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# Citizenship by Investment Programmes: An EU Risk Assessment

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**A report produced for Henley & Partners**  
6 July 2020



## About this report

**Oxford Analytica is providing an assessment of risks to the EU from citizenship by investment programmes for Henley & Partners.**

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## Executive summary

### **1. CBI programmes are criticised for the transactional way they grant citizenship but much of the EU's concern over security risks is theoretical**

Citizenship by investment (CBI) programmes – which lie on the broader continuum of migration pathways into EU member states – have come under scrutiny for the transactional way they grant citizenship. They confer visa-free travel to a wider group of countries for successful applicants, as well as the ability to make use of banking arrangements that previously were inaccessible. In exchange, the country granting citizenship receives benefits, often in terms of short-lived passive investment (such as in the case of Cyprus) or longer-term engagement (such as in the case of Austria). The EU has repeatedly called for such programmes to be phased out but much of the EU's concern – which focuses on risks posed by money laundering, terrorism financing and the infiltration of individuals with ties to non-EU organised crime groups – is theoretical.

### **2. The main risks for the EU-area from CBI programmes come from the interaction of uneven systems**

The main risks for the EU-area from CBI programmes come from the interaction of uneven systems of enforcement, information collection and information distribution. These characteristics are similar to those observed in individual and corporate taxation, where national ownership of the rules, processes and reporting has created opportunities for aggressive tax planning. The interaction of these uneven CBI and tax systems creates risks, which can be compounded by the lack of residency requirements for CBI programmes. However, it is unlikely that individuals seeking CBI routes into the EU are primarily motivated by tax avoidance and evasion given the attractiveness of CBI as a holistic package (including greater freedom to travel and greater physical security). Moreover, fiscal risks associated with CBI continue to be mitigated by the OECD's measures relating to the Common Reporting Standard.

### **3. Risks are present across all citizenship pathways, but are often hard to determine and difficult to compare**

Risks associated with different citizenship pathways are hard to determine and are often sensationalised. They are also perceived quite differently (by the public and governments); a common determinant of such perceptions is the relative wealth and skills of the applicant. Combined with the relative lack of concrete evidence and the absence of comprehensive data, a meaningful comparison across citizenship pathways is therefore difficult to undertake. All EU naturalisation pathways are coming under increasing scrutiny, including family migration, asylum seekers and work and study migration. Of the total number of citizenships granted in the EU each year, naturalisations through CBI programmes represent only about 0.1%.

#### **4. Direct central government ownership over CBI programmes may help lower the risk profile of applicants compared to many traditional naturalisation routes**

CBI pathways have a level of direct political ownership and involvement within the central government that is not seen under many traditional naturalisation routes. In countries where the naturalisation process is owned by provinces and sub-state agencies, this ‘one step removal’ of responsibility, combined with automation of some non-CBI processes, means there is potential for a lower burden of evidential proof across traditional naturalisation routes. In contrast, CBI programmes have put in place a labour-intensive, multi-tiered vetting process involving multiple parties verifying applicant information. Furthermore, regional variations in traditional naturalisation processes within countries can produce different experiences for applications and differing risk profiles for these processes, even though they operate under the same system of rules.

#### **5. CBI programmes pose an indirect risk of money laundering, but are unlikely to constitute a significant security threat to the EU**

CBI programmes pose an indirect risk of money laundering by virtue of the close interlinkages with the risk of tax evasion – although laundering the ‘proceeds’ of tax evasion poses less of a security threat to the EU than other predicate offences such as terrorist financing and organised crime. The perception of money laundering risk associated with CBI naturalisations is arguably larger than the current evidence base will sustain and CBI programmes and their applicants are unlikely to be the source of a substantial percentage of money laundering activity in the EU (most of which is committed by low-level or organised criminality, or via state-based proxies in the terrorism funding space).

#### **6. CBI programmes are vulnerable to individuals with ties to non-EU organised crime groups, but the risk is limited**

When the predicate offence for money laundering is organised crime, EU citizenship becomes a sought-after status because it generates fewer queries on the placement and layering stages. This is due to lighter touch surveillance compared with a non-EU citizenship status. It is possible that senior manager-level criminals use the CBI process for such purposes (and CBI programmes are particularly vulnerable if such individuals are able to manipulate local political influence in their new country). However, it is more likely that lower-level criminals who are already EU citizens or arrive under non-CBI routes (including illegal entry) operationalise money laundering for the benefit of those at the top of organised crime groups. Indeed, undocumented or falsely documented migration presents a large risk to EU, as it potentially disguises the nature and purpose of migration.

#### **7. Terrorist financing does not constitute a direct threat from CBI programmes**

In terms of terrorist financing, the predominant threats in the EU appear at a level above (by states or state proxies) and below (by transnational or localised actors) those likely to be relevant to CBI applicants. Naturalisation through marriage or continuous residence has been a larger risk vector for connection to terrorism than CBI programmes. While CBI applicants could theoretically be key actors in terrorism, there is no evidence that CBI programmes present a significant or additional risk in this regard.

## Introduction

In 2018, 2.4 million people migrated to the European Union (EU).<sup>1</sup> The high numbers of migrants have not been without costs for Europe. The resurgence of right-wing nationalist political groups riding a wave of anti-immigrant sentiment has threatened EU cohesion, while isolated terrorist attacks perpetrated by migrants or individuals whose parents immigrated have furthered perceptions that migration as a whole is a threat. There is also increasing concern that foreign influence campaigns, carried out mainly by Russia and China, are targeting immigration as an issue.

Amid the battle to protect EU borders and advance the bloc's unity, it is unsurprising that Brussels is concerned that citizenship by investment (CBI) programmes might heighten the enduring risk posed by money laundering, terrorism financing and the infiltration of individuals with ties to non-EU organised crime groups – as highlighted in the European Commission report from January 2019.<sup>2</sup> Much of the concern is theoretical, however.

This report provides a risk assessment in the contexts of Cyprus and Malta, two states well-known for their CBI programmes, and also Austria, a lesser known actor within the thriving industry. It evaluates the threat posed and what mitigation measures are in place. The report also compares the risks posed by CBI programmes to the EU with risks posed by other pathways of gaining citizenship in the EU.

### Pathways to EU citizenship

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CBI programmes lie on a broader continuum of migration pathways into EU member states, which include marriage migration, ancestry, work and study migration and asylum seekers. Wealth is an important determinant in terms of access to mobility and settlement across these different pathways. In many countries, even a spousal visa involves meeting an income threshold, alongside paying visa fees.

Risks associated with these different pathways are perceived quite differently. Where people are classified as 'low skilled' or 'irregular migrants', the focus is typically on threats to the economic and cultural fabric of society (though such claims have been refuted by academic studies<sup>3</sup>) – and the EU currently spends billions of euros trying to stop this type of migration. There is also a focus on the 'risk' that those invited into a country temporarily, to work or study for example, may attempt to settle permanently.

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<sup>1</sup> Eurostat, *Migration and migrant population statistics*, May 2020. Confirmed data is not yet available for 2019.

<sup>2</sup> The European Commission, *Investor Citizenship and Residence Schemes in the European Union*, January 2019.

<sup>3</sup> Ruben Andersson, *Europe's Failed 'fight' against Irregular Migration: Ethnographic Notes on a Counterproductive Industry*, *Journal of Ethnic and Migration Studies* 42(7): 1055–75, 2016; Bastian Vollmer, *Policy Discourses on Irregular Migration in the EU – 'Number Games' and 'Political Games'*, *European Journal of Migration and Law*, 13(3): 317-339, 2011.

- **Marriage migration.** Marriage migration falls under the broader category of a family-related pathway to EU citizenship (also including acquisition by descent). The main risk focus is on ‘fraudulent’ or ‘sham’ marriages (where there is no genuine link between the parties), and ‘marriages of convenience’ (where the sole purpose of marriage is to acquire the right to free movement). Anecdotal accounts suggest that a criminal group will arrange a marriage for under 10,000 euros, making this an inexpensive pathway compared with the costs involved in CBI programmes. Cyprus was recently criticised by other EU states for allowing significant numbers of marriages of convenience to take place. In response, it announced tougher vetting measures.<sup>4</sup> Naturalisations by marriage are coming under increasingly scrutiny, particularly when the spouse is residing outside the EU.
  
- **Acquisition by descent.** Individuals who can prove that their parents, grandparents, or, in some cases, great-grandparents were citizen of a particular state often times can claim citizenship in only a matter of months. Risks associated with this pathway include the burgeoning underground trade by organised crime groups in producing counterfeit documents, including false birth certificates. Media investigations have linked such trade to Bulgaria and Romania, with the latter accused of providing a ‘backdoor’ into the EU by allowing neighbouring Moldovans access based on fraudulent claims of Romanian descent. The country saw a surge in citizenship applications coincide with its entry into the EU in 2007 and in 2018 had the second highest naturalisation rate in the EU.<sup>5</sup>
  
- **Asylum seekers.** In 2019, 612,700 first-time applicants sought asylum in an EU country.<sup>6</sup> Those asylum seekers granted refugee status can access citizenship over time, a process that typically takes several years. Many hope to bring their families to live with them after gaining citizenship or the relevant rights. At that point, authorities have a much more limited ability to investigate and control individuals coming to reside in the country. Due to the high number of ‘people of concern’ entering, EU states have increasingly given ‘temporary forms of protection’ rather than full refugee status, barring access to citizenship and family reunification. There is a well-functioning system for sharing data about asylum seekers arriving from conflict zones via Europol databases and information sharing systems such as the Visa Information System (VIS) and the Schengen Information System (SIS).
  
- **Work and study migration.** Temporary migration channels include work and study visas, which can, theoretically, lead to citizenship over time. However, as with marriage migration, there has been a significant tightening of these rules across Europe to try and deter people from remaining.

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<sup>4</sup> Associate Press, [Cyprus pledges crackdown on sham marriages](#), 5 February 2020.

<sup>5</sup> The Sofia Globe, [Bulgaria busts organised crime group forging passports, driving licences, euro](#), 19 November 2019; BalkanInsight, [How to Buy an EU Citizenship](#), 13 September 2012; Eurostat, [Acquisition of citizenship statistics](#), March 2020.

<sup>6</sup> Eurostat, [Asylum statistics](#).

# CBI programmes in the EU

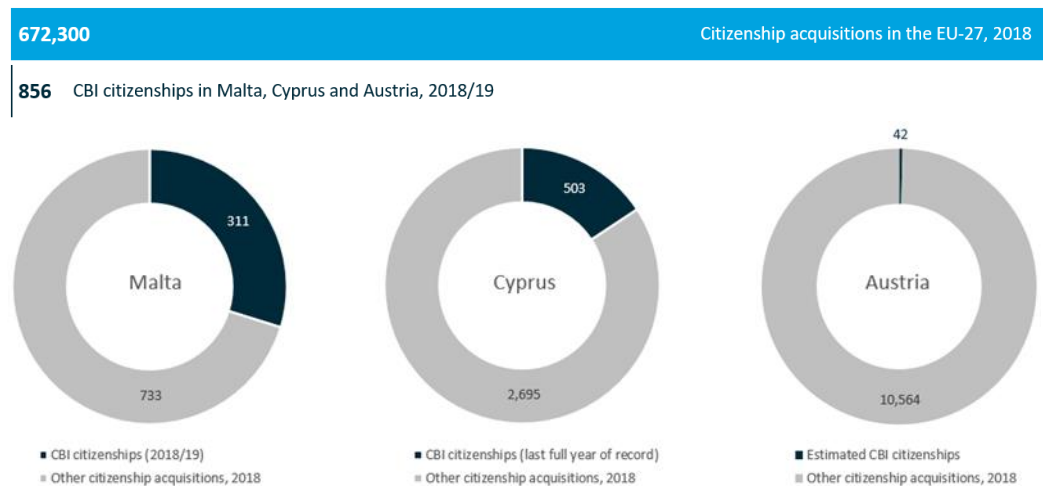
## Overview

CBI programmes allow an individual to purchase EU citizenship for themselves and their families. Malta and Cyprus are among the three EU states that formally offer CBI programmes, with Bulgaria being the other. Austria’s constitution allows citizenship to be granted to an individual based on an exceptional contribution to the country, which can include financial contributions. Apart from Austria, the other member states that maintain a constitutional clause with explicit reference to investment are Bulgaria, Slovakia and Slovenia.

Meanwhile, 19 of the 27 EU states offer so-called ‘Golden Visas’ or residence by investment (RBI) programmes that facilitate access to visas and expedite the acquisition of residency. In some cases, these RBI programmes can also fast-track access to permanent residency and then citizenship. The number of EU countries that maintain investment migration programmes are clear indicators of their value to the state in terms of raising both financial and human capital.

Of the combined 672,300 citizenships granted by EU member states in 2018, approximately 800-900 individuals came through the investment migration route (representing about 0.1% of the total). The largest groups, in terms of original citizenship, were Moroccans, Albanians and Turks. The EU also saw around 50,000 individuals from high-risk third countries naturalised that year.<sup>7</sup> Some CBI programmes, such as Malta’s Individual Investment Programme (MIIP), state that they refuse applications from such countries, including Iran, Afghanistan and North Korea.<sup>8</sup>

**Figure 1. Total citizenship acquisition and CBI**



Sources: Eurostat, Malta’s IIP Annual Report 2019, Investment Migration Insider, Austrian Statistics Institute. Note that figures are from both 2018 and 2018/2019.

<sup>7</sup> Eurostat, *Acquisition of citizenship statistics*, March 2020; European Commission, *EU policy on high-risk third countries*, 7 May 2020.

<sup>8</sup> MIIP, *FAQ - Eligibility*, accessed on 30 June 2020.



## Sovereignty vs collective responsibility

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In the EU, the debate around CBI programmes strikes at the notion of collective responsibility: that conferring citizenship of one state confers it to all. Naturalisation is vested in law with member states. They must take account of EU laws concerning corruption and tax evasion, but the decisions are theirs.

The European Commission's criticism that a substantive connection must exist between the applicant and the receiving state is not held up by European or international law. Obligations for greater transparency and common reporting across CBI programmes to the EU and its members can only come with the agreement of the member states operating these processes. This limits the EU's scope to shape these programmes to policy initiatives in the margins, such as harmonising reporting standards and working towards enhancing transparency across the union.

Consequently, the European Commission's 2019 report on investor citizenship and residence programmes operating inside the EU, and subsequent calls for the phasing-out of such programmes (and adhering to higher due diligence standards until they do so)<sup>9</sup> have only had limited direct impact on the CBI industry.

## Key vulnerabilities

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The key vulnerabilities and risks for the EU-area from CBI programmes comes from the interaction of uneven systems of enforcement, information collection and information distribution. These are similar to those observed in individual and corporate taxation, where national ownership of the rules, processes and reporting has created opportunities for aggressive tax planning and avoidance.

The interaction of these uneven tax and CBI systems has provided considerable opportunities for tax planners and their clients to exploit the gaps created by uneven and un-harmonised systems, particularly as it relates to the international Common Reporting Standard (CRS) developed by the OECD.<sup>10</sup> The Panama Paper release in 2016 highlighted how CBI beneficiaries could retain the passport of their originating country while gaining a CBI passport in the EU and a network of accounts across the EU to avoid and evade tax in multiple jurisdictions.<sup>11</sup> Knight Frank's Wealth Report 2019 notes that 36% of the high-net-worth individuals they interviewed had a second passport, with many in this group coming from post-Soviet states and Russia in particular.<sup>12</sup>

An absence of common understandings and harmonisation of national contributions to EU information sharing and enforcement platforms, such as the Schengen Information System (SIS), of which Cyprus is not a member, the Visa Information System (VIS) and EURODAC (which is

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<sup>9</sup> European Parliament, [Report on financial crimes, tax evasion and tax avoidance](#), 26 March 2019

<sup>10</sup> Andres Knobel & Frederik Heitmüller, [Citizenship and Residency by Investment Schemes: Potential to avoid the Common Reporting Standard for Automatic Exchange of Information](#), Tax Justice Network, 2016.

<sup>11</sup> William Fitzgibbon, [Tax raids across Germany sparked by ICIJ revelations](#), ICIJ, 15 May 2019.

<sup>12</sup> Andrew Shirley (Ed), *The Wealth Report 2019*, Knight-Frank: London.

noted for its database of fingerprints) has increased the EU's collective risk from these programmes.

### **'Passport shopping'**

Because EU states are not obligated to inform each other about applications received through CBI programmes (or non-CBI routes), an individual whose citizenship application is rejected in one EU country can apply again in another.

This absence of open reporting allows individual applicants to apply across several jurisdictions or to work their way down a list of locations if they are subject to multiple refusals, even if the programmes ask applicants to declare if they have been refused elsewhere. However, the development of informal networks among EU security forces gives them the ability to directly exchange information, which has added a layer of security.

All naturalisation programmes operate in a market, and consequently 'passport shopping' is a feature across all of them: the transactional element of the term 'shopping' is just more apparent in the case of CBI.

### **Tax avoidance and evasion**

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As noted above, CBI programmes pose a risk in terms of facilitating tax evasion and aggressive tax avoidance.<sup>13</sup> While citizenship is distinct from tax residence status<sup>14</sup>, the OECD has pointed to the threat of individuals misusing CBI programmes to circumvent reporting under the CRS.<sup>15</sup> It is possible that an individual who has acquired a second passport through a CBI programme uses this documentation to add a layer between themselves and the assets they own, triggering an exchange of information among the wrong tax authorities.<sup>16</sup>

The financial threat from aggressive tax planning, where successful CBI applicants benefit from a lower-tax jurisdiction, is far more likely to result in lost revenues to the applicant's originating country, than to the receiving EU country.

The OECD has identified the Cyprus and Malta CBI/RBI programmes, along with programmes in 14 other jurisdictions, as potentially high-risk. According to the OECD, programmes that are considered potentially high-risk offer individuals a low personal income tax rate (less than 10%) for income from offshore financial assets, even if they do not need to spend at least 90 days physically in the jurisdiction. The OECD says that these individuals have a greater ability to hide assets by avoiding full tax reporting under the CRS.

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<sup>13</sup> Tax evasion is distinguished from tax avoidance by virtue of it being a crime. However, given variation in tax laws and enforcement among jurisdictions, and because the distinction between tax evasion and tax avoidance is in practice very blurred, it is often difficult to prosecute tax evasion.

<sup>14</sup> Only the United States and Eritrea tax based on both residency and citizenship.

<sup>15</sup> The prerequisite of the CRS is the ability of financial institutions to correctly determine the tax residence of their customers.

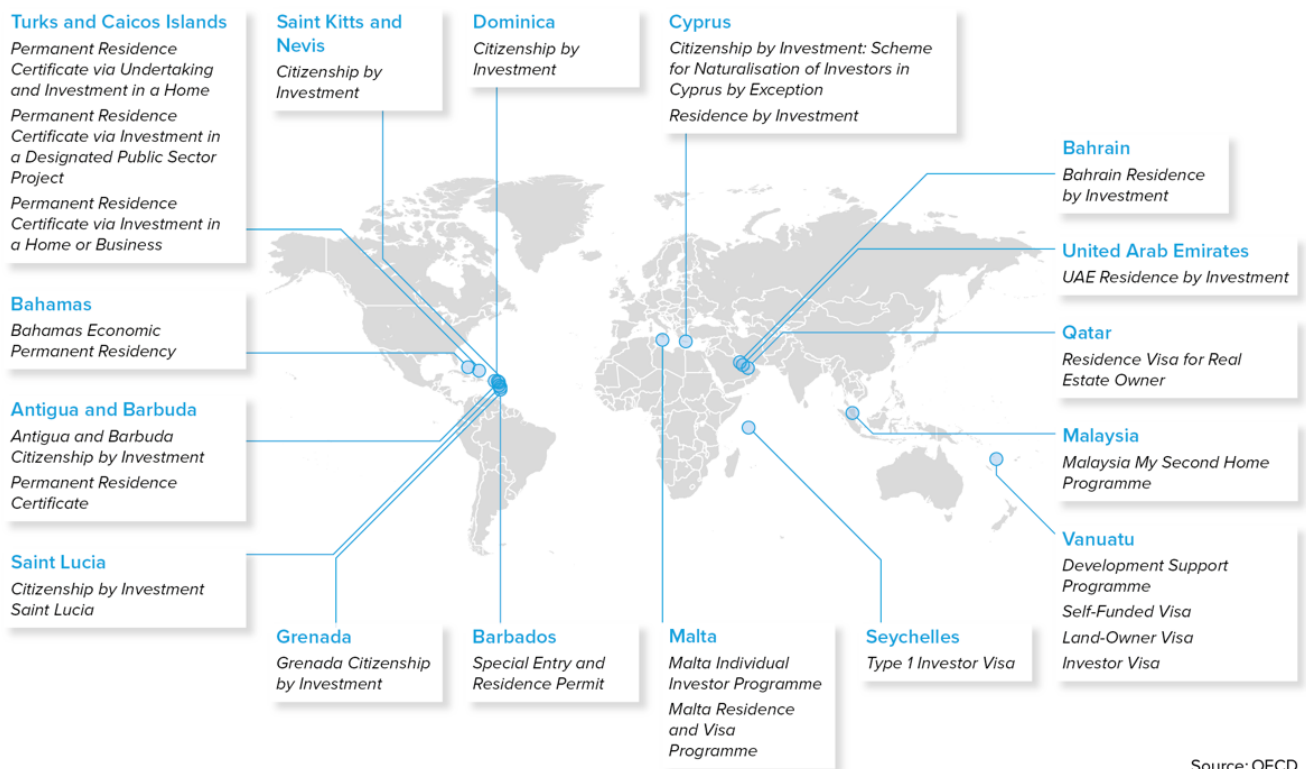
<sup>16</sup> Interview with the OECD.

For these high-risk jurisdictions, the OECD has developed a “spontaneous exchange of information” mechanism regarding successful applicants of CBI/RBI schemes with the original jurisdiction of tax residence. Several countries have committed to this mechanism in an effort to mitigate tax evasion activities and adoption is currently being discussed in Cyprus and Malta.<sup>17</sup>

The OECD has also recommended that a passport or a residence permit received via CBI or RBI should indicate that it was received through such a programme. This would allow financial institutions to ask customers holding such documentation further questions for tax purposes.

It is unlikely that individuals seeking CBI routes into the EU are primarily motivated by tax avoidance and evasion. Such fiscal risks continue to be mitigated by the OECD’s activities regarding the CRS. Rather, the attractiveness of CBI is as a holistic package, offering greater freedom to travel, greater physical security, and access to different market opportunities in the strongest trading bloc on earth.

**Figure 2. OECD High-risk Residence/Citizenship by investment schemes**



Source: OECD

<sup>17</sup> Interview with the OECD.

## Risk assessment

The section discusses in more detail the nature of the risks as highlighted by the European Commission in the context of CBI programmes, and assesses how the threat from CBI compares to other EU citizenship pathways.

The three risks are highly interconnected. Money laundering is very closely related to terrorist financing and organised crime (both being predicate offences for money laundering). It is therefore conceptually difficult to delineate money laundering from these wider criminal threats, as it is part of their core modus operandi.

The level of risk is also difficult to ascertain since such activities are inherently secretive, and attempts to measure and compare unprosecuted criminality are based on estimates. In the absence of objective data, the application, verification and due diligence processes within CBI programmes and traditional forms of naturalisation can provide a useful indicator for levels of security risk to individual member states, and the EU collectively.

### CBI and non-CBI processes

In Malta, Cyprus and Austria, the CBI pathway is owned by the central government, and therefore is a core function of the state.<sup>18</sup> This affords CBI pathways a level of direct political ownership and involvement within the central government that is not seen under many traditional naturalisation routes, such as establishing naturalisation through parental connection, residency or as a spouse of a naturalised citizen.

There is a subtle but important difference between a central government directly owning a naturalisation process and provinces or sub-state agencies owning naturalisation processes while being funded and overseen by the national government. Academic experts point out that this 'one step removal' of responsibility combined with automation of some processes means there is potential for a lower burden of evidential proof across traditional naturalisation routes, although studies note that there often remain challenges to persuade authorities to accept documentary evidence.<sup>19</sup> In contrast, most CBI programmes have a labour-intensive, multi-tiered vetting process in place, involving multiple parties verifying information on the applicant.

Regional variations in traditional naturalisation processes – observed in, for example, Austria, Germany (where the federal states have sought to interpret standardised approaches)<sup>20</sup>, Belgium (where the regions have their own systems for processing and granting applications) and France (where local prefectures have the power to refuse applications, and pass up positive cases to the minister for approval) – could produce different experiences for applications and

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<sup>18</sup> Albeit in the case of Cyprus the Ministry of the Interior is the decision-making body and in Malta, the CBI programme is administered by an independent government entity, the Malta Individual Investor Programme Agency (MIIPA).

<sup>19</sup> Interview with academic expert on intelligence and security.

<sup>20</sup> Kay Hailbronner & Anuschuh Farahat, [Country Report on Citizenship Law: Germany](#), January 2015.

differing risk profiles for these processes, even though they operate under the same system of rules.

However, these routes are neither simple, nor are they guaranteed. Traditional naturalisation routes are bureaucratic processes that require relatively low administrative barriers, attached to elongated timeframes.

## Money laundering

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### Overview

Money laundering is the act or process of trying to disguise or conceal financial gains that have been made illicitly – the profits from a predicate offence (such as organised crime or corruption) or the ‘proceeds’ of tax evasion – to make them look like legitimate gains. The predicate offence itself is illegal but money laundering has also been criminalised. It is often easier to prosecute an individual for money laundering than it is to gather the evidence about the predicate offence.

The process involves individuals converting ‘dirty’ or compromised money into ‘clean’ money – for themselves or as a service for other criminal organisations – through an array of channels, including multiple persons, transactions and asset classes (known as ‘placing’).

The UN’s Office on Drugs and Crime estimates that between 800 billion dollars and two trillion dollars is laundered globally each year, equating to 2-5% of global GDP.<sup>21</sup>

### Risk assessment

Given the potential threat posed by CBI programmes in terms of tax evasion, it is fair to assume that CBI programmes also pose an indirect risk of money laundering, when defined in the broadest sense (ie when fiscal offences such as tax evasion are treated as predicate offences). A lot of the mechanisms and channels that are used for laundering money are also used for concealing income (ie, for evading tax). Such mechanisms and channels include:

- \_ shell companies;
- \_ registering companies in secrecy jurisdictions where a beneficial owner does not need to be declared;
- \_ registering companies in names of third parties; and
- \_ setting up complex structures whereby companies subcontract one another and transfer assets among them, making it difficult to identify profits.

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<sup>21</sup> UN Office of Drugs and Crime, [\*Money-Laundering and Globalization\*](#).

The actual investment required as part of the CBI application process could also provide an avenue to launder money. However, extensive checks on the applicant's CBI funds and their sources of wealth, as part of the CBI due diligence, help limit this risk.<sup>22</sup>

When the predicate offence is organised crime (which arguably has a more direct, community-based impact than individuals engaging in tax evasion), the opportunity provided for money laundering by EU citizenship is that such status generates fewer queries on the placement and layering stages. This is due to lighter touch surveillance on transactions, audit and the opportunity to acquire and dispose of assets – compared to a non-EU citizenship status. For organised crime groups, there is value in placing lower level operatives into the EU for this purpose, arriving in the EU under non-CBI routes.

In the terrorism and illicit drugs industries, large-scale money laundering occurs on a micro-scale through many low-level 'clean' proxies, often youths with bank accounts and no criminal records or innocent looking businesses.

While it is difficult to judge the size of something that is designed to remain unknown, CBI programmes and their applicants are unlikely to be the source of a substantial percentage of money laundering activity in the EU. This is partly because while CBI applicants are high-net-worth individuals, they are not sufficiently numerous to create an effect that is equal to or surpasses the money laundering activity committed by low-level or organised criminality (whether narcotics, trafficking or extortion), or via state based proxies in the terrorism funding space.

In the case of terrorism finance, the cost of individual operations is relatively small, but the cost of sustaining a terrorist group's substantive existence can be significant. For example, the Islamic State's presence in the Middle East, its global training network and its recruitment and radicalisation effort in susceptible communities - including in the EU - was placed at about two billion dollars in 2016.<sup>23</sup> Similarly, estimates suggest that annual revenues in 2016 for the Taliban were 400 million dollars, 250 million dollars for Al-Qaeda and a relatively modest 25 million dollars for Boko Haram.<sup>24</sup> These figures go up and down depending on operational success and the demand for the products in the terrorism finance supply chain such as narcotics, oil smuggling and trafficked people, but they represent a snapshot of a global illicit financial network, of which the EU is a key component.

EU mitigation against money laundering consists of continued efforts to improve international cooperative mechanisms around information exchange and harmonisation. This work is ongoing, with the EU having adopted the fifth iteration of its Anti-Money Laundering Directive, which came into force in January 2020 and focuses on risks from third countries (relevant to the risk presented by CBI programmes), de-anonymisation of beneficial ownership and electronic payments, and enhancing the powers of Financial Intelligence Units (FIUs).<sup>25</sup> In May 2020, the

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<sup>22</sup> Interview with Malta's Individual Investor Programme.

<sup>23</sup> FATF, [Financing of the Terrorist Organisation Islamic State in Iraq and the Levant](#), February 2015.

<sup>24</sup> The Institute for Economics and Peace, [Global Terrorism Index](#), 2016.

<sup>25</sup> European Union, Anti-Money Laundering: Beneficial Ownership of Trusts, Regulations 2019

Commission announced a series of measures to further strengthen its ability to fight money laundering and terrorism financing by harmonising implementation of existing rules across the EU. This followed a warning at the end of April to countries not to use the COVID-19 pandemic as an excuse to continue operating such investment migration programmes.<sup>26</sup>

## The infiltration of individuals with ties to non-EU organised crime groups

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### Overview

Law enforcement agencies point to a marked increase of organised criminal activity in the EU from post-Soviet states and the Balkan near abroad establishing outposts in relatively affluent, but poorly policed communities.<sup>27</sup> These organised crime groups have not significantly added to the numbers of reported criminal offences, but have provided a level of process and organisation.<sup>28</sup>

These groups have also increased the levels of local inter-gang violence. They have been focused on coercing corruption among local government and law enforcement officers, and on trying to influence politics through multiple ethical and unethical channels. Some estimates put the cost of organised crime to the European economy at 110 billion euros annually.<sup>29</sup>

### Risk assessment

Illicit entry or falsified papers is the main route into the EU for low-level organised crime group operators, which sits outside of the CBI programmes. Undocumented or falsely documented migration presents a large risk to EU, as it potentially disguises the nature and purpose of migration.

Organised crime groups have been focused on refining their money laundering operations across cash, physical assets and cryptocurrency classes. The scale and routes to securing value from criminal proceeds are aligned to those described in the money laundering section above. Consequently, there are patterns where 'crime bosses' remain outside of the EU but are beneficiaries of organised criminal activities being conducted on their behalf.

There are also examples of organised crime group 'managers' taking up residence in the EU area as a way of providing protection away from their originating home, to provide additional opportunities to aggressively manage their tax position or to launder proceeds of crime. CBI

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<sup>26</sup> Schengen visa info, [EU Warns Member States: Don't Exploit the Pandemic to Run Golden Visa Schemes](#), 30 April 2020; European Commission, [Commission steps up fight against money laundering and terrorist financing](#), 7 May 2020.

<sup>27</sup> Leslie Holmes, *Organised Crime in - and from - Communist and Post-communist States*, in Alexandr Akimov & Gennadi Kazakevitch, *30 Years Since the Fall of the Berlin Wall*, 2020; Economist, [Piranhas from Tirana: The 'Albanian mafia' are not really a mafia](#), 5 January 2019; Europol, [Two Main Russian Groups Dismantled in Spain with EUROPOL'S Support](#), 28 September 2017.

<sup>28</sup> Didier Bigo, Ben Ja'el, James Sheptycki, *International Organised Crime in Europe*, European Police Science and Research Bulletin · Special Conference Issue Nr. 2, pp.239-255, 2012.

<sup>29</sup> Europol, [Does Crime Still Pay?](#), 1 July 2016.

programmes are vulnerable to organised crime managers who have managed to manipulate local political influence in their new country. Organised crime group ‘managers’ also rely on officials and law enforcement officers in their originating country to ‘cleanse’ their documentation, which makes passage into jurisdictions like Malta or Cyprus simpler due to the onus being on the applicant to collect these clearances.

The actual business of criminality is conducted by those who are native, those who are able to acquire ordinary citizenship through residency, marriage or employment (via a friendly front company), or who are given passage into the EU illicitly.

## **Terrorist financing**

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### **Overview**

Terrorist financing is distinct from criminal money laundering in as much as it is collected to assist an operational purpose and can arrive from both legitimate and criminal sources. It can be broken down into four distinct lines of activities:

- \_ direct or indirect state sponsorship of groups or radicalisation activities;
- \_ proceeds from criminal enterprise;
- \_ ‘charitable’ giving, and proceeds from activities; and
- \_ analogue funding, such as a sponsor handing over cash in an envelope.

These headings apply across Islamist terrorism and far-right extremism, although state funding for far-right extremism is more limited.

### **Risk assessment**

While CBI applicants could theoretically be key actors in terrorism, there is no evidence that CBI programmes present a significant or additional risk in this regard. Our review could not identify an EU court case involving such an example.

The amount of intelligence and counterterrorism activity across Europe – and from the United Kingdom and United States that benefits European partners – means that individuals with links to terrorism financing seeking to benefit from a CBI programme are very likely to be spotted by intelligence services. Similarly, the common financial surveillance programmes and movement surveillance (known as Passenger Name Records) has forced terrorist groups to move away from wire transfers and traditional banking towards analogue transfers, contrived business and charitable structures, paying organised crime gangs to launder money as a service, and the use of cryptocurrency.

Based on recent history, direct threats from terrorism have arisen from existing citizens of European countries, and those on visiting, short-stay visas or claiming asylum. The risk from physical terrorism resides, therefore, on settled communities, claims based on marriage and dependency, and amongst student and transitory populations, rather than CBI programmes.



Most of the Islamist terrorist attacks that have occurred in Western Europe have been financed by the terrorists' own personal savings and salaries. Between 2008 and 2013, 61% of terrorist cells studied for a Norwegian Defence Research Establishment report were entirely self-funded, with only one in four receiving financial assistance from an international terrorist organisation. Recently, the number of attacks self-funded through legal activities have increased amid a decline in financial assistance from international terrorist organisations.<sup>30</sup>

Terrorists often draw on existing family and community relationships or exploit shared religious and ethnic identities to pursue their activities. Counterterrorism therefore often focuses on family and local ties or religious, ethnic, and ideological bonds. Law enforcement and intelligence agencies across Europe have struggled to acquire human intelligence on these groups, but the patterns seem clear: the predominant terrorism financing threats appear at a level above and below those likely to be of relevance to CBI applicants seeing as they involve states or state proxies and/or transnational or localised actors.<sup>31</sup> The finding is supported even by critics of CBI programmes, with Transparency International, whose work on CBI has predominantly focused on corruption and money laundering risks, not seeing any reported case of terrorist financing via CBI programmes.<sup>32</sup> In addition, the OECD has highlighted the lack of objective data with regards to terrorist financing and CBI.

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<sup>30</sup> Norwegian Defence Research Establishment (FFI), [\*The financing of jihadi terrorist cells in Europe\*](#), 6 January 2015.

<sup>31</sup> Nigel Inkster, [\*Brexit, Intelligence and Terrorism\*](#), Survival: Vol 58, No 3, May 2016.

<sup>32</sup> Interview with Transparency International.

# Cyprus

## Background

Prior to the financial crisis in 2008-9, the Cypriot economy was heavily dependent on its offshore financial industry, and it continues to be a jurisdiction that has exceptionally low rates of personal and corporate tax.<sup>33</sup> After the crisis, which had a strong impact on its banks and financial services sector, Cyprus introduced a CBI programme in 2012 that required a direct investment of ten million euros. At this price point there were only a modest number of applicants. As the country's financial crisis deepened, the government reduced the investment requirements in 2013 to either three million euros in direct investment, or being able to demonstrate a three million euro loss in the failure of Cypriot banks.

In 2018, the price was reduced further to two million euros – albeit with a requirement from May 2019 to make two additional but passive 75,000-euro investments into government innovation and land portfolios. The direct investments can be sold after three years of acquiring citizenship, so can be treated as loans.

The Cypriot programme is estimated to take only six months (prior to the 2018 reforms it was three months), with residency occurring six weeks after investing in property above 500,000 euros.<sup>34</sup> Individuals from ex-Soviet states, particularly Ukrainians, along with Russians and Chinese constitute the largest groups seeking CBI in Cyprus.

## Risk assessment

Cyprus was one of the countries named in a banking scandal in which banks either facilitated or failed to issue appropriate notifications about suspected money laundering. The European Commission cites this as a reason for it to create an additional FIU for the Union to carry out “supervision of clearly defined obliged entities or types of activities for a given period of time”, and to identify “suspicious international transactions and analysis of cross-border cases of financial crime”.<sup>35</sup>

The Cypriot banking and financial services industry is continually cited for its failure to provide suspicious transaction or movement data, raising suspicions that it is acquiescing as a money laundering hub. The rapidity of its CBI programme – six weeks to residency, six months to full citizenship – and the process being premised on financially incentivised citizenship agents, makes it hard to conduct meaningful checks. Applicants, or more precisely their citizenship agent, need to show a criminal records check has been completed; they must not appear on international sanctions lists; and they need to confirm that they will neither bring Cyprus into disrepute nor present a security risk.

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<sup>33</sup> Corporate tax is 12.5%, capital gains tax is 20%, income tax reaches a top band of 35% at 60,000 euros and there is no inheritance tax.

<sup>34</sup> This was an increase in May 2019 from 300,000 euros.

<sup>35</sup> Reuters, [EU to beef up scrutiny of money-laundering risks, adds Panama to list](#), 7 May 2020.

These factors, when coupled with the reality of Cyprus remaining outside of the Schengen Information System (one of the most important large-scale databases used to combat crime, illegal immigration and terrorism), present a risk to the rest of the EU in terms of those member states being able to locate and monitor potentially problematic movements and activities.

In the Cypriot model, the qualifying sums for CBI can be met by a business of which the applicant is a director. This means that individuals who are not themselves high-net-worth individuals can have citizenship acquired for them. This makes Cyprus a means by which organised crime gangs and radicalised groups could place key individuals into the EU on a permanent footing.

Transparency International and Global Witness estimate that Cyprus had made 914 million euros in 2017 from its programme, as much as 4% of GDP for the same period. Between 2013 and 2019, it is estimated that Cyprus had accrued a total of 4.8 billion euros from 3,336 naturalised individuals through CBI.<sup>36</sup> Accepting this degree of economic dependence on individuals applying for CBI will continue to be a red flag for EU institutions, particularly as it raises the perception that Cyprus may be too accommodating to individuals that the EU considers high risk.

Risks also remain in Cyprus with respect to naturalisation through non-CBI routes, including from low-level organised crime group operatives able to locate themselves in Cyprus or in other parts of the EU, and thus able to provide criminal assistance and services to those higher in the chain.

The governments of Portugal and Romania reportedly have complained that Cyprus was not doing enough to prevent organised criminal networks from using EU citizens to engage in sham marriages with foreigners seeking EU citizenship; there was concern that municipal authorities were not sufficiently vetting couples. However, there was not a clear link with other forms of criminality or terrorism. While Cyprus has experienced a major recent influx of asylum seekers from the current refugee crisis, this has not been a significant path to citizenship in Cyprus so far. There is some reporting of cases where asylum seekers were detained on suspicion of involvement in terrorist activities but not specifically in terrorist financing.

## Risk management

In August 2018, the government announced reforms to its CBI programme. Measures included capping the number of successful CBI applicants to 700 per year, levelling off what was a growing trend. The reforms also included a passive investment criterion and an increase in the minimum property investment value, and applicants now need to have an EU travel visa in place. In addition, private agents are accountable to a Supervision and Control Committee, and the programmes are no longer actively advertised.

The negative political repercussions of the Cypriot cabinet approving Malaysian financier Jho Low's fast-track application just prior to his indictment by US authorities in the summer of 2019 on money laundering charges, combined with the European Commission establishing an expert group to strengthen 'transparency, security and governance', including a focus on corruption

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<sup>36</sup> Transparency International & Global Witness, *European Getaway: Inside the Murky World of Golden Visas*, 2018. It should be noted that the Cypriot Statistical Agency does not provide official statistics on its CBI programmes or the origins of migrants within it.

and tax evasion, have provided additional impetus to the Cypriot government to strengthen its risk management. Following the Jho Low scandal, Cyprus revoked 26 CBI naturalisations (including that of Low himself). However, critics say the government is only trying to eliminate the egregious cases to retain the bulk of the trade.<sup>37</sup>

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<sup>37</sup> Financial Times, [Cyprus defends 'golden passport' scheme after Jho Low link](#), 4 November 2019; Financial Times, [Cyprus clings to 'golden passports' bonanza despite scandal](#), 24 November 2019.

# Malta

## Background

Malta's historic role at the crossings of cultures and people movement is well-established. Today, Malta's geographic position sees its armed forces play a role in the management of irregular migration from North Africa to Europe. For nearly a decade, Valletta has hosted the EU's European Asylum Support Office (EASO), which is tasked with improving member states' coordination on asylum claims.

In 2013, Malta established a legal structure for its CBI programme, the Individual Investor Programme (IIP), under Legal Notice 47 to the Maltese Citizenship Act (CAP. 188).<sup>38</sup> Applicants must make a contribution of 650,000 euros; purchase a property in Malta with a minimum value of 350,000 euros (or rent a property in Malta at the cost of at least 16,000 euros per year); and make an additional investment of 150,000 euros in state bonds or a project determined by state authorities. Applicants must also take an oath of allegiance to the state and possess a clean criminal record, proof of good moral standing, and comprehensive health insurance.

In response to criticism from the European Parliament in 2014, the Maltese authorities included a residency requirement in the IIP application as evidence of the applicant's commitment to Maltese society. In practice, however, the applicant may simply hold an e-residence card for a twelve-month period preceding naturalisation and thorough checks on actual physical residence are not carried out.<sup>39</sup>

Despite its controversial nature, the IIP has proven lucrative. From its inception until January 2020, the IIP generated more than 835 million euros.<sup>40</sup> In one fiscal year, from July 2018 to June 2019, 311 people applied for citizenship through the IIP, generating 272 million euros, over two percent of GDP.<sup>41</sup> Seventy percent of the income gained from the IIP is held and invested by the National Development and Social Fund (NDSF) while the remaining amount goes into the government's Consolidated Fund.<sup>42</sup> The NDSF is used to finance projects with tangible social and economic benefits in Malta, including, recently, to support individuals and business struggling from the COVID-19 crisis.<sup>43</sup>

The highest number of CBI applications come from Russian and Chinese nationals.

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<sup>38</sup> *Maltese Citizenship Act (CAP. 188): Individual Investor Programme of the Republic of Malta Regulations*, 2014.

<sup>39</sup> European Parliament, *Joint Motion for a Resolution*, 14 January 2014.

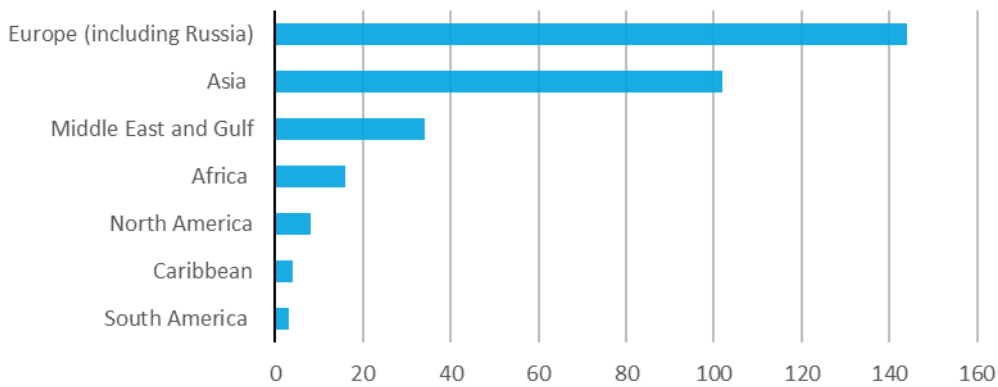
<sup>40</sup> Times of Malta, *Bad publicity behind the drop in golden passport applications*, 21 January 2020.

<sup>41</sup> Office of the Regulator, Individual Investor Programme (ORIIP), *Sixth Annual Report on the Individual Investor Programme of the Government of Malta*, November 2019.

<sup>42</sup> Times of Malta, *IIP scheme will be revised but not revoked, Malta tells EU*, 24 April 2020.

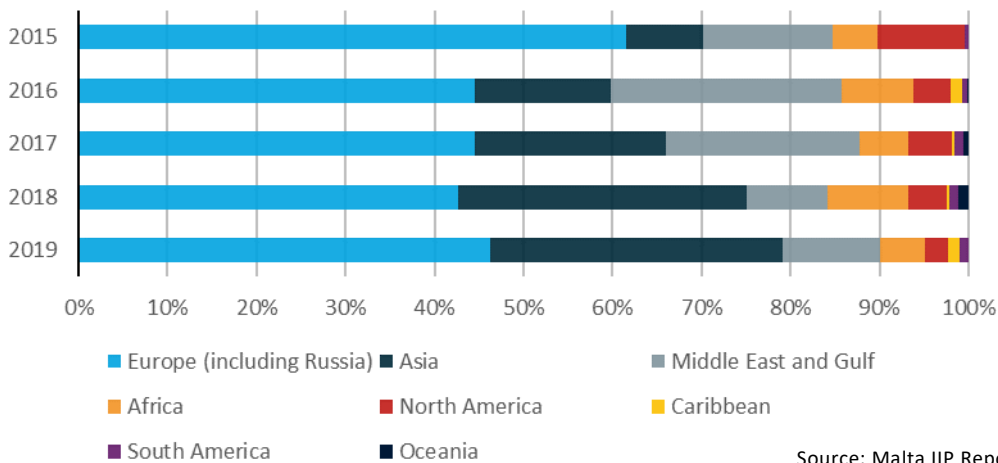
<sup>43</sup> Malta's National Development and Social Fund, *Annual Report and Financial Statements*, 31 December 2018.

**Figure 3. CBI applicant origin regions, 2019**



Source: Malta IIP Report

**Figure 4. Historic CBI applications by region**



Source: Malta IIP Report

**Risk assessment**

The IIP does not attempt to hide that an element of ‘high risk’ is present with regards to the programme and that risks cannot be completely eliminated. According to the IIP, the main reason it rejects applicants is that they have made their money fraudulently and are trying to escape law enforcement in their home country.<sup>44</sup>

Outside observers and domestic critics continue to point to Malta’s weak financial regulatory environment and recent history of political corruption as factors that compound the risks associated with the IIP, although concrete evidence regarding those risks is hard to come by. Maltese legislation mandates that a list of names of all individuals granted Maltese citizenship is published in the Government Gazette each year. However, that list does not explicitly identify persons who secured citizenship through the IIP. Nevertheless, there appears to be evidence that at least five foreign nationals – Anatoly Hurgin, Boris Mints, Liu Zhongtian, Pavel Melnikov

<sup>44</sup> Interview with Malta’s Individual Investor Programme.

and Mustafa Abdel Wadood – who acquired citizenship through the IIP face prosecution for money laundering, fraud and tax evasion abroad.<sup>45</sup>

Allegations and indications of corruption plague the Labour administration that was responsible for launching the IIP in 2014, and which remains in power today under new leadership. Evidence of high-ranking ministers and politically exposed persons (PEPs) holding offshore accounts, indications of possible bribery on major government contracts, and accusations of complicity in the murder of journalist Daphne Caruana Galizia Caruana in October 2017 point to possible corruption at the heart of the government.<sup>46</sup>

Against this backdrop, the OECD, the European Parliament and the Financial Action Task Force on Money Laundering concluded that weak regulation of Malta's financial services and iGaming sectors, a burgeoning cryptocurrency exchange sector, combined with the IIP present a high risk of money laundering. In July 2018, the European Banking Authority (EBA) raised concerns about lax regulations throughout Malta's banking sector and initiated an investigation into Malta's Financial Intelligence Analysis Unit (FIAU) for failing to enforce EU anti-money laundering standards.<sup>47</sup> The FIAU also came under scrutiny from the EBA for its failure to investigate Nexia BT, an accounting firm that served as advisor to the Office of the Prime Minister, for establishing offshore companies in Panama for Maltese PEPs. Allegations that Nexia BT funnelled a 100,000-euro-bribe from three Russian IIP applicants to the then Prime Minister's Chief of Staff are the focus of an ongoing magisterial inquiry.<sup>48</sup> Nexia BT remains today an official representative of the IIP.

In Malta, applications to the IIP must be submitted through approved agents or the concessionaire. There are no particular legislative or regulatory safeguards in Malta against any conflicts of interests that may arise in the outsourcing of these tasks to the private sector.

Malta's lack of compliance with the EU's 5th Anti-Money Laundering Directive is a red flag in terms of assessing the risks posed by the country's CBI programme. Malta was supposed to transpose it into national law by January 2020. However, by February this had not happened, triggering the European Commission to send it a formal notice. This is the first step in a process that could lead to infringement proceedings if Malta fails to comply. In April, the IMF called for 'deficiencies' in Malta's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework to be urgently addressed. It highlighted that Malta could be added to the FATF grey list in 2021.<sup>49</sup>

Obtaining citizenship through marriage, asylum or other means does not appear to be a major factor in money laundering or organised crime, and is not a factor in terrorist financing in Malta.

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<sup>45</sup> Times of Malta, [Bought Maltese passport, given right to vote through false declaration - PN MP](#), 24 October 2019.

<sup>46</sup> The Guardian, [Malta's corruption is not just in the heart of government, it's the entire body](#), 3 December 2019.

<sup>47</sup> European Banking Authority, [EBA issues recommendation to the Maltese Financial Intelligence Analysis Unit in relation to its supervision of Pilatus Bank](#), 11 July 2018.

<sup>48</sup> Times of Malta, [Schembri accused of passport sale kickbacks by Busuttil](#), 25 April 2017.

<sup>49</sup> IMF, [Malta: 2020 Article IV Consultation-Press Release and Staff Report](#), 10 April 2020.

## Risk management

Despite objections from across EU institutions and civil society organisations, Malta has pledged to launch a second version of the IIP in 2020 when the established cap of 1,800 applicants in the initial IIP is met. The government recently announced that it will increase the residence requirements to one year as part of the new IIP, with the new regulations coming into force in September 2020.<sup>50</sup>

More broadly, there remains a bipartisan consensus in Malta on maintaining lax regulation of financial services as part of Malta's tax sovereignty. This nurtures an environment in which corruption risks are heightened.

Maltese authorities maintain that they consult Interpol and Europol databases, as well as outsource due diligence checks to two international firms for each IIP applicant. Moreover, the rate of rejection (33% in 2019) has increased each year, granting Malta a higher rejection rate than any other EU CBI programme. The number of Accredited Agents representing the programme has also decreased in the past few years.<sup>51</sup>

The IIP Regulator – the department in charge of overseeing the IIP and publishing annual reports that are subject to parliamentary scrutiny – notes that it has flagged fourteen cases of suspected money laundering and collaborated in 120 others, and has started proceedings to revoke citizenship from three IIP applicants.<sup>52</sup> Malta excludes nationals from a few countries – Afghanistan, Iran, and North Korea, for example – from applying for citizenship through the IIP, as it does foreign nationals who have been denied a visa by any country with whom Malta shares a visa-free travel regime.

The IIP Regulator has called for further reforms to be implemented before Malta launches the second round of its IIP this year. For example, a provision allowing the official concessionaire or an approved agent of the IIP to recommend a third country national for citizenship “in special circumstances” even if they are technically ineligible will likely be removed. More broadly, further due diligence obligations will likely be placed on the official concessionaire and approved agents of the programme.

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<sup>50</sup> Times Malta, [Passport buyers will have to live in Malta first under new IIP rules](#), 3 July 2020.

<sup>51</sup> [Office of the Regulator, Individual Investor Programme \(ORIIP\)](#), 2019.

<sup>52</sup> [Office of the Regulator, Individual Investor Programme \(ORIIP\)](#), 2019.



# Austria

## Background

Austria is a highly taxed, highly regulated and low-crime country that found itself during the Cold War as an extra-territorialised location for political and intelligence contests. Today, the Austrian government provides a version of a CBI pathway, but publicly distances itself from this description. Unlike programmes in the Caribbean, or indeed those of Cyprus and Malta, the Austrian government has deliberately slowed the application process (taking an estimated 24–36 months to complete it), made it exclusive (requiring applicants to be extensively vetted) and expensive (involving active and direct investments estimated to be between 3-10 million euros).

The Austrian CBI pathway is premised upon Article 10(6) of the Citizenship Act 1985 (amended in 2013), which allows the government to confer citizenship on an individual and their dependents “because of the services already provided by the foreigner and the extraordinary contributions still to be expected of him/her in the special interest of the Republic.”<sup>53</sup> There is no statutory definition of extraordinary contribution, but it typically involves an enduring contribution such as significant job creation, locating valuable intellectual property in Austria or forming joint ventures with existing Austrian companies.

There is no evidence that Austrian officials solicit or steer particular forms of investment, but they provide advice on the suitability of proposals by applicants. It is reasonable to consider that extraordinary contributions might also occur in aiding Austria’s international relations.

Based on data from the Austrian Statistics Institute’s figures, at most 42 people were granted citizenship under CBI in 2019. These 42 came from a total of 10,606 naturalisations during the 2019 reporting period.<sup>54</sup> Transparency International estimates that a total of 303 people (excluding dependents) were naturalised under CBI between 2013 and 2018.<sup>55</sup>

## Risk assessment

The financial sums involved in CBI under the Austrian programme are suggestive of the types of individual (typically from blue and white collar industries) that would seek to access Austrian citizenship, and therefore the particular types of risk (predominantly aggressive tax planning and avoidance) they might present to the EU area more widely.

A lack of data makes it impossible to reliably confirm the origins of individuals who gain CBI in Austria. While government figures show a high number of naturalisations from Balkan states, Turkey, Russia and Afghanistan, these may not be specifically cases of CBI.

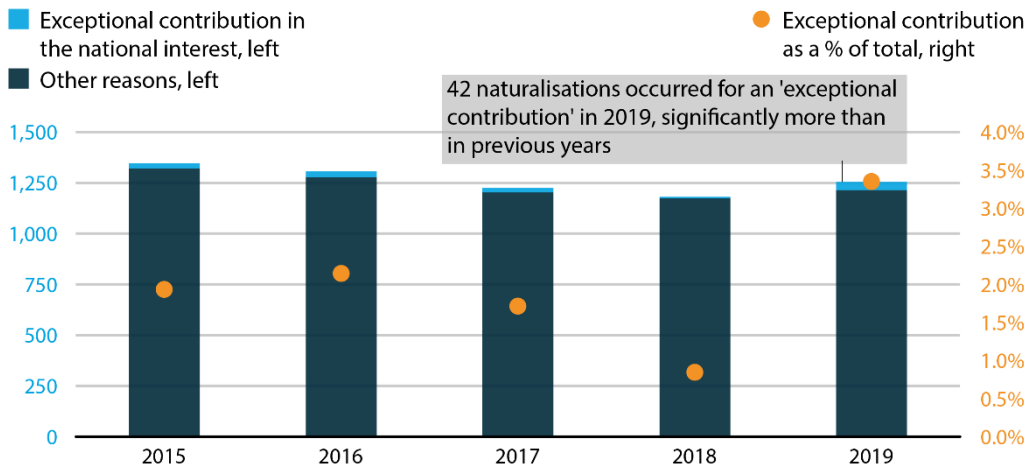
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<sup>53</sup> [Article 10\(6\) of the Citizenship Act 1985](#), accessed 5 May 2020.

<sup>54</sup> [Austrian Statistics Institute](#), accessed 5 May 2020.

<sup>55</sup> Transparency International & Global Witness, [European Getaway: Inside the Murky World of Golden Visas](#), 2018.

**Figure 5. Austria: Naturalisations by discretionary power**



Source: Austrian Statistics Institute

It is analytically problematic to homogenise the motivations of nationalities. However, it is notable that the Balkans has push factors of economic improvement and a high incidence of organised criminality, including significant penetration from Russian organised crime syndicates.<sup>56</sup> High-net-worth and political exposure, in addition to organised criminality would need to be examined from those arriving from Russia and Ukraine, whilst Afghanistan and Turkey constitute part of a known distribution channel for narcotics into the EU. Immigrants from these destinations may also be fleeing persecution and insecurity of other kinds.

Austria has been listed as one of the world’s most challenging countries in which to seek citizenship. It is unlikely that criminals specifically would seek Austrian citizenship in order to pursue their activities, given the lengthy waiting period and extensive requirements, including for CBI applicants.

While the qualifying criteria for full Austrian citizenship are exacting, the likely highest period of exposure to risk occurs during a period of right to remain, which can be formed quickly and across other lawful pathways – such as by marriage, birth, employment or asylum claim.

**Risk management**

The Austrian pathway involves receiving assent from a number of Federal Ministries (specifically: the Ministry of Labour, Social Affairs, Health and Consumer Protection; the Ministry of the Interior, which includes intelligence and law enforcement agencies and task forces on counterterrorism and organised crime; and the Ministry for Europe, Integration and Foreign Affairs). The documentation required from applicants is far more extensive than required under the Cypriot programme, and it is necessary for the applicant to prove there is no criminal

<sup>56</sup> Vera Zakem, Bill Rosenau and Danielle Johnson, *Shining a Light on the Western Balkans Internal Vulnerabilities and Malign Influence from Russia, Terrorism, and Transnational Organized Crime*, Center for Naval Analyses, May 2017.

exposure in their background. There is, however, the latitude within Article 10(6) for the government to disregard this.

The 24-36-month-long period reported for the Austrian CBI programme can be partly explained by the highly bespoke and complex application process. It also suggests that applicants are subjected to an extensive vetting process, akin to a security vetting, allowing for the passing of time sufficient to uncover any additional information about the applicant. It also suggests that the system matches the desire to develop enduring relationships and value. The Austrian government retains the right to revoke the citizenship of those working for foreign states or acting against the interests of Austria.<sup>57</sup>

Austria's extensive vetting process reduces the risk of Austria granting citizenship to those involved in organised criminality or terrorism, and by extension from money laundering. However, it does not reduce the risk of aggressive tax planning, because those acquiring citizenship by investment may retain their original citizenship, and consequently may seek to exploit the gaps present in double tax arrangements.<sup>58</sup>

There is no indication that the Austrian government is actively seeking to reform its CBI provision. It remains spoken about in the margins of debates concerning CBI programmes, tarred by the excesses of the Maltese and Cypriot programmes.<sup>59</sup> The Austrian Parliament has continued to note documents and positions from the EU's institutions on this matter, but has not debated the point since 2016. Austria is expected to respond should the European Commission's interest in this area produce legislative or regulatory change.

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<sup>57</sup> Article 26 of the Austrian Citizenship Act.

<sup>58</sup> The dual-citizenship provision would allow an individual to present a money laundering risk to Austria, should they erroneously pass the vetting process.

<sup>59</sup> Financial Times, [EU prepares crackdown on 'citizenships for sale'](#), 18 August 2018.

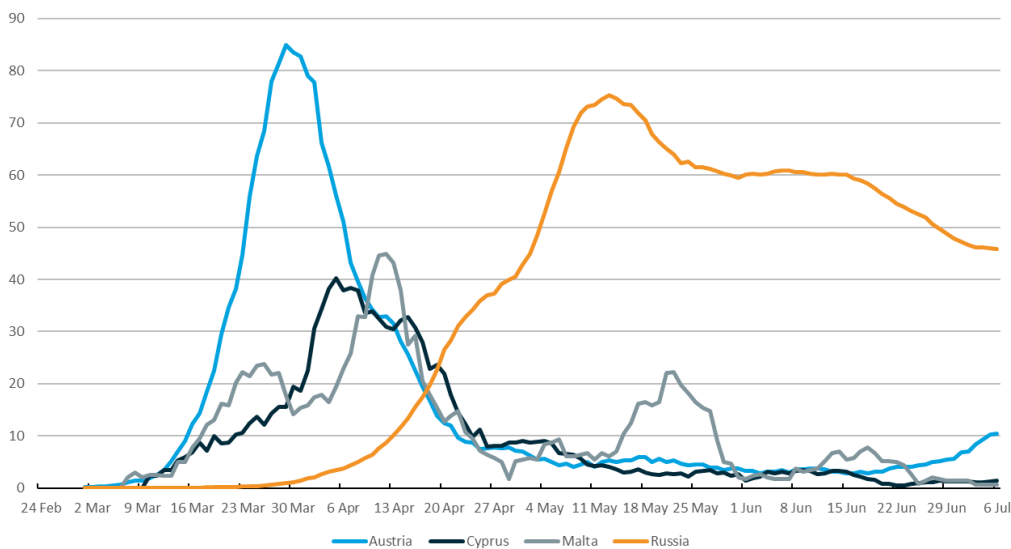
## Outlook

### The COVID-19 crisis

With CBI programmes thriving before the COVID-19 pandemic, the downturn in economic activity resulting from the virus is likely to increase their importance to individual states, attractiveness to potential applicants and also their place ‘on the radar’ of EU institutions. Among the top countries of origin for individuals who seek citizenship in the EU, Russia has been particularly hard hit by the pandemic.

At the start of June, Russia had the world’s third-highest number of confirmed cases, after the United States and Brazil. The crisis caused by the COVID-19 pandemic coupled with record low oil prices is likely to propel able individuals to see CBI as an attractive hedge against further instability. Similar situations related to the global economic downturn are also likely to push citizens in other states to view citizenship in an EU state more attractively, especially if countries such as Cyprus, Malta and Austria keep their COVID-19 infection rates relatively low. Anecdotal accounts have depicted wealthy Russians escaping the crisis at home on private jets bound for Cyprus, making use of their second citizenship.<sup>60</sup> Meanwhile, Austria continues to be identified by citizenship agents as globally one of the top three destinations, in part because of its quick imposition of measures intended to limit the spread of COVID-19.<sup>61</sup>

**Figure 6. Daily new confirmed COVID-19 cases per million people (7-day moving average)**



Source: European Centre for Disease Prevention and Control

<sup>60</sup> Reuters, [Private jet demand rises as wealthy Russians spend lockdown in West](#), 27 May 2020.

<sup>61</sup> Schengen visa info, [The Super-Wealthy Are Buying ‘Coronavirus Passports’ and Moving to Safer Countries](#), 8 May 2020.