

ACTIVE INVESTOR MIGRANT POLICY

Purpose

This paper proposes a new Active Investor Migrant Policy that would maximise the value of investor migrants and support New Zealand's economic transformation, while providing appropriate security and verification.

Executive Summary

Investor migrants can make a significant contribution to New Zealand's economic transformation through their business experience, international connections and financial capital. It is important that New Zealand does not miss the opportunity to support our businesses through investor migrants. An investor policy that attracts and facilitates these high value migrants while managing risks is essential for New Zealand.

Getting the investor policy right is difficult. The quality and contribution of investors can vary greatly and the quantity of applicants fluctuates depending on how strict policy requirements are. The current investor policy is clearly not working. It attracts very few applicants (18 applications in the year to date) and the stringent policy setting excludes some successful international business people who are interested in living and investing in New Zealand.

The current policy disconnects investor migrants from New Zealand businesses by requiring investment with the government. In addition, previous experience in New Zealand and overseas suggests migrants are predominantly investing to migrate (rather than migrating to invest), so they mostly invest only the minimum required.

I propose to introduce a new policy that will increase both the number of investor migrants and their contribution to New Zealand. This policy would position New Zealand to better attract serious investors. It is based on three principles: more active investment, segmented risk management and a stronger focus on financial capital. An acceptable investment excludes funds (directly or indirectly) invested in residential property development.

The proposed policy is tailored to different segments of the investor migrants market. Three segments have been identified according to their level of risk and their potential contribution. Policy requirements have been designed accordingly, differentiating the level of attractiveness:

1. Global Investors – top priority category for high value investors investing \$20 million (including \$5 million in active investment), which requires minimal policy controls and facilitated, fast-track processing.
2. Professional Investors – a second priority category for migrants investing \$10 million (including \$2 million actively), with moderate policy controls and facilitated, fast-track processing.
3. General (Active) Investors – a residual category for those investing a minimum of \$2.5 million. It has stringent policy controls and applicants are selected through a points system. While the minimum investment

requirement for General (Active) Investors is semi-active, the points system would prioritise those offering the greatest amount of human capital spill-over.

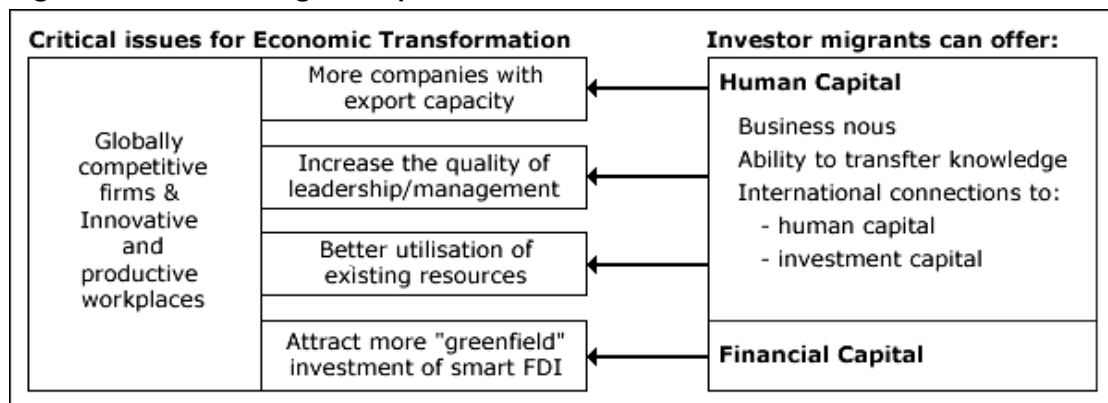
Given previous experience of widely fluctuating application levels, I propose to place a cap on the policy. The proposed cap is set at 1,000 places initially (or around 300 applications). This cap would help to stabilise the quantity and to ensure the quality of investor migrants. It is proposed that the Minister of Immigration may review and adjust this cap if deemed appropriate, provided the adjustment is within the New Zealand Residence Programme.

The proposed policy will retain the existing robust policy controls and introduce new enhanced risk management mechanisms. The proposed policy minimises the risk of money-go-round schemes by strengthening the assessment of the level of investment. At the beginning of, during and at the end of the investment period, applicants would need to provide independently audited financial documents to satisfy the immigration officer that an acceptable investment was made, in a business that is beneficial to New Zealand. Investment auditing would be at the applicants' expense, so money-go-round schemes would become much more expensive with a much lower chance of success.

Context

Investor migrants can make a critical contribution to New Zealand's economic transformation through both their human and financial capital contribution (Figure 1). As noted in *Economic Transformation – Giving Effect to the Five Themes* [CAB Min (06) 31/3], 151 firms are responsible for three quarters of New Zealand exports and only 580 firms export more than \$5 million per annum. It is important that New Zealand grow more internationally connected firms. This means that many New Zealand companies need business contacts, knowledge and financial capital to expand and develop into 'innovative, productive, and globally competitive firms'. All of these can come from investor migrants.

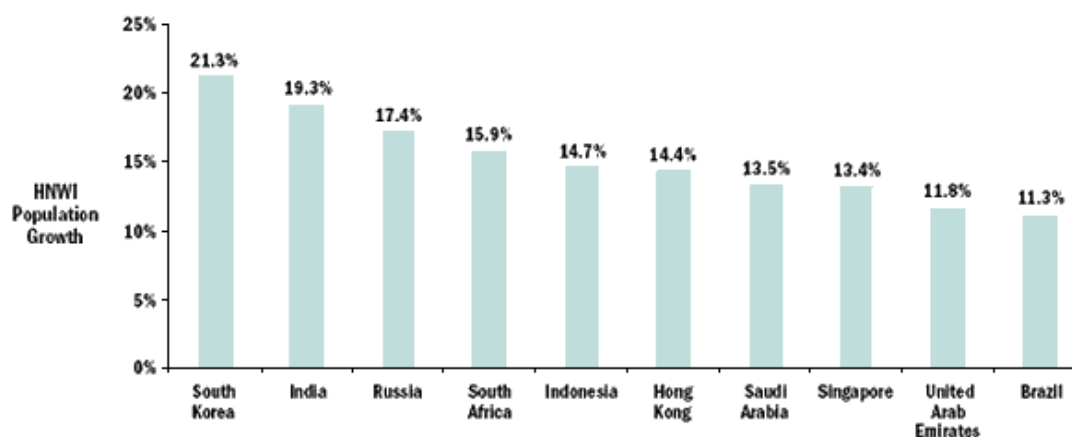
Figure 1: Investor migrants' potential contribution



Investor migrants are highly sought after internationally and competition for them is fierce. Many countries offer migration opportunities for investors, including both of our key competitors (refer to Appendix 1 for a comparison with Canada and Australia). However, with greater wealth comes greater mobility. High Net Worth

Individuals (HNWI) can be defined as people with individual assets in excess of US\$1 million. Latest research shows that there are 8.7 million HNWI around the world. Many of them have financial accounts overseas (37 percent), and residence in multiple countries (28 percent).¹ Top HNWI growth countries are summarised in Figure 2.

Figure 2: HNWI population growth by selected market, 2004-2005



The current policy is, however, not delivering adequately for New Zealand. The opportunity is to create a policy that contributes more directly to economic transformation, while still managing necessary quality and security risks. The proposed policy encourages investment that actively works for New Zealand and generates greater human capital spill-over as a result. The proposed policy would be branded as an exclusive, premium immigration category, filling the gap at the top end of our immigration product mix.

Background

While the intention behind investor policies (economic development) has been consistent over time, Table 1 outlines how policy settings have changed.

Table 1: Major changes to investor policies

| Year | Major policy changes | Comments |
|------|--|--|
| 1991 | Invest for two years in one of these options: \$700,000 passive \$625,000 active (Auckland/Wellington) \$500,000 active (elsewhere in NZ) | Business Investment Category was popular with migrants but failed to attract active investment as policy intended. Some active investors fell victim to scams. |
| 1995 | Direct investment (25 percent or more in a NZ firm) of \$750,000 – \$3,000,000 for two years, age limit of 65, IELTS 5 required ² | A tight points system, with few migrants approved |
| 1999 | \$1 million (active or passive) for two years, increased age limit up to 84 and decreased English language requirement to pre-purchased lessons (or IELTS 4) | Policy relaxed with a points system that attracted and approved many applicants (but many struggled to settle) |

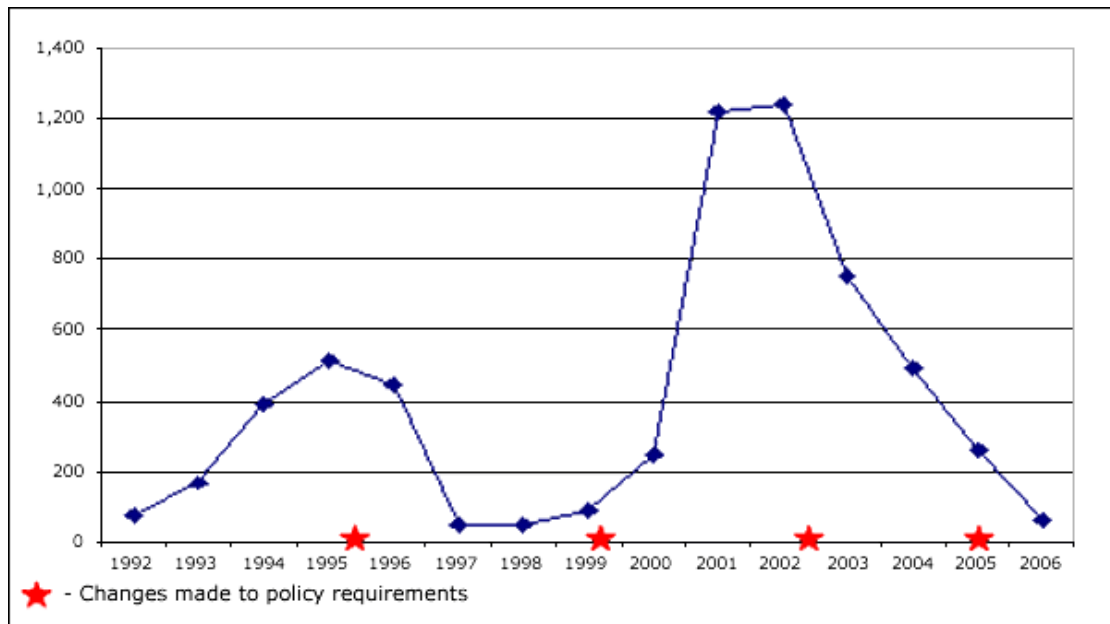
¹ *World wealth report: 2006*, Merrill Lynch and Capgemini, 2006.

² International English Language Testing System (IELTS)

| Year | Major policy changes | Comments |
|------|--|--|
| 2002 | Tighter English language requirements (IELTS 5) | Led to an 80 percent reduction in applications |
| 2005 | \$2 million deposited with the government, with a return equal to the rate of inflation ³ | Unpopular with migrants |

These policy changes were set in response to issues related to the quality of investor migrants and the value of their contribution (set out in Appendix 1). Changing policy requirements has led to widely fluctuating flows of investor migrants (refer to Figure 3).

Figure 3: Number of applications approved under investor policies



Note: Applications may be approved in the same year under different policies. For example, 2005 and 2006 approval numbers include applications made under the previous policy.

Volatility is undesirable for a number of reasons. It does not provide positive outcomes for the New Zealand economy. It presents logistical challenges to the Department of Labour, and these have cost implications (e.g. system changes and staff training). Finally, it sends migrants mixed signals.

Challenges with the Current Policy

The current investor policy was introduced in 2005. It does not have a points system, the age limit is 54 and it requires funds to be deposited with the government. Its objective is to attract migrants with both human and financial capital, to maximise and accelerate New Zealand's business capacity, global connectedness and sustainable growth [CAB Min (04) 21/10]. This policy objective is still relevant, but the current policy is not working in three ways:

³ Migrants may withdraw 50% of funds after two years for reinvesting in an acceptable active investment.

1. It is attracting very few applicants⁴ and it is missing out on some high value investor migrants who can significantly contribute to economic transformation.
2. It fails to connect investor migrants to New Zealand businesses. Depositing funds with government means investor migrants' human capital is not utilised in business. They can only make a fiscal contribution rather than contributing to the broader economy.
3. Policy requirements do not distinguish between different types of investors. This means high value international business people wishing to live and invest in New Zealand may not qualify (e.g. do not meet the age criteria).

It is also important to note that the underlying problem for any investment-driven immigration policy is that migrants consider immigration and investment as 'separate issues, each with its own logic'.⁵ In general, for lifestyle destinations like New Zealand, Australia and Canada, applicants are motivated to invest because they want to migrate. This means investor migrants often select more passive investment and avoid utilising their human capital.

Three Principles for a New Policy

I propose to address these challenges through introducing a new policy based on three principles:

1. More active investment (investing directly or indirectly in New Zealand firms). This would increase the attractiveness of the new policy to genuine investors by allowing them to select more profitable investment options. It would also strengthen the link between investor migrants and New Zealand businesses, providing more opportunities for human capital spill-over.
2. Segmented risk management (distinguishing between different types of investor migrants). This would provide the proposed policy with different levels of policy controls for different types of investors. It would also help to attract more investor migrants by accepting greater risks in some areas (e.g. English level and settlement funds) in exchange for more high value migrants.
3. Stronger focus on financial capital (investing a greater amount). This would increase the investor migrants' financial contribution to New Zealand. More importantly, it would also motivate migrants to maximise their investment outcome. This would result in a greater return from their human capital.

Putting these three principles into practice would create a new Active Investor Migrant Policy capable of making a significant contribution to economic transformation. The new policy would facilitate the entry of investor migrants, whose human and financial capital would be utilised to support the development of innovative, productive, globally competitive firms.

⁴ 18 applications were accepted for processing from 1 July 2006 to end of April 2007.

⁵ Dr Alan E. Nash, *The Economic Impact of Canada's Business Immigration Program: a Critical Reappraisal of Theory and Practice*, 1996, Symposium on Immigration and Integration.

The New Active Investor Migrant Policy

Policy Overview

A complete paradigm shift is needed for the new Active Investor Migrant Policy. Segmenting different types of investors has identified three categories:

1. Global Investors – the top priority category for high value investors investing \$20 million (including \$5 million in active investment), which requires minimal policy controls and facilitated, fast-track processing.
2. Professional Investors – a second priority category is for migrants investing \$10 million (including \$2 million actively), with moderate policy controls and facilitated, fast-track processing.
3. General (Active) Investors – a residual category for those investing at least \$2.5 million. It has stringent policy controls and applicants are selected through a points system to prioritise migrants who can offer the greatest amount of human capital spill-over.

Minimum policy requirements (summarised in Table 2) have been designed to reflect the levels of risk and reward and the level of attractiveness of each segment.

Table 2: Policy summary (current policy and the proposed policy)

| | Current Policy (single category) | Proposed Policy (segmented categories) | | |
|--------------------------------|--|---|---|--|
| | | Global Investor Category | Professional Investor Category | General (Active) Investor Points System |
| Investment capital | \$2M for 5 years. Deposit with the Government (interest = inflation) | \$20M for 4 years. At least \$5M active (the rest can be semi-active) | \$10M for 4 years. At least \$2M active (the rest can be semi-active) | \$2.5M for 4 years. Must be at least semi-active |
| Min. business experience | 5 years (simple definition) | 4 years (improved definition) | 4 years (improved definition) | 4 years (improved definition) |
| Max. age | Up to 54 | None | Up to 64 | Up to 54 |
| Min. English language required | IELTS 5 | None | IELTS 4 (2/4 modules) | IELTS 5 (2/4 modules) |
| Min. settlement funds | None | None | None | \$1M |
| Min. time required in NZ | 20% in total | 20% every year | 30% every year | 40% every year |

*Criteria listed are the absolute minimum. The points system will prioritise younger applicants with more business experience or financial capital.

The new policy would be managed by a cap to ensure stability and quality. A relatively low cap is proposed, at 1,000 persons per annum (approximately 300 applications). As noted above, Global and Professional investors would be

selected first. The General (Active) Investor category, based on a points system (see paragraphs 35-36), will account for the residual places, selecting the applications with the highest points to up to the cap (if possible).

If the cap greatly exceeds the supply of investor migrants, applicants are likely to have only the minimum points required under the policy. Therefore, the cap would be set as part of the New Zealand Residence Programme (NZRP) each year, to adjust for the market and maintain a steady flow of quality investors. It is proposed that the Minister of Immigration may review and adjust this cap within each year if deemed appropriate, provided the adjustment is within the Skilled and Business Stream of the NZRP.

Relationship-driven out-reach marketing is important for attracting and retaining Global and Professional investors. The Department of Labour (the Department) would include active and targeted marketing for investor migrants in the overall marketing effort proposed in the New Business Model. In addition, New Zealand Trade and Enterprise (NZTE) and the Ministry of Foreign Affairs and Trade (MFAT), who are supportive of the proposed changes, would work collaboratively with the Department to help promote the new policy, as they currently do with other policies (e.g. the Skilled Migrant Category).

Global and Professional investor migrants would have access to immigration processes that are less bureaucratic and more user-friendly, and to a fast-tracked application assessment. These high-value clients would have access to a personal manager, who would facilitate immigration, settlement and investment processes. The personal manager would liaise with other agencies to ensure that their clients are well connected to the type of settlement and investment services suitable to their needs. For example, the personal manager could work with NZTE to connect investors to New Zealand firms through the Business Escalator and Incubators programmes.

Specific Proposals

Proposal: type of investment

Migrants must invest for four years, while complying with the proposed policy requirements on investment. The proposed policy only allows for active and semi-active investment:

1. active investment is a direct investment in a New Zealand firm or establishing a new enterprise, which results in the migrant becoming a significant shareholder (for example, the migrant purchases 10% of the company).
2. semi-active investment is a direct or indirect (includes managed funds) investment in a New Zealand firm, which does not result in the migrant becoming a significant shareholder.

Policy rationale: The proposed policy only requires active investment from Global (a minimum of one-quarter active) and Professional (a minimum of one-fifth active) investors, to avoid forcing migrants with less investment capacity into high risk business ventures. Semi-active investment is set as the minimum

required for General (Active) Investors to bring them closer to New Zealand businesses. The level of active investment is set to reflect the fact that many New Zealand firms are reluctant to receive a large amount of investment and that investor migrants tend to prefer more passive investment, at least initially.

Investor migrants would be required to provide evidence (at their own expense) to demonstrate that they have made a genuine effort to make an acceptable investment. An acceptable investment excludes funds (directly or indirectly) invested in residential property development. An acceptable investment is:

1. capable of a commercial return under normal circumstances
2. not for the personal use of the applicant(s)
3. invested in New Zealand in New Zealand currency
4. invested in companies or funds that comply with all relevant laws in force in New Zealand, and
5. beneficial to New Zealand.

An investment may be considered beneficial to New Zealand, if it is made in a New Zealand company capable of promoting New Zealand's economic growth through, for example:

1. introducing new, or enhancing existing, products or services; or
2. creating new, or expanding existing, export markets; or
3. creating employment (other than employment for the principal applicant);
or
4. revitalising an existing business; or
5. introducing new, or enhancing existing technology, management or technical skills.

Policy rationale: New Zealand needs investor migrants who can contribute to our economic transformation by supporting and developing innovative, productive and globally competitive firms. Therefore, the proposed policy would strengthen the acceptable investment definition to ensure that investor migrants use their entrepreneurial and management skills to significantly enhance New Zealand businesses and not, for example, simply purchase a corner dairy.

The proposed policy removes the requirement on migrants to maintain the monetary value of their investment.

Policy rationale: More active investment is usually associated with a greater level of business risk. It is not uncommon, even for managed funds (the least risky option), for investor to lose value in the first couple of years of investment. This means it is acceptable that some investors may genuinely be unable to maintain the same level of investment. Forcing investors to maintain the value of investment would discourage genuine active investors. However, an acceptable investment still has to be 'capable of a commercial return under normal circumstances'. A money-go-round scheme would not be considered as an acceptable investment because it would not be 'beneficial to New Zealand' and it is unlikely to 'comply with all relevant laws' (tax evasion).

Proposal: source of funds

The new policy proposes to waive the unencumbered funds⁶ requirement for Global and Professional investors, on a case-by-case basis. The ‘unencumbered’ requirement would still apply to General (Active) Investors.

Policy rationale: Making high value investors liquidate their assets to invest in New Zealand may not necessarily be a wise investment decision (or beneficial for New Zealand). In some situations, allowing migrants to maintain their businesses overseas may be more beneficial. Consider the case where an investor has \$20 million invested in a chain of retail stores and this investor could borrow against the retail chains to secure the funds to invest in a New Zealand fashion business (which could export its products overseas through the investors’ retail stores). The unencumbered funds requirement would still apply to General (Active) Investors to ensure that investment would not lead to severe financial strain.

Proposal: type of investor

To ensure that approved migrants are genuine business people with the attributes needed in New Zealand, the new policy proposes to refine the current definition of business experience⁷ to capture:

experience acquired through business ownership or management, in planning, organisation, senior change-management, direction-setting and mentoring (in a lawful business enterprise which is not set up primarily for passive or speculative purposes, and has at least five full-time employees and an annual turn-over of NZ\$1 million).

The new policy proposes to remove the age limit for Global Investors, increase the age limit to 64 for Professional Investors and retain the current age limit of 54 for General (Active) Investors.

The new policy proposes (for those without an English speaking background) to remove the English language requirement for Global investors, reduce to IELTS 4 (in two out of the four modules) for Professional Investors and IELTS 5 (in two out of the four modules) for General (Active) Investors.

Policy rationale: A new business experience definition would help to ensure that applicants are genuine business people with the ability to invest more actively and profitably. The age limit is relaxed for Global and Professional investors because they will make a very significant contribution, which can offset possible fiscal costs associated with older migrants. Similarly, the English language requirement is adjusted in accordance with migrants’ resources for accessing English language support.

⁶ These are funds that are not subject to any mortgage, lien, charge and/or encumbrance (whether equitable or otherwise) or any other creditor claims whatsoever.

⁷ Definition of business experience (under the current investor policy). Business experience is defined as either: *owning* (at least 25 percent) a lawful business enterprise, not set up primarily for passive or speculative purposes for five years, OR managing a business for five years (the planning, organisation and control of the activities of a business).

Proposal: points system for General (Active) Investor Category

Taking into account of the elements discussed above, the General (Active) Investor category would be managed by a points system. Combined with a more targeted definition for business experience (paragraph 31), the General (Active) Investor category would prioritise top investors who can make an immediate skill, knowledge and capital transfer, for the development and expansion of New Zealand firms. The points system would be designed to recognise:

1. the importance of having both financial and human capital
2. the benefit of active investment⁸, and
3. the value of export linkages, entrepreneurship and management skills.

Information withheld under section 9(2)(f)(iv) of the Official Information Act 1982

Proposal: quality of settlement

The new policy proposes to require General (Active) Investors to have \$1 million in settlement funds. The funds need to be legally acquired and be unencumbered, but they need not be deposited in New Zealand.

The proposed policy would also require applicants to spend a certain amount of time in New Zealand, to improve settlement outcomes for investors and their family⁹:

1. Global Investor – 20 percent each year in New Zealand
2. Professional Investor - 30 percent each year in New Zealand, and
3. General (Active) Investor - 40 percent each year in New Zealand.

Parts of the Returning Residents' Visa (RRV) policy would need to be aligned with the proposed changes regarding the amount of time investor migrants are required to spend in New Zealand and the two-year permit check (see below).

Policy rationale: Requiring settlement funds demonstrates that General (Active) Investors have the capacity to settle if their investment cannot provide enough return. This requirement is not necessary for Global and Professional investors because they have a more substantial level of investment funds. Increasing the amount (and frequency) of time migrants are required to spend in New Zealand is necessary because the current policy setting allows settlement outcomes that could be less than desirable.¹⁰ Higher value migrants would be allowed to have more time overseas because they are more likely to have international connections that need to be maintained, which may be valuable for building New Zealand's export capacity. Overall, increased time in New Zealand allow increased opportunity for human capital spill-over.

⁸ However, it is important to avoid over-incentivising active investment, which may distort the market and lead to questionable investment.

⁹ This requirement may not apply to the first year of migrants' residence visas, which migrants have 12 months to activate.

¹⁰ The current policy only requires principle applicants to spend the last 41 days of the five-year investment period in New Zealand, provided that they own a house and their family is in New Zealand.

Proposal: changes in the process

The new policy proposes to grant applicants a 12-month temporary permit (renewable for another 12 months) as part of their Approval in Principle (AIP). During this period, it is expected that the investor migrant will research investment opportunities and then transfer their funds into an investment that meets the requirements of the policy. At that stage, they would receive their residence visa/permit.

Under the proposed policy, migrants need to report to Immigration New Zealand after they have held their residence visa/permit for two years. Residence may be revoked at this stage if migrants have not been complying with their investment and immigration conditions. The investment must be maintained for four years, before all permit conditions are removed and residence confirmed.

Policy rationale: A longer AIP period would be necessary for the proposed policy because applicants would need more time to conduct research and transfer their funds into an appropriate investment.¹¹ A two year check is needed, given the investment and other risks associated with more active investment.

Proposal: transiting between policies

Migrants under the current policy would be given the option to:¹²

1. continue with their existing policy: this includes the ongoing deposit of funds with the Debt Management Office (Treasury), in accordance with the investors' contracts with the Department, or
2. re-apply under the new policy: this process could be facilitated by a fee waiver (although approval is not guaranteed), which may entail the repayment of funds (with interest) currently deposited with the Debt Management Office.

Policy rationale: Given that only a small number of migrants have applied or been approved under the current policy, facilitative transitional options are possible. This would offer these migrants the option of the new policy and would minimise the risk of damaging New Zealand's reputation as a facilitative and welcoming migrant destination.¹³

Risk Management

The proposed policy will retain many of the existing robust policy controls. For example, funds would still need to be legally acquired, and the existing health

¹¹ Under the current policy, applicants are given an AIP for six months to transfer the nominated funds to a New Zealand bank account.

¹² The transition will be handled by the Department of Labour in conjunction with the Debt Management Office, which administers the calculation of interest due and the receipt and repayment of funds deposited.

¹³ Those who have applied or have been approved in principle (about 25 cases) can withdraw their application and reapply if they wish to do so. Those who have already gained residence (around 15 cases) can apply to the Minister of Immigration to update their investment and immigration conditions to align with the new policy.

and character requirements would still be in place. In addition, enhanced risk management mechanisms have been designed to minimise other possible risks.

Money-go-round: These schemes can take various forms, but the principle is the same. Generally, an applicant would set up and invest in a business purely for an immigration purpose, then channel the funds invested in this business to another account, disguised as standard business transactions.

For example, migrant X invests \$1 million in a New Zealand company. This company pays a consultant company overseas \$100,000 every month for 10 months as 'consultation fees'. The consultant company overseas is owned by migrant X. So the 'profit' is eventually withdrawn and transferred back to the migrant's personal account.

The proposed policy minimises the risk of money-go-round schemes by strengthening the assessment of the level of investment. Under the proposed policy, applicants would need to ensure that they can provide enough evidence to satisfy the immigration officer that an acceptable investment was made, in a business that is beneficial to New Zealand. Evidence may include a valuation of the investment and an audited set of accounts. This would be required at the beginning of, during and at the end of the investment period.

This means the proposed policy would be much tougher for any who might try to take advantage of the system with a money-go-round scheme. Applicants would need to provide (audited) financial documents, to show that their funds were not for personal use and were capable of making a commercial return under normal circumstances. If immigration officers still had doubts after the initial assessment, audited documents from independent auditors (as specified in section 199 of the Companies Act 1993) could be requested at the applicants' expense. Therefore, under the proposed policy, money-go-round schemes would become much more expensive with a much lower chance of success.

It is important to note that, under the proposed policy, Immigration New Zealand staff would receive extra training on interpreting financial documents. However, auditing would be conducted by professional, independent auditors who are better equipped to physically inspect and assess investments in detail. The New Zealand Institute of Chartered Accountants and the Investment and Savings and Insurance Association of New Zealand Inc have both been consulted on the investment assessment aspects of this policy. Both organisations are willing to work with the Department of Labour further to finalise the operational details.

Migrants discouraged by policy processes: Migrants may perceive the additional checking process and the possibility of having to provide expensive audited documents to be troublesome and discouraging. However, for General (Active) Investors, the minimum investment required is managed funds, which is a relatively simple process and documentation to verify the investment would normally be provided by the fund managers. For Global and Professional investors, if their active investment was made in legitimate New Zealand firms, audited accounts would most likely be produced annually for normal business and

tax purposes. Investment checks proposed should not be a great burden unless the migrant purposely discards standard investment/business documents.

Astronaut families: The proposed policy significantly increases the amount and frequency of time required in New Zealand.

Net fiscal benefit: Allowing more active investment increases the fiscal return through utilising the funds more productively, and is therefore more likely to support economic transformation. In addition, the points system proposed for General (Active) Investors, combined with a numerical cap, would ensure that New Zealand gets the best investor migrants the market has to offer.

The Complete Package

The proposed policy would address the key problems associated with current and previous policies with new initiatives improving each step of the process. Each facilitative measure is balanced by an appropriate level of risk management. This would produce a pareto-superior outcome where, compared to the current policy, both migrants and New Zealand would be better-off.

Estimates for the number of applications under the proposed Active Investor Migrant Policy are difficult. For Global and Professional category, 5-20 applications per year may be achievable. Estimates for General (Active) Investors are higher, with around 100-200 applications expected annually. The actual market response may be lower. However, this number would increase over time, with increased marketing through the proposed new Immigration Business Model.

Implementation

If agreed, the new policy will be announced and the operational policy developed. This operational policy may be published to enable potential investor and their agents to prepare applications. System changes to the Immigration Application Management System, staff training and all the forms and manuals can be completed for the November scheduled release of immigration changes. This process will include marketing and awareness building in key markets.

Consultation

The following agencies have been consulted and agree with the proposals in this paper: Ministries of Economic Development and Foreign Affairs and Trade, New Zealand Trade and Enterprise, and Treasury. The following agencies have been informed: the Department of Prime Minister and Cabinet, Ministries of Education, Health, Pacific Island Affairs, Social Development, and Tourism, Inland Revenue, New Zealand Customs Service, the Office for Ethnic Affairs and Te Puni Kokiri.

Financial Implications

Information withheld under section 18(d) of the Official Information Act 1982

Legislative and Human Rights Implications

The proposals in this paper have no identified implications in regard to legislation, regulations or human rights.

Publicity

I recommend that the Minister of Immigration announce the policy changes, if agreed, through a comprehensive communications strategy.

Recommendations

I recommend that the Committee:

Background

1. **note** that investor migrants can make a critical contribution to New Zealand's development of innovative, productive, and globally competitive firms through their business experience, international connections and financial capital;
2. **note** that the current policy is not working in three ways:
 - a. it is attracting very few applicants;
 - b. it fails to connect investor migrants to New Zealand businesses;
 - c. policy requirements do not distinguish between different types of investor migrants;
3. **note** that the new policy is based on three principles:
 - a. more active investment;
 - b. segmented risk management; and
 - c. stronger focus on financial capital;

Overall policy structure

4. **agree** that the proposed policy segment investor migrants into three categories: Global, Professional and General (Active) Investors;
5. **note** that these policy requirements reflect the level of risk/reward for each category;
6. **agree** to the new Active Investor Migrant Policy having the basic policy requirements outlined in Table three;

Table 3: Policy summary

| | Proposed Policy (segmented categories) | | |
|--------------------------------|---|---|--|
| | Global Investor Category | Professional Investor Category | General (Active) Investor Points System |
| Investment capital | \$20M for 4 years. At least \$5M active (the rest can be semi-active) | \$10M for 4 years. At least \$2M active (the rest can be semi-active) | \$2.5M for 4 years. Must be at least semi-active |
| Min. business experience | 4 years (improved definition) | 4 years (improved definition) | 4 years (improved definition) |
| Max. age | None | Up to 64 | Up to 54 |
| Min. English language required | None | IELTS 4 (2/4 modules) | IELTS 5 (2/4 modules) |
| Min. settlement funds | None | None | \$1M |
| Min. time required in NZ | 20% every year | 30% every year | 40% every year |

7. **agree** that the proposed policy be managed by a cap, to be adjusted annually as part of the New Zealand Residence Programme;
8. **agree** that the Minister of Immigration may review and adjust this cap if deemed appropriate, periodically after the cap has been set by Cabinet, provided the adjustment is within the Skilled and Business Stream of the New Zealand Residence Programme;
9. **invite** the Minister of Immigration to finalise the points system for General (Active) Investors, following market testing and consultation;
10. **agree** that the points system would recognise:
 - a. the importance of having both financial and human capital
 - b. the benefit of active investment, and
 - c. the value of export linkages, entrepreneurship and management skills;
11. **note** that relationship-driven outreach marketing is important for attracting and retaining Global and Professional investors, and the Department of Labour will participate in the overall marketing effort proposed in the new Immigration Business Model;
12. **note** that Global and Professional investor migrants will have access to fast-tracked immigration processing
13. **note** that Global and Professional Investors will also have access to a personal manager to facilitate immigration, settlement and investment processes, which may include connecting investor migrants to New Zealand businesses through the Escalator and Incubators programme;

Specific proposals

14. agree that the investor policy only allow for active and semi-active investment;
15. agree that an acceptable investment excludes funds (directly or indirectly) invested in residential property development;
16. agree that an acceptable investment contributes to New Zealand's economic transformation by supporting and developing innovative, productive and globally competitive firms;
17. agree that the requirement on migrants to maintain the monetary value of their investment be removed;
18. agree that the requirement that funds be legally acquired be continued, but allow, on a case-by-case basis, for encumbered funds, from Global or Professional Investors only;
19. agree that the current definition of business experience be refined to include 'experience acquired through business ownership or management, in planning, organisation, senior change-management, direction-setting and mentoring (in a lawful business enterprise which is not set up primarily for passive or speculative purposes, and has at least five full-time employees and an annual turnover of NZ\$1 million)';
20. agree that successful investor applicants be granted 12 month temporary permits (renewable for another 12 months) as part of their Approval in Principle;
21. agree to the introduction of a two year check to ensure that investor migrants are complying with their permit conditions, and revocation of residence at this stage if holders are not complying with their permit conditions;

22. agree that the investment must be maintained for four years, with a final check before all permit conditions are removed and residence confirmed;
23. agree that parts of the current Returning Residents' Visa policy be adjusted to align with the proposed changes regarding the amount of time migrants are required to spend in New Zealand and the two-year permit check;
24. agree that those who have applied or have been approved in principle under the 2005 Investor Policy be given the option to:
 - a. continue with their existing policy, or
 - b. re-apply under the new policy, which could be facilitated by a fee waiver (although approval is not guaranteed);

Financial implications

Information withheld under section 18(d) of the Official Information Act 1982

Publicity

25. **invite** the Minister of Immigration to announce the policy changes through a comprehensive communication strategy.

Hon David Cunliffe
Minister of Immigration

APPENDIX

International Comparison

| | New Zealand | Australia | | Canada |
|------------------------------|--|--|---------------------------------------|---|
| | | Investors | Retirement | Points system |
| Business experience | Min 5 years | Min 3 years | None | Min 2 years |
| Age (years) | 54 | Under 45 | Over 55 | No minimum |
| English | IELTS 5 | IELTS 5 | No minimum | No minimum |
| Investment - Format | Government (interest rate = inflation) | Government securities – approx. 6% | Government securities – approx. 6% | Government – no interest |
| Investment – Min amount | NZ \$2M | AUS \$1.5 (NZ \$1.7M) | AUS \$.75 (NZ \$0.86M) | CAN \$400,000 (NZ \$525,000) |
| Investment - Length | 5 years – can withdraw \$1M after 2 years | 4 years | As long as the permit is valid | 5 years |
| Net assets | None | AUS \$2.25M (NZ \$2.6M) | AUST \$0.75M + \$65,000 annual income | CAN \$800,000 (NZ \$1M) |
| Time required in the country | 20% | 50% | None | 40% |
| Type of permit | Permanent – revocable | Temporary (4 years) to permanent | Temporary (4 years) – renewable | Permanent – revocable |
| Current size (2005/06) | 10 applications (0.03% of Skilled/Business Stream) | 178 applications (0.2% of Skill Category*) | N/A | 2,590 applications (1.7% of Economic Class) |

* Introduced in 2003, residence category yet to become operational, numbers refer to temporary applications (and its proportion assumes all temporary applications convert to residence at the current level).

New Zealand's previous experience with investor policies

| Major issues identified | Past policy responses | Outcomes |
|--|--|---|
| Settlement: Investor migrants less settled in NZ – higher level of long-term absences | A tougher English language requirement introduced in 2002 to increase settlement capacity | Huge decline in the number of applicants, but absence rate remained high |
| Fiscal contribution: Astronaut families (principal applicants work overseas, leaving family in NZ) and older migrants may offer less fiscal benefit | Increased the minimum investment amount with successive policies. The age limit was also changed from 84 to 54 years in 2005 | Current fiscal contribution is still questionable (with few migrants approved and limited funds, generating nominal return at about 3.25 percent) |

| Major issues identified | Past policy responses | Outcomes |
|---|---|--|
| <p>Use of funds: Active investment provides greater return but more risks. Passive investment has fewer risks but has low return for NZ</p> | <p>Policy shifted between active and passive investment over the years 1991 – active or passive 1995 – active 1999 – active or passive 2005 – with the government</p> | <p>Policy required migrants to maintain original investment value, so active (higher risk) investment was discouraged. Active investment requirements led to business opportunities being developed by onshore agencies, including banks; some were dubious. (Least knowledge of local environment at point of application.)</p> |
| <p>Funds deposited with the government: Moderate financial return with some minor risks, but limits investor migrants' capacity to 'invest'</p> | <p>Current policy requires migrants to deposit funds with the government to support infrastructural projects – in exchange for a return that is equal to the rate of inflation</p> | <p>This policy change led to a 95 percent reduction in the number of investor migrants and disconnects investors from New Zealand businesses.</p> |