

14 February 2020

The Director, Skills and Innovation Policy Section
Migration Planning and Visa Policy Branch
Department of Home Affairs

By Email: ICAP@homeaffairs.gov.au

Business Innovation and Investment Program: Getting a better deal for Australia

Dear Sir / Madam,

As the voice of private capital in Australia, the Australian Investment Council is pleased to present its submission for the consultation on the Business Innovation and Investment Program: Getting a better deal for Australia.

Private capital investment has played a central role in the growth and expansion of thousands of businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include: private equity (**PE**), venture capital (**VC**) and private credit (**PC**) funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms.

Private capital fund managers invest billions of dollars into Australian companies every year. For the first time in history, Australian-based PE and VC funds under management reached \$30 billion in 2018, testament to the growth in available capital to support investment into businesses across every industry sector of the economy. Fund managers secured an impressive \$6.6 billion in new investment commitments in 2018, which means the industry now has a combined total of around \$11 billion in equity capital available to be invested in the short-term.

The Australian Investment Council is supportive of policy initiatives and reforms that help to ensure our economy is competitive, innovative and able to support Australia now and into the future. In particular, we encourage reforms that help to expand the pipeline of talent and entrepreneurship through targeted migration and investment visa programs. Our policy recommendations are aimed at lifting Australia's productivity and supporting investment to drive the development of skills and talent, productive capacity and innovation through technology.

We look forward to participating in any future discussion about the themes set out in this submission as part of the government's work on the Business Innovation and Investment Program. If you have any questions about specific points made in our submission, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on 02 8243 7000.

Yours sincerely



Yasser El-Ansary
Chief Executive



Introduction

The private capital industry continues to view the Significant Investor Visa (SIV) program as an important part of the Government's plan to position Australia as an innovation-focused, knowledge-driven economy.

The Australian Investment Council (formerly AVCAL) was very supportive of the Government's changes to the SIV program which came into effect in 2015. These changes required a minimum of \$500,000 (out of \$5 million) to be invested in eligible Australian VC or growth PE funds (**VCPE**) which invest in the start-up and SME market (**Enhanced SIV Program**). The change also required that at least \$1.5 million be invested in an eligible managed fund or listed investment company that invests in emerging companies.

The SIV program has delivered substantial investment of financial and human capital into the Australian economy.

Since the program commenced in November 2012, more than 2,312 primary SIV visas have been granted to high net worth applicants and their families resulting in over \$11.56 billion being invested in the Australian economy in complying investments alone.¹ This has brought many benefits to the economy including attracting long-term equity capital into Australian emerging companies which has helped these companies to expand, create jobs, commercialise Australian ideas and invest in research and development.

We note that the SIV accounts for only a small part of the Business and Investor Visa Program (**BIIP**) (estimated at around 8% of the annual BIIP) which itself accounts for a small amount of Australia's total migration program.

The SIV program competes with other jurisdictions such as Ireland, New Zealand, the United Kingdom and the United States of America. Participants in the SIV program are migration focused, rather than investment focused. Typically, they are risk adverse and more focused on capital preservation as opposed to seeking higher returns. Potential participants consider both the location of migration and the volume and risk of the required investment. While Australia as a location remains very attractive, our SIV program requires participants to take more risk than most comparable jurisdictions.

Any increase in the program's investment requirements will reduce Australia's *relative* attractiveness. This is an important issue that should be considered when reviewing any potential changes to the program.

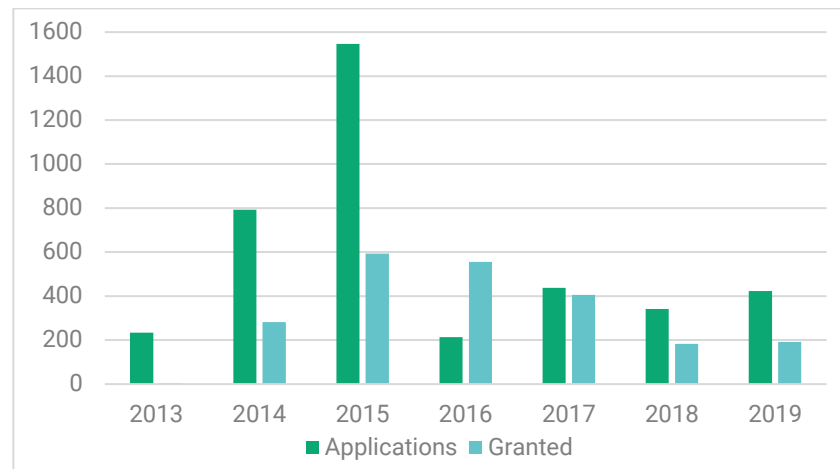
SIVs make a meaningful contribution

While they account for a small percentage of the BIIP each year, SIVs have delivered a disproportionately high level of benefits to Australia contributing to investment into start-ups and managed funds, creating jobs and a more highly skilled workforce.

Around 200 SIVs are granted each year (**Figure 1**) with close to a 30% success rate for applications. The SIV regime brings meaningful investment into the Australian economy, as highlighted above, and is an efficient visa program. (This compares to the 132B Visa which has a low approval rate, requires considerable administration time to review applications, and requires no long-term commitment to invest in the Australian economy.)

¹ [Department of Home Affairs December 2019](#)

Figure 1: SIVs applied for and granted



Source: Department of Home Affairs

Investment threshold amount

Australia has one of the highest investment requirements in the world for investor migrants and requires investors to take significantly more risk than other jurisdictions. For example, the equivalent New Zealand program has a higher investment threshold, but allows investment in residential real estate and low risk passive government bonds.

In the current environment, we see no evidence to suggest that applicants have additional capacity or a willingness to invest above the current minimum investment threshold of \$5 million for four years for SIVs.

Our members suggest that any major increase in the SIV threshold would considerably reduce demand for the visa which could take years to rectify.

A significant increase in the current threshold could have a detrimental impact on the uptake of the SIV visa which would in turn, reduce the positive contribution of the visa to the Australian economy. This was seen when the rules changed in 2015. The number of applications for the SIV decreased and it took some time for potential participants to understand the new rules and to re-evaluate their SIV applications against other competitive programs. Any change to the current SIV program is likely to have the same effect.

Additionally, anecdotal evidence suggests significantly increasing the threshold amount may further increase the concentration of applicants – currently over 85% of SIVs are granted to applicants from China.

Recommendation 1: A modest increase to the SIV threshold

The Australian Investment Council recommends no change to the SIV investment threshold. However, if the SIV threshold is increased, we recommend a moderate increase to \$6 million, with a 2 to 3-year transition period.

Investment mix

There is an opportunity for the Government to continue to enhance productivity and ensure our economy is competitive, innovative and able to support Australia into the future by increasing the designated investment amount to Venture Capital and Private Equity (VCPE) funds as a proportion of an increased SIV threshold.

The Council was supportive of the changes made by the Australian Government in 2015 to direct capital into VCPE and emerging companies. This was despite strong opposition at the time. Evidence suggests that investors are now pragmatic and better understand the VCPE component. There have also been many successful case studies which have reassured investors about the attributes of this investment.

However, our members report that SIV investors remain cautious on the VCPE component and this is still the area on which most investors are focused. We are conscious that a large increase to the VCPE component would risk significantly reducing demand for the SIV.



There is a strong public policy rationale for increasing the mandatory VCPE component of the complying investment framework from \$500,000 per applicant to \$1million per applicant (20% of the current threshold). This is consistent with the Government's earlier intent to increase the designated amount of investment into VCPE to 20%² to promote "new investment in innovative Australian ideas and emerging companies"³.

Recommendation 2: Increase the designated investment amount

The Australian Investment Council recommends an increase of the designated VCPE investment to \$1million per applicant.

132B Visa is subject to misuse

The 132B subclass has not been particularly successful, as evidenced by the high rejection/withdrawal rate and low number of visas granted. There is also evidence that this subclass has been open to exploitation in the past.

Recommendation 3: Streamline the BIIP visa program

The Australian Investment Council recommends the BIIP visa program is reviewed to determine whether greater opportunities and efficiencies for investors can be found in alternative visa streams to the 132B visa.

Time to review the 188B Investor Visa

The 188B Investor Visa has not been subject to a review in recent years unlike the SIV which underwent reviews in 2014 and 2017. The investment in Government Bonds is a passive investment which cannot be said to deliver significant benefits to the Australian economy.

Recommendation 4: Review the Investor Visa

The Australian Investment Council recommends the Government reviews the current requirements of the Investor Visa 188B.

There is capacity for the current Investor Visa threshold of \$1.5 million to be increased, and the investment composition revised, to support economic and employment growth.

Recommendation 5: Increase the Investor Visa threshold

The Australian Investment Council recommends the Government increases the current threshold for the Investor Visa from \$1.5 million to \$2.5 million.

In a low growth environment, passive investment is not conducive to productivity and economic growth. The designated investment component of the SIV has proved to have a positive impact on the economy. Adopting this model for the Investor Visa would ensure better outcomes than the current investment requirement into passive Government bonds.

Recommendation 6: Maximise the benefits of the Investor Visa

The Australian Investment Council recommends the Government change the conditions for the Investor Visa to require investors to take more risk and to invest in the complying investment framework currently in place for the SIV. This framework is already well regulated and is understood by migration agents, investors and fund managers in the industry. This would result in Australia getting a better deal than the current investment requirement in passive Government bonds.

² [The Australian](#) May 15, 2015

³ The Hon Andrew Robb AO MP, Minister for Trade and Investment, 15 May 2015