by the NDSF, on 30 November 2017, total revenueamounted to €360,561,597. During the same month the NDSF acquired the nil-paid rights issued to UniCredit S.p.A. as part of the €150 million rights issued by the Bank of Valletta p.l.c. Under the same arrangement, the Fund was able to purchase new BOV shares at a discounted price. These new shares now form part of the NDSF's long-term Directed Investment Portfolio, and account for 2.91% of the bank's total shareholding. The Board of Governors stated that the acquisition was made for the benefit of future generations. This equity investment is in Malta's largest financial services institution, which will yield high returns and contribute to the Fund's long-term growth strategy. This is in accordance with the practice of sovereign wealth funds to hold equity positions in leading financial entities of the relevant countries.

On the social front, in February 2018, the NDSF Board approved almost a million euro (€950,000) to upgradetwo catheterisation suites of the Cardiology Department at the main state hospital Mater Dei. According to 2015 official data, 39% of total deaths in Malta are due to diseases of the circulatory system. The Board decided that the social benefit from such an investment would significantly be higher than its cost. In excess of 3000 patients per annum would benefit from improved and increased procedures, better prognostic outcomes, more modern equipment, less waiting time, reduced radiation levels by about 50%, less possibility of infection and the opportunity to engage in procedures usually needing travel abroad. Such upgrades have already been adopted by over 100 hospitals abroad since October 2016.

The Fund has also donated €5 million to a local NGO 'Puttinu Cares', which raises money to provide accommodation for people seeking medical help in the UK, and offers patients and their families the possibility to stay in the NGO's apartments free of charge. Some persons need treatment for long periods of time and staying in London would otherwise be financially prohibitive.

By August 2018 the Fund had bought 49.01% of the share capital of a local bank, Lombard Bank. The shares were acquired from Cyprus Popular Bank Public Co. Ltd, which in March 2013 was placed in resolution. The Fund does not intend to increase its shareholding and will in fact dispose of some of the shares when the market is favourable. This investment is part of the long-term investment which the Fund is aiming to engage in, in order to sustain a balanced and diversified investment portfolio. Another major project currently under negotiation relates to a €50 million project in social housing.

Proposals for investment or social support programmes need to be of national importance and in the public interest. Therefore the benefits accruing would affect a significant number of people. The Fund is likely to have a substantial impact on the economic as well as the social development of the country. If managed well, the Agency can provide the country with a long-term investment capacity which will make a tremendous difference in how certain developmental and societal challenges are resolved. There are significant expectations from the Fund's potential and it is being scrutinized to ensure its effectiveness not only for the present generation but also for future ones.

Conclusion

The government has seen the revenue roll in and it is intent on extending the Citizenship by Investment Scheme. The consultation process on its extension was meant to look at how the scheme can be improved, such as the criteria for eligibility, whether a capping on the number of applicants should be in place, and what services can be provided to the applicants. According to the Prime Minister, the new IIP is a fall-back option since Malta will not be eligible for the same amount of EU funding in the next financial programme. In this manner the country could continue to invest. Seen in this regard the programme has a long-term perspective and a cushioning effect for rainy days, with the government making hay while the sun shines. With the competition always increasing and criticism being levied from all angles, the sun may not shine for long.

Citizenship investment programmes have proliferated in recent years. However, these are volatile experiments which do not necessarily have a long time-span. In fact Malta expects a 'projected decline in IIP proceeds' during 2018 (IMF 2018, p.11). For this reason, the IMF cautions Malta to identify other revenue measures in order to sustain its fiscal position. In its March 2018 report the European Commission estimated that the IIP had cumulatively provided 4.3% of GDP during 2014-2017. However, it considers such revenue difficult to predict (European Commission 2018, p.16) and thus concords with the IMF projection.

Malta as a small statehas always needed to be creative to survive in a globalized environment. Similar to other small economies, it tries to get a first-mover advantage by legislating in new areas. This it has done in e-gaming, being the first in the EU to create a legislative framework for online gambling. More recently it has legislated on crypto-currencies and blockchain technology and has legislated also in terms of the prescribing, importing, manufacturing and research in medical cannabis. Small states will continue to be ingenious in the ways they are able to garner revenue from intangible assets. Such innovation remains part of their economic and social development strategies. Citizenship is only one of such assets. Competition is significant in this area as in many other economic sectors. The real test of the programme lies in whether the NDSF can be proactive, creative and smart enough to use such revenue to invest in areas which will continue to contribute to Malta's development strategies for generations to come.

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2. Antigua and Barbuda – http://www.cip.gov.ag/
3. Australia – https://www.border.gov.au/Trav/Visa-1/891-
4. Austria- https://www.migration.gv.at/en/welcome/?no_cache=1
5. Bahamas – http://www.bahamas.gov.bs/wps/portal/public/Permits/
6. Belgium – http://diplomatie.belgium.be/en
7. Brazil – http://cgwashington.itamaraty.gov.br/en-us/permanent_visa_(viper).xml
8. Bulgaria – http://www.investbg.government.bg/en/
9. Cambodia – http://www.cambodiainvestment.gov.kh/wp-content/uploads/2012/09/LAW-96-Nationality-E.pdf
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11. Colombia – http://www.cancilleria.gov.co/en/content/resident-investor%E2%80%99s-visa
12. Cyprus – http://www.moi.gov.cy/moi/moi.nsf/All/36DB428D50A58C00C2257C1B00218CAB
13. Dominica – http://cbiu.gov.dm/
14. Fiji – http://www.immigration.gov.fj/seven-7-years-investor-permit
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22. Italy – https://investorvisa.mise.gov.it/index.php/en/
23. Jersey – https://www.gov.je/Home/RentingBuying/HousingLaws/Pages/highvalueresidency.aspx
24. Latvia – http://www.pmlp.gov.lv/en/
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