SOVEREIGN EQUITY INSTEAD OF SOVEREIGN DEBT: A PARADIGM SHIFT FOR GOVERNMENTS

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A core premise of investment migration is to enhance a country's economy in exchange for residence or citizenship rights for individual investors. This is a good description of a classic 'win-win' formula. However, it is clear that the benefits of residence- and citizenship-by-investment programs for host nations go far beyond extra funding for the national treasury or increased foreign direct investment (FDI).

One of the industry's most unique and positive attributes is that it can endow nations with a considerable source of sustainable revenue without them having to further increase debt and thereby burden future generations. This capacity to expand a state's 'sovereign equity' by enlarging the number of citizens who actively contribute has the invaluable potential to reduce inequality within as well as between states. It is a phenomenon uniquely facilitated by investment migration.

Sovereign equity in practice

Sovereign equity is a means for governments to improve public finances and support economic growth and employment creation without increasing their debt – meaningfully addressing the growing imbalances and inequalities inherent to traditional sovereign debt financing by engaging with the global community of high-net-worth investors.

There are many sovereign states around the world that lack the ability to raise sufficient revenue and may even at times be locked out of traditional financing through capital markets or international lenders. Many countries find themselves trapped in a pattern of negative debt and have little opportunity to escape their situation through traditional means. Short of discovering natural resources such as hydrocarbons or minerals, the capacity to reduce debt, increase revenue, and attract investments in the country is seriously limited.

Debt financing is helpful and often critical in times of crises. But as Dominica showed in the aftermath of two consecutive hurricanes in 2017 and 2018 that destroyed large parts of the country's infrastructure and wiped out entire villages, citizenship-by-investment was the critical if not the only real lifeline to enable the government to provide immediate support to the population and rebuild infrastructure. Outside of a crisis, where countries find themselves in a situation involving a lack of fiscal autonomy, they lose the ability to operate as truly sovereign states, forfeiting the gains from their economies to pay off creditors.

Countries also lose the ability to sufficiently invest in core infrastructure, education, and health services that enhance the lives of their citizens. This can lead to a scenario in which society's best and brightest leave to look for opportunities elsewhere, depriving the country of skills and reducing opportunities and quality of life for the general population.

Investment migration is arguably the single most effective means of addressing this dilemma. As a direct injection of liquidity into a country's economy, it quickly relieves stress on the national treasury without tying the country into debt-based obligations. Moreover, it is not only a source of sustainable income, but a proven driver of important FDI. In essence, this twin dynamic can mitigate the problems of many countries relating to sovereign debt and lack of investment, which ultimately provides greater national autonomy and prosperity for all citizens.

The key to sovereignty is fiscal autonomy

Prudently managed residence and citizenship programs with proper due diligence on applicants and clear, transparent structures are able to drive investments that meet the needs of governments, without adding to the burden of debt. Such funding can be used to either pay off debt — as countries such as St. Kitts and Nevis have shown dramatically — or can be used directly to create societal value through strategically targeted government spending. This provides governments with significantly increased fiscal autonomy, which is a key factor in determining how sovereign a country can be.

Investment migration programs also act as a remarkably successful FDI platform that can attract capital and skills to an economy beyond the specific investment requirements of a residence or citizenship program. The numerous material benefits of FDI are beyond dispute, but it is in the massive social impact created by this type of investment that real human value is to be found. Increased investment drives employment opportunities for citizens at all levels. From architects to construction workers, from manufacturing and technology companies to the tourism sector and other service industries: more business activity and investment is the result, leading to an overall more dynamic and positive socioeconomic environment. The natural consequence of this is to alleviate pressure on government spending, further increasing fiscal autonomy and ultimately establishing greater prosperity.

Proven socioeconomic benefits

In the aftermath of the 2008 financial crisis, Malta's economy, for example, like all of Europe's, was weak. Just years after the launch of the citizenship program in 2014, Malta had one of the highest GDP growth rates and one of the lowest unemployment levels of any EU member state. It is now the best performing economy in the EU by almost any measure. This year, the Maltese government expects to post its fourth fiscal surplus in as many years.

By the end of 2018, Malta had raised almost EUR 600 million in direct revenue, seen property sales exceed EUR 110 million, earned EUR 70 million in rentals, and received over EUR 120 million worth of investments in government bonds. Results like these are not just unthinkable with traditional ways and means of public finance, they are impossible.

In the Caribbean, the reform and relaunch of the St. Kitts and Nevis citizenship-by-investment program in 2007 and the subsequent investment boom in this country as well as in several other countries in the Caribbean that introduced new programs or enhanced existing ones, is remarkable and unprecedented in the region's history.

Following independence from Britain, the Federation of St. Kitts and Nevis witnessed over time a dramatic decline of its sugar industry. It is thanks to its citizenship-by-investment program that the country was able to restructure its economy away from loss-making sugar production and raise hundreds of millions of dollars in FDI, geared towards providing a sustainable transition and laying the foundations for future growth and development. Today constituting 30% of national annual revenue, investment migration is, according to Prime Minister Timothy Harris, "a pillar in the foundation of the country's unique future and prosperity."

In Antigua and Barbuda, the country's citizenship program, created in 2013, now constitutes approximately 15% of the government's annual revenue and is responsible for substantial investments in the construction sector, as well as for the country's transition to renewable energy with thousands of solar panels installed on government buildings and land throughout Antigua to produce electricity. The country's citizenship program is also essential in providing sovereign equity to support the efforts to rebuild Barbuda after a recent tropical storm devastated the island, forcing the evacuation of the entire population. When the International Monetary Fund conducted a review of the Antigua and Barbuda economy, it found that the inflows of capital provided by investment migration had significantly helped to boost public and private sector construction raising economic growth and pulling the country out of a deep recession.

In Moldova and Montenegro, where the two most recent European citizenship programs were launched in 2018, the positive impact can be expected to be similar. In addition to boosting fiscal health and economic growth, the enhanced inflow of much needed investment will enable both countries to become more competitive and their economies more sustainable, which will result in greater autonomy and capacity to steer their own futures. From this sovereign equity will also mean less dependence on foreign lending and a greater ability to drive national resources to where they are needed most. For ordinary Montenegrin and Moldovan people, the benefits of a new debt-free revenue stream will be felt directly in economic growth, employment opportunities, better social services, and improved infrastructure and education.

Sovereign equity is the future, not further sovereign debt

The concept of sovereign equity is both self-evident and revolutionary. It has the potential to usher in a broad paradigm shift in how sovereign states think about sovereign funding, attracting investment from abroad, and public finance. Sovereign equity is also a means of addressing persistent global inequality. FDI has already shown to be essential for developing, transitional, or recovering economies, but it can also be critical for regional development in large and advanced economies. It is sovereign equity made possible through investment migration, rather than further sovereign debt that will support economic growth and prosperity in a sustainable way.

For those countries able to offer it, investment migration represents one of the most important opportunities for growth and economic development, creating considerable societal value and persuading productive members of the community to stay and contribute to their country rather than to emigrate. In short, investment migration is a long-term positive solution to raise and sustain sovereign equity, supporting public finance needs and attracting much needed investment.

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