OPINION

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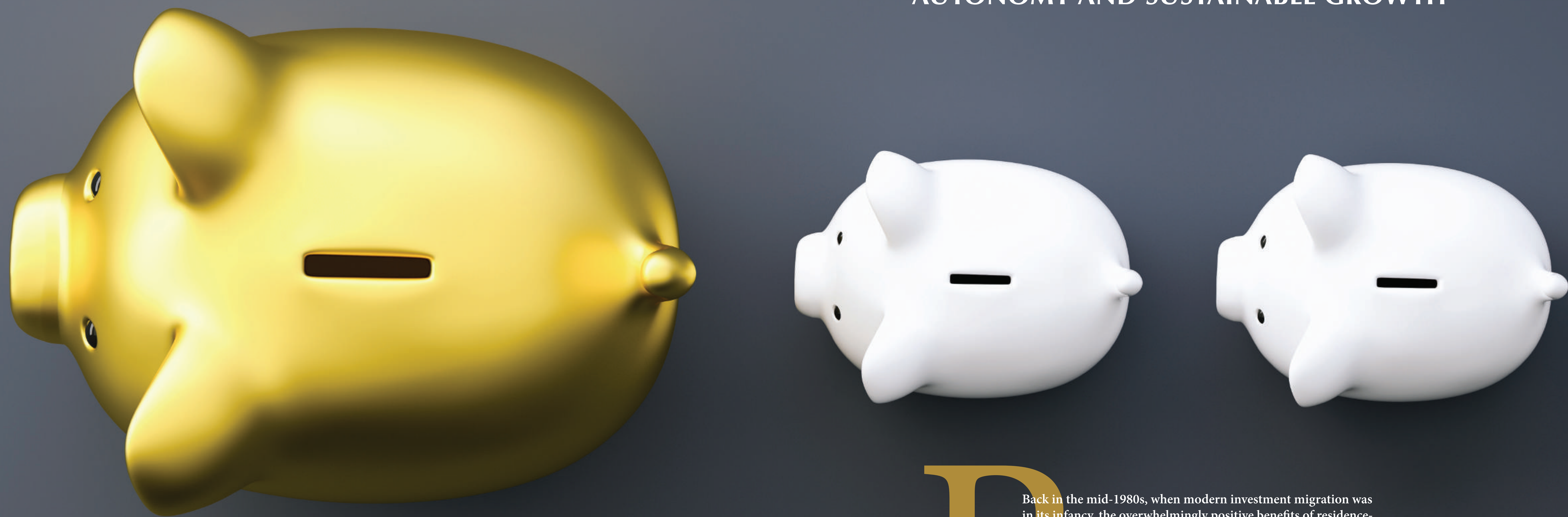
BUILDING SOVEREIGN EQUITY IN THE CARIBBEAN: INVESTMENT MIGRATION AS A ROUTE TO FISCAL AUTONOMY AND SUSTAINABLE GROWTH



Back in the mid-1980s, when modern investment migration was in its infancy, the overwhelmingly positive benefits of residence- and citizenship-by-investment programs for the nations that host them were not yet widely appreciated. However, beginning with St. Kitts & Nevis in the Caribbean, sovereign states demonstrated that offering citizenship benefits to high-net-worth investors could quickly transform the fortunes of over-leveraged economies. These days, it is globally acknowledged that investment migration programs offer profound benefits to both investors and host nations.

GOING FROM STRENGTH TO STRENGTH

One of the industry's unique and most positive attributes is its ability to endow nations with a considerable source of sustainable revenue without them having to increase debt further and thereby burden future generations. This has been especially significant in the Caribbean, where debt default and debt restructuring have been recurrent themes. Coupled with the region's perennial risk from natural disasters and the fact that many Caribbean nations lack domestic natural resources, the issue of overcoming onerous debt in a sustainable fashion has long been a concern.

Over time, it has become clear that the benefits residence- and citizenship-by-investment programs bring to host nations extend beyond securing extra funding for the national treasury or attracting increased foreign direct investment (FDI). Indeed, investment migration can boost a state's 'sovereign equity' by increasing the number of citizens who actively contribute to its future wellbeing, thereby shielding it from the potential ramifications of external debt restructuring. Sovereign equity has the invaluable capacity to reduce inequality within as well as between states — a phenomenon that is uniquely facilitated by investment migration.

SOVEREIGN EQUITY, THE KEY TO FUTURE READINESS

Sovereign equity is a means for governments to improve public finances and support economic growth and employment creation without increasing debt meaningfully addressing the growing imbalances 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 traditional capacity to raise sufficient revenue and that may even at times be locked out of financing through capital markets or international lenders. Countries thus find themselves trapped in a pattern of negative debt and, short of discovering natural resources such as hydrocarbons or minerals, their ability to reduce debt, increase revenue, and attract investment is extremely 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 devastated entire villages, citizenship by investment was a lifeline that enabled the government to rebuild infrastructure and provide support to those affected. Outside of a crisis, when countries find themselves lacking 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 invest sufficiently 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 pursue opportunities elsewhere, depriving the country of their skills, which in turn diminishes the prospects and quality of life of 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 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 also a proven driver of important FDI. This twin dynamic is extremely effective in mitigating the problems brought about by sovereign debt and limited inbound investment — ultimately providing greater national autonomy and prosperity for all citizens.

INVESTMENT MIGRATION AND FISCAL AUTONOMY

Prudently managed residence and citizenship programs with stringent due diligence on applicants and transparent structures are able to drive investment that meets the needs of countries without adding to the burden of debt. Such funding can be used either to pay off existing debt or to create societal value through strategically targeted government spending. This provides governments with significantly increased fiscal autonomy a key factor in how sovereign a country can be.

Investment migration programs also act as a remarkably successful FDI platform to attract capital and skills to an economy far beyond the specific investment requirements of a residence or citizenship program. The numerous material benefits of FDI are clear, but it is in the massive social impact created by this type of investment that real human value is found. Increased investment drives employment opportunities for citizens at all levels, from architects and construction workers, to manufacturing and technology companies, and to the tourism sector and other service industries. The result is more business activity and new employment, leading to an overall more dynamic and positive socio-economic environment.

SUCCESS IN THE CARIBBEAN

During the 1980s, the Federation of St. Kitts & Nevis witnessed a 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 ensuring 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 & 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 that have helped to create a sustainable tourism and leisure industry. In addition, investment migration has been a major driver in the country's transition to renewable energy. Thousands of solar panels have been successfully installed on government buildings and land to produce electricity, a significant part paid for by the citizenship-by-investment program. The program was also essential in providing the necessary capital to support recent efforts to rebuild Barbuda after a tropical storm devastated the island, forcing the evacuation of the entire population.

On the macro level, the liquidity injected onto the sovereign balance sheet, combined with the long-term income streams created by new businesses and their associated tax revenues, has helped the twin island nation to pay off its entire external debt to the IMF.

When the IMF reviewed Antigua & Barbuda's economy, it found that the inflows of capital provided by investment migration had also significantly boosted public and private sector construction, improving economic growth and pulling the country out of a deep recession.

SOVEREIGN EQUITY REPRESENTS THE BEGINNING OF A GLOBAL TREND

The concept of sovereign equity is both self-evident and revolutionary. In the Caribbean especially, where industries such as tourism are cyclical (and therefore particularly exposed to fluctuations in external markets), sovereign equity has the potential to bring a paradigm shift in how sovereign states approach sovereign funding, attracting investment from abroad, and public finance.

Rather than further leverage the sovereign balance sheet, it's sovereign equity, made possible through investment migration, that will support ongoing economic growth and prosperity. In short, investment migration is a long-term positive solution, one that injects new liquidity into an economy, creates sustainable income streams that can support public financial needs, and attracts much-needed FDI. ●