AVCAL
Australian Private Equity &
Venture Capital Association Limited

2 May 2014

Committee Secretary
Joint Standing Committee on Migration
PO Box 6021
Parliament House
Canberra ACT 2600

By email: jcsm@aph.gov.au

Dear Sir/Madam,

Submission to Inquiry into the Business Innovation and Investment Programme

The Australian Private Equity and Venture Capital Association (AVCAL) welcomes the opportunity to make a submission to the Joint Standing Committee on Migration's Inquiry into the Business Innovation and Investment Programme (BIIP).

AVCAL represents the venture capital (VC) and private equity (PE) industry in Australia, which has a combined total of over $24 billion in funds under management for domestic and offshore investors. VC and PE firms invest billions of dollars in early stage and established businesses spanning right across almost every corner of our national economy. These investments help to support around half a million jobs, and contribute over four per cent every year to our national economic output.

We fully support the Committee Chair's recent statement that skilled migration is a key component of Australia's migration system and plays an important role in generating economic growth.

While Australia has had a long history of supportive policies to attract business entrepreneurs, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers and entrepreneurs who will help generate new and sustainable business opportunities within the Australian economy.

With this in mind, AVCAL is supportive of improvements to the BIIP migration pathway to help attract more overseas entrepreneurs to Australia to generate more jobs and investment. Our specific recommendations are set out in detail below.

AVCAL views the Business Talent visa (subclass 132), the Venture Capital Entrepreneur stream in particular, as an important component of the policy framework that can help Australia position itself as a hub for innovative entrepreneurs and businesses within our region.

It is generally recognised that migrant entrepreneurs can play a significant role in contributing to new job creation, additional tax revenues from income and profits, and the development of new innovations in Australia both in the near and long term. We do not believe it to be an over-statement to say that the potential impact of foreign-born entrepreneurs in building an innovation-based economy can be extraordinary and game-changing. In the US, it is estimated that half of its VC-backed companies today have at least one foreign-born founder.[1] These include

[1] National Venture Capital Association, letter supporting immigration reform in the Senate, 17 April 2013.

companies that are today recognised around the world as household brands, such as Google, eBay, Facebook and SanDisk, just to name a few.

To date, however, there has been little take-up of the Venture Capital Entrepreneur visa by foreign business founders wishing to resettle in Australia. In our view, the effectiveness of this programme can be improved in the following ways:

1. Broaden the programme to include start-up founders and allow acceptance into a qualifying incubator programme as an alternative eligibility requirement; and
2. Reduce the $1 million funding requirement to $100,000.

Recommendation 1: Broaden the programme to include start-up founders and allow acceptance into a qualifying incubator programme as an alternative eligibility requirement

On the announcement of the Business Innovation and Investment Programme (BIIP) in 2012, the then-Department of Immigration and Citizenship stated that:

> *"The Business Innovation and Investment Program is designed to increase entrepreneurial talent and diversify business expertise in Australia. It is positioned to target migrants that have a demonstrated history of success in innovation and business and are able to make a significant contribution to the national innovation system and to the Australian economy."*[2]

The Venture Capital Entrepreneur stream in particular was introduced because:

> *"Australia has an innovation-driven economy with pioneering scientific research institutions and world class research and development facilities, and the venture capital industry has a good track record of commercialising world-class products and services. The venture capital entrepreneur stream will be a channel for bringing foreign entrepreneurial expertise to Australia's national innovation system."*[3]

The current programme, by design, imposes a high barrier to entry for foreign entrepreneurs who would seek to apply for the visa. To meet its eligibility requirements, the foreign entrepreneur would have to be sufficiently successful and well known to the Australian VC investor to be able to secure a $1 million investment, as the availability of funding at that level is scarce and highly contested.[4]

AVCAL supports the programme's objective to attract overseas entrepreneurs with a successful track record to set up innovative high-growth businesses in Australia. In AVCAL's view, however, Australia would also benefit from immigration policies that build up the pool of entrepreneurial talent in Australia from the start-up level upwards.[5] In practice, most early stage VC investments have a home bias and take up from where angel or government/university funding leave off. The companies VCs invest in would typically already have received angel or pre-seed funding before VC even comes into the picture.

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[2] Department of Immigration and Citizenship, 2012.
[3] Ibid.
[4] For example, the World Economic Forum's *Global Information Technology Report 2014* found that VC availability in Australia (ranked 19 out of 148 markets) ranked below most other markets in the region including Hong Kong (1), Singapore (6), Malaysia (7), Taiwan (9), China (16), Indonesia (17) and New Zealand (18).
[5] This submission does not cover other related areas of immigration policy, such as programmes targeting significant investors or skilled workers, as these are outside the scope of the current inquiry. However, AVCAL notes that these are important components of a successful innovation ecosystem, particularly for a country such as Australia which is geographically remote and has high levels of human capital mobility.

Instead of competing head-on with larger innovation hubs such as Silicon Valley for only the most experienced entrepreneurs, a medium-sized economy such as Australia can reap significant "early-adopter" benefits by attracting founders of high-potential businesses that are still in the incubation or start-up stage. These may include those who have founded promising start-ups that have been accepted into incubator programmes, and who may even have already successfully secured early stage angel or VC funding of less than $1 million. There are now a number of mature Australian incubators and accelerator programmes such as ATP Innovations and Pollenizer that are well known in the early stage community, have substantial experience in assessing the quality of applicants, and have a track record of successful programme graduates.

It would clearly be in Australia's interests to attract more early-stage entrepreneurs to live here and remain invested in growing Australian jobs and operations (e.g. R&D, manufacturing, exports) even after their start-ups mature and expand beyond our borders. Broadening the visa programme to include acceptance into an Australian incubator as an alternative eligibility requirement would help achieve this expanded objective. This would also make Australia's visa settings consistent with other jurisdictions such as Canada and Singapore (see Appendix for a jurisdictional comparison of current Start-up/Entrepreneurship Visa programmes).

It should be noted that VC-backed technology companies, if successful, tend to scale up relatively quickly so the benefits of having the start-ups incubate locally can still be realised within a matter of a few years through new jobs created, skills gained as well as other benefits that flow through to the broader economy.

Recommendation 2: Reduce the $1 million funding requirement to $100,000

The Venture Capital Entrepreneur stream requires evidence of a legally binding agreement with a qualifying Australian VC firm showing that the applicant is a recipient of capital funding of at least $1 million to commence or expand business in Australia, or to commercialise a product.

The $1 million threshold reflects a misalignment between the objectives of the programme and the reality of the VC investment climate. This threshold directly limits the number of applicants that can meet the VC funding requirement, as there are only a small number of Australian VCs able to invest $1 million in a single investment round at any given time. The average investment round size has been falling over time and was less than $900,000 in FY2013. Irrespective of the quality of visa applicants, very few foreign entrepreneurs would qualify given the size and scale of the Australian VC industry (unless there is a significant influx of new capital into Australian VC funds). Such low visa take-up levels are unlikely to significantly help achieve the BIIP's objectives of increasing entrepreneurial talent and diversifying business expertise in Australia.

To help achieve the programme's objectives, AVCAL recommends lowering the $1 million investment requirement to $100,000 for consistency with comparable regional markets such as New Zealand and Singapore.

As an integrity measure, the programme currently requires that the qualifying VC firm must be an AVCAL member. If the funding threshold is reduced as suggested, AVCAL is willing to work with the Department of Immigration and Border Protection to implement appropriate due diligence procedures to ensure that new eligible VC investors meet the standards considered appropriate to ensure that the policy objectives of the BIIP are met. To provide certainty to both investors and applicants, it may be feasible, for example, for AVCAL to publish a standard application process for new members seeking to become a qualifying fund under this visa stream.

To monitor if the programme is meeting its objectives over time, the Government may also wish to consider implementing a simple annual reporting system to monitor the progress of a small set of key metrics, such as jobs created, annual revenue growth and sales/export growth. It is recommended that the visa status should not be contingent on the success of the initial business, as it should be recognised that start-up founders and their businesses often have varied pathways to success: they may fail, pivot and evolve. In addition, visa holders can

continue to contribute to the Australian innovation ecosystem through their experience and skills, for example through the transfer of knowledge within the local entrepreneur community.

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Recognising the significant economic value of staying ahead in the innovation stakes, most developed countries (and increasingly, emerging markets as well) use targeted Start-up and Entrepreneurship visa programmes to attract and retain innovative and technologically-savvy entrepreneurs to their shores.

Competition for the best talent is high. Addressing the current limitations of the Venture Capital Entrepreneurship visa framework would help further boost Australia's potential to become an attractive location for innovation-based enterprises within the region.

If you would like to discuss any aspect of this submission further, please do not hesitate to contact me or Dr Kar Mei Tang on 02 8243 7000.

Yours Sincerely,

Yasser El-Ansary
Chief Executive Officer
AVCAL

APPENDIX

Summary of Start-up/Entrepreneurship Visas in selected countries[1]

	Australia	US	Canada	New Zealand	Singapore
Name of programme	Business Talent Visa (VC Entrepreneur stream)	INVEST Visa[2] (X and EB-6 visas) ~proposed	Start-up Visa	Entrepreneur Work Visa, Entrepreneur Residence Visa	EntrePass Visa
Qualifying investors	Qualifying VC investors need to be members of AVCAL.	Qualifying VC, super angel, or a qualified government entity. Qualified VCs need to meet the regulatory definition of a VC operating company; have minimum capital commitments of US$10m; and for which the investment adviser has its primary office location in the US, is majority owned by US citizens or permanent residents, and has at least 2 years' similar advisory experience.	Designated list of angels, VCs and incubators. Designated VCs need to be members of the Canadian Venture Capital Association.	None	VC/Angel accredited by a Singapore Government agency.
Minimum investment size	AU$1 million	For immigrant (offshore) applicants: US$500,000. For non-immigrant (onshore) applicants: US$100,000.	C$200,000 (VC investment); C$75,000 (Angel investment); or acceptance into incubator programme	NZ$100,000 (self-funded)	SG$100,000; or acceptance into a Government-supported incubator.
Initial visa period					
Other tests	Innovation points test and state nomination.	Specific tests based on minimum revenue and job creation thresholds.	Proof of sufficient settlement funds to support self and dependants (from $11,824 to $31,291).	Points test. Min. capital investment of NZ$100,000 waived at Department's discretion for applicants proposing to establish high-growth businesses in science/ICT/export sectors.	As alternatives to the VC investment requirement, applicants can opt to meet certain IP tests, research collaboration tests, or the incubator acceptance requirement.
Launch date	1 July 2012	Bill in Congress	1 April 2013	24 March 2014	Oct 2003

1. As of 23 April 2014.
2. It should be noted that while the relevant Bill with the proposed INVEST visa programme (which is specifically targeted at startup entrepreneurs) is still in passage through Congress, the US has a range of other visa programmes which are currently widely used by foreign entrepreneurs. These include the Multinational Manager/Executive Visas, Extraordinary Ability Visas, Investor Visas, and Professional Visas.

Sources: Department of Immigration and Border Protection (Australia), National Venture Capital Association (US), Government of Canada, Immigration New Zealand, Ministry of Manpower (Singapore).