



Migration Advisory Committee
3rd Floor - Seacole Building
2 Marsham Street
London SW1P 4DF

By email: mac@homeoffice.gsi.gov.uk

12 June 2015

Dear Sir or Madam,

Re. Call for Evidence: The economic impact of Tier 1 (Entrepreneur) route

Introduction

The British Private Equity and Venture Capital Association (“BVCA”) is the industry body for the private equity and venture capital industry in the UK. With a membership of over 500 firms, the BVCA represents the vast majority of all UK-based private equity and venture capital firms, as well as their professional advisers. Our members have invested £30 billion in over 3,900 UK-based companies over the last five years. Companies backed by private equity and venture capital in the UK employ around 790,000 people and almost 90% of UK investments in 2013 were directed at small and medium-sized businesses.

We welcome the opportunity to respond to the MAC’s call for evidence to inform the government’s view on the economic impact of the Tier 1 (Entrepreneurs) route. In our response, we concentrate on the areas that are of particular relevance to our members. We believe that migrant entrepreneurs play an increasingly important role in the UK economy, by bringing fresh ideas, creating new jobs and providing a boost to the economy when it is most needed. Immigration and visas act as one catalyst along with the education system towards creating a skilled workforce for the country. We call for an emphasis on new “talent breaks” as much as, if not more than, on “tax breaks”.

We do not believe that the current package of visa routes for overseas entrepreneurs meet the requirements of the UK economy, particularly of fast-growing businesses. Of particular concern, the Tier 1 Graduate Entrepreneur Visa and the Tier 1 Entrepreneur Visa routes don’t address the skills shortage in Science, Technology, Engineering and Mathematics (STEM) that fast-growth companies are facing, neither their need to recruit people in a timely manner, nor the diversity of funding sources available to entrepreneurs in relation to the selection process. We believe that visas for skilled migrants and entrepreneurs – particularly the Tier 1 Graduate Entrepreneur Visa and the Tier 1 Entrepreneur Visa – should actually be streamlined and increased since these are exactly the people that Britain needs to succeed in the global economy.

The contribution of migrant entrepreneurs to the UK economy

The debate concerning business policy often miss an essential element: the contribution of migrants to the UK economy, and to fast-expanding companies in particular. A collection of surveys have shown that the ability to face skills shortage and recruit at suitable speed is the primary problem affecting businesses. This is severely hampering British businesses' competitiveness and growth and constraining the ability of the UK economy to compete as well as it could internationally. In the short-term at least, highly skilled migrants are an absolutely irreplaceable aspect of any solution.

The role of migrants in setting up their own businesses and expanding existing ones is one of the success stories of this country. As well as contributing to wider social and cultural dimensions, migrants are disproportionately entrepreneurial when it comes to doing business. The fact that migrants are behind one in seven of all UK companies alone merits a fuller exploration of the economic benefits they can bring to the UK. According to a report by the Centre for Entrepreneurs¹, roughly 12 per cent of all UK SMEs were started by migrant entrepreneurs. These companies employ around 1.6 million people in the UK, representing 12 per cent of the total workforce in this segment of the UK economy.

Migrant entrepreneur-founded businesses can be found in a wide range of industry sectors, according to a ranking compiled by the Centre for Entrepreneurs. Construction and real estate – a crucial aspect of delivering the infrastructure needed to support economic expansion – topped the sector list with more than 47,000 migrant-founded businesses. The consumer goods and IT sectors are also popular destinations for migrant entrepreneurs, coming second and third respectively in the sectors ranking.

Although not every migrant-founded business will be a high-growth company, our members register a determination among migrants to grow their business and seek external support that remains unmatched by domestic workers. As highlighted by Sherry Coutu CBE, overseas workers bring fast-growth companies some valuable expertise and exposure to foreign markets: "Overseas workers help expand the distribution of local scale-up companies' existing products to foreign markets and help local scale-ups introduce new products and services"². The drive to innovate and expand a business should therefore be taken into consideration when assessing the benefits of the entrepreneur routes to the UK economy.

¹ *Migrant entrepreneurs: building our businesses, creating our jobs*, Centre for Entrepreneurs – DueDil, March 2014, <http://www.creatingourjobs.org/data/MigrantEntrepreneursWEB.pdf>

² *The Scale-Up Report on UK Economic Growth*, Sherry Coutu CBE, November 2014, <http://www.scaleupreport.org/scaleup-report.pdf>

Changes to the Tier 1 (Entrepreneur) Visa

Applications for the Tier 1 (entrepreneur) route have soared since 2010 when the government decided to remove the Post Study Work Visa and General Visa. Whereas there were only 50 applications per quarter in 2010, that number has risen to over 3,000 in 2014. With the growth in the number of applications, refusal rates have risen sharply. In the second quarter of 2013, around 75 per cent of applications were rejected. These figures demonstrate a strong demand and take-up of the Tier 1 Entrepreneur visa. It is in this light that we are recommending the following changes to the current visa system.

1. The BVCA strongly supports the creation of a “scale-up visa”, as recommended by Sherry Coutu CBE. The Scale-up report recommends the introduction of a fast-track visa system allowing expanding companies to bring in specific workers from overseas within two weeks of applying. Such fast-track visa should be made available from Local Enterprise Partnerships (LEPs) to the top local scale-up companies so they can recruit people they need in a timely manner. Each LEP should be provided 50 scale-up visas, with the number for the whole of the UK not exceeding 2,000 per annum. This number however would only benefit 20 per cent of scale-up businesses. If successful, the scheme should then be expanded so that LEPs can grant more scale-up visas to more fast-growth companies.
2. Expanding the entrepreneur’s visa for highly-skilled migrants, particularly those who have studied a STEM subject, to help meet the demand of fast-growing businesses.
3. Expanding the types and sources of committed funding at the £50,000 level as part of the selection process for the Entrepreneur Visa. Approved funding sources should include accredited angel investments, seed funding as well as business incubator investments, in addition to venture capital (as the eligibility criteria currently provides for), in a way similar to the Canadian Start-up Visa.
4. Tailoring financial requirements for the route to reflect the financial needs of different types of businesses and sectors. As previously highlighted by the Entrepreneurs’ Network, the amounts currently required - £50,000 and £200,000 - are not reflective of the diverse costs of starting businesses in different segments of the economy.

Changes to the Tier 1 Graduate Entrepreneur Visa

We believe that this visa route offers a great potential for Britain’s entrepreneurship but is not leveraged due to the lack of awareness and or appropriate and targeted selection criteria. With improvements, this visa will ensure that global talent emerging from our universities is retained for Britain’s benefit. It is noteworthy in this context that 1,253 students start their own business each year.

Application numbers for the Graduate Entrepreneur Visa have been weak since it was introduced by the government in 2012. In the first quarter of 2015, only 146 such visas were granted. This compares poorly to the total number of available Graduate Entrepreneur visas, which currently

stands at 2,000. We believe the significant under-use of this route also reflects the lack of awareness of the visa route among international students.

The challenges of high-growth companies to find students with STEM subjects is particularly worrying and could be addressed by making the Graduate Entrepreneur visa more accessible and attractive. There were more than 179,000 non-EU students in UK universities in 2012-13 and 52,000 of them were studying STEM subjects.

1. As recommended by the City Growth Commission's report on Universities³, which the BVCA contributed to last year, UK cities should be allowed to pilot a flexible form of the graduate entrepreneur visa, which would extend from one year to five years the eligible time period for students who have left the UK to apply for the Graduate Entrepreneur Visa. Their plans would need to specify that their businesses would be active in the core UK city in which they graduated in order for Higher Education Institutions (HEI) or local UKTI outpost to make an endorsement. If successful in increasing take-up, this flexible form of visa should be rolled out across the UK. We believe this would not only help enhance Britain's student entrepreneurship but also rebalance the economic recovery of the UK.
2. The list of endorsing HEI needs tailoring to focus on STEM fields - 96 HEIs are registered to sponsor Graduate Entrepreneur visas, out of a total of 161 HEIs.
3. As also called for by The Entrepreneurs Network, public colleges should be allowed to issue graduate entrepreneur visas and the visa route be open to those who study skills such as trade and technology at further education level, as both lend themselves to entrepreneurship.
4. The restriction of ten endorsements per academic institution should be amended to ensure that universities with a concentration of talent students do not lose out.
5. Delivering an awareness campaign to directly engage international students and increase demand for the Graduate Entrepreneur visa programme. The campaign should target students through engaging with enterprise societies and should focus on fostering links between universities and businesses, by facilitating access to training and mentoring through accelerators.
6. UKTI-approved accelerators should be permitted to endorse international students in their programmes under the Tier 1 Graduate Entrepreneur scheme.
7. Taking into account the individual's entrepreneurial potential as part of the selection process, in addition to current criteria of having a "genuine and credible business idea".
8. Non-EEA graduates should be granted an automatic one-year visa to search for work in the UK. Many students would benefit from more time and experience prior to starting a business. To this end, the UK government should reinstate a post-study work visa, decoupled from the sponsor system, to allow international students to explore markets and industry before finalising their business idea for the Tier 1 (Graduate Entrepreneur) application. We are encouraged by the change that has been introduced in April 2013

³ [UniverCities – the knowledge to power UK metros](#), City Growth Commission, RSA, October 2014

making provision for students successfully completing a PhD to stay in the UK for one year to find skilled work or set up as an entrepreneur, and are calling for such expansion to international students in general.

Other recommendations

1. We support The Entrepreneurs Network's recommendation that international graduates who wish to stay in Britain to develop a business during study should have the opportunity to do so. This could be achieved by changing the Tier 4 General Student Visa, notably by removing the Tier 4 ban on self-employment for those working within an institutional programme or other accelerator.
2. The annual cap on exceptional talent visas should be lifted. We welcome the appointment of Tech City as a Designated Competent Body in April 2014, allowing it to work with the Visas and Immigration agency to offer international residents accelerated visas for the UK, under the "exceptional tech talent" programme. This allows up to 200 individuals to come to the UK on the basis of their ability to contribute to the UK's digital economy. We believe even more talents could be leveraged on to the benefit of the UK economy.
3. Changing Tier 1 Investor visa requirements for investments in unquoted trading companies or through an approved VCT. Over 400 people a year enter the UK under the Tier 1 Investor Visa. Under this scheme, a significant investment made by a foreign national into a UK asset will qualify the investor for indefinite leave to remain in the UK if held for a specified period. To qualify for this, the investor can choose from a wide range of assets – but the majority is select gilts. Money provided under the Tier 1 visa investor route is very small proportion of the gilt market and would be easily replaced by alternative capital. Rather than the purchase of existing shares available through the secondary market of the stock exchange. We suggest that Tier 1 investor visa requirements should be limited to investing in unquoted trading companies or through an approved VCT – a route that has a proven record of supporting Britain's smaller companies and enabling them to deliver growth. This change would effectively reward foreign investors for investing in UK smaller companies, and create a direct link between these visas and job creation - something that would be of great value to the UK economy.

International best practices

In order to be able to attract the best and brightest talents to start their business in the UK, the visa system needs to be competitive compared to other countries. Highly skilled migrants are extremely mobile and choose to start their own business where it is easiest and most attractive to do so. We therefore welcome the MAC's decision to review the Tier 1 Entrepreneur routes by assessing the impact of entrepreneur visas offered around the world. We have outlined below some attractive features of other countries' visa schemes which we believe are worth reflecting on and in some cases could be replicated to the UK.

1. Permanent residency (Canada, Australia, New-Zealand, United-States)

A notable difference between the Canadian Start-Up Visa and the UK Entrepreneur visa routes is the granting of permanent residency. The Canadian scheme indeed provides foreign entrepreneurs with a fast-track citizenship status with no conditions attached to the success of their visa. The decision to allow for permanent residency aims to reflect the financial investment and personal commitment it takes to start a business in a foreign country. Setting up a business takes time and a significant proportion of start-ups will fail in the first few years. The time to repay loans and investments in the event of failure should also not be underestimated. The Australian Business Talent Visa (venture capital entrepreneur stream) also grants successful applicants the right to permanent entry to Australia.

Under the UK current rules, successful Entrepreneur visa applicants can come for a maximum of 3 years and 4 months, extendable to another 2 to 3 years. Successful Graduate Entrepreneur visa applicants are allowed to stay in the UK for one year, extendable for one more year on this type of visa. We would welcome the granting of a continuous residence under the UK Entrepreneur Visa schemes, or at least the right to stay for a longer timeframe, particularly under the Graduate Entrepreneur visa. According to a survey conducted by the National Union of Students⁴, the majority of graduates would support such a move.

2. Differentiated criteria for fast-growth businesses (New-Zealand, United-States)

Interestingly, in New Zealand, the granting of the permanent residence under one of the Entrepreneur Visa route is tied to the demonstration that the business is high growth, innovative and has export potential. Also in the United States, the EB-5 Immigrant Investors Visa provides for up to 10,000 successful applicants permanent residency in the US, on the condition that the individual provides proof of creating or maintaining 10 jobs within a reasonable time period.

We would certainly support the introduction of a differentiated and more favourable criteria for scale-up companies, based on their contribution to growth and jobs creation. Such specific regime for scale-up companies could apply to the fast-tracked process, more generous eligibility conditions or a greater number of visas allocated.

3. Extended funding sources for commitment (Canada)

In contrast to the UK scheme, applicants under the Canadian Start-up visa can secure a commitment from designated angel investors as well as venture capital funds. The Canadian government subsequently decided to complement the existing list of venture capital funds and angel investors by adding business incubators. Although initial take-up of the Canadian Start-Up Visa was lower than expected, signs are now emerging that the scheme is gaining traction with both migrants and investors and a considerable number of projects have already been backed by venture and angel investors.

⁴ [Made In the UK: Unlocking the Door to International Entrepreneurs](#), National Union of Students/The Entrepreneurs Network, February 2015

We support the inclusion, in the funding sources under the Entrepreneur Visa, of angel investments and would propose to extend it to seed investments and crowdfunding platforms to allow even more migrant-founded businesses to receive financial support.

4. Granting of non-financial support, notably accelerator's support (France)

The Paris French Tech Ticket will begin in January 2016 and will provide 50 applications with funding of €12,500 for 6 months renewable once, to provide one year of funding for each entrepreneur. In addition to this direct financial support, the programme includes significant logistics support, such as free space in a French Tech accelerator with access to training and mentoring, help to manage administrative issues through a single contact at the 'French Tech Help Desk', a 'Paris Landing Pack' to help foreign entrepreneurs relocating to the city, an accelerated application process for the extended stay with residency permit visa, discounted tickets on Air France alongside a Gold loyalty card, and advertising through Air France.

Such kind of support would be valuable to applicants under the UK Tier 1 Entrepreneur Visa routes.

We would be delighted to meet you to discuss our feedback further. Please feel free to contact Marie Audren at the BVCA (maudren@bvca.co.uk).

Yours sincerely



Tim Hames

Director General, British Private Equity and Venture Capital Association