Prosperity Needs Diversity

NZ businesses will need more than $420b in capital by 2025 to support export growth to achieve the Government's ambitious "Growth Agenda". KPMG analysis suggests there will be a shortfall of around $115b that will need to be funded by foreign investment. There is evidence that start-up and early stage NZ businesses are likely to face the most severe funding constraints, compared to their more established peers. Investor migrants have the potential to provide a vibrant pool of capital, which can be a part contribution to addressing both of these issues.

New Zealand competes for investment capital and business expertise with other countries. Australia and Canada are key competitors due to having similar cultural, lifestyle and economic attributes to New Zealand. However, out of this trio, New Zealand has the smallest economy and is geographically the most distant. Therefore, we need to compete harder and smarter for our share of the global investor migrant pie.

Migrants are an important part of the fabric of New Zealand, contributing valuable knowledge, experience, cultural diversity and significant capital. Most migrants have a strong desire and ability to do more for New Zealand's prosperity. Conversely, currently almost 80% of investor migrants' funds go to government and corporate bonds. Whilst these are still beneficial to New Zealand, some simple changes to our immigration policies can bring more diversity and may help better leverage these migrants' funds and valuable networks to help New Zealand business to grow and expand.

We have over $3.5 billion from Investor Migrants

The current investor immigration policy came into effect in 2009, and has attracted over 1500 applicants, worth almost $3.5 billion to be invested in New Zealand's economy. Whilst New Zealand's immigration policies accept a diverse range of investments that would help migrants to qualify for a visa, most migrant investors put their funds in government and corporate bonds, and with only very few investing in businesses directly or venture and angel capital funds to support new Kiwi businesses.

These policies have been well received by migrants. There are over 500 investors' applications waiting for more than a year before assessment. There are similar numbers of investor migrants coming to New Zealand, compared with Australia. On a per capita basis, New Zealand is in fact more popular and successful in attracting high net worth investors. However, it is unclear whether the current policies are maximising the economic benefit for New Zealand by ensuring that this capital is deployed in the most effective manner. Further, the New Zealand Government has stated that its aspiration is to double the quantum of investment coming from investor migrants, which represents a significant opportunity for New Zealand.

This potentially reflects the current immigration policy settings' focus on traditional factors such as presence in New Zealand and/or English language requirements (which are more suitable, in our view, for assessing skilled migrants) rather than how best to utilise investor migrants' capital to grow the New Zealand economy.

KPMG believes the best way to grow the economy is for investor migrants' capital to be deployed in funding New Zealand businesses, particularly start-ups and early stage businesses, to reduce the funding shortfall for these business face and to support the increasing diversification and geographic spread of the economy and firms in New Zealand.

How do we compare on the international stage?

Canada and Australia also aim to attract high quality migrants who have skills, network and funds to benefit their economies. Both have both recently adjusted their investor immigration policies to require investor migrants to benefit the country "meaningfully". Meaningful investments are generally defined as at-risk investments into venture capital or local companies, rather than government bonds or securities. These policies are aimed at directing investor migrants' funds to start up and early stage businesses. New Zealand can look to learn from these efforts.

The Canadian and Australian immigration policies are more prescriptive and onerous for migrants than New Zealand's policies and require funds to go to in at-risk investments before a permanent residency will be granted. That prescription, however, provides greater capital for domestic businesses and arguably greater benefit to the country. These requirements also help identify desirable migrants speed up their immigration applications and subsequent investments.

Whilst we'd like to believe New Zealand is a special place and that migrants come here because of their passion about the lifestyle we can offer, the reality is that if our immigration policies remain the same, we won't realise the full potential migrants can bring. Host countries typically compete on being strong economies that are regarded internationally as being good places for doing business while offering a quality lifestyle. If we simply follow Canada or Australia to restrict investments without making adjustments to other criteria, migrants may choose countries with more favourable immigration programs.

Some thoughts on change – bring diversity into investments

We believe policy adjustments will help to achieve the aspirational economic goals outlined above while ensuring that New Zealand remains competitive and appealing for migrants to live, work and invest. New Zealand businesses need more capital, and migrants' investment funds can be directed to provide for that. From the migrants' perspective, however, making the right investment decision from the outset may be onerous.

Based on the data collected over the last 6 years on investor profile and investment behaviour, we believe some simple changes can be made to attract significantly greater overseas capital for New Zealand businesses. These changes are:

1. Fast tracking investor visa processing if investments are made into active investments;
2. Require active investments after a one year transitional period; or
3. Compulsory investment making a certain proportion of the investment into at-risk investments, and relax other requirements such as physical presence and English.

The devil is in the detail. How "active investment" is defined will require measured consideration. Ultimately, migrants have options on where to settle and invest, and are sensitive to immigration policy changes. If we desire migrants who are willing to invest significantly and connect New Zealand businesses internationally, perhaps policies should loosen the requirements such as English and time spent in New Zealand.

Detailed policy suggestions

Canada and Australia both have requirements for a portion of investor migrants' investment funds to be in "at risk" investments, whereas New Zealand does not. This is through investment in venture capital and private equity funds, which invest in start-up businesses in those countries. New Zealand (3 or 4 years), Canada (15 years) and Australia (4 years) also have minimum investment periods, therefore investor migrant capital is a particularly "sticky" form of investment. This makes it ideal for at least some of these funds to be invested in start-up and early stage businesses. The challenge for New Zealand is standing out from the crowd and to be careful in not replicating some of the more restrictive features of the Canadian and Australian policies (e.g. locking in funds for 15 years like Canada seems excessive).

KPMG's suggested approach is for Government to reconsider the policy settings for the 'Investor' and 'Investor Plus' categories to require a percentage of investment funds – say 20% – to be invested in venture and angel capital or similar types of investments. This could be through a designated fund which has the same investment profile (portfolio) as the New Zealand Venture Investment Fund (VIF). This would offer some comfort to migrant investors that the portion of their investment capital "at risk" is being invested in early stage companies that the New Zealand Government is happy to support through VIF (i.e. investor migrants would get the benefit of the due diligence carried out by VIF on these companies).

Alternatively, more adventurous investor migrants could be given the option of investing the "at risk" portion of their investment funds in privately managed venture and angel capital funds. One of the concerns is how such an "at risk" investment component may be viewed by potential investor migrants – i.e. would it make New Zealand more or less attractive?

On the one hand, such requirements are common place in potential destinations (see Canada and Australia above) so this would not be unexpected. However, if NZ wants to stand-out, an option is to provide investor migrants with a transitional period (of say 12 months) to decide how their "at risk" investment funds should be utilised (i.e. whether invested in a designated fund which invests alongside the VIF, or in other privately managed funds). This would allow investor migrants time to understand the New Zealand economic and business environment and seek appropriate investment advice. In the meantime, funds would need to be deposited in 1 year Government stock or commercial bonds (similar to the situation now with the investor and investor plus categories).

The "at risk" funds would then need to be invested for at least a minimum of 2 to 3 years and ideally more like 5 years (this would reward those investors who are willing to make the decision upfront).

Alongside the changes to how investment funds must be invested by investor migrants, consideration should be given to relaxing some of the other requirements. For this category of migrant, whose main contribution to New Zealand will be investment funds, there appears be little logic for a:

- English language requirement

- Minimum presence in NZ during investment – it is a reality that investor migrants may well have business interests outside of NZ which will need to be managed therefore imposing an arbitrary days count presence test seems counter productive
- Maximum age

The key message must be that New Zealand welcomes investor migrants, and these policies are not to raise the requirements to restrict immigration, but rather to incentivise qualifying investors by fast tracking their journey to be here, or to make it easier for people who genuinely want to be in New Zealand and contribute, to be here. After all, New Zealand need migrants and overseas capital to grow and fill the looming gap that we will have in support of our growing Kiwi firms.

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KPMG
cutting through complexity

Policy Comparison[i]

Key Categories / Key requirements	New Zealand				Australia			Canada
	Entrepreneur		Investor		Business Innovation and Investment			Immigrant Investor Venture Capital
	Entrepreneur	Entrepreneur Plus	Investor	Investor Plus	Investor	Significant Investor	Premium Investor	
Maximum Age	NA	NA	65	NA	55 (unless exceptional benefit)	NA	NA	NA
Business experience	Relevant experience	Relevant experience	3 years	NA	3 years directly relevant experience	NA	NA	No. Post-secondary education credential of at least one year, or over CDN $50m net worth.
Investment Funds	NZ $100,000	NZ $500,000	NZ $1.5m	NZ $10m	AUD $1.5m	AUD $5m	AUD $15m	CDN $2m With CDN $10m net worth
Settlement Funds	Sufficient for living	Sufficient for living	NZ $1m	NA	Subject state rules			NA
Investment Period	2 years of successful business	2 years of successful business	4 years	3 years	3 years 11 months or 4 years depending on when application was made	3 years 11 months or 4 years depending on when application was made	12 months	15 years
Investment type	Active business	Active business	Passive investments	Passive investments	Designated investment, including	AU $500,000 venture capital and	Complying premium investment	Investor Venture Capital (**IIVC**) Fund[1]

[1] Investor Venture Capital (IIVC) Fund. This fund will invest in innovative Canadian start-ups with high growth potential, for the benefit of Canada. The fund will be managed by BDC Capital, the investment arm of the Business Development Bank of Canada, and by participating fund managers that were previously chosen to manage Government of Canada investments under the Venture Capital Action Plan.

	introducing new benefits	introducing new benefits	including bonds	including bonds	government bonds	growth PE funds AU $1.5m approved managed funds in emerging companies on ASX AU $3m other passive investments	(including passive investments)	
English language	IELTS 4	IELTS 4	IELTS 3	NA	IELTS 4.5 (Not a mandatory requirement. May contribute to points, and may be substituted by paying tuition)			ITELS 5
Minimum presence in the new country during investment	Full time self-employment in New Zealand	Full time self-employment in New Zealand	146 days each year in last 3 years of investment	44 days each year in last 2 years of investment	2 out of 4 years before the application is made.	40 days each year; or 180 days each year for partner	No requirement	730 days in 5 years
Cap for intake	NA	NA	300	NA	NA	NA	NA	60 application and 60 in pipeline
Point System for selective invitation to apply	Yes	Yes	Yes	No	Yes	No	No. Must be invited to apply by Austrade only	No
Immigration's Processing timeframe	3 – 6 months	3 – 6 months	12 – 15 months	1– 3 months	6 – 9 months	6 – 9 months	NA. May be fast tracked.	NA currently. Aim to be 6 months.

[i] The information contained herein is of a general nature for illustrative purposes only. It is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.