

Tier 1 Entrepreneurs

Review of the Tier 1
Entrepreneur and Graduate
Entrepreneur routes

Migration Advisory Committee

September 2015



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Tier 1 Entrepreneurs:

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Chairman's Foreword



The UK has had an entrepreneur route to potential settlement for over two decades. But the purpose of the route is nowhere set out. What is an entrepreneur? What should UK residents - as distinct from potential entrepreneurs - expect to gain from the existence of this route? How does it fit with the related Tier 1 (Investor) route (see MAC report February 2014)?

At present there are two streams to the entrepreneur route. First, the main entrepreneur route: this requires £200,000 of personal funding or £50,000 available from an approved source. The business plan is subject to a “genuineness test” undertaken by civil servants. If approved, the applicant receives a three year initial visa. At the extension stage the entrepreneur must demonstrate, among other things, that s/he is employing at least two full-time equivalent workers. Almost three quarters of those initially successful in being granted an entrepreneur visa do not go on to apply for extension.

Second, the graduate entrepreneur route: the individual must be a graduate from a UK university, receive endorsement from a Higher Education Institution for the proposal and is then granted a one year visa which can be, and is normally, extended for one extra year. UKTI have also run a programme under this route targeting a small number of overseas graduates with promising business ideas who are placed in UK accelerators.

Overall, volumes under both streams are small compared with, say, Tier 2 for skilled workers. At the same time, though, the volumes are not insignificant and have increased markedly in recent years. In 2014, 5,488 visas were issued under the Tier 1 (Entrepreneur) route, of which roughly 80 per cent were issued in-country to migrants switching from other routes (mainly from the Tier 1 Post-Study Work route). In the same year, 564 visas were issued to graduate entrepreneurs, also predominantly in-country. A total of 5,168 dependant visas were issued across both routes in 2014. For those applying out of country on the Tier 1 (Entrepreneur) route there is now an average of two dependants for every main applicant – the highest ratio across all economic visa routes.

The MAC believes, essentially, that the graduate entrepreneur scheme works well - it has limited numbers and attracts high quality people - and recommends it

be expanded into a start-up route. By contrast the Tier 1(Entrepreneur) route has a long tail of low quality projects which contribute little or nothing to UK plc. The MAC suggests major reform of this route.

We recommend that potential entrepreneurs with £50,000 funding endorsed by a suitable third party - for example approved angel investor syndicates or a government department - should no longer have to pass the genuineness test. The business plan of those on the £200,000 stream should, we suggest, be assessed by industry experts - for example through an expert panel - rather than civil servants. The assessment might cover viability, scalability and innovation potential, as well as the skills and aptitude of the individual to execute their business plan. To improve compliance, there should be better monitoring of business progress during the initial three year period. The decision to extend might be widened from a consideration of jobs created to also include factors such as turnover or having secured further investment. We maintain that such reforms will make the route much more selective - attracting fewer, higher quality applicants - and thus benefit UK residents.

The Committee again acknowledges, with gratitude, the contribution of our excellent small secretariat. Meetings with stakeholders were efficiently organised, and the analysis and drafting were vital to this report.



Professor Sir David Metcalf CBE

The Migration Advisory Committee and Secretariat

The Migration Advisory Committee (MAC) is a non-statutory, non-time limited, non-departmental public body (NDPB) which was established in 2007 and is funded by the Home Office. The MAC is comprised of economists and migration experts who are publicly appointed in line with guidance published by the Office of the Commissioner for Public Appointments; along with ex-officio representatives of the UK Commission for Employment and Skills and the Home Office.

Chair



Professor Sir David Metcalf CBE
(from August 2007)

Members



Professor Alan Manning
(from March 2015)



Dr Jennifer Smith
(from November 2012)

UK Commission for Employment and Skills representative



Lesley Giles



Professor Jonathan Wadsworth
(from December 2007)



Professor Jackline Wahba
(from November 2012)

Home Office representative



John Thompson

The secretariat

Cordella Dawson; Ciaran Devlin; Stephen Earl; Emily Fowler; Paul Garner; Tim Harrison; Christopher Haynes; Bethan Hunt; Anna Lacey; Jessica Latchford; Caroline O'Loughlin; Christine Stone; Josephine Thomas.

1.1 Migration Advisory Committee

- 1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.
- 1.2 Previously we have provided advice on, amongst other things, the Tier 2 shortage occupation list, on the economic benefits of the Tier 1 (Investor) route and on the growth of European Union (EU) and non-EU labour in low-skilled jobs and its impact on the UK.

1.2 What we were asked to do

- 1.3 In March 2015, the Home Secretary asked the MAC to carry out a review of the UK's arrangements for the entry and stay of non-EEA entrepreneurs under Tier 1 of the Points Based System. The commission asked that the MAC consider the following issues:

“whether the existing design of the Tier 1 (Entrepreneur) route is appropriate to deliver significant economic benefits for the UK and in particular whether:

- a) *the initial eligibility criterion of access to funds is a sufficient determinant of entrepreneurial ability and whether other criteria, for example, assessment of previous entrepreneurial activity and/or testing the purpose of the investment, should be applied;*
- b) *the existing eligibility and extension criteria are aligned sufficiently with entrepreneurial and early stage business life-cycles, including consideration of the role angel investors and crowd-funding can play;*
- c) *the route utilises international best practice. As part of this, the MAC is requested to consider route design and incentives to ensure competitiveness.”*

- 1.4 The MAC were asked to report to the Government by the end of September 2015.

1.3 What we did

- 1.5 The analysis in this report is based on a combination of desk-based research and analysis plus evidence received from corporate partners, either as written

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evidence submissions or orally during meetings. In this report, the terms 'corporate partners' or just 'partners' refer to all parties with an interest in our work or its outcomes, and other government departments, financial institutions, legal firms, representative bodies and private individuals are included within these.

Call for evidence

- 1.6 We issued a call for evidence to collect the views and opinions of interested partners. The call for evidence was launched on **24 March 2015** and closed on **12 June 2015**. The call for evidence document was published on the MAC website and sent directly to relevant partners in our stakeholder database.
- 1.7 The call for evidence included a series of questions highlighting specific issues on which we sought evidence. The full list of questions is given in Annex B, but a broad summary is presented below:

Economic costs and benefits: what are the economic benefits of this route, particularly to UK residents? Can these benefits be monetised? Are there more dynamic impacts that may be identified and captured? Do migrant entrepreneurs impose costs on the UK? How should migrants be incentivised to start up businesses in sectors offering greatest added value?

Selection criteria: how should migrant entrepreneurs be identified, targeted and admitted to the UK? Should entry be limited to particular sectors? Should the permitted sources of funding be broadened? What criteria should be used for visa extension and settlement?

Operation of the Tier 1 Entrepreneur route: is the route operating as originally intended? Are the rules and enforcement adequate to minimise the potential for abuse of this route?

International best practice: which countries have similar routes, how do these work and how have these evolved over time? How successful are they in attracting high value migrant entrepreneurs?

Learning from the experience of migrant entrepreneurs: who are the migrant entrepreneurs and what is their entrepreneurial experience? Why did they choose the UK and what visa route did they follow? What was the source and scale of their funding and in which sector did they establish their business?

Identifying and measuring success of the route: how should we ensure the route is being monitored properly and how and when, should the entrepreneur be deemed to be successful? With typically high rates of new business failure, how should the route take this into account?

- 1.8 We received 43 written submissions of evidence from organisations and individuals. 13 of these responses were from law firms, 11 from interest groups, 8 from government bodies, 4 from investment advisors, and 1 each from a Tier 1 entrepreneur and a business consultancy firm. 6 responses were

from other types of organisations. All partner evidence was considered alongside our own data analysis and examination of relevant economic theory and literature. A list of those who supplied evidence, and who have not requested anonymity, is provided in Annex A.

Meetings and events

1.9 We held open forum meetings with partners on 17 and 28 April 2015 to discuss the evidence partners could provide and to hear partners' views. We attended a number of further meetings and roundtables with approximately 95 representatives from other government departments, Tier 1 entrepreneurs, accelerator programmes, financial institutions, law firms and interest groups.

1.4 Structure of the report

1.10 The report is structured as follows:

- Chapter 2 provides background policy information on the Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) routes alongside data from visa statistics and management information on the usage of the routes;
- Chapter 3 provides international comparisons, including how other countries have designed their entrepreneur visa routes;
- Chapter 4 examines how the Tier 1 (Entrepreneur) route is working in practice;
- Chapter 5 assesses the economic impacts of Tier 1 entrepreneurs;
- Chapter 6 looks at the initial selection and subsequent extension criteria on the Tier 1 (Entrepreneur) route;
- Chapter 7 similarly considers these issues specifically for the Tier 1 (Graduate Entrepreneur) route; and
- Chapter 8 provides a summary of our findings and presents our recommendations.

1.11 The following annexes are included:

- A. List of organisations consulted.
- B. List of questions from the call for evidence.
- C. International comparisons of entrepreneur and start-up targeted visa routes.

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1.5 Thank you

1.12 We are grateful to all our partners who responded to our call for evidence and to those who engaged with us at meetings and events. We are particularly grateful to those partners who organised or hosted events on our behalf.

Chapter 2: Policy and data context

2.1 Introduction

2.1 This chapter gives a brief overview of where the entrepreneur visa routes sit within the UK Points Based System (PBS) for immigration of non-EEA nationals. It sets out the current entry and extension requirements for the routes and presents the recent trends in volumes under these routes, drawing on published visa statistics and Home Office management information (MI).

2.2 Overview of the Points Based System and Tier 1

2.2 The PBS for migration to the UK from outside the European Economic Area was introduced in 2008 and currently consists of five tiers as set out in Table 2.1.

Table 2.1: The five tiers of the Points Based System

Name of tier	Immigrant groups covered by tier
Tier 1	Investors, entrepreneurs, graduate entrepreneurs and exceptionally talented migrants.
Tier 2	Skilled workers with a job offer in the UK.
Tier 3	Low-skilled workers needed to fill specific temporary labour shortages. Tier 3 has never been opened.
Tier 4	Students.
Tier 5	Youth mobility and temporary workers. This route is for those allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives.

Source: Migration Advisory Committee analysis, 2015

2.3 The Home Office refers to users of the Tier 1 route as high-value migrants. The route currently contains four categories as follows:

- Tier 1 (Exceptional talent)
- Tier 1 (Investor)

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- Tier 1 (Entrepreneur)
- Tier 1 (Graduate Entrepreneur)

This report will focus only on the latter two categories: **Tier 1 (Entrepreneur)** and **Tier 1 (Graduate Entrepreneur)**¹.

2.3 Tier 1 (Entrepreneur) route

2.4 The Tier 1 (Entrepreneur) category is for non-EEA nationals who wish to invest in the UK through setting up or taking over, and being actively involved in the running of, one or more businesses in the UK. Those who apply under the Tier 1 (Entrepreneur) category must demonstrate that they have access to £200,000 which they will invest in one or more businesses in the UK. A maximum of two Tier 1 (Entrepreneur) applicants can form an entrepreneurial team and claim points for the same investment. The applicants must have equal control over the funds and business or businesses and be named in each other's applications and evidence.

2.5 Additionally, there is a provision to allow migrants to apply at a lower funding threshold of £50,000, providing the funding comes from either:

- one or more registered venture capital firms regulated by the Financial Conduct Authority (FCA); or
- one or more UK entrepreneurial seed funding competitions (e.g. accelerator programmes) that are listed as endorsed on the UK Trade and Investment (UKTI) website; or
- one or more UK government departments or devolved government departments in Scotland, Wales or Northern Ireland, and which is made available for the specific purpose of establishing or expanding a UK business.

2.6 The funding must be held in one or more regulated financial institutions, must be disposable in the UK, and must have been held by the migrant for at least 90 days, unless it is being provided by a third party. All Tier 1 (Entrepreneur) migrants making an initial application are also subject to a **genuine entrepreneur test** and must therefore show that:

- they genuinely intend and are able to establish, take over or become a director of one or more businesses in the UK within the next six months;
- they genuinely intend to invest the requisite money in the business or businesses referred to;

¹ The MAC reviewed the Tier 1 (Investor) route) in 2013-14. The final report is available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285220/Tier1investmentRoute.pdf

- the money is genuinely available to the applicant and will remain available to the applicant until such time as it is spent for the purposes of their business or businesses; and
 - they do not intend to take employment in the UK other than working in their business.
- 2.7 The genuine entrepreneur test can also be applied when applications for leave to remain and indefinite leave to remain are being considered.
- 2.8 Further, Tier 1 (Entrepreneur) migrants making an initial application are required to provide a business plan to the Home Office, setting out their proposed business activities in the UK and how they expect to make their business succeed. The viability and credibility of the business plan and market research into the chosen business sector are also taken into account, along with the criteria outlined in paragraph 2.6, as part of the genuine entrepreneur test applied by caseworkers.
- 2.9 Migrants under the Tier 1 (Entrepreneur) category are not permitted to access public funds and they must register as self-employed or as the director of a new or existing business. They are required to satisfy the relevant English language requirements to Common European Framework of Reference for Languages (CEFR) Level B1, and demonstrate that they hold savings of £3,310 (or £945 if applying from within the UK) to satisfy the PBS maintenance requirements. Higher maintenance requirements apply where the migrant is accompanied by dependants. Applicants must have £1,890 for each dependant if applying from outside the UK or if they have been in the UK for less than 12 months. This sum is £630 for applicants who have been in the UK for more than 12 months.
- 2.10 Applicants under the Tier 1 (Entrepreneur) category are granted an initial period of leave of no more than three years and four months for out-of-country applicants, and three years for in-country applicants. At the end of this period of leave, an extension can be sought for a further two years if the individual:
- has invested, or had invested on their behalf, not less than £200,000 (or £50,000 if, in their last grant of leave, they were awarded points for funds of £50,000) in cash directly into one or more businesses in the UK;
 - has registered as a director or as self-employed not more than six months after the date they were given permission to stay in the UK under a Tier 1 (Entrepreneur) visa;
 - can prove they have been self-employed or working as a director of a business three months before they apply for an extension; and,

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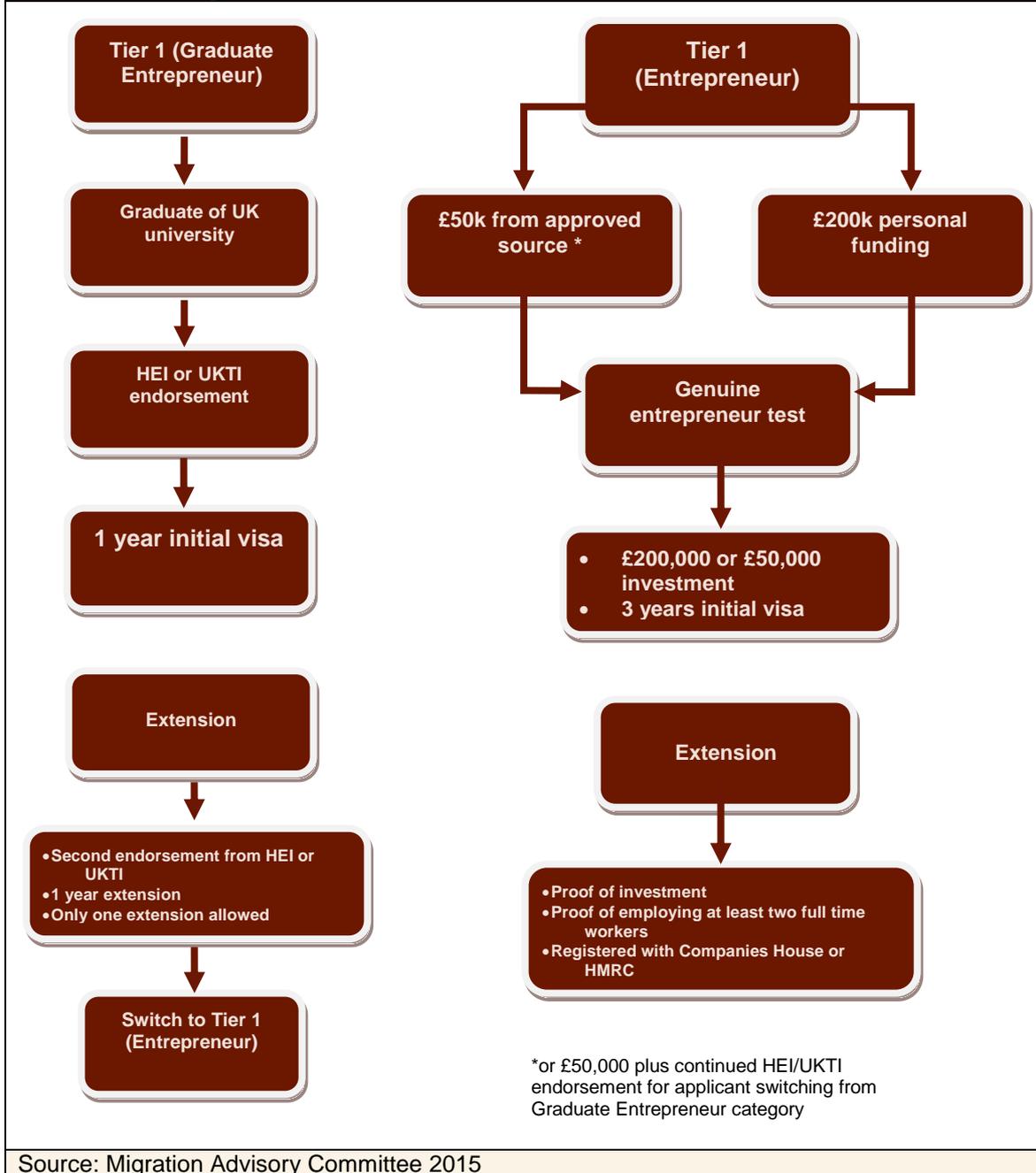
- has created at least two full-time equivalent jobs that have existed for at least 12 months.²

2.11 After this extension period, the migrant can apply for settlement if the applicant continues to satisfy the requirements above and has spent a continuous period of five years lawfully in the UK, of which the most recent period must have been as a Tier 1 (Entrepreneur) migrant. The applicant must not have been absent from the UK for more than 180 days in any of the five consecutive 12 month periods preceding the date of the application for leave to remain.

2.12 Migrants can apply for accelerated settlement in the UK after three years continuous residence if they have created at least 10 new full-time jobs in their business for persons settled in the UK, or established a new UK business that has had an income of at least £5 million, or they have taken over or invested in an existing UK business, and their services or investment have resulted in a net increase of £5 million in that business' income. Aside from these, all other requirements are the same as for an extension application.

² A full time job is one involving at least 30 hours of work a week, or two or more part time jobs that add up to 30 hours a week will count as one full time job. Where a migrant is taking over an existing business, the requirement is to create two additional jobs.

Box 2.1: Entrepreneur visa routes in the UK



2.4 Tier 1 (Graduate Entrepreneur)

2.13 The Tier 1 (Graduate Entrepreneur) category was opened on 6 April 2012. It provides for UK graduates identified by Higher Education Institutions (HEI) and overseas graduates identified by UKTI to establish one or more businesses in the UK. In order to endorse a migrant, a HEI must be satisfied that the graduate has developed genuine and credible business ideas and has the entrepreneurial skills to establish one or more businesses in the UK.

2.14 There is a limit of 2,000 new places per year under this category (this limit does not apply to extensions) and these places are allocated as follows:

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- 1,900 places are allocated to qualifying HEIs for graduates in any subject, known as general endorsements; and,
- 100 places to UKTI for overseas graduates, known as global endorsements.

- 2.15 Unlike the Tier 1 (Entrepreneur) route, applicants under this route require the formal support of an endorsing body. This endorsement means that the genuine entrepreneur test is not applied to applicants under the Tier 1 (Graduate Entrepreneur) route. HEIs offering an endorsement must be a sponsor with Tier 4 Sponsor status, or A-rated Tier 2 and 5 sponsors, and must also have established processes and competence for identifying, nurturing and developing entrepreneurs among their undergraduate and postgraduate population. HEI endorsers can request up to 20 endorsements per institution per year, though it is possible for some institutions to increase their annual allocation beyond this initial quota depending on the overall uptake.
- 2.16 Successful applicants in this category must hold a recognised Bachelor's degree, Master's degree or PhD (not a qualification of equivalent level). Applicants sponsored by HEIs must have obtained their degree in the UK. For global endorsement graduate entrepreneurs, the degree must be determined by the UK National Recognition Information Centre (NARIC) to meet or exceed the standard of a UK Bachelor's degree. They must also meet the relevant English language and maintenance requirements (£1,890 or £945 if applying from within the UK).
- 2.17 Tier 1 (Graduate Entrepreneur) migrants can stay for one year initially and can apply to extend this for a further year providing that they have a new endorsement letter from their UK HEI or from UKTI confirming that they have made satisfactory progress in developing their business and have at least £945 available. They have no access to public funds, but they can bring dependants with them. They cannot apply for settlement under this category but may apply to switch into the Tier 1 (Entrepreneur) category.

2.5 Entrepreneur visa routes prior to 2008

- 2.18 When introduced in 2008, the Tier 1 (Entrepreneur) route replaced provisions offered by a number of distinct business immigration routes, primarily the Innovator and Business Person routes.

Innovator route

- 2.19 The Innovator route was an immigration category aimed at innovative, highly creative start-ups with limited initial capital. Applicants were not required to have any initial funding, but had to submit a detailed business plan.

Business Person

- 2.20 The Business Person route was the legacy route which most closely mirrored the provisions now offered by the Tier 1 (Entrepreneur) visa under the £200,000 investment threshold. It required that applicants demonstrated investment of £200,000 of their own funds into their UK business, and that they created full-time employment for two settled workers.

2.6 Other policy changes affecting the entrepreneur visa routes

- 2.21 Since 2013, the Home Office has introduced a number of measures to tighten the route against suspected abuse. In January 2013, the **genuine entrepreneur test** was introduced, which included the option for caseworkers to request that applicants attend an interview. Further changes saw migrants unable to switch from Tier 4 unless they had £50,000 funding from a specified source. In July 2014, the Home Office restricted the provision to switch into the category from study categories and the Tier 1 (Post-Study Work) category, pending further investigation and consideration of other remedial measures.
- 2.22 From April 2015, applicants for entry clearance are required to submit a business plan and, where relying on funds held themselves, must provide evidence of the third party source of the funds if they have held the funds for less than 90 days. In addition, the genuine entrepreneur test was extended to cover applications for extensions and indefinite leave to remain under this route. Restrictions were also introduced for those switching from the Tier 1 (General) route.
- 2.23 The Home Office also made a change to the provision for applicants with business funding from a UK or devolved government department to make it clear that government funding by way of an intermediary public body may be accepted, providing that that body confirms the funds were made available by a UK or devolved government department for the specific purpose of establishing a UK business.

2.7 Definitions used in this report

- 2.24 In this section for the purposes of clarity we set out some definitions of the terms we use throughout this report.

Definition of an entrepreneur

- 2.25 There is no universal definition of what it means to be an “entrepreneur” in the economics literature or in wider usage of the term. This perhaps explains why the rules describing the current route are somewhat ambiguous about the types of individual the route seeks to attract. However, in seeking to assess the effectiveness of the Tier 1 entrepreneur routes, it became apparent that without a firm definition of what is meant by an entrepreneur, the routes and their objectives were open to interpretation. Whilst there is no explicit guidance, the MAC has interpreted the objective of the routes to be centred on a particular subsection of business activity. The following section outlines the

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working definition adopted by the MAC in this report and attempts to unearth the objectives of the route based on this definition.

- 2.26 In one of their working papers, the Organisation for Economic Co-operation and Development (OECD) propose a definition of entrepreneurs as “individuals who display the readiness to take risks with new or innovative ideas to generate new products and services” (Ahmad et al., 2008).
- 2.27 In general, there are three key characteristics of entrepreneurs/entrepreneurial activity referred to in the literature:
- *Innovation* – an entrepreneur brings new expertise to the market, whether through introducing a new or improved product, a new method of production, a new market, a new source of supply or the reorganisation of management
 - *Risk-taking* – an entrepreneur undertakes a risk in entering the market without the guarantee that their idea will be successful
 - *Profit-seeking* – entrepreneurs are generally motivated by the opportunity to generate profit
- 2.28 Additionally, to create a distinction between entrepreneurs and investors, we consider an entrepreneur as providing more than just financial investment. That is, an entrepreneur would also provide their skills and labour in the operations of the business. Throughout our report, we bear all of these characteristics in mind as we review the UK’s entrepreneur visa routes.
- 2.29 There is often an overlap in the definitions of entrepreneurs and the self-employed. However, using the OECD definition above, it is possible to be a self-employed business owner that does not engage in entrepreneurial activity. For example, small business owners may not be considered “entrepreneurial” if they only take on small levels of risk and do not provide new and innovative services.
- 2.30 Therefore, entrepreneurs may be considered to be a subset of all business owners and the self-employed, so these terms are not interchangeable.

“The precursors of many of the modern schemes aimed to, in an un-targeted way, attract ‘entrepreneurs’. The fundamental question faced by the assessors of these schemes was that they had no idea what an entrepreneur was. Schemes became overwhelmed by poor quality applications. It is submitted that the current criticisms of the Tier 1 Entrepreneur visa route in the UK are along the same lines. A key lesson which can therefore be taken from abroad is that the UK may wish to consider defining more precisely who it considers to be an entrepreneur and what it wishes to gain from the route.”

Kingsley Napley response to MAC call for evidence

Definition of funding sources

2.31 Later sections of this report make reference to a range of bodies that typically provide funding to early-stage businesses. Table 2.2 below presents an introduction to the main bodies involved in early-stage investment.

Table 2.2: Sources of funding for early-stage businesses

Accelerators/incubators	Business incubators and accelerators are programmes designed to provide support to start-ups in their initial stages of development. They often provide a combination of office space, mentoring, networking opportunities, training programmes, marketing advice, professional services such as accountants and lawyers, and access to fundraising opportunities. They offer time-limited support, often with intensive mentoring. Some accelerators will provide initial investment (usually between £10,000 and £50,000), typically in exchange for equity. Accelerators and incubators are likely to run programmes in cohorts of entrepreneurs who start and finish the programme at the same time, and work in a shared office space. The programmes may be venture-backed (i.e. venture capitalists or angel investors), government-backed or corporate-sponsored.
Angel investor	Angel investors are wealthy individuals who invest in early-stage start-ups, as well as established companies, in return for an equity stake. This tends to be an initial investment made by an individual or a small group of individuals (called an angel network or syndicate), generally in the range of £10,000 to £100,000. Angels not only bring vital early-stage finance, but also offer business experience, access to customers and strategic advice to help build and scale a business.
Venture capital	Venture capital firms invest money raised from multiple investors into companies with long-term growth potential. Typically, the investment amount is significantly higher than angel investment, and is generally considered a funding option at a later stage of development. Like angel investors, they have contacts and experience to contribute but typically require a seat on the board of directors of the company.
Crowdfunding	Crowdfunding involves raising small financial contributions from a large number of individual investors in order to fund early-stage business ventures. The typical model involves the entrepreneur pitching their business idea on an online crowdfunding platform where prospective investors can browse a number of ventures. Return to investors may be based on equity, debt or rewards.

Sources: Nesta (2014a), Nesta (2014b), UK Business Angels Association (2012), UK Business Angels Association response to MAC call for evidence

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2.8 Data context

Data sources and limitations

- 2.32 The main data for the Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) routes are sourced from the August 2015 release of the Immigration Statistics by the Home Office. Additional key descriptive statistics are extracted from management information (MI) data on applicants for the Tier 1 (Entrepreneur) route, covering the period from the introduction of the Tier 1 (Entrepreneur) route in 2008 through to February 2015.
- 2.33 Data for the overall number of applicants for entry clearance visas under the Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) categories are sourced from the Immigration Statistics. These applicants for entry clearance visas make their application for the Tier 1 (Entrepreneur) visa from outside of the UK. Throughout this report, these are referred to as out-of-country applicants.
- 2.34 The Immigration Statistics also include data on in-country Tier 1 (Entrepreneur) applications by migrant entrepreneurs and their dependants. That is, those individuals who are already in the UK when applying for a Tier 1 (Entrepreneur) visa. This includes individuals who extend their existing Tier 1 (Entrepreneur) visa and those who switch to the Tier 1 (Entrepreneur) or Tier 1 (Graduate Entrepreneur) route from another immigration route.
- 2.35 The Immigration Statistics allow for analysis of the volumes of applicants, both for main applicants and dependants, for each immigration route as well as the proportions that are granted and refused. Additionally, these statistics include details of the volumes using the routes by nationality and, in the case of in-country applicants, the category of the previous visa held. In this chapter, this data is used to provide evidence of refusal rates for Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) routes, as well as analysis of the ratio of dependants to main applicants that are granted visas through these routes.
- 2.36 Beyond this, we also had access to unpublished MI data for out-of-country and in-country applicants which are sourced from the Home Office case management systems. Both MI datasets cover the period up to February 2015 from 2008 and from 2012 for the Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) routes respectively. This data supplements the published Immigration Statistics by providing information on individual applicants, such as their age, nationality, and the outcome of their case. This additional detail allows for richer analysis than permitted by the published visa statistics. However, figures presented from the MI may not perfectly match published visa statistics.
- 2.37 Finally, we also had access to the detailed case management systems for both in-country and out-of-country applications. We carried out an in house sampling exercise using applications and case files of Tier 1 (Entrepreneur) migrants. The findings from this analysis are presented in Chapter 4. We sampled 20 to 30 applicants in each of the following categories:

- out-of-country applications that were accepted;
- out-of-country applications that were refused;
- in-country applications that were accepted;
- in-country applications that were refused;
- extensions that were accepted; and
- extensions that were refused.

2.9 Tier 1 (Entrepreneur) applications

2.38 In 2014, 5,488 entrepreneur visas were granted to main applicants: 4,401 in-country and 1,087 out-of-country (Table 2.3). The number of Tier 1 (Entrepreneur) visas issued has increased substantially in recent years; visas granted out-of-country increased almost sixfold between 2010 and 2014, while in-country grants rose to almost 25 times their 2010 figure over the same period. There has been a corresponding upwards trend in visas issued to Tier 1 (Entrepreneur) dependants. Compared to the growth in visas issued to main applicants, out-of-country dependants experienced a much faster rate of growth, whilst the increase in visas issued to in-country dependants was relatively muted.

Table 2.3: All Tier 1 (Entrepreneur) visas granted to main applicants and dependants with respective dependant : main applicant ratios, 2010 to 2014

Year	Out-of-country visas granted			In-country visas granted		
	Main applicant	Dependant	Dependant to main applicant ratio	Main applicant	Dependant	Dependant to main applicant ratio
2010	189	239	1.26	180	187	1.04
2011	421	490	1.16	360	279	0.78
2012	701	954	1.36	803	499	0.62
2013	1,166	1,717	1.47	3,327	1,676	0.50
2014	1,087	2,261	2.08	4,401	2,761	0.63
2015Q2	1,039	2,330	2.24	2,214	1,757	0.79

Notes: The figures above provide an indication of the number of Entrepreneurs with non-EEA nationality who apply to come to the UK in a given period, however, they might not directly equate to flows of migrants into the UK. Although applications may be granted, the individual might subsequently decide not to migrate to the UK or might not remain in the UK for a period longer than one year. The data are based on the time at which the application is made. All records were restricted to exclude applications which were not granted. Data for 2015 Q2 represents those visas granted in the year ending 2015 Q2.

Source: Home Office Immigration Statistics (2015)

Out-of-country applications granted to Tier 1 (Entrepreneur) main applicants

2.39 Long Term International Migration (LTIM) estimates suggest that, in the year ending March 2015, total immigration to the UK was 636,000, of which 196,000 was from outside the European Union (Office for National Statistics,

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2015). Inflows for work-related reasons (including those “looking for work” and those with a “definite job”) stood at 290,000 in the same period. The International Passenger Survey (IPS) data indicates that non-European Union inflows accounted for 64,000 of the total work-related inflows.

- 2.40 Home Office Immigration Statistics show that in the year ending June 2015, the total number of successful entry clearance visa applications across all routes, excluding visitors and transit, was 538,663. Of these, the number of successful Tier 1 (Entrepreneur) applications (for main applicants only) was 1,039, compared to 53,630 under the Tier 2 route. Evidently, successful out-of-country Tier 1 (Entrepreneur) applicants represent only a tiny proportion of long term entry clearance visas issued, both overall and for economic migration routes.
- 2.41 However, although the number of visas granted under the Tier 1 (Entrepreneur) route is small, volumes have increased significantly in recent years. In 2010, 189 out-of-country Tier 1 (Entrepreneur) visas were issued to main applicants. This more than doubled to 421 in 2011, and continued to grow to 1,166 in 2013. As illustrated in Figure 2.1, the number of out-of-country Tier 1 (Entrepreneur) visas granted annually has declined slightly since the 2013 peak, but the annual total remains above 1,000.
- 2.42 Since the year ending June 2014, just over half of Tier 1 (Entrepreneur) applications have been successful. The refusal rate for out-of-country Tier 1 (Entrepreneur) applications increased significantly in 2013, likely driven by the introduction of the genuine entrepreneur test. In the year ending June 2015, 2,033 Tier 1 (Entrepreneur) main applicant out-of-country applications were resolved, of which 975 were refused, indicating a refusal rate of approximately 48 per cent. This refusal rate had fallen back to 44 per cent in 2014 from its peak of 52 per cent in the year to March 2014, but has since risen again. The refusal rate for the Tier 1 (Entrepreneur) visa is rather high and is significantly higher than the refusal rates for the Tier 1 (Investor) and Tier 2 routes in the same period, standing at nine per cent and two per cent respectively.

In-country applications granted to Tier 1 (Entrepreneur) main applicants

- 2.43 The majority of applications for the Tier 1 (Entrepreneur) visa are made in-country by migrants who are already in the UK. The latest Immigration Statistics released by the Home Office indicate that there were 228,348 in-country visas issued across all routes in the year ending June 2015. 5,026 in-country applications from Tier 1 (Entrepreneur) main applicants were considered in this period, of which 44 per cent were granted. The number of visas being granted in-country under this route increased steadily between 2008 and 2012, followed by a sudden surge in 2013, with this steep upwards trajectory continuing into 2014 (Figure 2.2). It would appear that this trend was likely closely linked to the closure of the Tier 1 (Post-Study Work) route. There was also a rapid rise in the number of applications being refused in 2013, potentially caused by the introduction of the genuine entrepreneur test. The refusal rate peaked at 67 per cent in the year ending September 2013 before falling back in 2014, although it has been increasing again in recent quarters.

Figure 2.1: Out-of-country visas issued and refused under Tier 1 (Entrepreneur) main applicants, year ending 2009 Q1 to 2015 Q2

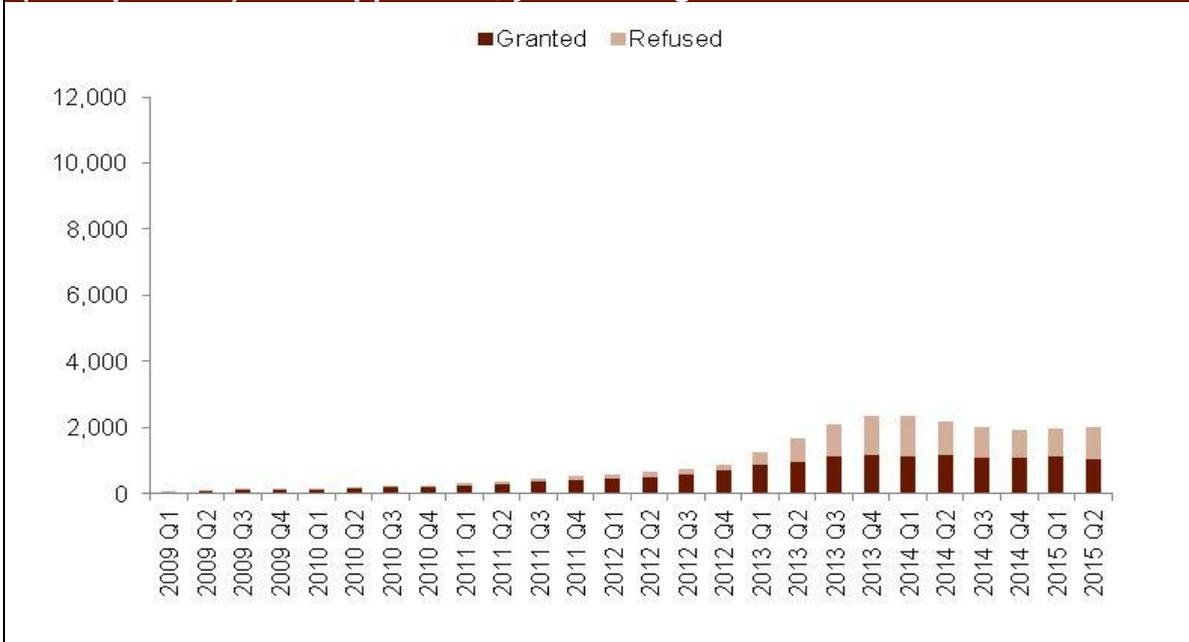
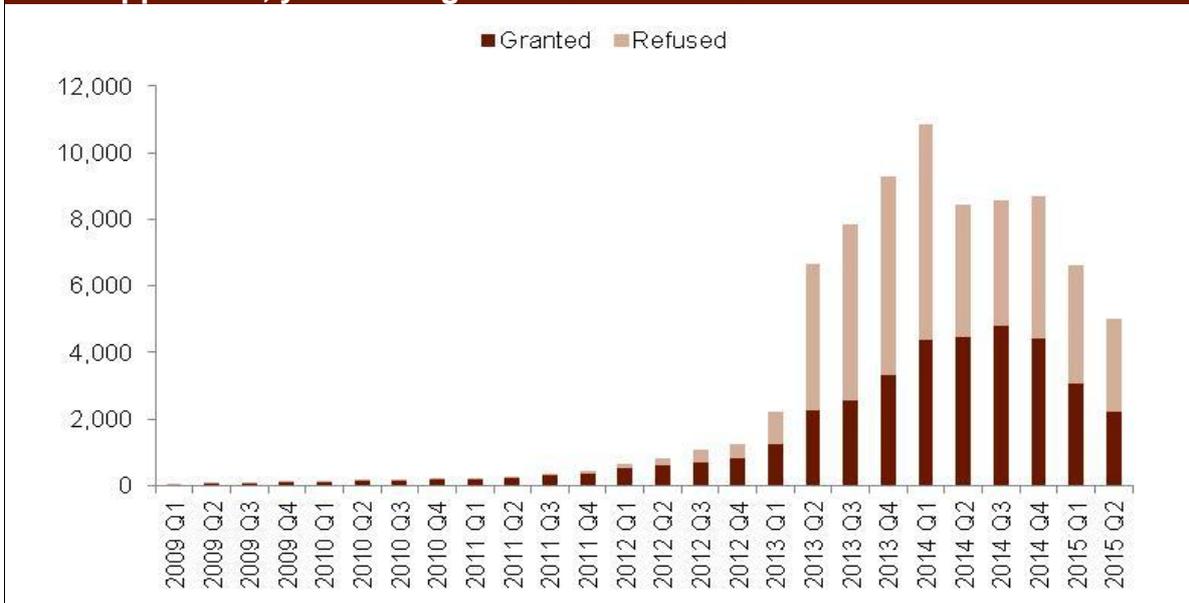


Figure 2.2: In-country visas granted and refused to Tier 1 (Entrepreneur) main applicants, year ending 2009 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

Tier 1 (Entrepreneur) dependants

- 2.44 Whilst the number of visas issued out-of-country to Tier 1 (Entrepreneur) main applicants peaked in 2013, the number of visas issued out-of-country to dependants has continued to rise. The extent of this widening gap is indicated in Figure 2.3. In the year ending June 2015, 2,330 visas were granted out-of-country to Tier 1 (Entrepreneur) dependants.
- 2.45 The ratio of dependants to main applicants for the out-of-country Tier 1 (Entrepreneur) visa route has been increasing since 2011, with significant

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growth from 1.5 to 2.1 between 2013 and 2014 (Figure 2.5). In other words, in 2014 roughly two dependants were granted a visa for every main applicant. In the year ending June 2015, the Tier 1 (Entrepreneur) route had a higher dependant to main applicant ratio than the Tier 1 (Investor) route and Tier 2, with ratios of 1.7 and 0.7 respectively.

- 2.46 Further analysis of the out-of-country dependant to main applicant ratio indicates that the recent rise is concentrated amongst a number of particular nationalities. Figure 2.7 shows the dependant to main applicant ratios for the four biggest nationalities by volume. In the last two years there has been a large increase in dependant ratios from Pakistan and India, whilst the ratios for the US and China have been relatively stable.
- 2.47 The volume of in-country visas issued to dependants under the Tier 1 (Entrepreneur) route rose sharply in 2013 and continued to increase until the year ending March 2015 (Figure 2.4). However, the ratio of dependants to main applicants has generally been falling since 2008 (Figure 2.6). In 2008, the dependant to main applicant ratio for in-country Tier 1 (Entrepreneur) migrants stood at 4.8. This figure fell significantly to 0.5 in 2013, although demonstrated a steady rise to 0.8 in the year ending June 2015.
- 2.48 In examining these trends it is worth noting that some main applicants who apply for a Tier 1 (Entrepreneur) visa in-country may have dependants who apply out-of-country for visas to join them in the UK. Additionally, as noted earlier, some applications from dependants are to join migrants who are already in the UK on an entrepreneur visa. This may mean that peaks in dependant visas lag peaks in visas issued to main applicants.

Figure 2.3: Out-of-country applications granted to Tier 1 (Entrepreneur) main applicants and dependants, year ending 2009 Q1 to 2015 Q2

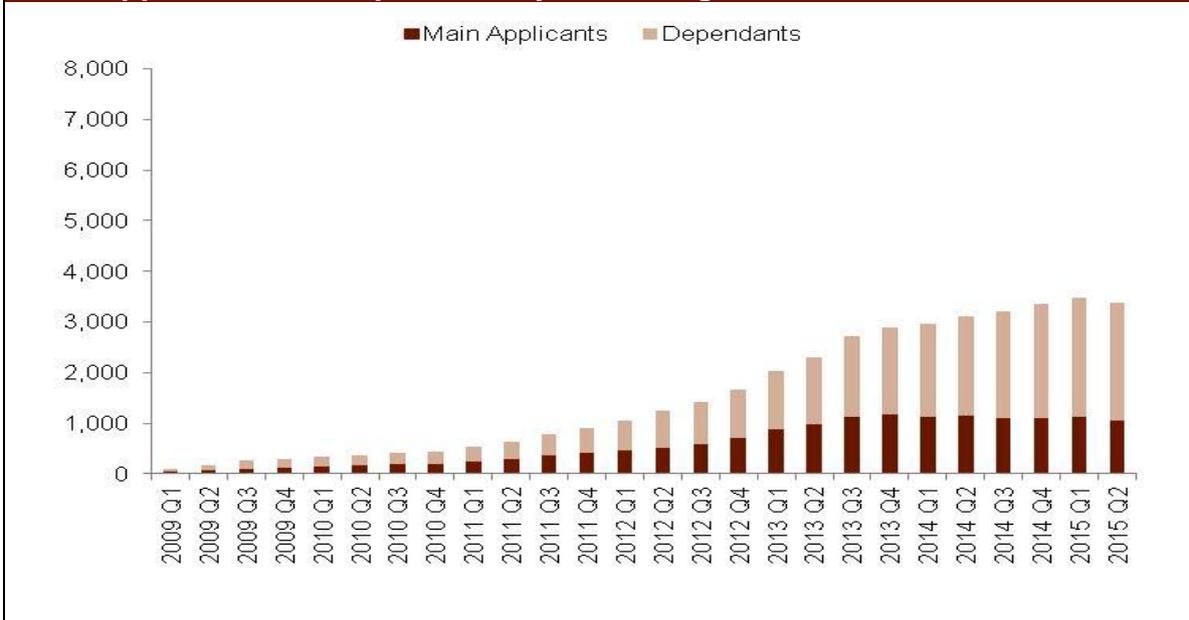
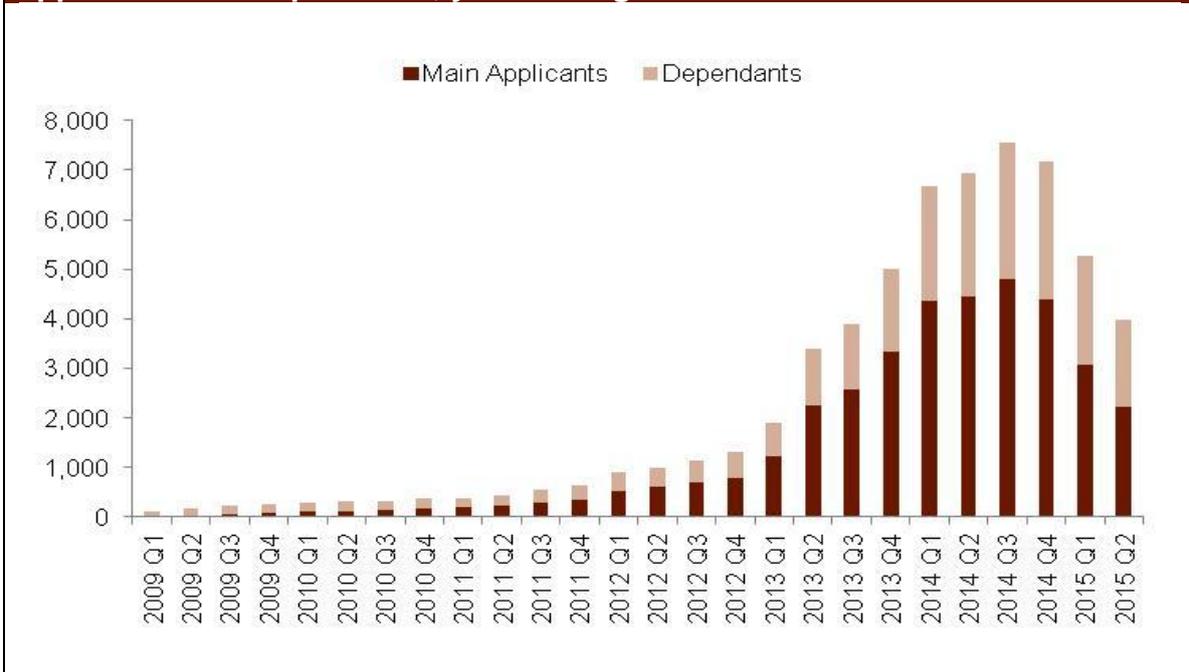


Figure 2.4: In-country applications granted to Tier 1 (Entrepreneur) main applicants and dependants, year ending 2009 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

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Figure 2.5: Ratio of dependants to main applicants granted out-of-country visas under Tier 1 (Entrepreneur), Tier 1 (Investor), and Tier 2 (Total) routes, year ending 2009 Q1 to 2015 Q2

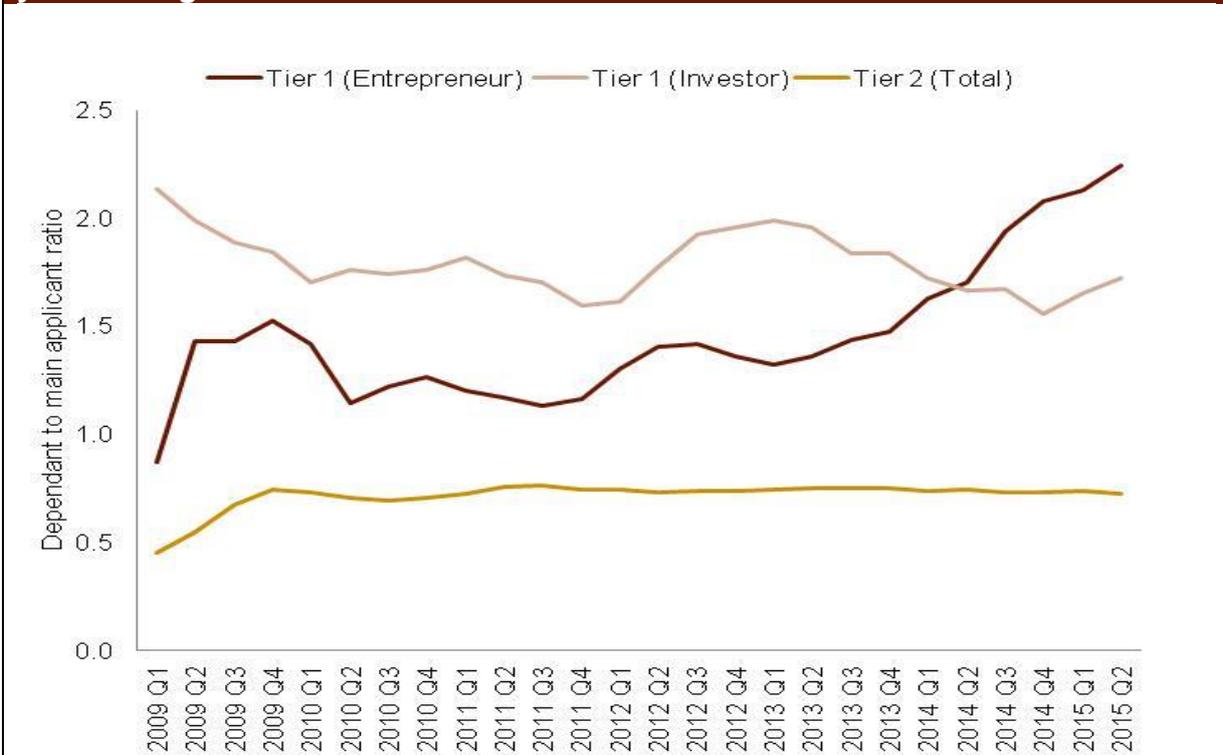
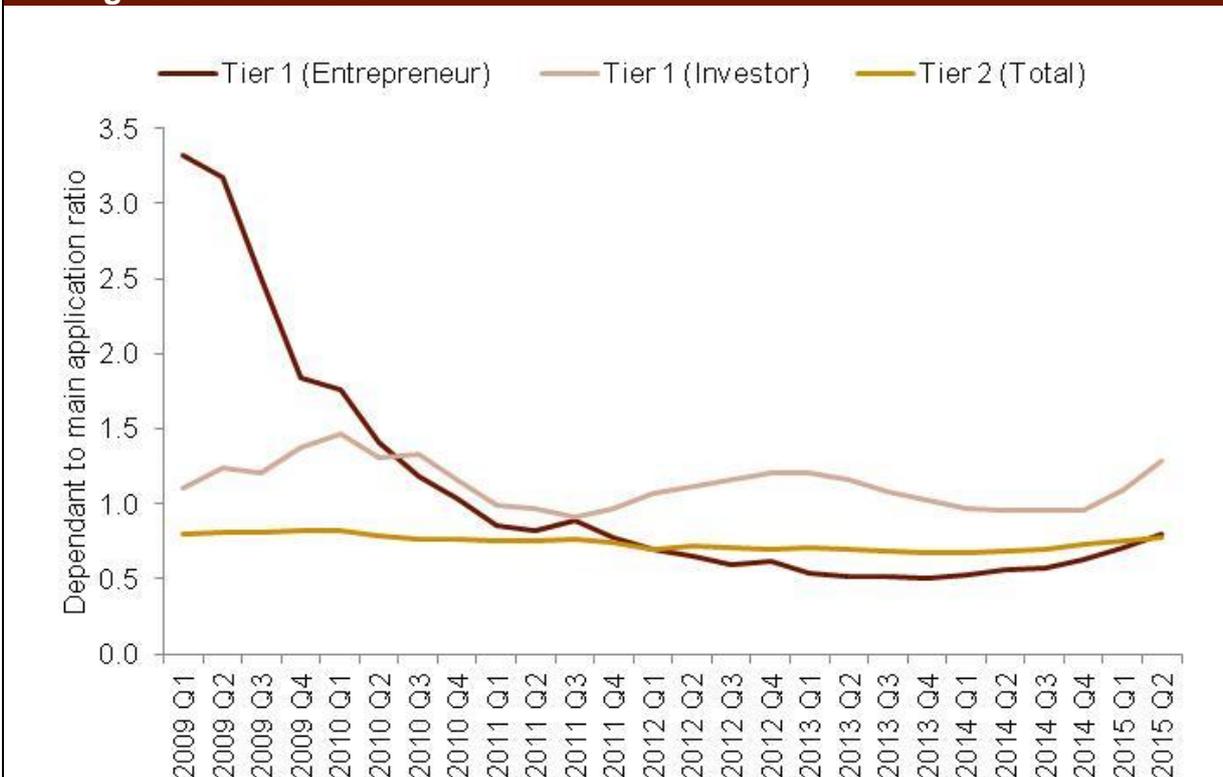
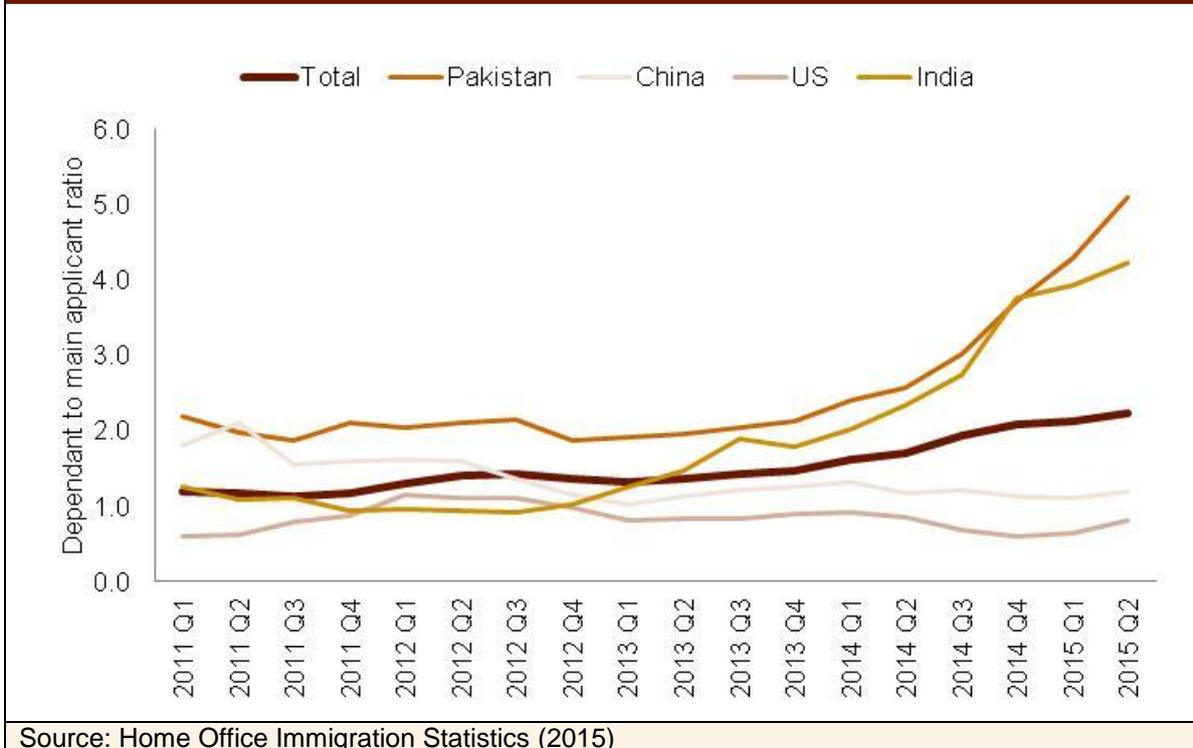


Figure 2.6: Ratio of dependants to main applicants granted in-country visas under Tier 1 (Entrepreneur), Tier 1 (Investor), and Tier 2 (Total) routes, year ending 2009 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

Figure 2.7: Ratio of dependants to main applicants granted out-of-country visas under Tier 1 (Entrepreneur) route by nationality, years ending 2011 Q1 to 2015 Q2



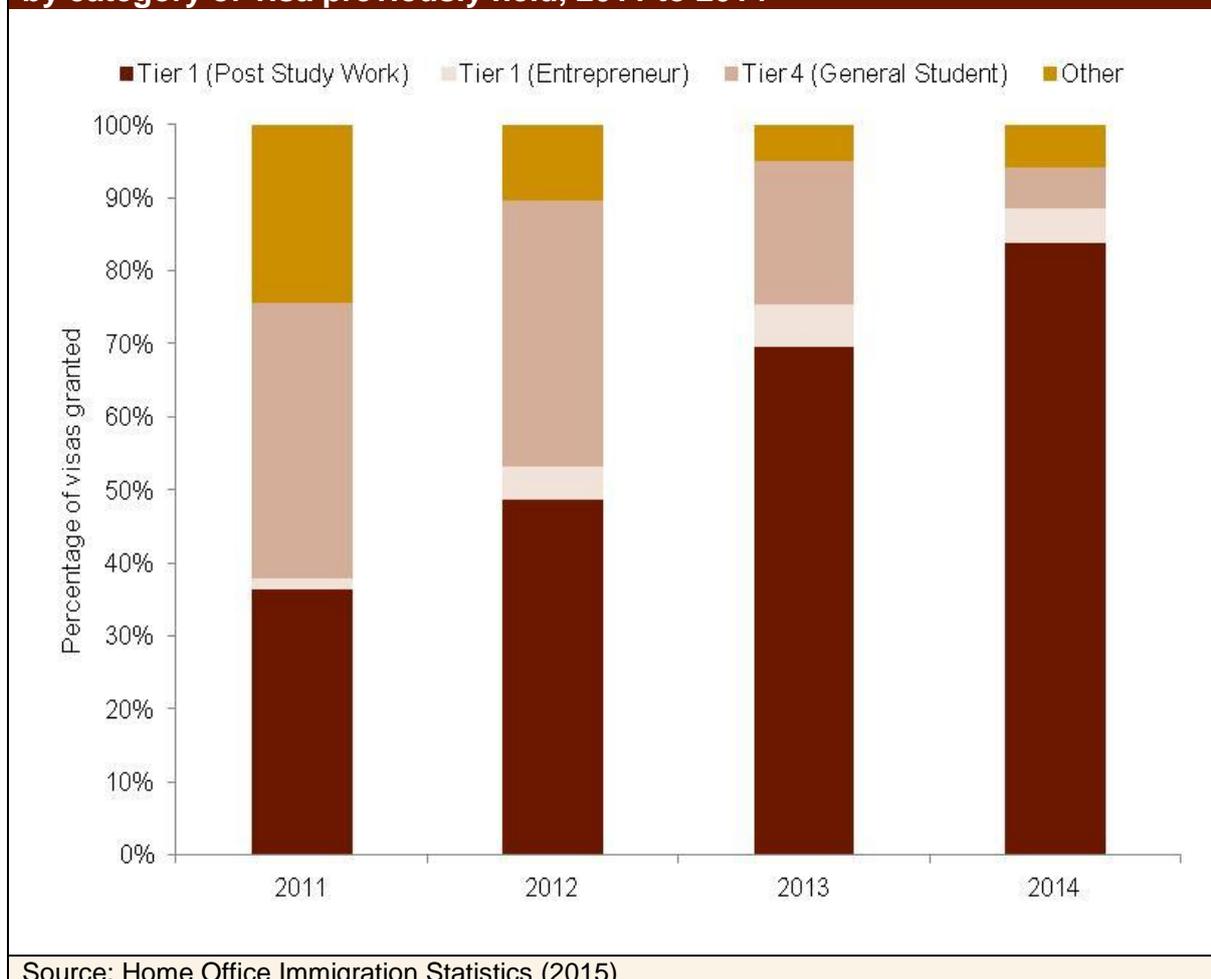
Profile of Tier 1 (Entrepreneur) applicants

Previous visa category

- 2.49 The Immigration Statistics indicate that in 2014, 203 Tier 1 (Entrepreneur) migrants were granted leave to remain through extending their existing Tier 1 (Entrepreneur) visas (Figure 2.8). This represents approximately five per cent of visas granted in-country under the Tier 1 (Entrepreneur) route.
- 2.50 The vast majority of migrants granted in-country extensions under the Tier 1 (Entrepreneur) route previously held Tier 1 (Post-Study Work) visas in 2014. The data indicates that the closing of the Tier 1 (Post-Study Work) route led to an increase in individuals switching from this route into the Tier 1 (Entrepreneur) route once their visas expired. This evidence would suggest that the closure of the Tier 1 (Post-Study Work) route was a significant driver of the surge in applications for the Tier 1 (Entrepreneur) route in 2013.

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Figure 2.8: In-country grants of leave to remain under Tier 1 (Entrepreneur) by category of visa previously held, 2011 to 2014



Nationality

2.51 Between 2008 and 2014, the top four countries (in descending order of granted visa volumes: Pakistan, China, United States of America, and India) accounted for around half of all visas issued out-of-country to main applicants (Table 2.4). In 2014, all four of these nationalities experienced a fall in the volumes of visas granted. Prior to this fall, nationals of China and Pakistan had experienced particularly high growth rates in visas issued, with a more muted growth rate for Indian nationals. Visas issued to American nationals began falling in 2013 and have continued their descent, yet in 2014 they still constituted nine per cent of visas granted to main applicants under this route.

Table 2.4: Out-of-Country visas issued to Tier 1 (Entrepreneur) main applicants by nationality, 2014

Country	Number of visas issued	Proportion of total
Pakistan	235	22%
China	138	13%
United States	94	9%
India	72	7%
Russia	58	5%
Australia	44	4%
Nigeria	30	3%
Iran	29	3%
Iraq	28	3%
Hong Kong	26	2%
<i>Other</i>	333	31%
<i>Total</i>	1087	100%

Source: Home Office Immigration Statistics (2015)

2.52 The Immigration Statistics show that in 2014, around a third of in-country visas issued under the Tier 1 (Entrepreneur) route were to Pakistani nationals (Table 2.5). Compared to the out-of-country applications, American nationals make up a much smaller proportion of in-country visas granted, whilst Nigerian nationals make up a significantly larger proportion. Since 2008, there has been a sustained increase in the numbers of visas granted to nationals of India and Pakistan. However, whilst there was a similar growth in in-country visas issued to Chinese nationals between 2008 and 2013, the number of in-country visas issued to Chinese nationals in 2014 was down by 38 per cent on the previous year.

Table 2.5: In-country visas issued to Tier 1 (Entrepreneur) main applicants by nationality, 2014

Country	Number of visas issued	Proportion of total
Pakistan	1,438	33%
India	1,057	24%
Nigeria	458	10%
China	442	10%
Bangladesh	315	7%
Sri Lanka	188	4%
Nepal	85	2%
Iran	63	1%
Russian Federation	36	1%
United States of America	31	1%
<i>Other</i>	288	7%
<i>Total</i>	4,401	100%

Source: Home Office Immigration Statistics (2015)

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MI analysis

- 2.53 The remainder of this section presents analysis of Tier 1 (Entrepreneur) applicants using Home Office management information which can provide a deeper insight into the profiles of the applicants compared to what is available from the published Immigration Statistics. For example, the MI can be used to calculate the proportions of applicants that have their visas granted or refused by characteristics including nationality, previous category of visa, age, and region. However, as the MI data do not necessarily correspond exactly with Immigration Statistics over a given time period, we focus on proportions rather than levels in the analysis which follows.
- 2.54 There is significant variation in refusal rates by nationality among out-of-country applicants (Figure 2.9). By nationality, Pakistani nationals made up the largest group for visas granted in 2014, yet 61 per cent of out-of-country applications from Pakistani nationals were refused in 2014. In contrast, the refusal rate for the USA was only four per cent. Refusal rates for nationals of Russia, Australia, and Iran are lower than average at 14, 27, and 33 per cent respectively.
- 2.55 The variation in refusal rates by nationality for in-country applications is less marked (Figure 2.10). Again, the refusal rate was high amongst Pakistan nationals and, at 59 per cent, the refusal rate is similar to that for out-of-country applications. Interestingly, some of those nationalities with relatively low refusal rates have significantly higher refusal rates for in-country applications than for out-of-country applications. For example, American nationals have a refusal rate of four per cent for out-of-country applications, but this rises to 29 per cent for in-country applications. On the other hand, for Chinese nationals the in-country refusal rate is quite a bit lower than the out-of-country rate.

Figure 2.9: Rates of grants and refusals for out-of-country Tier 1 (Entrepreneur) visas by nationality, 2014

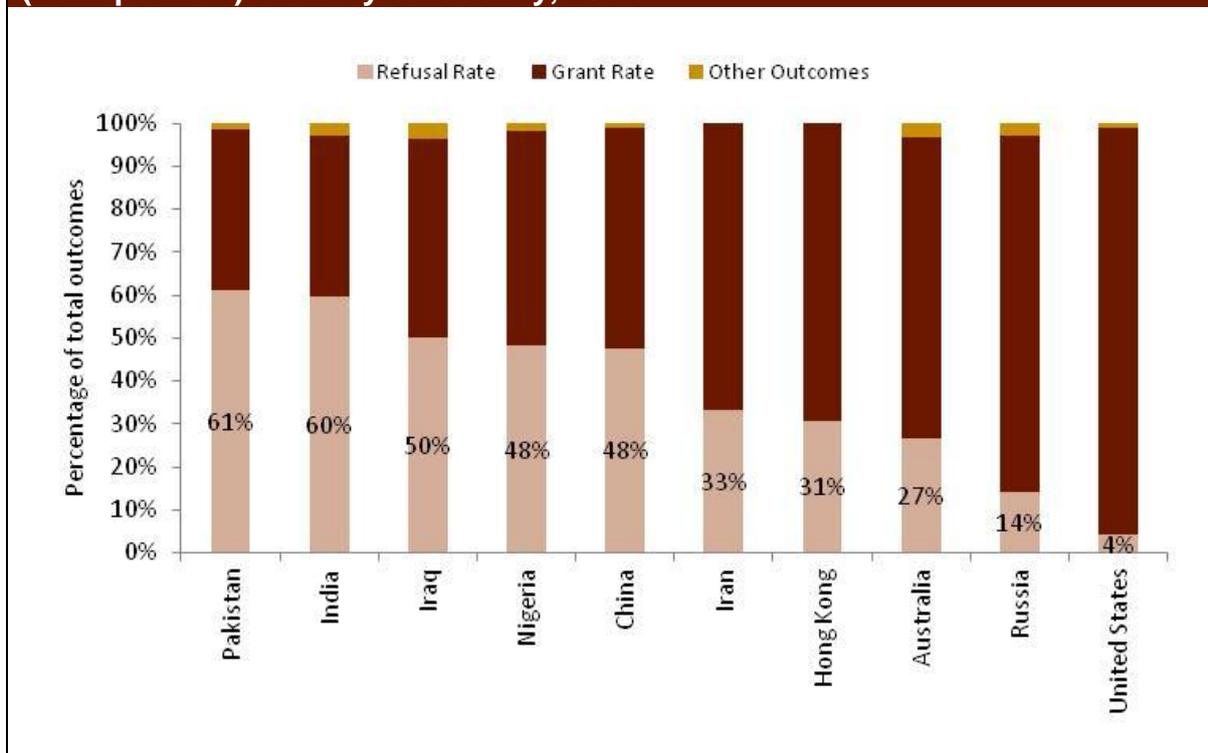
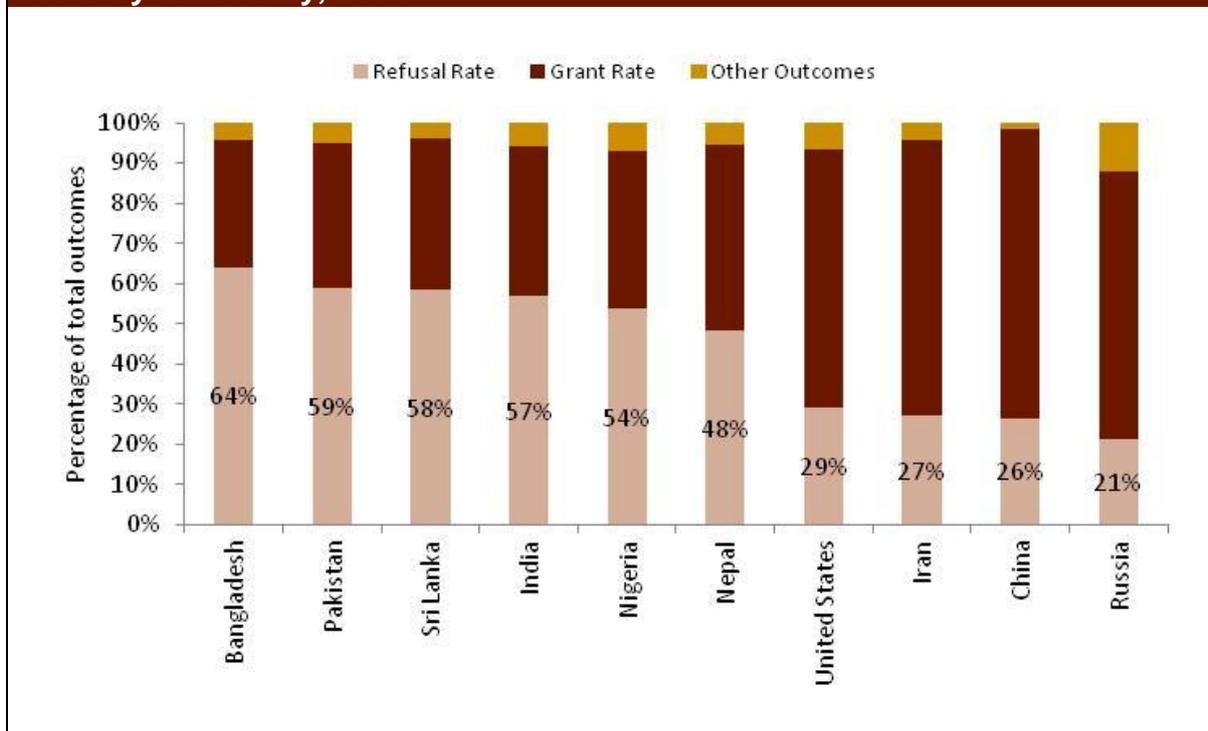


Figure 2.10: Rates of grants and refusals for in-country Tier 1 (Entrepreneur) visas by nationality, 2014



Notes: the category 'other outcomes' can refer to a number of different outcomes, including the withdrawal, lapse, or deferral of an application.

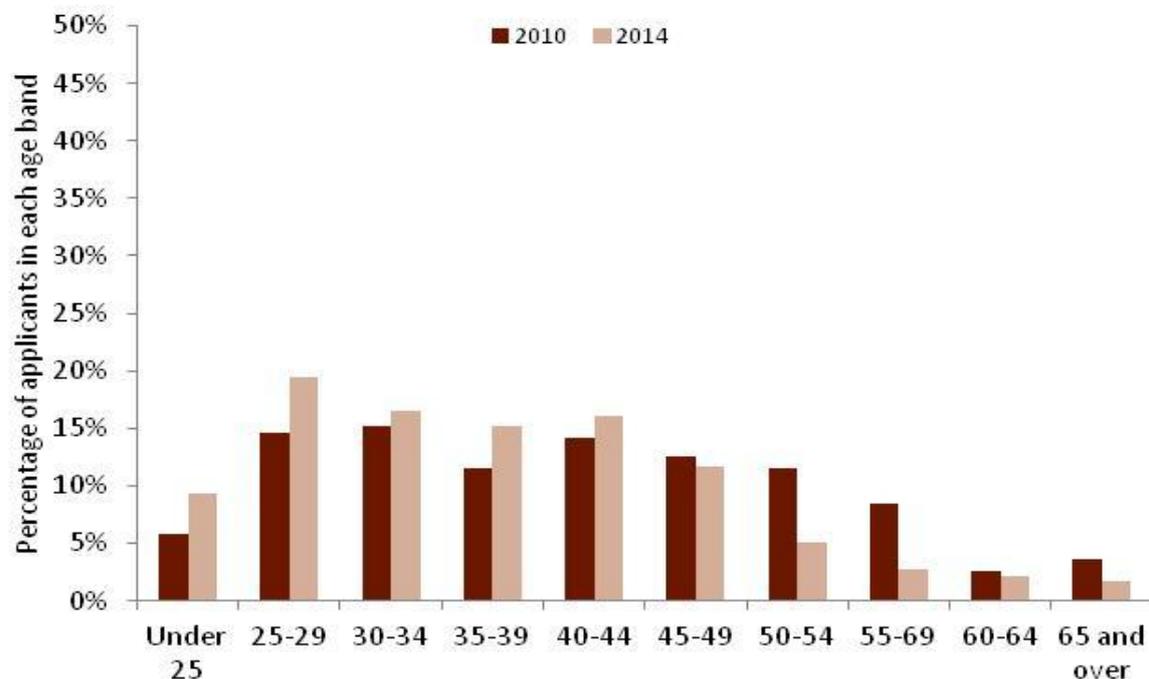
Source: Home Office management information (2015)

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Age

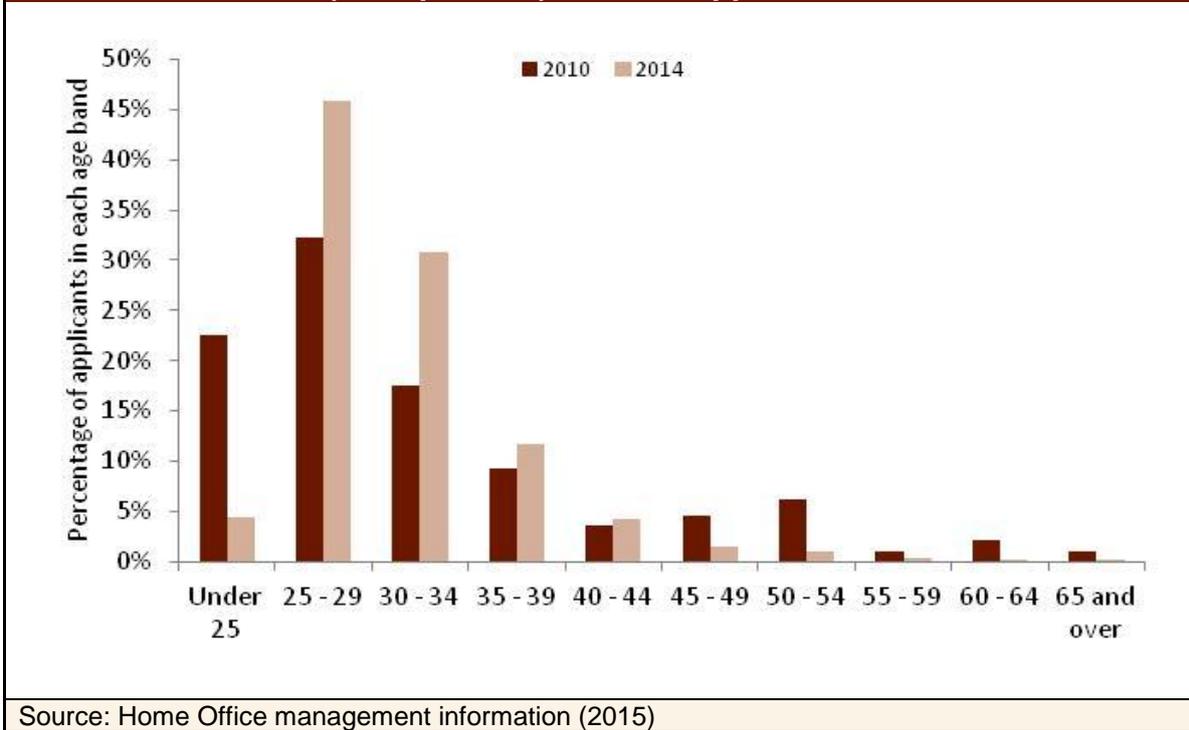
- 2.56 The average age of main applicants granted out-of-country Tier 1 (Entrepreneur) visas was 37 in 2014, down from 41 in 2010. Whilst the age profile has not changed much since 2010, there has been a slight downwards trend in the age distribution. In particular, the largest group in the distribution is the 25 - 29 age bracket, accounting for 15 and 19 per cent of the visas granted in 2010 and 2014 respectively (Figure 2.11).
- 2.57 The age profile of migrant entrepreneurs applying in-country for Tier 1 (Entrepreneur) visas is lower than for out-of-country applicants, perhaps reflecting the switching from Tier 1 (Post-Study Work) into the Tier 1 (Entrepreneur) route since 2012. The average age has fallen slightly from 32 in 2010 to 30 in 2014. In 2014, 88 per cent of in-country Tier 1 (Entrepreneur) visas granted were to individuals under the age of 35. This represents a marked shift over time, demonstrated by the increase in the proportion represented by the 25 – 29 age bracket, from 32 per cent in 2010 to 46 per cent in 2014 (Figure 2.12).

Figure 2.11: Age distribution of out-of-country applications granted to Tier 1 (Entrepreneur) main applicants in 2010 and 2014



Source: Home Office management information (2015)

Figure 2.12: Age distribution of in-country applications granted leave to remain under Tier 1 (Entrepreneur) for main applicants, 2010 and 2014

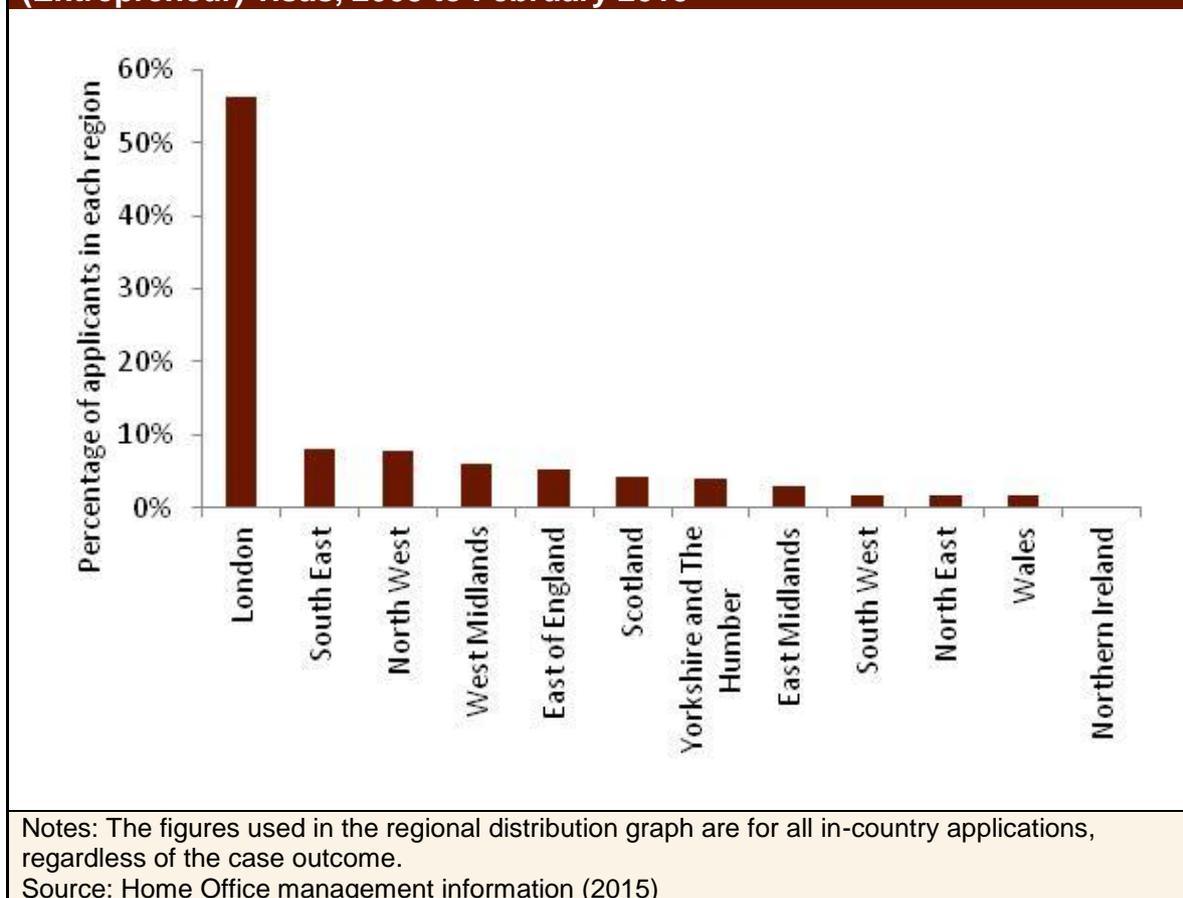


Region

2.58 Home Office management information includes a UK postal address for those migrants applying in-country for a Tier 1 (Entrepreneur) visa. Whilst the applicant may go on to establish or take over a business elsewhere in the UK, the address recorded may give some indication of the likely regional breakdown of the activity of in-country applicants. Since 2008, around 56 per cent of in-country main applicants for Tier 1 (Entrepreneur) visas have held addresses in London with the remaining 44 per cent distributed around the UK ranging from eight per cent in both the South East and North West to 0.1 per cent in Northern Ireland (Figure 2.13). Notably, the South West, North East and Wales each represent only two per cent of the distribution. Refusal rates do not differ significantly across the regions.

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Figure 2.13: Regional distribution of all in-country applications for Tier 1 (Entrepreneur) visas, 2008 to February 2015



2.10 Tier 1 (Graduate Entrepreneur) applications

- 2.59 The number of Tier 1 (Graduate Entrepreneur) visas issued in-country each year has been increasing steadily since the introduction of the route in 2012, after very low levels of initial uptake. As may have been expected given the design of the route, in-country volumes are higher than out-of-country volumes. In the year ending June 2015, 468 visas were issued in-country to main applicants under the route, while 128 visas were issued out-of-country (Table 2.6).

Table 2.6: Tier 1 (Graduate Entrepreneur) visas issued, 2012 to 2014

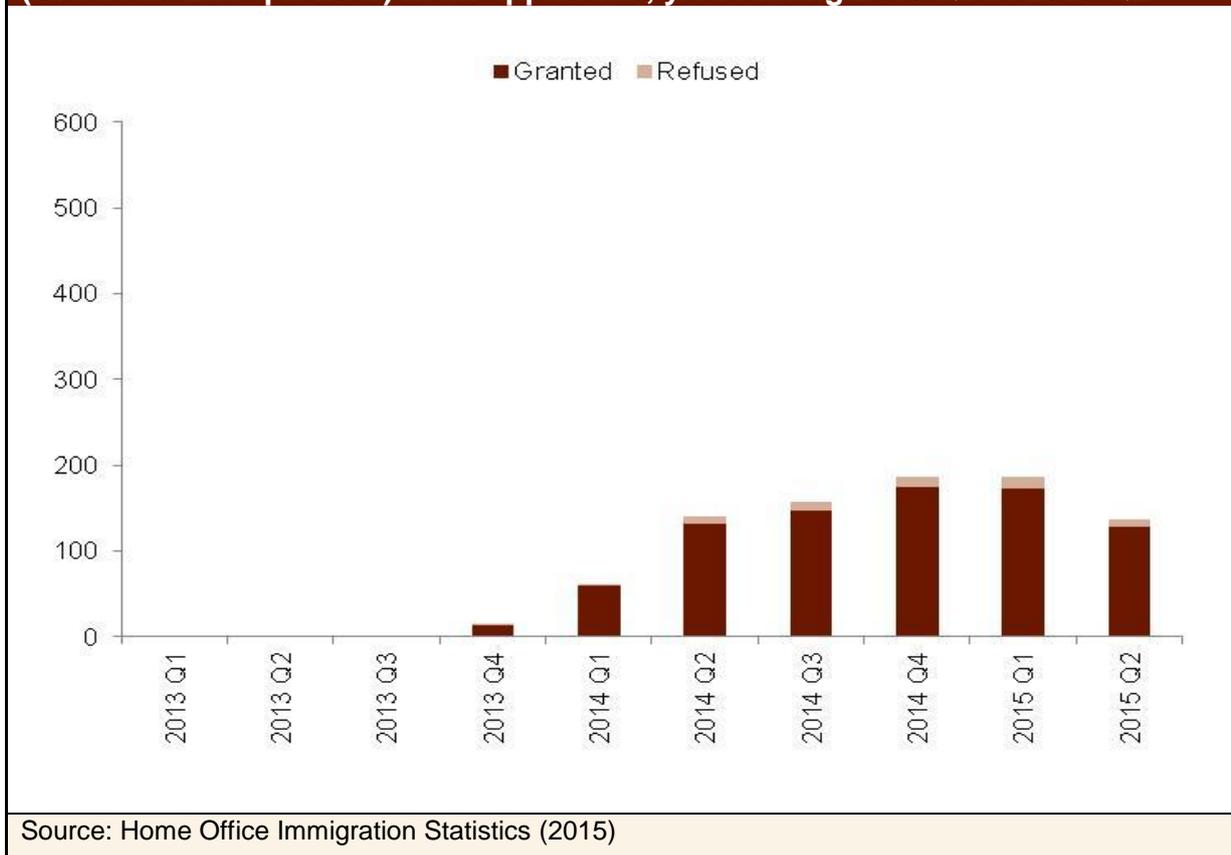
Year ending	Out-of-country visas issued			In-country visas issued		
	Main applicants	Dependants	Dependant to main applicant ratio	Main applicants	Dependants	Dependant to main applicant ratio
2012	0	4	N/A	27	10	0.37
2013	13	16	1.23	193	46	0.24
2014	175	42	0.24	389	104	0.27
2015 Q2	128	28	0.22	468	150	0.32

Notes: The figures above provide an indication of the number of Tier 1 (Graduate Entrepreneur) migrants with non-EEA nationality who apply to come to the UK in a given period, however, they might not directly equate to flows of migrants into the UK. Although applications may be granted, the individual might subsequently decide not to migrate to the UK or might not remain in the UK for a period longer than one year. The data are based on the time at which the application is made. All records were restricted to exclude applications which were not granted.

Source: Home Office Immigration Statistics (2015)

2.60 According to the Immigration Statistics, the refusal rate for out-of-country main applicants under the Tier 1 (Graduate Entrepreneur) route was seven per cent in the year ending June 2015. Whilst the number of refusals in-country has continued to climb along with the increase in overall volumes, since 2013 the in-country refusal rate has consistently been around five per cent.

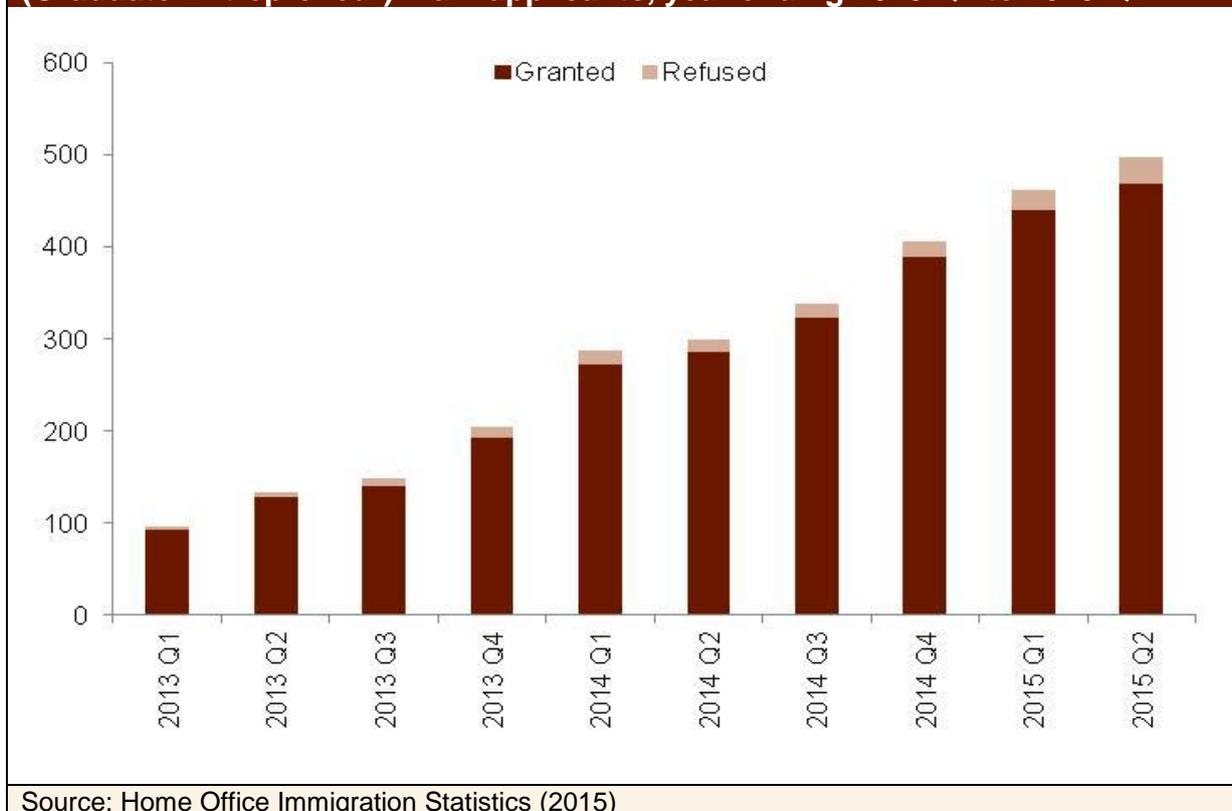
Figure 2.14: Number of out-of-country visas issued and refused to Tier 1 (Graduate Entrepreneur) main applicants, year ending 2013 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

Tier 1 Entrepreneurs

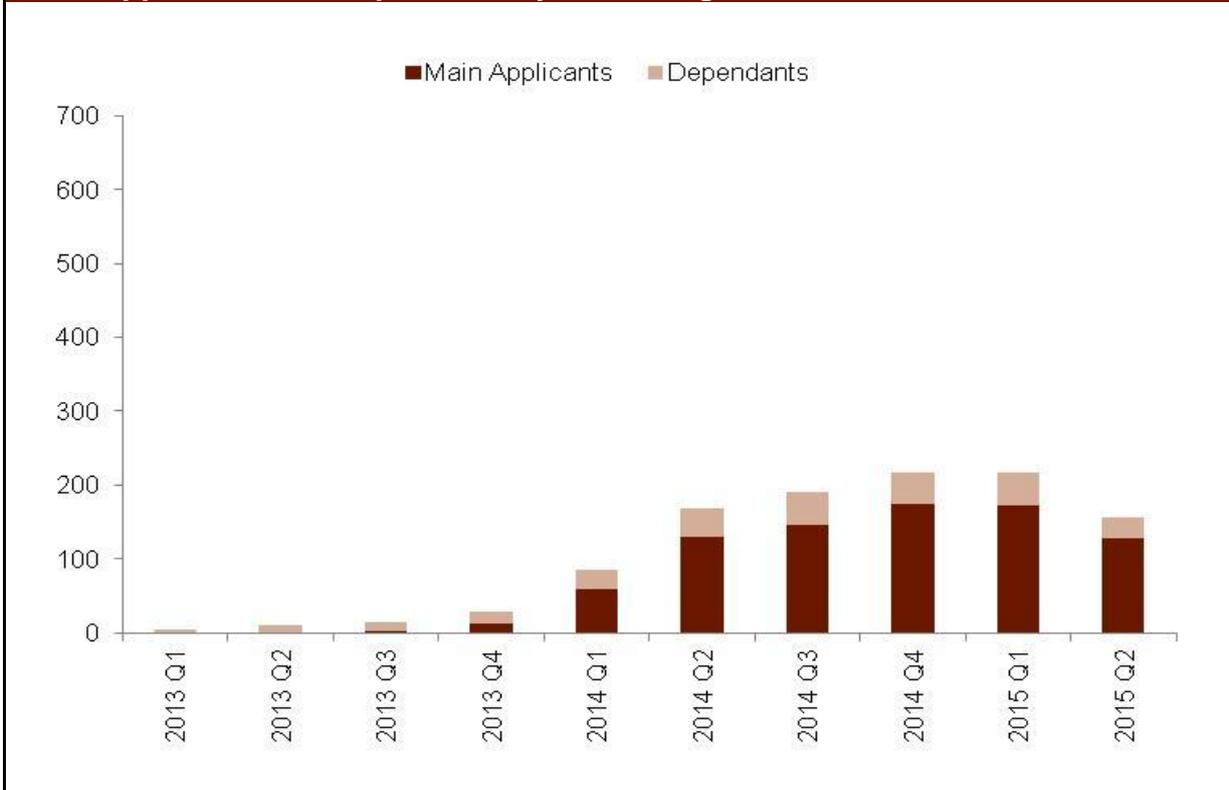
Figure 2.15: Number of in-country applications granted and refused to Tier 1 (Graduate Entrepreneur) main applicants, year ending 2013 Q1 to 2015 Q2



Tier 1 (Graduate Entrepreneur) dependants

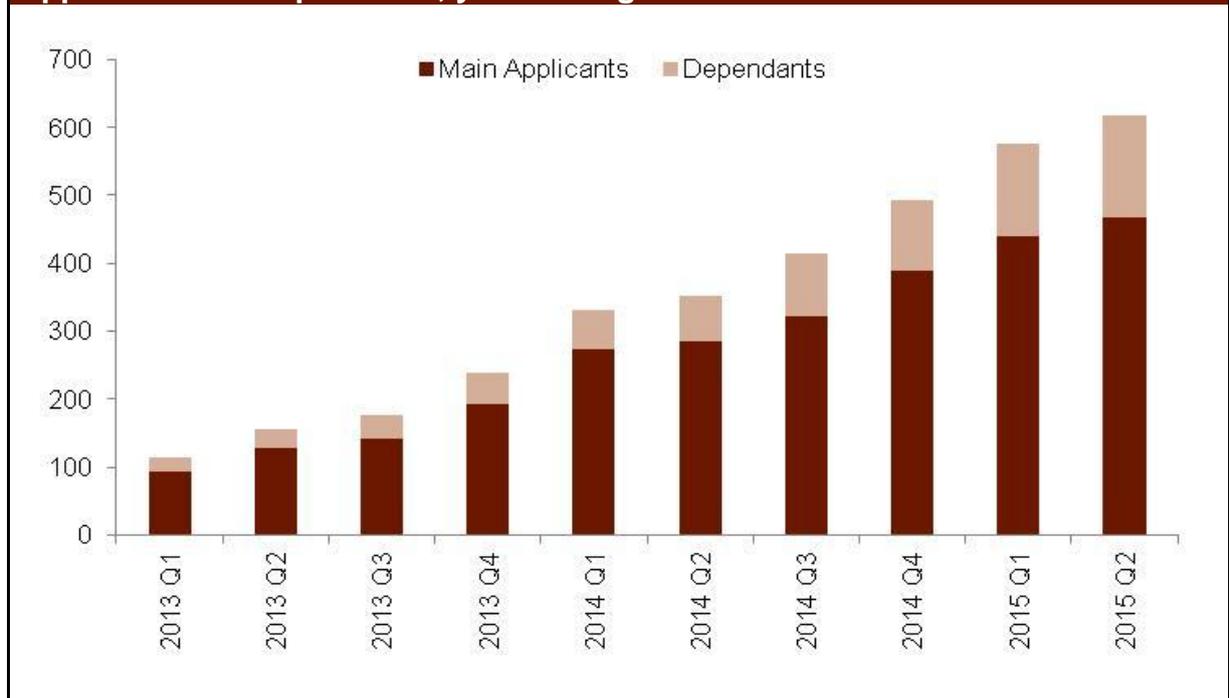
- 2.61 The number of dependants entering through the Tier 1 (Graduate Entrepreneur) on out-of-country visas is extremely low – just 28 in the year ending June 2015, down from 42 in 2014 (Figure 2.16). In the early stages of the Tier 1 (Graduate Entrepreneur) route, dependants made up 100 per cent of out-of-country applications, presumably to join main applicants applying in-country. Since interest began to pick up amongst main applicants, the dependant to main applicant ratio has steadily fallen to 0.22 in the year ending June 2015.
- 2.62 Whilst the volumes are slightly higher, the number of visas granted to in-country dependants is also relatively low. In the year ending June 2015, 150 visas were granted to in-country dependants under the route, having continually risen since the introduction of the route (Figure 2.17). The dependant to main applicant ratio was 0.32 in the 12 months to June 2015. As might be expected from their age profile (see paragraph 2.67 below) the dependant ratio for Tier 1 (Graduate Entrepreneur) migrants is much lower than for the Tier 1 (Entrepreneur) route.

Figure 2.16: Out-of-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants and dependants, year ending 2013 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

Figure 2.17: In-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants and dependants, year ending 2013 Q1 to 2015 Q2



Source: Home Office Immigration Statistics (2015)

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Profile of Tier 1 (Graduate Entrepreneur) applicants

Previous visa category

- 2.63 Unsurprisingly given the route design, the vast majority of in-country applications for the Tier 1 (Graduate Entrepreneur) route are from those applicants that previously held a Tier 4 (General Student) visa. In 2014, around 73 per cent of in-country main applicants previously held Tier 4 (General Student) visas (Table 2.7). 25 per cent of in-country visas granted were extensions of existing Tier 1 (Graduate Entrepreneur) visas.

Table 2.7: In-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants by category of visa previously held, 2014

Previous visa type held	2014	Proportion of total
Tier 4 - General Student	284	73%
Tier 1 - Graduate Entrepreneurs	99	25%
<i>Other</i>	6	2%

Source: Home Office Immigration Statistics (2015)

Nationality

- 2.64 The most common nationalities granted visas out-of-country under the Tier 1 (Graduate Entrepreneur) route in 2014 were India, China, and the United States of America (Table 2.8). This pattern of uptake is broadly similar to the Tier 1 (Entrepreneur) route. However, Pakistan features less prominently in the Tier 1 (Graduate Entrepreneur) visa figures than in the Tier 1 (Entrepreneur) route. Analysis of the MI data showed that refusal rates were generally very low, though it should be noted that due to the small volumes, the refusal rate is reasonably volatile.
- 2.65 Similarly, India, China and the USA are the most common nationalities amongst successful in-country main applicants for Tier 1 (Graduate Entrepreneur) visas. Again, the proportion of Pakistani nationals in the Tier 1 (Graduate Entrepreneur) figures is much lower than that of the Tier 1 (Entrepreneur) route, making up only five per cent of visas granted under this route (Table 2.9). American nationals feature more prominently under this route compared to the Tier 1 (Entrepreneur) route.

Table 2.8: Out-of-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants by top 10 nationalities and corresponding refusal rates, 2014

Country	Number of visas issued to main applicants	Proportion of total
India	35	20%
China	19	11%
United States	18	10%
Mexico	15	9%
Brazil	9	5%
Pakistan	6	3%
Russia	6	3%
Canada	5	3%
Australia	4	2%
Costa Rica	4	2%
<i>Other</i>	54	31%
<i>Total</i>	175	100%

Table 2.9: In-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants by top 10 nationalities and corresponding refusal rates, 2014

Country	Number of visas issued to main applicants	Proportion of total
India	67	17%
China	66	17%
United States	55	14%
Nigeria	42	11%
Pakistan	21	5%
Iran	13	3%
Russia	13	3%
Australia	8	2%
Korea (South)	7	2%
Ukraine	7	2%
<i>Other</i>	90	23%
<i>Total</i>	389	100%

Source: Home Office Immigration Statistics (2015)

MI analysis

2.66 Given the lower volumes under the Tier 1 (Graduate Entrepreneur) route there is less to be gained from an in depth analysis of the MI for this route. However, in the section below the MI data have been used to provide insight into the distribution of applicants by age and by region within the UK (for in-country applicants only).

Age

2.67 The age profiles for in- and out-of-country applicants are broadly similar. Since 2012, 71 per cent of successful out-of-country main applicants for graduate entrepreneur visas were under the age of 30, with less than one per cent of applicants aged over 45 (Figure 2.18). Over the same period, 66 per cent of in-country visas issued were to main applicants under the age of 30 (Figure 2.19). The average age of main applicants granted visas under the route since 2012 was 28 for both in- and out-of-country main applicants.

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Figure 2.18: Out-of-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants by age, 2012 - 2014

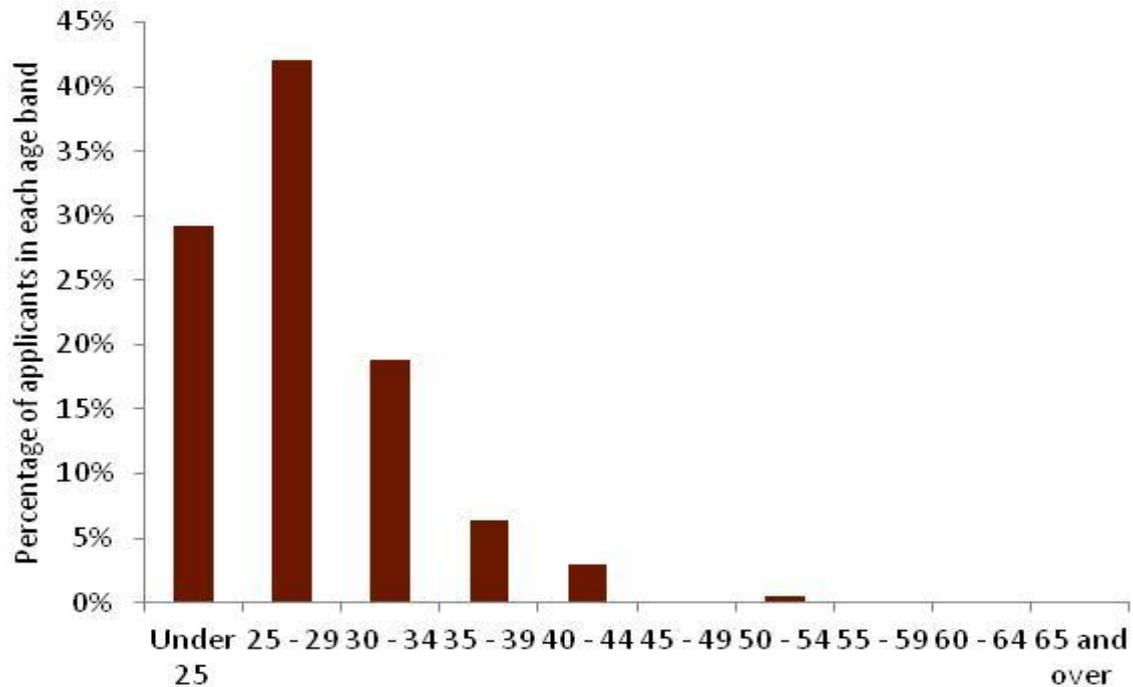
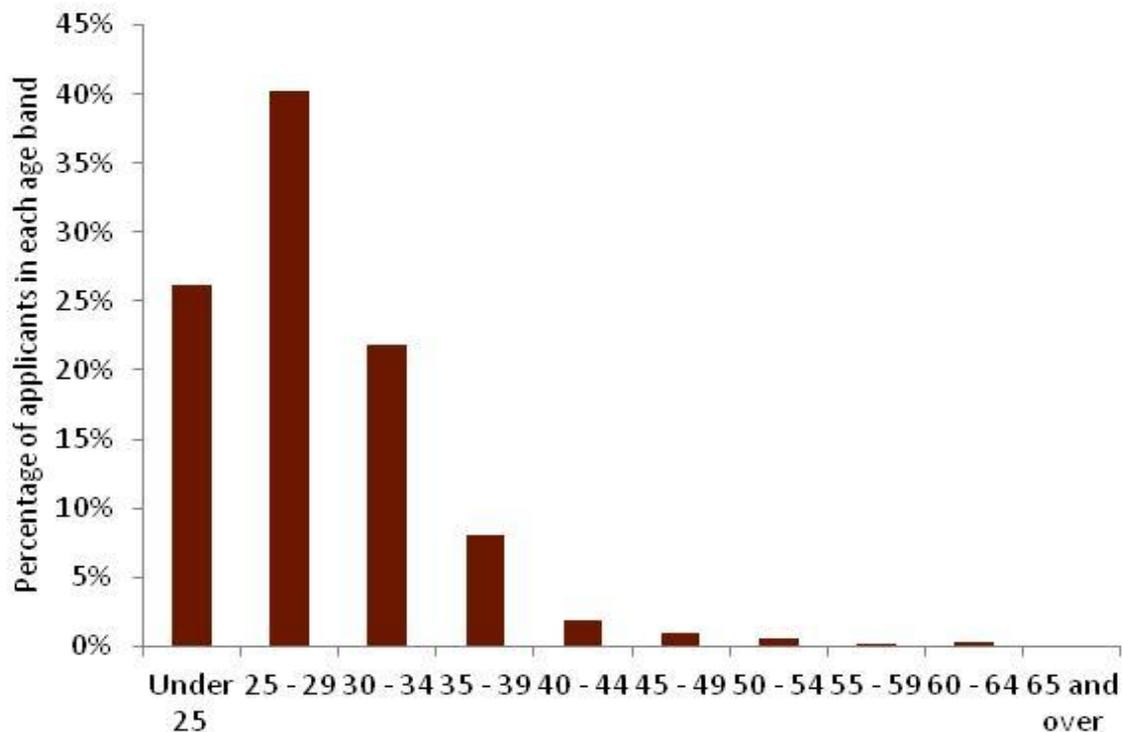


Figure 2.19: In-country visas issued to Tier 1 (Graduate Entrepreneur) main applicants by age, 2012 - 2014

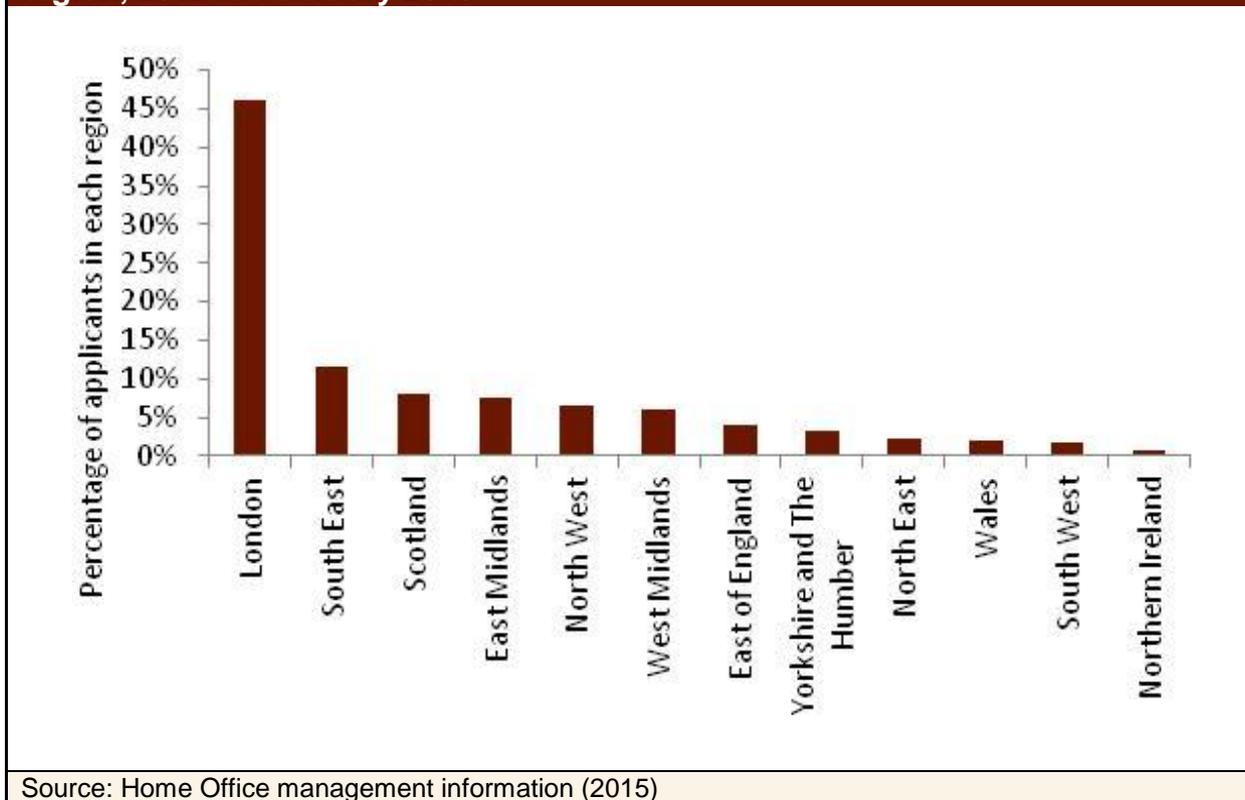


Source: Home Office management information (2015)

Region

2.68 In-country applications granted under the Tier 1 (Graduate Entrepreneur) route demonstrate a strong concentration in London. The concentration in London and the South East is however less pronounced than for the Tier 1 (Entrepreneur) route, with these regions taking 46 per cent and 11 per cent respectively (Figure 2.20). In particular the share of applications from Scotland (nine per cent) is significantly higher than under the Tier 1 (Entrepreneur) route.

Figure 2.20: In-country applications for Tier 1 (Graduate Entrepreneur) visas by region, 2012 to February 2015



2.11 Conclusions

2.69 From its introduction in 2008, uptake of the Tier 1 (Entrepreneur) route was low until 2011 when the number of applications started to rise steadily. There was a sharp increase in the number of both in- and out-of-country applications in 2013, likely driven by the closure of the Tier 1 (Post-Study Work) route. More recently, in-country applications have remained only slightly below the level of the 2014 peak, whereas out-of-country applications have remained relatively steady, at a much lower level, since the end of 2013.

2.70 The number of applications from dependants under this route has increased year on year since the route's introduction apart from in the most recent figures, where dependant numbers have fallen back slightly. Therefore the recent fall in the number of main applicants has taken a while to feed into the dependant figures. Out-of-country applicants have a lower average age, and

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those switching from Tier 4 student or Tier 1 (Post-Study Work) visas are perhaps less likely to have dependants.

- 2.71 The ratio of dependants to main applicants for out-of-country Tier 1 (Entrepreneur) visas is now higher than the ratio for Tier 1 (Investor) and Tier 2 (Total) routes, having historically been below that of the Tier 1 (Investor) route. **It would appear that the Tier 1 (Entrepreneur) route is being used heavily to bring in dependants, particularly by out-of-country applicants.** This trend in usage has spiked since the introduction of the genuine entrepreneur test in 2013. For in-country applicants however, the ratio of dependants to main applicants under the Tier 1 (Entrepreneur) route has generally been lower than the corresponding ratios for both the Tier 1 (Investor) and the Tier 2 (Total) routes.

Chapter 3: International Comparisons

3.1 Introduction

- 3.1 The commission from the Government asked the MAC to consider how the Tier 1 Entrepreneur route *“utilises international best practice. As part of this, the MAC is requested to consider route design and incentives to ensure competitiveness”*
- 3.2 In this chapter we present an overview of comparable entrepreneur visa routes in other countries, focusing primarily on Organisation for Economic Cooperation and Development (OECD) member countries³. We assess recent trends in entrepreneur visa routes and identify the common trade-offs made by policy makers in setting admissions criteria for migrant entrepreneurs. We also examine why migrant entrepreneurs might choose to launch their businesses in the UK as opposed to those countries with equivalent visa routes.
- 3.3 However, there is relatively little evaluation of entrepreneur visa routes in OECD countries. This means that it is not straightforward to identify what constitutes ‘best practice’ as this would require tracking policy design against the outcomes achieved. Instead, we focus on identifying recent trends and developments.

3.2 The objectives behind entrepreneur visa routes in OECD countries

- 3.4 OECD countries with entrepreneur visa routes describe a range of different objectives for their routes. For some countries, the focus is on the potential for job creation of any description, whilst for others the aim is job creation by innovative and high-growth potential businesses.
- 3.5 For example, Canada has a start-up visa which targets “a new type of immigrant entrepreneur who has the potential to build innovative companies that can compete on a global scale and create jobs” (Citizenship and Immigration Canada, 2015). Similarly, the Australian

³ We also examine Singapore, which is not a member of the OECD.

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Department of Immigration and Border Protection describes the rationale for its Business Innovation and Investment Programme as to “enable successful business owners and investors to invest or enter into business in Australia and contribute to the growth of Australia’s economy” (Parliament of the Commonwealth of Australia, 2015).

- 3.6 For other countries, the focus is less about job creation in the short-term; instead, the aim is to attract high-potential entrepreneurs who will contribute to the development of an entrepreneurial culture which may lead to innovation and productivity advancement. For example, Chile’s Start-up Visa programme states that its aim is to “convert Chile into the innovation and entrepreneurship hub of Latin America” (Start-up Chile website, 2015). In Singapore, the “EntrePass” entrepreneur visa has been described as a “part of Singapore’s overall plan to become a regional business hub and attract the best business and entrepreneurial minds to the country” (Guide Me Singapore, 2013).

3.3 Selection criteria

- 3.7 The entrepreneur visa routes in OECD countries vary considerably in the initial criteria used to select migrant entrepreneurs. In this section we briefly set out these criteria.
- 3.8 In Chapter 2 we set out a definition of entrepreneurship. In order to differentiate between self-employment visas and those entrepreneur visas which are consistent with our preferred definition, we focus on visa routes that place some restriction on the business proposal. This restriction may take the form of an innovativeness test, or where the business proposal is required to generate economic benefits to the country beyond providing employment to the migrant.
- 3.9 Table 3.1 gives a broad overview of the admissions criteria for each of the 12 countries we examined which specifically target entrepreneurs. A more exhaustive description of the criteria for each country is available in Annex C.

Table 3.1: Admission criteria summary for entrepreneur visa routes in 2015

Country	Investment Funds		Personal Funds	Job creation	Specific sectors or location	Specific Economic Business test	Innovative	Previous experience	Other
	Amount	Source							
Australia	Yes £380,000 to £714,000	Optional VC	No	No	Optional Location	Optional	Optional	Optional	Yes Age <55
Austria	Yes Undefined	No	No	Yes Undefined	No	No	Yes	No	No
Canada	Yes £38,000 to £100,000	Yes VC, Angel or Incubator	Yes	No	No	No	No	No	Yes Language
Chile	No	No	Yes	No	Yes Sectors	Yes	Yes	No	No
Denmark	No	No	Yes	No	Yes Sectors	Yes	No	No	No
France	No	No	No	No	Yes Sectors Location	No	Yes	No	Yes Language

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Table 3.1: Admission criteria summary for entrepreneur visa routes in 2015

Country	Investment Funds		Personal Funds	Job creation	Specific sectors or location	Specific Economic Business test	Innovative	Previous experience	Other
	Amount	Source							
Ireland	Yes £35,000	No	Yes	Yes Ten	Yes Sectors	Yes	Yes	Yes	Yes Age <60
Italy	Yes £35,000	No	Yes	No	No	Yes	Yes	No	No
Netherlands	No	No	Yes	No	No	Yes	Yes	No	Yes Mentor
New Zealand	Yes £43,000	No	No	Yes Varies	Optional Location	Yes	Yes	Yes	No
Singapore	Yes £23,000 to £47,000	Optional VC	No	Yes Undefined	No	No	Optional	No	Yes 30 day time limit to inject capital
Spain	No	No	Yes	Yes Undefined	Yes Sectors	Yes	No	No	No

Table 3.1: Admission criteria summary for entrepreneur visa routes in 2015

Country	Investment Funds		Personal Funds	Job creation	Specific sectors or location	Specific Economic Business test	Innovative	Previous experience	Other
	Amount	Source							
UK	Yes £50,000 to £200,000	Optional VC Seed funding or UKTI	Yes	No	No	No	No	No	Yes Language
USA	Yes £643,000	No	Yes	Yes	Optional Location	No	No	No	No

Notes: All routes also require the applicant have a genuine intention to continuously own or maintain a management role in a business in that country.
 Date first introduced refers to the visa as it stands as of April 2015. There may have been previous iterations of entrepreneur-targeted visas before this date under a different name
 For ease of comparison, investment requirements have been converted into sterling equivalent values calculated in July 2015 at prevailing rates.
 Source: Migration Advisory Committee analysis of individual country websites

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Caps on usage

- 3.10 One notable trend amongst the entrepreneur visa routes is that some of the newer schemes have placed annual caps on the volumes permitted through the route. Notably, the most recently introduced routes are the French Tech Ticket and the Danish Start-up Visa, which have annual caps of 500 and 50 respectively. This demonstrates a marked shift towards specifically targeted entrepreneur visas that, by their very nature, attract only small volumes of high quality applicants. A further example of this approach can be seen in the Canadian Start-up visa. Although the cap is set relatively high at 2,750 per annum, the route aims to attract a much smaller number of applicants per year with an emphasis on quality rather than quantity.

Investment funds

- 3.11 Over half of the countries in Table 3.1 require applicants to have access to funds to invest in their business. Aside from the UK, the investment required is generally between £20,000 and £50,000. Two significant exceptions are Australia which requires an investment of AU\$1.5m (£714,000) for its Significant Business History Stream, and the USA which requires an investment of \$1m (£643,000) for its EB-5 visa.
- 3.12 In some cases, the threshold varies according to the source of the funding. In Australia, the threshold is lowered to AU\$1m (£476,000) if the funding has been received from an approved Venture Capital firm. This is similar to the UK Tier 1 (Entrepreneur) visa which lowers the threshold from £200,000 to £50,000 if the funding is being provided by an approved third party. Canada requires that all funding be acquired from an approved institution. Notably, if the business is granted admission into a Canadian business incubator, the threshold is reduced to zero.
- 3.13 In these cases the involvement of a trusted third party is considered to provide a good signal as to the quality of the entrepreneur's proposal. This means that a lower investment threshold can be applied.
- 3.14 In France and Singapore, whilst a firm asset threshold is not in place, third party investment is an optional criterion. In this way, prospective entrepreneurs can choose to meet it in lieu of other requirements. In particular, in France a prospective entrepreneur need not meet the criteria of a PhD level education or demonstrate business experience should they attain a minimum investment of €300 000 (£211,000).
- 3.15 The remaining five examples, Austria, Denmark, Italy, the Netherlands, and New Zealand, do not have any asset thresholds in place whatsoever. Instead, these countries use innovation-focused criteria, which are covered in more depth later in this chapter.

Sector and location targeting

- 3.16 In some cases, migrant entrepreneurs must target specific sectors in the country to which they are applying. For example, in Spain, the proposed business plan must be in a sector that has been targeted for development, determined by the Spanish Economic and Commercial Office on a regional basis.
- 3.17 Alternatively, some countries explicitly exclude activity in certain sectors. In Ireland and Denmark, applicants will, in general, not gain approval for businesses in the retail or catering sectors. Similarly, consulting firms and import-export businesses are not eligible to apply for the French Tech Ticket. This restriction is presumably based on a risk assessment of the economic contribution of migrant entrepreneurs in those sectors.
- 3.18 Alternatively, some countries target specific regions. For example, in Australia, investment thresholds vary by state in order to encourage migrant entrepreneurs to establish their businesses in areas in greater need of investment.

Differentiation between start-ups and existing businesses

- 3.19 Recently, many OECD countries have started to differentiate between start-ups and established businesses in their entrepreneur visa programmes. For example, the Australian Business Innovation Scheme and the French Tech Ticket are offered in addition to a route for experienced entrepreneurs. Moreover, Denmark, Canada and Chile (see Box 3.1) have all recently introduced targeted 'start-up' visas. Each follows a slightly different model, but the general approach involves partnering with industry experts with particular expertise in identifying talented early-stage entrepreneurs. These routes also tend to focus on the quality of applicants rather than volume.
- 3.20 The move towards specific start-up routes has generally involved a reduction in the investment threshold. In fact, these routes often require third party endorsement instead of utilising a minimum investment threshold, whether this endorsement involves external funding or an independent panel of experts. There is also a general move away from low-growth potential businesses such as retail or import-export businesses, and greater emphasis on new technologies.

Box 3.1: Start-up visas in Canada, Chile and Denmark

Canada's start-up visa

In 2013, Canada launched its 'Start-up Visa Program' with the aim of targeting "immigrant entrepreneurs with the skills and potential to build innovative businesses in Canada that can create jobs for Canadians and compete on a global scale".

The scheme, designed in collaboration with industry partners, requires a migrant entrepreneur to secure endorsement from a designated organisation, which can include venture capital funds, angel investor groups and business incubator (accelerator) programmes. Endorsement from a designated organisation is the main criterion for entry but there are also checks on maintenance funds and language skills. The endorsing organisation and the applicants must jointly hold more than 50 percent of the voting rights in the business.

Successful applicants are awarded permanent residence on entry. It is recognised that some businesses will fail, but the Canadian government states that the route's design means risk is shared between both private and public sectors.

Start-up Chile

Launched in 2010, Start-up Chile is an innovative accelerator programme that aims to attract early-stage, high potential entrepreneurs to set up their start-ups in Chile. The stated aim of the programme is to make Chile the "definitive innovation and entrepreneurial hub of Latin America". The Chilean government provides successful applicants with US\$40,000 of equity-free seed capital.

Start-Up Chile's admission process is carried out in collaboration with YouNoodle, a company specialising in entrepreneurship competitions. An internal selection panel approves the final decision. Start-Up Chile states that the programme is highly selective, receiving more than 1,000 applications per round, of which only 100 are selected to participate.

Consulting companies, export/import companies and franchises are not accepted on the programme as they are not considered to be easily scalable to a global level.

Start-up Denmark

Start-up Denmark is an initiative to help talented migrant entrepreneurs grow high-impact start-ups in Denmark. To be eligible, the business must have high growth potential as well as global market scope. The program is restricted to early-stage businesses. Business proposals for restaurants, retail shops, small businesses, and import/export enterprises are normally not considered, as the programme is aimed at innovative and scalable business.

Business proposals are reviewed by a panel of start-up and business experts and no minimum investment is required. Proposals are assessed for innovation, market potential, capability of the team, and scalability of the project.

Sources: www.cic.gc.ca/english/immigrate/business/start-up/; StartupChile.org; Startupdenmark.info

- 3.21 In the USA, entrepreneur visa routes have generally focused on established entrepreneurs with funds to invest. However, some states have introduced schemes for graduate entrepreneurs and start-up businesses (see Box 3.2).
- 3.22 Funding requirements for established entrepreneurs tend to be significantly higher than for start-ups. Furthermore, a small number of countries require evidence of previous business history for entrepreneur visas outside of the new start-up routes. The rationale is that this track record should provide an indication of the prospective entrepreneur's likelihood of success. In Ireland, this is an absolute requirement. In other countries, such as France, Australia and New Zealand, previous business experience increases the chances of a successful application, but is not a prerequisite.

Box 3.2: Entrepreneur visa routes in the USA

There are a number of options in the US immigration system for migrants looking to invest into an existing business or to start a new business.

The EB-5 visa is perhaps the route that is most suitable for entrepreneurs who wish to invest into a new or existing US business. However, the investment threshold is set particularly high. Applicants are required to make a \$1 million (£643,000) investment into a U.S business, play an active role in the running of the business, and create 10 full-time jobs for US citizens for two years. However, the necessary investment is halved if it is in an area of high unemployment. The EB-5 visa is capped at 10,000 per annum.

The E-2 Treaty Investor Visa is similar to the EB-5 visa but is only available to nationals from select treaty countries. There does not appear to be a clear investment threshold, but a substantial investment must be made into a new or existing business and the migrant must be actively involved in the operation of the business. The migrant is generally required to have a 50 per cent share in the ownership of the business.

The H1-B visa can also potentially be used by migrant entrepreneurs, although this is primarily an employment visa. Within the H1-B visa structure, there is the flexibility for individual states to allow institutions, including universities, to sponsor migrants for visas. For example, both Colorado and Massachusetts have implemented programmes to allow graduate entrepreneurs to apply for a H1-B visa to pursue entrepreneurial activity in the United States.

Source: US Citizenship and Immigration Services website

Individual characteristics

- 3.23 Alongside the business proposal itself, there can also be requirements around the individual characteristics of the prospective migrant entrepreneur. For example, Canada and France require specific language requirements, while Australia imposes a maximum age of 55.

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Innovation requirements

3.24 Roughly half of the countries we examined have a requirement that a migrant entrepreneur set up an innovative business. However, there is some distinct variation in how this requirement is applied. In some cases, such as Start-up Denmark, the objectives for the route set out that the business should be innovative, but it is left to the panel of experts reviewing the cases to determine the innovativeness. However, in some instances, the requirements are more rigid. In Australia, for example, the business must score highly on the “business innovation and investment points” test where points are awarded for evidence of:

- registered patents, designs, or trademarks;
- export trade;
- formal joint venture agreements; and
- receipt of grants or venture capital funding.

Visa length

3.25 The countries we examined also varied in terms of the length of the initial entrepreneur visa awarded. In Canada and Australia (Significant Business History scheme), all successful applicants are granted permanent residence from the outset. This is not common and a bold policy as, by definition, there is no guarantee that entrepreneurs will be successful in their endeavours. Therefore, these countries are placing a great deal of confidence in the robustness of their initial criteria in determining the quality of their intake.

3.26 In the other countries we examined, the duration of the initial entrepreneur visa varies between one and four years. Whilst the majority are for one year, these tend to have clear extension paths assuming the business follows its proposed plan. Those with a longer initial visa tend to have more specific extension requirements.

3.4 Extension criteria

3.27 In the countries we examined, we found three broad approaches to extension:

- *Ensuring the original plan that granted the initial visa is being followed through.* As long as the required funds have been invested, and the business has met the goals outlined in the original business plan, the visa will be extended. This is the case in Austria, France, Italy, and Spain.
- *The entrepreneur is required to create an entirely fresh application.* This takes into account any changes to the business potential and

allows for a more thorough analysis of business progress. This is the approach taken in Denmark, for example.

- *A benchmark is set which the business needs to meet in order to be eligible for extension.* These benchmarks vary and may examine different facets of the business, such as the number of jobs created or the turnover. In Singapore, a scalable target system is in place whereby higher targets are in place for each successive visa extension.
- 3.28 A number of countries additionally allow for entrepreneurs that are particularly high performing to fast-track their extension. In 2009, New Zealand adjusted its policy to allow for the most successful migrant entrepreneurs to apply for permanent residency once they have created three jobs and invested approximately £215,000. The UK also offers a fast-track route to permanent residency after three years for companies with either a turnover that exceeds £5 million over the three year period, or that have created 10 full-time jobs.

3.5 Self-employment visas

- 3.29 Self-employment visas are common across the OECD countries. A number of countries with specific entrepreneur visas also have more generic self-employment routes. Whereas there is a great deal of variation in the design of the entrepreneur routes, the self-employment visas tend to be more similar.
- 3.30 In general, these routes require that the proposed business has economic viability in terms of providing a living for the entrepreneur and benefiting the host country. These requirements tend to be relatively subjective and the threshold that needs to be met by a potential entrepreneur varies from country to country.
- 3.31 The Czech Republic has the least stringent criteria of the countries examined. In order to qualify for a visa, the applicant must simply meet the monetary and educational criteria necessary in order to successfully operate the proposed business. This route is specifically designed to be open and encourage private enterprise by removing barriers to entry.
- 3.32 Belgium is arguably the most stringent, with criteria most analogous to the entrepreneurial routes in this respect. The proposed business must meet certain economic criteria that prove it will be of benefit to the country, whether through the provision of jobs or new opportunities and ideas.
- 3.33 Germany offers a self-employment visa under similar conditions to that of the Tier 1 (Entrepreneur) route, requiring proof of a viable business plan that is likely to generate a positive effect on the economy. However, if an applicant studied at a German university and has a business idea related to their area of study, they are entitled to an automatic residence permit for self-employment.

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3.6 Recent policy changes

- 3.34 In comparing entrepreneur visa routes across OECD countries, it is clear that there has been a wave of reforms recently, with a broad trend to the reforms. Australia, Canada, Chile, Denmark, France, Italy, the Netherlands and New Zealand have all either recently reformed their routes entirely or introduced new routes. In this section we explore the rationale for some of these reforms.
- 3.35 In 2014, Canada terminated its Federal Entrepreneur programme (FEP). The longstanding programme was not unlike the UK's current Tier 1 (Entrepreneur) visa. It required investment of approximately £150,000 and the creation of one full-time job. Following a review of the route, it was decided that the FEP was outdated and was not attracting innovative, high growth businesses but rather was allowing for limited investment in low-risk, small-scale businesses. Recent reforms in New Zealand have been motivated by similar concerns (New Zealand Government website, 2013).
- 3.36 Canada launched its replacement Start-Up Visa programme in 2013 which relies entirely on third party endorsement to select entrepreneurs. Applicants are required to secure a place on an incubator program or gain the support of a Canadian angel investor group or venture capital fund in order to be eligible for a visa. The aim of the route is now to deliver much lower volumes of migrant entrepreneurs with the expectation that the average quality will be significantly higher than under the previous route.
- 3.37 The Canadian approach is part of a wider trend towards increased use of third party endorsement. Denmark recently launched its own version of a start-up visa, with applications screened by a panel of industry experts that have expertise in early-stage business investment. The route aims to attract migrant entrepreneurs with innovative and scalable business proposals with high growth potential and global market scope. This means that businesses in restaurants, retail shops, small businesses, and import/export enterprise will not normally be considered.
- 3.38 The Australian Joint Standing Committee on Migration recently published a review of the Business Innovation and Investment Programme in Australia (Parliament of Australia, 2015). They found that applicants were typically establishing businesses in retail, service and manufacturing industries. They concluded that there is no evidence to suggest that the programme is meeting its intended objectives, and urged the Department of Immigration and Border Protection to review the operation of the route.
- 3.39 Most recently in 2015, France launched the 'French Tech Ticket'. The programme is being marketed as a competition, whereby a number of entrepreneurial applicants win €12,500 and a place on a six month programme with a top French accelerator programme. Applicants are reviewed by an independent panel and judged upon the entrepreneurial

skill of the applicants, the feasibility and market potential of the business idea, and potential impacts of the business in France.

3.7 Attractiveness of the UK to migrant entrepreneurs

3.40 The international competitiveness of the UK’s entrepreneur visa routes needs to be considered alongside the wider UK business environment. The UK scores highly in a number of international rankings which compare business environments across countries, which is illustrated in Table 3.2. For example, the UK ranked 8th in the World Bank’s 2015 Doing Business index, and 9th in the World Economic Forum’s Global Competitiveness Report. According to the Global Entrepreneurship Index, the UK is the best country in Europe in which to set up a business, and ranks 4th in the world after the USA, Canada, and Australia.

Table 3.2: International rankings of the UK’s entrepreneurial environment		
Index	Rank	Criteria for which the UK scored highly:
Global Entrepreneurship Index 2015	4 th	<ul style="list-style-type: none"> ● Unique ideas ● High proportion of entrepreneurs in the UK are motivated by opportunities rather than necessity ● High quality human capital ● Risk Acceptance – entrepreneurs not deterred by high levels of risk
World Bank 2015 Doing Business Index	8 th	<ul style="list-style-type: none"> ● Protecting minority investors ● Ease of paying taxes ● Resolving insolvency
Global Competitiveness Report 2015	9 th	<ul style="list-style-type: none"> ● Efficient labour market ● High level of financial development ● High uptake of information and communication technologies (ICTs) ● Competitive markets

Sources: The Global Entrepreneurship and Development Institute; World Bank; World Economic Forum.

3.41 In response to our call for evidence, partners told us that the UK is an attractive location for entrepreneurs due to its stable economy and currency, reputable rule of law, and convenient time zone. The UK can also be used as a base to access the EU single market. The quality of life in the UK and the education system are also factors.

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“...the United Kingdom’s robust economy, strong currency, political stability, and working legal systems are all driving factors for foreign entrepreneurs. The ability to then expand into the European Union is also an important motivator.”

CS Global Partners response to MAC call for evidence

“The experience of Penningtons Manches is that clients want to come to the UK for the following reasons:

- *Gateway to Europe*
- *Good place to open a business*
- *Cultural/family ties*
- *Language”*

Penningtons Manches response to MAC call for evidence

They [clients] are looking to invest into the UK for its quality of life and the progressive economic architecture and respected legal system.”

InvestUK Ltd response to MAC call for evidence

3.42 A survey of Tier 1 (Entrepreneur) clients by Penningtons Manches also suggests that in terms of setting up a new business, the professional networks in the UK together with the robust legal system, flexible labour market and availability of business support are important factors in the decision to come to the UK. The survey also suggests that Tier 1 entrepreneurs value the reputational boost to their business from being based in the UK, with 86 per cent of respondents stating that this was a factor.

3.43 In our discussions with partners, we were told that entrepreneurs often weigh up the offer in one country against another when deciding whether or not to apply for an entrepreneur visa. We met with one Tier 1 (Entrepreneur) who admitted to considering Canada and the USA at length before eventually choosing to move to the UK. Among his reasons for moving to the UK were its proximity to the rest of Europe, and the fact that he did not need to satisfy a further education requirement to conduct his business. There is evidence that there may be an element of

competitiveness to attracting high net worth individuals, and that entrepreneurs are inclined to look in detail at the different visa offers.

- 3.44 The Tier 1 (Entrepreneur) visa also offers immigrants UK residency and the opportunity to bring dependants. This means access to quality education for their children, as well as family access to the NHS (now subject to the immigration health surcharge).

“My motivation to move from NY to London was driven primarily to be closer to the UK and EU design scenes, as our startup aims to serve the creative classes and particularly the designers and makers in the UK, Europe, and globally. The favourable tax treatment of entrepreneurs was an important factor in consideration, and it swayed the decision in favour of London, versus other European cities.”

Windowvation response to MAC call for evidence

- 3.45 Universities UK surveyed a number of universities about the use of the Tier 1 (Graduate Entrepreneur) visa. Many graduates that have used the route cited SME-friendly business conditions and support from their universities – in terms of access to resources, advice and facilities – as key factors that influenced their decision to set up business in the UK, and contributed to the subsequent success of their businesses.

3.8 Conclusion

- 3.46 The prospect of attracting talented migrant entrepreneurs is attractive to many governments around the world. Across the OECD, countries employ a range of strategies in designing their entrepreneur routes in order to attract entrepreneurs who will make a strong economic contribution. Some countries use a high investment threshold as the main criterion, others use industry experts to assess the quality of the individuals and their business proposals, with less focus on the funds available to invest in the business. Countries also differ in the objectives behind their entrepreneur visa routes. For some it is about the direct job creation and economic activity of the migrant entrepreneurs; for others, it is about fostering innovation, with job creation seen as a longer term aim.
- 3.47 There has also been a re-focusing of routes away from open-ended approaches, whereby a prospective entrepreneur is admitted if, for example, they have sufficient funds to invest. Reviews of these approaches in countries such as New Zealand, Canada and Australia have found that such approaches were resulting in a large proportion of applicants setting up low-quality businesses.
- 3.48 Increasingly we see third parties being tasked with evaluating the innovativeness and growth potential of business ideas. This may be

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through an independent panel of experts, venture capitalists and angel investors; or incubator programmes.

- 3.49 Many of the start-up visa routes that have been introduced in recent years use partnership with accelerators, angel investors or venture capital firms not only to aid in selection, but also in some cases to ensure that these organisations have ‘skin in the game’. In other words, they are not just assessing the proposals but they are choosing to invest their own funds in the applicants they endorse. This may be seen as a switch, at least in part, from a supply-led approach towards a demand driven approach, and the general aim appears to be to drive up the average quality of entrepreneurs admitted, with a likely reduction in volumes.
- 3.50 We received evidence from partners which indicated that there is indeed international competition to attract the “best and the brightest” and entrepreneurs may, to a limited extent, be willing to ‘shop around’ when deciding on where to launch their business. However, it is likely that the underlying economic climate and business environment of countries, as well as the particular circumstances of the individual are at least as significant as the competitiveness of the visa offer. However there are some differences between countries that may influence the decision of some entrepreneurs one way or another. For example, some countries offer permanent residency on entry to migrant entrepreneurs, indicating confidence that their selection criteria successfully identify entrepreneurs who will, on average, make a significant positive contribution.
- 3.51 The UK’s offer to migrant entrepreneurs is relatively competitive for various reasons. However, there is some concern that the criteria are not suitable for smaller innovative businesses and there is some uncertainty around the application process which can act as a deterrent. These issues are discussed in more detail in Chapter 6.

Chapter 4: How the Tier 1 (Entrepreneur) route is used in practice

4.1 Introduction

- 4.1 In this chapter we examine how the Tier 1 (Entrepreneur) visa route is used in practice. Whilst gathering evidence for this report, we encountered many examples of highly skilled and innovative Tier 1 (Entrepreneur) migrants who had set up businesses which were either already employing UK residents or had strong potential for growth. However, through evidence received from partners as well as our own analysis of the data, we found a much broader range of activity being undertaken by Tier 1 (Entrepreneur) migrants, which suggested that a substantial proportion of these entrepreneurs are using the route in ways contrary to what may have been intended when it was introduced.
- 4.2 We outline the spectrum of activity that we came across, which we have divided into the following categories:
- highly innovative entrepreneurs establishing scalable businesses;
 - ‘Investor-lite’ activity;
 - entrepreneurs setting up low-skilled businesses with limited growth potential and limited innovation;
 - shell businesses established simply to meet the requirements of route;
 - non-compliance; and
 - non-genuine applications.
- 4.3 Where available, we use case studies to illustrate each category.
- 4.4 As we explained in Chapter 2, it is commonly believed that entrepreneurs are innovators who bring new ideas or processes to the market; they are risk-takers who enter the market without the guarantee of success; and are usually motivated by the opportunity to generate profit. As such, throughout our review of the entrepreneur visa route, one issue that we kept foremost in our minds is whether the activity being undertaken by Tier 1 (Entrepreneur) migrants is consistent with this definition. We conclude this chapter with an

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assessment of which elements of the route are consistent with common definitions of entrepreneurship.

- 4.5 Finally, it is worth noting that the discussion in this chapter relates only to the Tier 1 (Entrepreneur) route. In Chapter 7, we focus on the Tier 1 (Graduate Entrepreneur) route and its usage.

4.2 Spectrum of activity

- 4.6 Table 4.1 illustrates the spectrum of activity we found within the Tier 1 (Entrepreneur) route. The spectrum ranges from highly innovative, high-growth potential businesses, to businesses with limited growth potential, and further to those who do not set up any meaningful business.

	Activity	Example
Highly Innovative	Highly innovative entrepreneurs establishing scalable businesses	Introducing a new product into the UK/global marketplace or start-up companies selected for participation in accelerator programmes
↓	↓	
High growth potential businesses	Investor-Lite – investment (sometimes but not always) in high growth potential/innovative businesses in exchange for a small equity stake.	Where migrant also brings their skills to bear in the running of the business this is in the top category. But where migrant not closely involved in the business this is closer to investor activity and therefore lower down the entrepreneurship spectrum.
↓	↓	
Businesses with limited potential to scale-up	Businesses with limited growth potential and limited innovation	Franchises/corner shops/other activity with minimal economic impacts beyond providing an income for the migrant entrepreneur
↓	↓	
No business established	Business established simply to meet requirements of route	Company established as a legal vehicle to hire two employees to secure extension, without any underlying economic activity.
	↓	
	Non-compliance	No business established
	↓	
	Non-genuine applications	

Source: Migration Advisory Committee, 2015

4.7 It has not been possible to assess the relative prevalence of each category listed in Table 4.1 and, despite receiving evidence which indicated that some of the categories are more widespread than others, the descriptions which follow are qualitative in nature. Nevertheless, we are satisfied that none of the categories discussed below are isolated cases or outliers. Where available we point to evidence that indicates the prevalence of each category.

4.3 Highly innovative entrepreneurs

4.8 We came across a number of examples of highly skilled entrepreneurs who had established businesses which were producing innovative products and which had the potential to grow into substantial businesses. Case study 4.1 demonstrates such a company which, after introducing an innovative product into the UK market place, has resulted in the creation of two jobs, with significant business expenditure on UK suppliers in the areas of product design and engineering, shipping and packaging and also marketing. In Chapter 5 we discuss in detail the full range of benefits that these migrant entrepreneurs might bring to the UK.

Case study 4.1

This Tier 1 (Entrepreneur) migrant previously worked at a large technology company and came initially to the UK as a postgraduate student. He extended his stay under the Tier 1 (Post-Study Work) route before switching into the Tier 1 (Entrepreneur) route two years ago.

He has now set up a business selling an innovative product in the fast growing health-tech market. After two years, the product has gone to market and has received high-profile media coverage. There has been some buyout interest from larger companies, but he has not yet sought venture capital funding. The company should start to make a profit by 2016.

The entrepreneur used the £50,000 funding route, but to date has invested approximately £157,000 in the business. His company has hired two full-time employees: one high-skilled, one low-skilled. But its largest contribution to the UK economy comes through the highly-skilled services it has contracted from UK suppliers. The product was designed and engineered in the UK at a cost of around £80,000, while shipping and packaging is fulfilled by a UK supplier at an average cost of £7,000 per month. Promotional materials have all been sourced from UK suppliers. The company exports to the United States – around 60 per cent of sales are to the US market and 25 per cent to other international markets. The product itself is currently manufactured outside the UK but as sales volumes increase, it is envisaged that it will become cost-effective to use a UK manufacturer.

Source: Interview with Tier 1 (Entrepreneur) migrant

4.4 Investor-lite activity

4.9 Evidence from partners pointed to the existence of an 'Investor-lite' approach to the Tier 1 (Entrepreneur) route. In such a model, migrants make a

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qualifying investment (at least £200,000) into an existing UK business, in exchange for (usually) a small equity stake, often a few per cent. They usually become a Director of the company into which they have invested, which is enough to evidence the requirement that they be actively involved in the running of the business. However, in the 'Investor-lite' model, the migrant is typically not involved in the *day to day* running of the business.⁴

"In the UK, the start-up visa policies have been subject to abuse and there is heavy anecdotal evidence of the visas being used as an alternative route to stay in the country. Some individuals use the UK entrepreneur visa as a cheaper investor visa..."

Migreat (2015). *Open to Entrepreneurs: Start-up Visa Policies Report*. Migreat. Available at: <http://pi.migreat.com/entrepreneur-and-innovator-visa-report>

- 4.10 This type of usage has been referred to as 'Investor-lite' because the activity is similar to that under the Tier 1 (Investor) visa route, in that the migrant is providing a capital injection. However, the financial threshold is substantially lower at £200,000 rather than the Tier 1 (Investor) threshold of £2 million. We were told that this 'Investor-lite' approach to the Tier 1 (Entrepreneur) visa has become more popular since the investment threshold for the Tier 1 (Investor) visa was increased from £1 million.

"Since the increase from £1m to £2m for the investor visa route in December 14 we have seen an increase in entrepreneur applications. This is a natural progression for people wanting to take a cheaper route..."

We see clients that are looking to set up a new business in the UK appear to be of a far better calibre and help the UK economy rather than clients who want to invest in existing UK businesses."

Tier 1 Global Business Consultants response to MAC call for evidence

⁴ Note that we did come across some examples of Tier 1 (Entrepreneur) migrants who had taken a small equity stake in an existing business but who were playing an active and instrumental role in the day to day running of the business. We do not class this as 'Investor-lite'.

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“For investment in new businesses, the route is robust and sufficient to ensure that migrants do not abuse the system however there is less control when it comes to ensuring that a migrant takes a central role in the running of an existing business. This is often the case where individual’s investment into an existing business does not grant this individual a majority holding within the business.”

Deloitte response to MAC call for evidence

- 4.11 There are a number of specialist ‘Investor-lite’ operators who provide a matchmaking service to prospective Tier 1 (Entrepreneur) migrants, offering to link them with established businesses that are in need of investment. In some cases these firms also offer to write the business plans for the Tier 1 (Entrepreneur) applicant. We saw examples of operators who claim that they can guarantee the applicant will obtain the requisite visa, if they can provide all the documents required by the Home Office. In some cases, these firms openly ‘sell’ the entrepreneur route as being ten times cheaper than the Tier 1 (Investor) route. Often the investment is pitched as being guaranteed to meet the two jobs requirement for extension and subsequent settlement.

“...there are at least 10 companies, some being solicitors or OISC registered immigration advisors, that were found to be offering to match ‘entrepreneurs’ with companies in the UK seeking investment. One company providing such services claims to be responsible for 10% of successful Tier 1 (Entrepreneur) applications during 2014 and its representatives openly admit that they see the injection of overseas capital in to UK business as the key to economic impact for the Tier 1 (Entrepreneur) route, rather than the entrepreneurial ability of the migrant with whom the capital is associated.”

Home Office response to MAC call for evidence

- 4.12 We also received evidence that a number of legitimate companies which, although are not in the same category as the online firms discussed above (who may seek to act in ways that does not fit the intention of the route), are essentially facilitating an ‘Investor-lite’ approach.

“There are companies who provide ‘off the shelf businesses’. Investing in such companies, in our opinion should not be allowed as such services are not in line with the spirit of the rules.”

Lewis Silkin LLP response to MAC call for evidence

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“...the opportunity for abuse may be found with individuals making what is effectively a one-time donation to a pre-existing business, and thereafter failing to participate in the running of the business. The entrepreneur visa should stimulate the flow of new, entrepreneurial ideas into the country, and should not merely create an incentive for a single injection of money into the economy.”

CS Global Partners response to MAC call for evidence

- 4.13 The ‘Investor-lite’ model is an effective demonstration of how the entrepreneur route is being used in a way which, although permitted within the current rules, may not necessarily fit the intention of the route, particularly as the entrepreneurs themselves are not using their skills or labour in the business. However, as described in case study 4.2 we saw some very useful examples of how this model might benefit the UK and may be injecting much needed capital investment to businesses that could struggle to raise finance from alternative sources.

Case study 4.2

This Tier 1 (Entrepreneur) migrant, with a background in real estate and mining, has invested in a healthcare company specialising in blood banking and stem cell storage.

The business offers a selection of storage and payment options and has recently taken over an innovative research and development company.

The entrepreneur has invested £200,000 in the company which has enabled the creation of two full time jobs and the provision of new research and development capital.

Source: InvestUK Ltd response to MAC call for evidence

- 4.14 Some partners argued that, although the ‘Investor-lite’ approach may not conform to a more traditional view of an entrepreneur, it is allowing UK companies the opportunity to secure much needed investment. However, in these cases, the entrepreneur’s contribution to the economy is solely financial, rather than through the provision of innovative ideas or foreign expertise that should differentiate the Tier 1 (Entrepreneur) route from the Tier 1 (Investor) route.
- 4.15 However, since the ‘Investor-lite’ approach is not making use of entrepreneurial labour and skill, it is not clear that it should be allowed to continue within the entrepreneur routes. Rather, this type of activity could be facilitated and encouraged under the Tier 1 (Investor) visa, consistent with our 2014 recommendations that a wider range of investments be allowed under the Tier 1 (Investor) route. ‘Investor-lite’ activity may in fact provide significantly greater benefit to the UK economy than the investment in gilts

that are typically made by migrants using the Tier 1 (Investor) route. These gilts are usually purchased on the secondary bond market and are likely to have a near negligible impact on the cost to the UK government of issuing new debt. We return to the issue of 'Investor-lite' in our recommendations in Chapter 8.

4.5 Businesses with low-growth potential and limited innovation

- 4.16 We received evidence that a large proportion of businesses created through the entrepreneur route appear to be relatively low skilled and with limited potential to grow. The Home Office provided us with an immigration intelligence assessment which suggested that the route is dominated by low-skilled businesses in the retail, wholesale and catering industries. Some partners raised concerns that the route is being used by entrepreneurs to set up a number of low-growth food franchises which have limited scope for innovation and are not particularly scalable businesses.

“Within the in-country sample of 100 cases, we found business activity connected with an identifiable sector in 33% of the cases, of those, half were engaged in the retail, wholesale or hospitality sectors. All of the hospitality businesses were takeaways and all of the retail businesses were convenience stores. The out of country sampling data, where information was available, showed a similar picture, but with a marginally higher proportion of identifiable businesses in high skilled/high growth sectors.”

Home Office response to MAC call for evidence

“It’s important to draw a distinction between an entrepreneur coming to the UK to set up a restaurant that may become a chain/franchise operation, and a person who simply takes up a franchise from an already existing franchise business.”

Penningtons Manches response to MAC call for evidence

- 4.17 Case studies 4.3 and 4.4 are examples of situations where the applicant appears to have viable plans to start a business and invest their money in the UK. Despite the genuineness of these applications, neither case is especially innovative or likely to make a significant wider contribution to the UK economy.

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Case Study 4.3

This Tier 1 (Entrepreneur) migrant took over the family printing business in Pakistan. He planned to hire someone else to run his business in Pakistan so that he could move to the UK to set up a second branch. The applicant had enough money in personal funds to meet the financial requirements, and was able to show that he had been involved in the industry for many years. The applicant had previously been rejected for a Tier 1 (Entrepreneur) visa. In his interview, the applicant admitted that he lacked the knowledge to support his previous application. The applicant was granted entry to the UK in order to set up his business. Companies House records show that currently the company has little by way of assets, and a negative net worth.

Source: Home Office Central Referencing System

Case Study 4.4

This Tier 1 (Entrepreneur) migrant had access to over £200,000 through the sale of family property. He lived in the UK for a number of years, studying and working, before returning to Pakistan. The applicant's business plan was to open a convenience store and off-licence. The applicant's family owned multiple convenience stores in the UK already, and the applicant has relevant experience working in his family's business.

Source: Home Office Central Referencing System

- 4.18 In its evidence, the Home Office provided the findings from a recent exercise completed to match a specific cohort of Tier 1 (Entrepreneur) migrants with HMRC records. Of those Tier 1 (Entrepreneur) migrants that were analysed, they found that only one per cent of migrants switching from student visas and five per cent of those switching from the Tier 1 (Post-Study Work) route went on to establish a business in a highly skilled sector. Over a third were found to be working in regular employment in breach of their visa conditions (predominantly in the retail and catering industry), whilst over half either had no economic activity during the tax year examined or were not found in HMRC records. The Home Office also said that, in a random sample of 200 extension cases examined, 70 per cent described entirely different businesses to those which had been proposed at the initial application stage.
- 4.19 Whilst it is acknowledged that many early-stage businesses need to evolve, the changes in business proposals were striking in many cases. In particular, the Home Office findings indicated that in 38 per cent of cases the Tier 1 (Entrepreneur) migrant had established a business in a different sector compared to their original business proposal, and 44 per cent of cases appeared to involve migrants taking over existing businesses, after initially claiming they were going to start a business of their own. The prevalence of such fundamental changes in business plan clearly undermines the credibility of the entrepreneur route; evolving a business to adapt to a changing market is often necessary, but the scale of the changes identified are not suggestive of high quality entrepreneurship.

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- 4.20 The data provided by the Home Office is based on either matching between Home Office records and HMRC records, or linking Home Office data over time and between in-country and out-of-country records. Therefore, there is a risk that some cases have not been matched to a tax record or to an extension application because of difficulties in the matching process. These issues may partly explain the low rates of tax activity and low extension rates. However, this provides only a partial explanation and the MAC is satisfied that these patterns are indicative of some low quality business activity.

“44% of the extension cases which we examined appeared to involve migrants taking over existing businesses during their first grant of leave in the category, after initially having demonstrated that they were establishing their own new businesses.”

Home Office response to MAC call for evidence

“Relative to the number of low quality or non-existent businesses, there were very few examples of businesses set up that have met the intention of the route.”

Home Office response to MAC call for evidence

- 4.21 The MAC did, however, undertake its own analysis of Tier 1 (Entrepreneur) case files in an attempt to verify stakeholder evidence asserting the low average quality of Tier 1 (Entrepreneur) migrants' businesses. We randomly sampled 20 cases in which Tier 1 (Entrepreneur) migrants had been granted and refused visa extensions. Amongst the 20 extensions granted, the entrepreneurs had collectively hired 56 employees. However, examining the Companies House returns for these businesses, 12 had negative net worth, whilst only two had a net worth above £10,000; one of which was a restaurant, the other sold karaoke equipment. Further, one company had dissolved, and another was dormant. Six companies were in retail, and four in food and accommodation services. In the overall sample, there was little evidence to suggest that those businesses granted extensions are generating particularly significant wider benefits for the UK economy.
- 4.22 Of the 20 cases that we studied where extensions were refused, the refusals were based primarily on insufficient evidence of employment, maintenance or claimed investment. At least a quarter of cases have subsequently been granted extension. Though our sample is limited, there is evidence to suggest that the current extension criteria are relatively easy to meet, and both at initial application and extension, low value businesses are not being filtered out.

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- 4.23 Whilst the route prohibits work activity except where the migrant is working directly for the business which they have established, joined or taken over, it does not prevent migrants from seeking self-employed work after being granted leave to remain, provided that it is in direct pursuit of their business. The Home Office told us that Transport for London had raised concerns about Tier 1 (Entrepreneur) migrants applying for minicab licenses, potentially in breach of the conditions of their visas.
- 4.24 Analysis carried out by the MAC to link Tier 1 (Entrepreneur) migrants with Companies House records, which is discussed in full in Chapter 5, also suggested that Tier 1 (Entrepreneur) migrants were predominantly operating in low-skilled industries.

4.6 Businesses established simply to meet requirements of the route

- 4.25 We also received limited evidence of Tier 1 (Entrepreneur) migrants who set up shell companies in which they place a minimum qualifying investment, without any underlying economic activity. However, although on the face of it the business has created two jobs, the employees are not involved in any purposeful business activity but are simply paid a salary for the purposes of meeting the extension and settlement criteria. In these cases, there is little or no underlying economic activity being carried out by the business.

“We are also aware of shell companies that people can invest in with a “Directors Loan” for example. We believe these routes should face much tighter legislation as this is where focus is needed. This practice can be detrimental to the UK economy as well as damaging those genuine migrants looking to start or invest in UK companies.”

Tier 1 Global response to MAC call for evidence

4.7 Non-compliance

- 4.26 We also received evidence from partners around Tier 1 (Entrepreneur) migrants undertaking activity which is not compliant with the terms of their visa.
- 4.27 Those granted initial leave to enter or remain as a Tier 1 (Entrepreneur) migrant have the option to extend their leave in the category after three years, but we were told that relatively few apply for extension. In their evidence, the Home Office told us that they had randomly sampled 100 cases granted entry clearance between 2008 and 2012, which would have been due for extension. They found that 73 per cent of those granted an initial period of leave to enter or remain as a Tier 1 (Entrepreneur) migrant had failed to apply to extend their leave within the category. Six per cent had switched into other immigration categories. Overall, only 22 per cent of applicants successfully extended their stay as a Tier 1 (Entrepreneur) migrant. We understand that this very low figure may partly be due to issues

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with data matching between in-country and overseas records, and may also point to some attrition before the point of entry into the UK. Nevertheless, we take on board the suggestion that there is a high degree of leakage from the route.

- 4.28 Home Office examination of the in-country switching cohort showed a similar picture. Only 36 per cent of applicants successfully extended their leave in the Tier 1 (Entrepreneur) category. Five per cent applied to extend and were refused, whilst 22 per cent successfully applied for indefinite leave to remain through the 10-year long residency route. The remainder of cases showed no further immigration activity, or had switched into asylum or Tier 2 categories.
- 4.29 The Home Office further provided us with an assessment of the extent to which migrants granted leave to remain in the UK under the Tier 1 (Entrepreneur) route, after changes to the Immigration Rules in July 2014, are meeting the intentions of the route. We were told that Home Office research, using HMRC data, found that a significant number of those who were granted an initial period of leave or an extension of leave in the Tier 1 (Entrepreneur) route between 11 July 2014 and 31 May 2015 were subsequently found not to be meeting the criteria and were, therefore, not meeting the intentions of the route. The Home Office said only 28 per cent of those assessed were found to be registered as a company director with HMRC.
- 4.30 It was also suggested by the Home Office that the lack of evidence of economic activity from those switching in-country from Tier 1 (Post-Study Work) indicates widespread non-compliance amongst that cohort.

“Migrants who switched from Tier 1 (Post-Study Work) accounted for 63% (528/842) of the in-country applications. This group were subject to a condition that they had established a business prior to 11/06/2014 ... Whilst it is acknowledged that a proportion of these migrants have not yet been required to file a company tax return (if they set up their businesses between 01/04/2014 and 11/06/2014), this alone cannot account for such limited evidence of economic activity. Only 12% (63/528) of these migrants appear to have any economic activity recorded with HMRC and just 5% (25/528) have declared a turnover.”

Home Office response to MAC call for evidence

- 4.31 We also note that the most recent intelligence assessment from the Home Office indicates that migrants switching in-country from Tier 1 (Post-Study Work) are using generic or ambiguous company names to disguise the fact that their companies are engaged in low-skilled activities. For example, minicab drivers were found to be using businesses whose names suggested that they were involved in marketing and accountancy.

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- 4.32 The Home Office told us that there is anecdotal evidence to suggest that a proportion of users of the route, having failed to successfully extend their leave as Tier 1 (Entrepreneur) migrants, enter the informal economy or are otherwise simply working illegally.
- 4.33 The same evidence said that a large number of the financial accounts which they examined as part of their sampling showed that the only significant asset or liability of the company was the director's loan used to demonstrate initial investment, as required by the route.
- 4.34 We understand that, for the purposes of the Tier 1 (Entrepreneur) route, a director's loan is a loan from the applicant to their business, which is unsecured and is subordinated in favour of third-party creditors. This means that, in the event that the business is required to pay back debts to other third parties, it must do so before the loan to the director is repaid.
- 4.35 We were told that in cases where accounts were available, or where companies had completed their statutory filings, the Home Office had repeatedly observed situations where the company's turnover represented a fraction of the sum of the director's loan. As such, the suggestion in those cases is that the Tier 1 (Entrepreneur) route criteria encouraged the 'dressing up' of self-employment, involving investment in 'subsistence' businesses such as market stalls and low-turnover retail or consultancy businesses, which would not ordinarily require £200,000 of investment. The Home Office claimed this was done to artificially inflate financial accounts, in order to allow migrants to qualify through the route.
- 4.36 We also received anecdotal evidence from Home Office caseworkers that, in a number of cases, migrants will apply to the entrepreneur category to stall their liability to removal, if their leave to remain in the UK is about to expire. This is because a migrant would not normally be required to leave the UK if they have an immigration application still in process, so may use the entrepreneur route to seek to extend their stay whilst they work on a different application. These applications are also generally perceived to be of low quality.
- 4.37 The Home Office said its analysis suggested that those who switched into the route from another immigration category, rather than those who applied overseas to enter as a Tier 1 (Entrepreneur), account for the higher proportion of poor quality and potentially abusive applications at the extension stage. However, it should be noted that some Tier 1 (Entrepreneur) migrants might not seek to extend their visa simply because their business has failed despite their best efforts.

“As we understand, to get an extension the company must have spent £200,000 or £50,000 in their first 3 years. However, as we further understand, many start-ups fail because they are unable to keep cash reserves. The Immigration Rules therefore create risks for new companies.”

The Law Society of Scotland response to MAC call for evidence

- 4.38 Of course, there will be a certain amount of failure associated with any entrepreneur visa route. Entrepreneurship is risky and, hence, many genuine entrepreneurs will fail. However, the low extension rates together with the low evidence of tax activity suggest that there is a reasonable amount of non-compliance.

“Whilst we recognise that start-up businesses have a typically high failure rate, and so we could expect some drop-off in demand from initial application to extension stage, the rate of attrition experienced in the Tier 1 (Entrepreneur) category points to more severe structural issues. In the event of business failure, talented migrants would not be barred from pursuing an alternative business during their initial grant of leave in the category, and would still have a fair chance of meeting the route extension criteria.”

Home Office response to MAC call for evidence

4.8 Non-genuine applications

- 4.39 The genuine entrepreneur test was introduced in 2013 to reduce the perceived abuse of the route. However, we were told by some partners that the Tier 1 (Entrepreneur) route remains highly susceptible to being abused. Other partners stated that the process for assessing the suitability of a Tier 1 (Entrepreneur) application is flawed and therefore often fails to identify non-genuine applications.

“... it is our argument that the measures that are currently in place to remove ‘false’ entrepreneurs are insufficient, and fail to target the problem at its core.”

CS Global Partners response to MAC call for evidence

Tier 1 Entrepreneurs

“We consider that the genuineness test as currently construed brings a level of uncertainty to the route that is not helpful for the applicants, advisors or the businesses involved in the process.”

The Law Society of Scotland response to MAC call for evidence

- 4.40 It is likely that the introduction of the genuine entrepreneur test has been a contributing factor in the rise in Tier 1 (Entrepreneur) application refusal rates which rose from 36 per cent in 2012 to 49 per cent in 2014 for in-country applications and for out-of-country applicants rose from 21 percent in 2012 to 44 per cent in 2014.

“Since the requirement of new criteria, including the need to evidence your business plan, was introduced in April 2013, there has been an increase of control within this category which helped reduce the levels of abuse. Further, in the latest immigration rule changes in April 2015 this business plan requirement now also applies to in-country extension applications.”

Deloitte response to MAC call for evidence

“From our experience and from the figures published by the Home Office detailing the high refusal rates, it seems that there already are strict criteria in place to prevent abuse within the system. We further understand from the recent statement of changes that the Home Office has the power to seek further evidence or interview any migrant in the UK to assess they are compliant with their immigration conditions.”

Ernst & Young LLP response to MAC call for evidence

- 4.41 When we visited Home Office caseworkers in Sheffield, they explained the process for assessing in-country Tier 1 (Entrepreneur) applications which is carried out by following an ordered list of criteria. This includes the evaluation of the evidence submitted by the applicant; the viability and credibility of the source of the investment funds; and also the viability and credibility of the applicant’s business plan and market research into their chosen business sector. It was suggested that caseworkers must approve an application if it meets the overall criteria, even if it seems clear that it is of low quality.
- 4.42 We were also told about recent reforms which mean that those who wish to switch from other routes to the Tier 1 (Entrepreneur) route must prove that their business was in operation prior to a certain date. For example, those switching from the Tier 1 (Post-Study Work) route must show that they have

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been continuously engaged in business since before 11 July 2014 and up to the date of their application. Additionally, they must demonstrate that they have either been continuously registered with HMRC as self-employed or registered with Companies House as a director of a new or existing company. Those switching from the Tier 1 (Post-Study Work) route must also supply documentary evidence of funds, usually at £50,000, and evidence which demonstrates existing business activity. Applicants seeking to switch from the Tier 1 (General) route are also subject to similar restrictions, requiring that they must demonstrate that they have been continuously engaged in appropriate business activity since before 6 April 2015.

- 4.43 Restrictions on the ability of those already present in the UK as a Tier 4 (Student) or Tier 1 (Post-Study Work) migrant to make an in-country application for an extension of stay as a Tier 1 (Entrepreneur) migrant were introduced in July 2014, and for Tier 1 (General) in April 2015.
- 4.44 The Tier 1 (Entrepreneur) route is for those who wish to establish a genuine business which will generate jobs in the UK. However, the Home Office told us that they believe that a significant number of those applying in-country for leave in the route are those that have come to the UK for the purpose of study and are making speculative applications simply to extend their stay in the UK, referencing as evidence the checks against the tax records described earlier. These suggest that, of those who have been granted leave as entrepreneurs, relatively few have gone on to engage in genuine entrepreneurial activity and a significant proportion have taken employment in breach of their conditions, typically in low-skill occupations.
- 4.45 In the more recent Home Office intelligence assessment provided to us, the Home Office stated that the most common reason for an application being referred by caseworkers for potential further investigation was a suspicion that it was put together by an unscrupulous immigration adviser. These are cases where an immigration adviser is suspected of producing an application and business plan from generic templates, without significant input from the applicant. Types of activity identified include immigration advisers registering basic websites on behalf of the proposed business, providing advertising materials and contracts, and providing business plans presenting industry and market research.
- 4.46 As described above, we carried out our own analysis of case files. Case studies 4.5 and 4.6 are applications that we found during our sampling exercise, both of which were rejected and considered to be non-genuine. These case studies are illustrative examples of a wider issue, which is that the current Tier 1 (Entrepreneur) route attracts a large volume of applications which do not meet the requirements of the route and are refused. Any redesign of the Tier 1 (Entrepreneur) route should aim to be clear about the requirements of the route to deter lower quality applications, with the aim of achieving a lower refusal rate.

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Case Study 4.5

This in-country applicant, applying as part of an entrepreneurial team, claimed to have £50,000 financial backing from a venture capital firm in order to open a fast food franchise. When called to interview the applicant did not turn up on several occasions, claiming that the interview which his team members had given should have been enough to evidence the application. At interview, the team member revealed that the team had not been asked for any evidence that the funds were available from the venture capital firm. Furthermore, the caseworker noted that they had seen identical applications for this particular fast food franchise, all funded by the same venture capital firm. Since being refused a Tier 1 (Entrepreneur) visa, the applicant has been refused for a number of other visas.

Source: Home Office Case Information Database

Case Study 4.6

This applicant initially had leave to remain on a Tier 1 (Post-Study Work) visa which was due to expire in December 2013. In October 2013, the applicant set up their business. As proof of business activity, the applicant provided a contract for marketing and advertising services. However, the Immigration Officer concluded there was no evidence to suggest that the client had established a legitimate company, or that the two directors of this company, both born in Pakistan, held visas that would allow them to run a business in the UK.

Furthermore, if you are a business owner, you are required to tell HMRC if your company is active within three months of starting business. The applicant had not registered with HMRC, so either the company was not active or the owner had been failing to comply with HMRC regulations.

At interview, the applicant initially stated that they were going to run a marketing company, but later stated they were looking to run an HR consultancy business and/or recruitment agency. The candidate provided no details as to how the £50,000 would be invested, given that they were running the business from home using a computer, internet connection and printer.

The applicant was refused a Tier 1 (Entrepreneur) visa on the basis that their application was not considered genuine. The subject was later detained for overstaying, before being released on temporary admission. The applicant has since re-applied for a Tier 1 (Entrepreneur) visa.

Source: Home Office Case Information Database

- 4.47 Approximately 40 per cent of the out-of-country applicants that we sampled were refused after interview. In most cases the applicant was unable to show sufficient knowledge about their business plan, or had no evidence to show that they had carried out any market research. There were a few cases where the caseworker had commented that large parts of the business plan seemed to have been taken from generic examples from a commercial website providing off-the-shelf business plans.

4.9 Conclusions

- 4.48 We found a wide spectrum of activity on the Tier 1 (Entrepreneur) visa route. At the top end we found examples of Tier 1 (Entrepreneur) migrants establishing highly innovative, high growth potential businesses. At the bottom end of the spectrum, we found activity that is neither entrepreneurial nor of economic benefit to UK residents. In between, we found that a large proportion of Tier 1 (Entrepreneur) migrants establish low-value businesses with limited potential to grow or contribute to innovation or productivity growth.
- 4.49 The issue for the Government is to determine exactly what the objectives of this route are, in order to decide which activities to continue to facilitate under the route. We suggest that, ideally, the emphasis should be placed on ensuring that there is an increase in numbers at the top end of the spectrum, whilst curtailing some of the activity at the bottom.
- 4.50 Our recommendations in Chapter 8 suggest some options to refine the selection and extension criteria, should the Government wish to refocus the Tier 1 (Entrepreneur) route on activity that is both entrepreneurial and of significant economic benefit to the UK.
- 4.51 But first, in Chapter 5, we present the evidence as to the economic impact of Tier 1 (Entrepreneur) migrants in the UK.

Chapter 5: Economic impacts of Tier 1 entrepreneurs

5.1 Introduction

- 5.1 The MAC has been asked specifically to consider whether the Tier 1 (Entrepreneur) route is appropriate to “*deliver significant economic benefits to the UK*”. In Chapter 4, we presented the range of activity that occurs under the Tier 1 (Entrepreneur) route. In this chapter, we present the economic rationale for visa routes specifically for entrepreneurs, and explore the evidence on the economic impacts of migrants coming to the UK under these routes.
- 5.2 In order to assess the costs and benefits of Tier 1 entrepreneurs, we draw on existing literature and submissions received from stakeholders in response to our call for evidence. We also present the results of new analysis which matched successful Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) applicants to Companies House records, thus enabling further insight into the business activities of Tier 1 entrepreneurs, such as sector breakdown, employment and turnover. However it should be noted that the available data are limited and do not make it straightforward to comprehensively evaluate the impacts of Tier 1 entrepreneurs. Therefore any conclusions drawn in this chapter are tentative.
- 5.3 In considering the costs and benefits of migrant entrepreneurs it makes sense to first examine the impacts of entrepreneurs in general. As the impacts of entrepreneurship in general are well covered in existing work (Ward 2014, Van Praag and Versloot 2008, Barclays 2015), these are presented only briefly in section 5.2.
- 5.4 We go on to consider any specific impacts that Tier 1 entrepreneurs may have over and above those of entrepreneurs more generally. We have drawn upon a wider body of literature that focuses on migrant entrepreneurship, though this is not necessarily specific to Tier 1 entrepreneurs. Finally, we discuss the potential costs associated with migrant entrepreneurs.
- 5.5 In 2013, the MAC commissioned the National Institute of Economic and Social Research (NIESR) to review the economic impact of the Tier 1 (Investor) and (Entrepreneur) routes. The NIESR research consists of a review of the literature on migrant entrepreneurship, interviews with Tier 1 (Investor) and

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(Entrepreneur) migrants and new data analysis. As it is one of the only studies to focus explicitly on the impact of Tier 1 (Entrepreneur) migrants, rather than migrant entrepreneurs more widely, we draw heavily from the NIESR research in this chapter.

5.2 Impacts of entrepreneurship

- 5.6 Fostering an entrepreneurial environment is considered to be highly important for economic growth by providing an important source of innovation and productivity growth. However, there may be an optimal level of entrepreneurship, above which innovation and productivity growth may be reduced.
- 5.7 In a review of the available literature, Van Praag and Versloot (2007) found that compared to larger, older firms, new entrepreneurial firms often produce higher quality innovations and use more efficient production methods. They have also been found to generate a disproportionate share of employment and productivity growth. Therefore innovation and productivity growth may be constrained if an economy has insufficient levels of entrepreneurship.
- 5.8 In addition to directly creating new jobs, entrepreneurs are likely to have wider effects on the economy. Whilst existing firms also introduce innovations, new entrepreneurial activity can challenge existing market structures, and introduce new products, services, inputs or processes that have the potential to reshape industries (Andersson et al., 2011). This is more likely to happen in an environment where numerous entrepreneurs are working in close proximity, facilitating knowledge spillovers and network effects. In an environment where lots of entrepreneurs are experimenting with business ideas, there is more likely to be a breakthrough (Nesta, 2010).
- 5.9 Many successful entrepreneurs have had failed businesses in the past, however the connections and the experience they build along the way can contribute to the likelihood of success in the future (Ucbasaran et al., 2012). Particularly in highly skilled sectors, the failure of one business or product can boost innovation in other businesses which are able to build and improve on the work of their predecessor. Many of our partners emphasised that often major success stories are built on the back of lots of failures. In addition, there is the notion of a virtuous cycle of success. High profile entrepreneurial successes may encourage more individuals to engage in entrepreneurial activity (KPMG, 2014).

“In Silicon Valley, failure is celebrated. “Fail fast, fail often” is the saying. The reason is that without taking big risks, one cannot achieve big innovation... What is important is that the strategy is well developed, the team is well formed, and the business is well managed. The rest is up to the market.”

Tier 1 (Entrepreneur) response to MAC call for evidence

Optimal level of entrepreneurship

- 5.10 Research suggests that there may be an optimal level of entrepreneurship for the economy (Bampokey et al., 2013; Audretsch and Thurik, 2001). Iyigun and Owen (1997) suggest that human capital can be viewed as professional or entrepreneurial, and there may be an optimal allocation of human capital that provides the greatest benefit to the economy. More recently, Decker et al. (2014) posit that in the market there is an optimal pace of entry, exit, expansion and contraction at which the benefits of productivity and economic growth are balanced against the costs of reallocation. However, there is no suggestion in the literature that this optimal point could be easily identified by policymakers. In addition, there may be competition for access to finance which may mean that to a certain extent, migrant entrepreneurs may ‘crowd-out’ some native entrepreneurs.

“An optimal pace of business dynamics—encompassing the processes of entry, exit, expansion, and contraction—would balance the benefits of productivity and economic growth against the costs to firms and workers associated with reallocation of productive resources.”

Decker et al. (2014). *The Role of Entrepreneurship in US Job Creation and Economic Dynamism*. Journal of Economic Perspectives Vol. 28, No. 3 Summer 2014

- 5.11 A shortage of entrepreneurs can negatively impact competition and thus stifle innovation and decrease international competitiveness. However, an excessive number of small entrepreneurial firms may flood the market and decrease the average scale of production. In particular, the economy may lose out on the benefits from economies of scale if companies are unable to grow due to overcrowding in the market (Bampokey et al., 2013).
- 5.12 It is also possible that excessive government intervention aimed at increasing entrepreneurial activity, amongst both migrants and natives, may encourage more “marginal entrepreneurs” to launch businesses that offer minimal wider economic contribution, and are more likely to fail (Shane, 2008). Furthermore, the chance of innovation in the market is lower when there is a lack of variety in new businesses.

5.3 Impacts of migrant entrepreneurs

- 5.13 In this section, we explore the evidence regarding the direct and indirect impacts of Tier 1 entrepreneurs on the UK economy. Assessing these impacts is a difficult task, mainly because of the limited data available and the absence of monitoring of the activities of Tier 1 entrepreneurs. As such, in assessing the value of the current route we rely heavily on evidence provided to us by partners.

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- 5.14 The UK's entrepreneur visa routes are in place to enable high value migrants to move to the UK, for the purpose of investing their funds and expertise in new or existing businesses. The objective is that this activity will benefit UK residents directly through job creation and tax revenue, but also indirectly to the extent that this entrepreneurial activity increases the level of innovation and competition in the UK market, leading to productivity increases.
- 5.15 Migrant entrepreneurs may contribute to the economy through adding to the total stock of entrepreneurial activity in the UK.⁵ An additional migrant entrepreneur may be expected to bring the benefits (and costs) of entrepreneurship in much the same way as a native entrepreneur. However, there are some impacts which may be specific to, or more prevalent amongst, migrant entrepreneurs.
- 5.16 A recent study by DueDil and the Centre for Entrepreneurs highlighted the contribution that migrant entrepreneurs are making to the entrepreneurial environment in the UK. Note that this research focused broadly on all non-UK national entrepreneurs in the UK, a much larger group than migrants coming on specific entrepreneur visas. Examining Companies House data on nationality of company directors, the study found that in September 2013, SMEs founded by migrant entrepreneurs employed 1.16 million people in the UK, accounting for 14 per cent of SME-led employment. They also found evidence that suggests that migrants display more entrepreneurial behaviour than the UK-born population. 17 per cent of non-UK nationals owned their own business, compared to just 10 per cent of UK nationals (DueDil and Centre for Entrepreneurs, 2014).
- 5.17 In addition to increasing the overall level of entrepreneurship in the economy, and the subsequent job creation and tax revenue generated by it, it is expected that migrant entrepreneurs have a particular set of impacts due to their diverse set of experiences. By virtue of their exposure to different business models, ways of working, culture, and knowledge of other markets they may be able to introduce innovations and other productivity enhancing changes into the UK economy.
- 5.18 In the rest of this chapter we present the theoretical channels through which migrant entrepreneurs may have an impact on the UK economy and consider the evidence behind each of these. We begin with the direct benefits, then set out the indirect benefits. We end by considering the potential costs associated with migrant entrepreneurs.
- 5.19 The direct benefits of Tier 1 entrepreneurs may include contributing directly to economic output through:

⁵ Note that if migrant entrepreneurs compete for finance against native entrepreneurs, there may be some 'crowding-out' of native entrepreneurship. We have not been able to estimate the extent of any 'crowding-out' effect.

- employment
- taxes
- business expenditure
- net profits
- introducing new products or processes
- providing a source of investment funds and expertise for established UK businesses.

5.20 Furthermore, Tier 1 entrepreneurs may generate indirect benefits for the economy by:

- deepening trading relationships with other countries
- facilitating knowledge diffusion and innovation
- boosting competition and productivity across an industry or region.

5.21 Tier 1 entrepreneurs comprise a relatively small group of people, as described in Chapter 2. This implies that the total economic impacts of Tier 1 entrepreneurs are likely to be small. However, it is possible that a single entrepreneur may have a disproportionately large impact on the economy through founding a number of new businesses or one highly successful company (NIESR, 2013). For example, between 2002 and 2008, six per cent of the UK's highest growth businesses were responsible for 50 per cent of job creation (Nesta, 2009).⁶

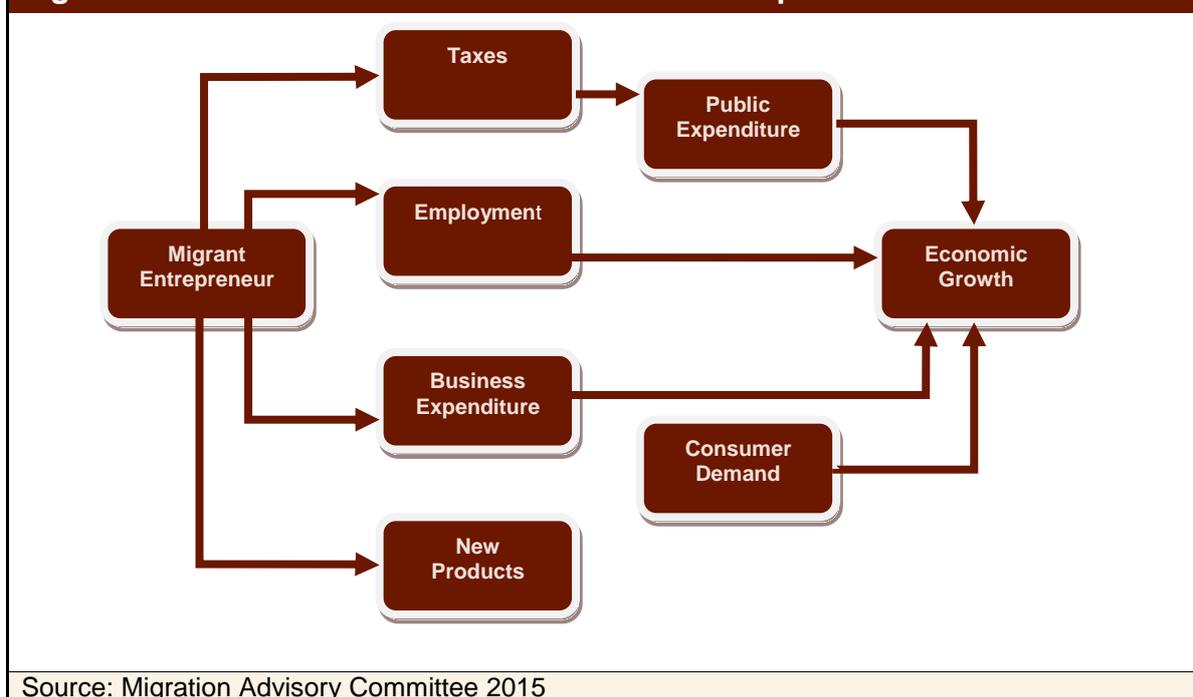
5.4 Direct benefits to the UK economy

5.22 Tier 1 entrepreneurs contribute directly to the UK economy by (amongst other things) employing workers, investing in their business, purchasing inputs from suppliers and by paying taxes on profits and activity. Figure 5.1 describes how these direct impacts may lead to economic growth.

⁶ A high-growth business is defined by NESTA to be a firm of 10 or more employees that grows either its staff or turnover by an average of more than 20 per cent per year for three consecutive years

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Figure 5.1: Possible *direct* benefits of Tier 1 entrepreneurs



Source: Migration Advisory Committee 2015

“The ripple effect of an entrepreneur who opens a legitimate business, employs workers, generates an income and pays taxes can only be a benefit to the UK. ... Entrepreneurs are an addition rather than a substitute in the marketplace.”

Penningtons Manches response to MAC call for evidence

Business activity of Tier 1 entrepreneurs

- 5.23 We carried out a two-stage data matching exercise in order to produce an estimate of the employment and turnover in businesses run by Tier 1 entrepreneurs. The first stage involved matching Home Office management information (MI) on successful Tier 1 entrepreneurs with the Companies House database of company directors in order to link Tier 1 entrepreneurs with their corresponding businesses. For the second stage we worked with the Department for Business, Innovation and Skills (BIS) to match these companies with the inter-departmental business register (IDBR), in order to gain an insight into employment and turnover generated by Tier 1 entrepreneurs, as well as the sectors in which their businesses operate.
- 5.24 In the first stage of our data matching analysis, we matched the Home Office MI data on Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) with the company directors database and basic company information from Companies House. As the MI covered the period from 2008 to March 2015, in theory this exercise covers all successful applicants for Tier 1 entrepreneur visas since

the routes were established in their current forms. However, they will only have been matched successfully if they have subsequently registered as a director of an actively trading company. The aim was to extract the company numbers for the businesses associated with Tier 1 entrepreneurs in order to access information about the businesses with which they are involved.

- 5.25 Using a fuzzy matching approach which allows datasets to be linked even where there are, for example, minor variations in spelling of names across the datasets, we were able to match 7,186 out of 13,746 Tier 1 (Entrepreneur) and (Graduate Entrepreneur) migrants to a Companies House director record, identifying a total of 10,250 companies. Table 5.1 gives a breakdown of the matching across the different Tier 1 entrepreneur routes.

Table 5.1: Total cases in MI data and match rate against Companies House data

<i>Type of Applicant</i>	<i>MI Cases</i>	<i>Matched cases</i>	<i>Match Rate</i>	<i>Matched Companies</i>
Out-of-country Entrepreneur	3,824	2,639	69.0%	4,479
Out-of-country Graduate Entrepreneur	202	115	56.9%	154
In-country Entrepreneur	9,119	4,312	47.3%	5,470
In-country Graduate Entrepreneur	601	120	20.0%	147
Total	13,746	7,186	52.3%	10,250

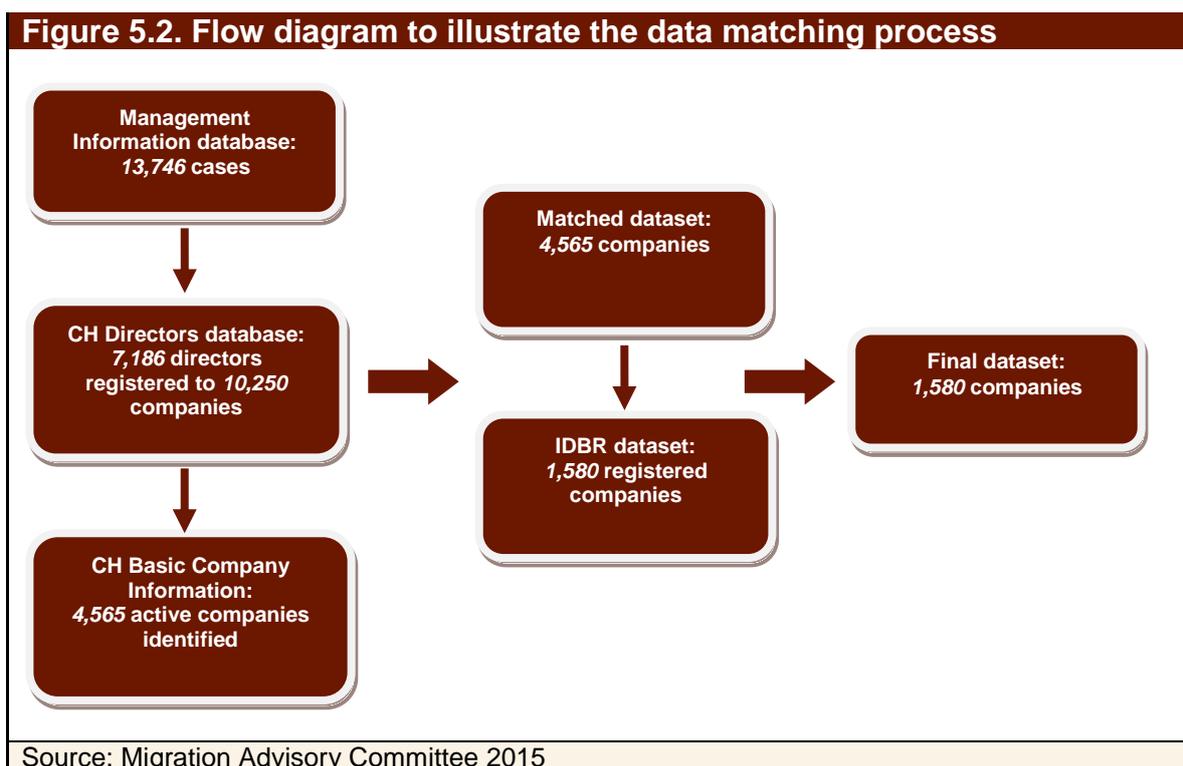
Source: Home Office MI and Companies House

- 5.26 Many entrepreneurs were registered as directors of more than one company. For example, nine per cent (347) of out-of-country entrepreneurs were directors of three different companies, perhaps explaining why the total number of companies identified in this group exceeds the number of cases in the MI.
- 5.27 There are several possible reasons as to why a Tier 1 entrepreneur may not have been matched with Companies House records. Firstly, there is likely to be some level of matching error, in that some correct matches were not included – for example, perhaps due to variations in names used across the datasets. Secondly, very young companies may not yet have registered with Companies House. Thirdly, some successful applicants to the Tier 1 entrepreneur visa routes may not have ever used their visa, or may not have established a business after arriving in the UK. It is also worth noting that we cannot rule out the possibility of there being some false positives in our matching process. That is, we may have matched a small number of Tier 1 entrepreneurs erroneously to companies with whom they are not associated.
- 5.28 The 10,250 company numbers obtained were then matched against the Companies House Basic Information records, a database of live companies which includes information on incorporation dates, company status, and Standard Industry Classification (SIC) codes. The database does not contain

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details of dissolved companies. Of these 10,250 companies, 4,565 were live and on the Basic Information database. The second stage of our data matching involved matching our dataset of 4,565 companies to the IDBR, an ONS dataset containing information on sector, employment and turnover on 2.1 million UK businesses.

- 5.29 To be included in the IDBR, a company must be PAYE (Pay-As-You-Earn) or VAT (Value Added Tax) registered. Employers are obliged to operate PAYE as part of their payroll system in order to allow HMRC to collect tax and national insurance from employees. Businesses are only required to be VAT registered when their annual turnover exceeds £82,000. As there is a requirement to hire two full-time employees in order to extend a Tier 1 (Entrepreneur) visa, any Tier 1 (Entrepreneur) migrant who has successfully extended their visa should have their business on the IDBR. However, a Tier 1 (Entrepreneur) migrant who is on their initial three year period, or who did not meet the extension requirements and has not renewed their visa, may not show up on the IDBR. Of the 4,565 active UK companies we linked to Tier 1 entrepreneurs, 1,580 (35 per cent) were on the IDBR. Figure 5.2 illustrates the matching process.



- 5.30 It is also worth noting that a large proportion of new businesses fail in their first few years. This may partially explain why, of the Tier 1 entrepreneurs we successfully matched to a Companies House director record, only 55 per cent were linked to an active company. Table 5.2 presents the three year survival rates across the main industry sectors where Tier 1 entrepreneurs are active (see Table 5.5 for sector breakdown of Tier 1 entrepreneurs). Across these

industries, 40-50 percent of companies exit the market in their first three years.

Table 5.2: Overall three year industry survival rates in the UK

Sector	3 year survival rate
Professional, scientific and technical activities	60.40%
Wholesale and retail trade, repair of motor vehicles and motor cycles	57.60%
Information and communication	58.20%
Administrative and support service activities	54.60%
Accommodation and food service activities	51.80%
<i>All sectors</i>	<i>57.10%</i>

Source: Office for National Statistics (2014): Business Demography dataset

5.31 Table 5.3 provides the overall findings on employment and annual turnover from the IDBR analysis. In total, the 1,580 companies we identified have a combined turnover of £1.45 billion and employ almost 10,000 people.

Table 5.3: Summary statistics on the economic activity of Tier 1 entrepreneurs

Number of Enterprises	Turnover (£000s)	Employment	Average turnover per enterprise (£000s)
1,580	1,450,870	9,850	919

Source: BIS estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

5.32 A further breakdown of turnover, detailing the number of Tier 1 entrepreneurs' companies in each turnover band, is presented in Table 5.4. The final column in Table 5.4 presents, for comparison, the cumulative distribution of all UK enterprises by the same turnover bands, using ONS data.

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Table 5.4: Tier 1 entrepreneur enterprises by detailed turnover band and turnover value

Turnover band (£000s)	Number of enterprises	Total turnover (£000s)	Cumulative total	Cumulative total turnover - all UK enterprises
<50	180	4,730	11.40%	18.4%
<100	350	25,100	33.50%	42.0%
<250	565	84,800	69.30%	71.6%
<500	245	82,850	84.80%	83.5%
<1000	120	79,770	92.40%	90.7%
<2500	65	98,470	96.50%	97.8%
<5000	25	95,560	98.10%	
<10000	5	47,940	98.40%	
10,000+	15	931,650	100.00%	100.0%
All	1,580	1,450,870	100.00%	100.0%

Source: BIS estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data; Office for National Statistics (2014): UK Business: Activity, Size and Location.

- 5.33 The IDBR analysis shows that, of the companies set up by Tier 1 entrepreneurs between 2008-2015 which are still active and are registered on the IDBR, 85 per cent have a turnover of less than half a million, whereas only 7.6 per cent have a turnover of £1 million or more. Less than one per cent of companies (15 businesses) are responsible for 64 per cent of turnover (£930 million).
- 5.34 Overall, the IDBR analysis suggests that at least a small proportion of Tier 1 entrepreneurs go on to set up or take over businesses with high employment and turnover. However, it is worth noting that there is an element of selection bias involved in these figures, given that they only include those companies who remain active and who have sufficiently high turnover or are PAYE employers and therefore appear on the IDBR. Initially we looked at 13,746 Tier 1 entrepreneurs and found only 1,580 on the IDBR which suggests, as might be expected, a high level of business failure. However the failure to also identify a sizeable proportion of Tier 1 entrepreneurs on the Companies House Directors database also suggests that some Tier 1 entrepreneurs may not have established a business in the UK.⁷
- 5.35 Table 5.5 shows the breakdown of sectors in which Tier 1 entrepreneur migrants are currently operating in comparison to the sector distribution of businesses in general.

⁷ Note that some successful Tier 1 entrepreneur applicants may not have taken up their visa.

Table 5.5: Sector and employment distribution and turnover of businesses linked to Tier 1 entrepreneurs compared to the UK business population

Business Sector	Tier 1 entrepreneurs' businesses			UK Businesses	
	Share of businesses	Share of employment	Turnover (£000s)	Share of businesses	Share of employment
Wholesale and retail trade, repair of motor vehicle and motorcycles	27%	22%	571,650	10%	20%
Professional scientific and technical activities	24%	9%	126,870	15%	9%
Information and Communication	12%	6%	54,410	6%	5%
Accommodation and food service activities	10%	14%	41,060	3%	8%
Administrative and support service activities	9%	9%	111,170	8%	10%
Other activities	3%	1%	5,410	6%	3%
Real estate activities	3%	2%	20,590	2%	2%
Construction	2%	1%	19,880	18%	8%
Education	2%	2%	13,410	5%	2%
Financial and Insurance activities	2%	1%	7,700	2%	4%
Human health and social work activities	2%	7%	14,890	6%	7%
Transportation and storage	2%	2%	11,320	5%	6%
Arts, entertainment and recreation	1%	1%	3,590	4%	3%

Source: ONS Business Population Estimates for the UK (2014); BIS Estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

5.36 Whilst broadly similar, there are some differences in the industry composition between the two groups. The business share of professional, scientific and technical activities, and information and communication sectors are higher for Tier 1 entrepreneurs than the UK average. However, the construction sector, which covers 18 per cent of UK businesses, only constitutes two per cent of Tier 1 entrepreneurs' businesses. This may be a reflection of the Tier 1 restrictions on property development in the UK.

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- 5.37 Assuming that the aim is for Tier 1 entrepreneurs to set up businesses in highly skilled sectors, we would hope to see a higher share of migrant businesses operating in these sectors than in the UK business population more generally. Indeed, there are some highly skilled industries which are more prevalent amongst the businesses set up by Tier 1 entrepreneurs than in the overall UK business population.⁸ These include the professional, scientific and technical activities sector and the information and communication sector, which jointly account for approximately 36 per cent of Tier 1 entrepreneurs' activity. However, there is also a substantially higher prevalence of Tier 1 entrepreneurs in the more generally lower skilled wholesale and retail trade, administrative and support service activities, and accommodation and food service activities sectors.
- 5.38 It is worth noting that some Tier 1 (Entrepreneur) migrants take over existing companies that already have employees, therefore the employment figures and turnover may not be wholly attributable to the migrant entrepreneur. The frequency of these instances is presented in Table 5.6. In the following section (Table 5.9) we examine the employment in pre-existing businesses in order to better estimate the net employment effect.

Table 5.6: Number of pre-existing enterprises taken over by Tier 1 entrepreneurs

Cohort	Number of pre existing enterprises in cohort	Total number of enterprises in cohort
2008	N/A	10
2009	10	50
2010	10	90
2011	20	205
2012	50	435
2013	65	595
2014	55	335
2015	-	5
All	210	1,725

Source: BIS Estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

Employment

- 5.39 One of the most tangible ways in which migrant entrepreneurs may have an impact on the UK economy is through job creation. Whilst not all businesses require employees, extension of the Tier 1 (Entrepreneur) visa is dependent on the creation of at least two new full-time jobs. The creation of two additional

⁸ Highly skilled industries refer to industries with a high proportion of employees skilled to NQF 4 or above based on data from the UK Employer Skills Survey.

jobs is a direct benefit from the entrepreneur's business. These new employment opportunities offer disposable income to the employee, which encourages spending and may increase the amount of money circulating in the economy. This, in turn, could stimulate economic growth. However, the extent to which this job creation generates net benefit depends on whether or not those employed would otherwise have been in employment (see paragraphs 5.65 and 5.66 for further discussion on this point).

- 5.40 Our analysis of the inter-departmental business register (IDBR) provides us with one measure of the total employment in businesses linked to Tier 1 entrepreneurs. According to our analysis, the 1,580 Tier 1 entrepreneurs we identified have collectively created 9,850 jobs. Approximately 68 per cent of these businesses employ fewer than four members of staff. Table 5.7 presents the breakdown of employment.
- 5.41 Despite the findings presented in Table 5.7, in the absence of any reliable data on net job creation, it is difficult to draw strong conclusions about the overall impact of Tier 1 entrepreneurs on employment.

Table 5.7: Enterprise by employment band and turnover

Employment band	Number of enterprises	Total turnover in band (£000s)	Total employment in band
0-1	575	64,100	570
2-3	505	134,110	1,220
4-9	370	168,060	2,030
10-20	80	216,460	1,110
21+	50	868,140	4,920
All	1,580	1,450,870	9,850

Source: BIS Estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

- 5.42 Table 5.8 further breaks down the overall employment and turnover data according to the year in which the entrepreneur was granted their Tier 1 (Entrepreneur) visa.

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Table 5.8: Enterprise by cohort, employment band, and turnover

	No. of enterprises in each cohort	No. of enterprises reporting at base period	No. of enterprises reporting in 2015	Baseline employment	Employment 2015	Turnover 2015 (£000s)
2008 Cohort	10	-	10	10	30	-
2009 Cohort	50	10	40	60	280	-
2010 Cohort	90	10	80	140	470	-
2011 Cohort	205	30	180	470	1,530	-
2012 Cohort	435	60	400	1,050	2,850	-
2013 Cohort	595	110	550	2,250	3,690	-
2014 Cohort	335	110	315	340	980	-
2015 Cohort	5	5	5	30	30	-
All	1,725	NA	1,580	NA	9,850	1,450,870

Source: BIS Estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

- 5.43 The data shows that entrepreneurs entering the UK between the years 2010-2013 employed an average of 17 workers in their first year of business. There is likely to be an upward bias on these figures due to the number of pre-existing companies that were taken over by the migrant entrepreneurs. For example, of the 2009 cohort, only ten companies reported employment figures in their first year. It is possible that these ten companies are the same ten that were pre existing enterprises (see Table 5.6).
- 5.44 Overall, based on the employment reports in 2015, on average each Tier 1 entrepreneur that we identified supports six UK jobs. Table 5.9 shows the breakdown of employment by turnover. The data suggests that high turnover does not necessarily correspond to high employment. 76 per cent of companies achieving a turnover between £100,000 and £250,000 employ fewer than four members of staff, whilst 13 per cent of those with a turnover greater than £1 million employ only two to three people.

Table 5.9: Number of companies by employment and turnover bands

Employment	Turnover band (£000s)						All Enterprises
	< 50	< 100	< 250	< 500	<1000	1000+	
0-1	115	220	205	25	-	-	575
2-3	40	90	225	100	30	15	505
4-9	20	30	120	105	60	40	370
10+	5	10	15	15	25	60	130
All	180	350	565	245	120	115	1,580

Source: BIS Estimates of the employment and turnover in enterprises established or taken over by migrants on entrepreneur visas since 2008 using the IDBR, Home Office MI and Companies House data.

- 5.45 An alternative way to gauge the extent of employment created by Tier 1 entrepreneurs is to use data on extensions of stay to calculate a lower bound estimate of jobs creation by Tier 1 entrepreneurs. This is due to the fact that each extension requires the demonstration of the creation of two full-time jobs. By this rough rule of thumb, at least 878 full-time jobs would have been created since 2008. However, whilst on the one hand some of these jobs may no longer exist, on the other some migrant entrepreneurs may have created many more than the minimum two jobs.

“The requirements of [the] Entrepreneur visa is to provide at least two full-time jobs. In reality....more than 2 positions will be created. The needs for those jobs could last more than a year. Many job opportunities can be created with the capital contributions of those entrepreneur[s].”

Ying de Group response to MAC call for evidence

- 5.46 We received some evidence from partners about the jobs created by Tier 1 entrepreneurs. InvestUK Ltd told us that 57 Tier 1 (Entrepreneur) clients have created 444 new jobs in the UK to date. They also provided case studies for 14 of their businesses which show that on average, four jobs are created per company. The company creating the highest number of jobs (14) was in the technology sector. Four companies created ten jobs each – all in the leisure and healthcare or food and beverage sectors.
- 5.47 UK Trade and Investment run two programmes aimed at bringing talented entrepreneurs to the UK: the Global Entrepreneur Programme (GEP) for established entrepreneurs, and Sirius for graduate entrepreneurs. These are discussed in further detail in Chapters 6 and 7 respectively. In their evidence, BIS and UKTI told us about the jobs created to date by entrepreneurs on these programmes. The GEP has relocated 270 early-stage technology businesses into the UK over the last four years. Since 2004, GEP companies have created over 2,500 high-value jobs. Graduate entrepreneurs involved in the Sirius programme have launched 75 start-ups and created over 50 jobs since 2013. It is worth noting that, whereas the Sirius programme endorses candidates specifically for the Tier 1 (Graduate Entrepreneur) visa, GEP

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entrepreneurs may not necessarily be Tier 1 (Entrepreneur) migrants or even migrants – in some cases they are British nationals living overseas. Therefore, job creation under this programme is not exclusively due to Tier 1 entrepreneurs.

- 5.48 Start-ups are often considered to be primary job creators. In their first year, start-ups have a much higher net job creation than larger, more established firms because there is no element of job loss to consider (Decker et al. 2014). However, given that many start-ups fail in the first two years, there is expected to be a high level of job destruction subsequent to their first year. A study by Knaup (2005) following a cohort of start-ups in the USA, found that only 55 per cent of these new companies survived until their fourth year. At this point the job destruction caused by firms exiting the market was greater than job creation by surviving firms (note, though, that this was during a recession).
- 5.49 In terms of net job creation by start-ups it is likely that only a small proportion of surviving, high growth firms contribute significantly to long-term job creation. It has been suggested that a number of jobs created by small businesses in their early years may be lower paid and offer less security than those offered in large firms due to high levels of firm entry and exit (Shane, 2008).

Taxes

- 5.50 A migrant entrepreneur will pay taxes on any profits generated from their business, and in addition pay VAT and business rates, plus taxes on personal income and expenditure. Increased tax revenue may lower the deficit, or trigger higher public expenditure, which ultimately contributes to economic expansion.
- 5.51 Evidence indicating how much tax revenue is attributable to migrant entrepreneurs is limited. In their evidence to the MAC, the Home Office presented the results of a recent internal analysis undertaken by Immigration Enforcement. From a sample of 702 Tier 1 (Entrepreneur) migrants with leave to remain in the 2012/13 tax year, 601 were successfully matched with HMRC records. Of those, only 50 per cent had any economic activity declared. The majority of these (87 per cent) were engaged in formal employment (in breach of their visa conditions) rather than declaring revenue from business activity. For those migrants who were not matched to a HMRC record, it is possible that their businesses have not yet started to generate a profit to enable the migrant to take an income from the business.
- 5.52 Therefore, the analysis of HMRC records does not provide convincing evidence of strong income tax contributions across the entrepreneur cohort. From the 601 Tier 1 (Entrepreneur) migrants who were successfully matched, HMRC records only identified 65 migrants that were potentially engaging in entrepreneurial activity within the terms of their entrepreneur visa. 38 of these were company directors paid via PAYE, while the remaining 27 declared a self-employed income.

5.53 Note that the evidence from the Home Office analysis of HMRC records focuses only on whether or not migrant entrepreneurs were paying tax. That is, it does not comment on the scale of the tax contributions for the small number who were paying taxes. The analysis only focuses on a small sample of Tier 1 (Entrepreneur) migrants and does not consider VAT, corporate tax, employer national insurance contributions or any taxes on personal expenditure. Hence, it is not possible to draw strong overall conclusions about tax contributions from this evidence alone.

Business Expenditure

5.54 In addition to labour costs, a migrant entrepreneur may spend money on other inputs for their business, such as materials and office space. Whilst some of these inputs may be sourced from overseas suppliers, some will be sourced from local businesses. This additional demand may therefore support employment in existing UK businesses.

5.55 We spoke to one Tier 1 (Entrepreneur) migrant who was able to provide examples of the investment and business expenditure they have contributed to the UK economy, in addition to the two full-time jobs created;

- £157,000 investment into their health technology business
- £80,000 spent on design and engineering of the product in the UK
- £7,000 per month to UK shipping and packaging suppliers.

5.56 This case study was discussed previously in more detail in Chapter 4 (see case study 4.1).

5.57 In terms of supplying custom to UK businesses, evidence submitted by law firm J. Dunlop & Co. emphasised the importance of entrepreneurs to UK business structure and the subsequent “cluster effect”. The cluster effect is commonly cited as a driver of competition and innovation on the supply side. However, it also creates a “critical mass” of demand from entrepreneurs, providing a market for service providers in the UK, including accountancy, banking, marketing, venture capitalists, among other services.

5.58 Hiring a permanent full-time employee is a large commitment for a small business. In particular, partner evidence pointed out that new businesses often prefer to employ freelancers or contractors as it allows more flexibility to adjust to changes in the business cycle, or to change the business model without being constrained by the skill sets of existing employees. Therefore, it is likely that there is a large contribution to employment here that is not captured in SME employment data.

New products

5.59 The migrant entrepreneur may directly introduce new products from overseas to the UK economy. New products and innovation are important drivers of

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economic growth and are, in part, necessary to maintain high demand for goods and services. The introduction of new products into the market directly benefits consumers by increasing choice, as well as increasing quality or lowering costs of existing products.

- 5.60 In the evidence we received and through our wider discussions with partners, we came across several examples of Tier 1 entrepreneurs offering new or innovative services. For example, Nutmeg, an innovative low cost online platform for managing investments; Think+ Print, a new technology for fabric printing; and Windowvation, an information technology company that introduced an online social media platform for designers. Case studies 4.1 and 7.2, in Chapters 4 and 7 respectively, detail some examples of innovative products introduced to the UK by migrant entrepreneurs.
- 5.61 Oxford Brookes told us that the seven graduate entrepreneurs that they have sponsored to date have created new businesses and products not otherwise available in the UK, therefore increasing the choice in UK markets.

“UK residents benefit directly from an increased number of businesses in the UK by providing more choice in the market.”

Magrath LLP response to MAC call for evidence

“The benefits of admitting overseas entrepreneurs to the UK include: ... Benefits to consumers arising from having the opportunity to buy EITHER a new product/service that is compelling OR a better/cheaper alternative to existing products/services”.

J. Dunlop & Co. response to MAC call for evidence

Investment

- 5.62 Many Tier 1 (Entrepreneur) migrants choose to invest their funds in an existing UK business and take a directorship, whereby they provide the company with entrepreneurial expertise as well as investment. Our IDBR analysis showed that approximately 12 per cent of registered Tier 1 (Entrepreneur) migrants were investing into pre-existing companies.
- 5.63 Migrants who are high net worth individuals entering the UK through this route should be able to ease capital constraints for domestic firms (NIESR, 2013), particularly for small businesses who may struggle to access funding by other means.
- 5.64 Evidence from one immigration law firm pointed out that one of their entrepreneur clients invested into a UK company that had been placed into administration. This investment enabled the company to continue operating

and secured 50 at-risk jobs. This was the only example the MAC received of the Tier 1 (Entrepreneur) route being used to turn around a failing company.

- 5.65 Both Magrath LLP and Law Firm Limited noted in their evidence submissions that foreign entrepreneurs often invest more than the £200,000 minimum required amount in their businesses.

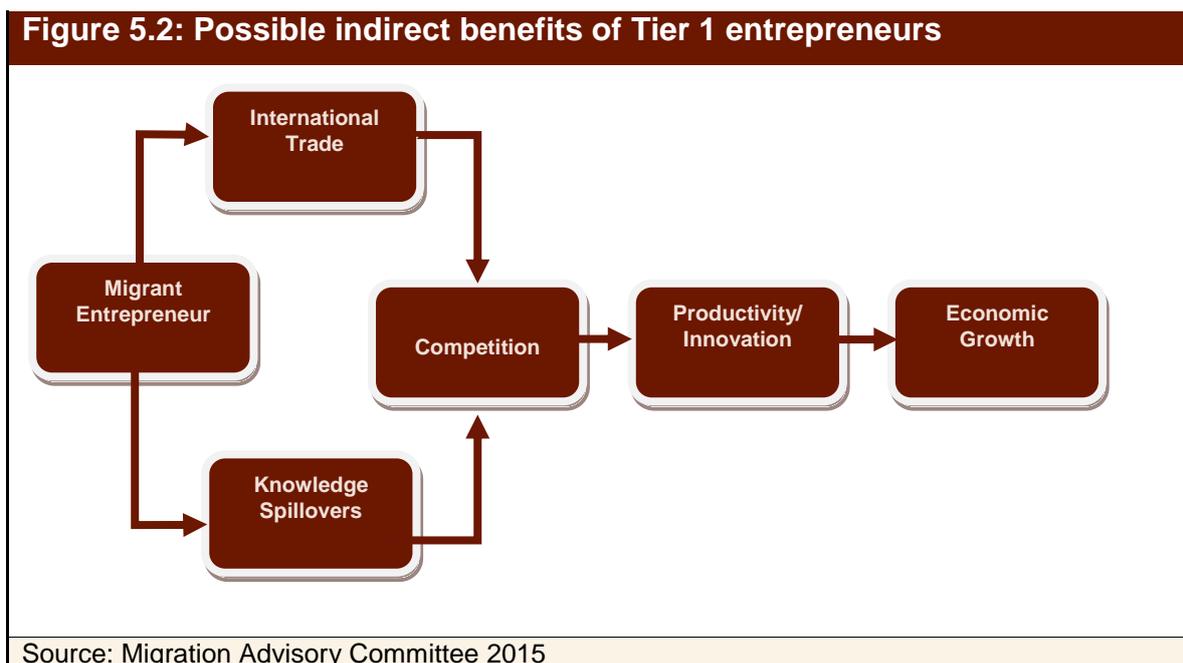
Additionality

- 5.66 In assessing the scale of the direct contributions of migrant entrepreneurs, it is worth considering the issue of additionality. Consider the example where a migrant entrepreneur rents office space for the running of their business. It cannot be assumed that the office would have remained empty in the absence of the migrant entrepreneur. It could be the case that the migrant entrepreneur simply displaces another entrepreneur who would have otherwise undertaken a similar venture, or that the resources could have been used for an entirely different venture.
- 5.67 Where the resources would have been put to an alternative use, the direct benefits of the migrant entrepreneur are more marginal, but still extremely important in a dynamic, competitive economy. In order to compete for scarce resources, the migrant entrepreneur engages labour and office space by paying a higher wage or rent than rivals. It will only be profitable for the migrant entrepreneur to do this if their business will be more productive with the same inputs. Hence, even if the impacts of migrant entrepreneurs are more marginal, they may be productivity enhancing and lead to per capita economic growth.

5.5 Indirect benefits to the UK economy

- 5.68 Greater competition and consequent productivity increases are key channels through which the entrepreneurial activity of migrants can contribute to economic growth. Figure 5.2 demonstrates how, in theory, the knowledge and international connections brought by migrant entrepreneurs may boost competition by opening the market to global competitors and facilitating the transmission of innovative ideas through the economy, leading to economic growth.

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International Trade

- 5.69 It is often difficult for small businesses to take advantage of global markets due to a lack of resources, namely financial and human capital, inability to forge relationships with foreign consumers, and high transaction costs (OECD, 2010). However, research suggests that migrant-owned businesses maintain strong trade links with the entrepreneur's home country (NIESR, 2013). Migrant entrepreneurs may face lower barriers to trading abroad and can utilise their language skills and knowledge of foreign markets to forge new trade links with other countries. These benefits apply whether exporting a UK-made product back to their country of origin (or vice versa), or for example, contracting suppliers in their country of origin.
- 5.70 These international trade links may be one of the main benefits that migrant entrepreneurs bring in cases where they are investing into established UK businesses. There is a growing body of literature that suggests that diverse management teams with overseas experience have a higher propensity to export. For example, a study by Malchow-Moller et al. (2011) found that in Denmark, firms that hired foreign experts became more productive and increased their exports of goods and services.
- 5.71 Furthermore, Peri and Requena (2009) studied the influx of migrants to Spain over a ten year period in order to assess the effect of immigrants on trade, particularly exports. The model assumes that immigration networks reduce the information-related fixed costs associated with trade, and finds evidence of a causal relationship from migration to trade.
- 5.72 Evidence that we received from partners suggested that allowing migrant entrepreneurs to the UK was a step in the right direction towards strengthening trade links.

“Creation of UK branches/subsidiaries of foreign businesses contributes to development of international trade links. Furthering links between countries i.e. China, is high on the UK Government’s agenda. Immigration should not be a bar to encouraging business investment which in turn benefits not only the UK economy but also its citizens.”

Lewis Silkin LLP response to MAC call for evidence

“Exploitation of family ties, familiarity with the culture, market, and investment environment in the home country are all options which a migrant entrepreneur could exploit and can potentially increase the UK’s international competitiveness through trade, improving the UK trade balance and current account, and contributing towards the £30bn export aspiration.”

Department for Business Innovation and Skills/UK Trade and Investment response to MAC call for evidence

- 5.73 Amongst the entrepreneurs that we encountered, we found examples of them using their international connections to good effect. In section 5.3, we referred to case study 4.1 in Chapter 4. This entrepreneur exports 85 per cent of sales, 60 per cent of which are to the entrepreneur’s home country. Furthermore, case studies 5.1 and 5.2 detail how two entrepreneurs invested into existing companies, and were able to use their international experience to help their respective companies branch out into foreign markets. One Egyptian entrepreneur (case study 5.1) was able to use their connections and experience to help the company access the Egyptian markets and more widely to the Gulf Cooperation Council (GCC). Case study 5.2 presents a South African national on a Tier 1 (Entrepreneur) visa, who had experience working in the Nigerian banking industry, investing in a company that was looking to expand to the African markets.

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Case Study 5.1: Agility

Visa route: Tier 1 (Entrepreneur)

Nationality: Egyptian

Sector: Motorcycle Manufacturing

Previous background/experience: Background in motorcycle distribution in Egypt

Employees: two new jobs created as a result of the investment

Annual Turnover: Turnover projected to be £4m in 2015

Investment to date: c. £200,000

Type: Equity

The investment from this migrant entrepreneur has already created two new jobs at this UK engineering company whilst also enabling the business to develop a manufacturing site with its own test track in Oxfordshire. As a direct result of this entrepreneur's background in motorcycle distribution in Egypt, the company has gained access to new markets in Egypt and bringing distribution wider into the Gulf Cooperation Council (GCC) and Africa.

Source: InvestUK Ltd response to MAC call for evidence

Case Study 5.2: PlayJam

Visa route: Tier 1 (Entrepreneur)

Nationality: South African

Sector: Technology

Previous background/experience: Proven track record in many different sectors of management. Most recent position was held as Chief Technology Officer and Chief Cost Controller in an international banking group.

Annual Turnover: Financial summary projects turnover of £2,750,000 for year 1

Investment to date: £200,000

Type: Equity

The entrepreneur joined this company as COO. Their £200,000 investment has enabled the development of an Africa specific version of the company's hardware device. The company has plans to build the commercial relationships suitably to enable widespread distribution and use of the product across the continent in the future. The entrepreneur worked in Nigeria for eight years so is able to use his knowledge of the markets and relationships with technology operators and retailers to help the company establish market presence in this growing industry. InvestUK Ltd state that this investment not only enables the company to make an impact domestically but it also allows for international growth of the firm.

Source: InvestUK Ltd response to MAC call for evidence

- 5.74 In general, there is likely to be an effect on trade from immigration that is not specific to migrant entrepreneurs. As immigrants enter the UK, they will create a demand for certain goods from their home countries, thus increasing

imports. Furthermore, migrant entrepreneurs may be able to forge new trading relationships due to specific skills sets, such as language skills and knowledge of foreign regulatory requirements. It is worth noting that this effect might also be present under other visa routes, such as intra-company transfers where the presence of skilled migrants might help a business develop their international connections.

- 5.75 Any increase in international trade increases the level of competition as domestic entrepreneurs must become more efficient to compete with global counterparts. This leads to productivity growth which drives economic growth.

Knowledge spillovers and Innovation

- 5.76 There is a substantial body of evidence in the economics literature relating to the knowledge spillovers and innovation effects arising from highly-skilled migration. Although the Tier 1 (Entrepreneur) visa does not require any formal qualifications or training, successful entrepreneurs are generally regarded as highly skilled members of the population. It is likely that the skills and knowledge of migrant entrepreneurs will be transferred to employees, and possibly more widely across the industry.
- 5.77 High-skilled migrants are often found to stimulate innovation and technological progress. Fassio et al. (2015) find that tertiary educated migrants have a positive effect on productivity growth in the tech sector. Furthermore, multiple studies explore the positive impact that foreign graduates, particularly in science and technology disciplines, have on innovations in the US (Fassio et al., 2015).
- 5.78 In some cases, there may be knowledge that needs to be transferred by “knowledge-carriers” who are able to move across borders and facilitate international spillovers (Czaika, 2015). Access to knowledge and ideas may be highly uneven, national entrepreneurial ‘capacity’ may vary, and features of innovation ecosystems may constrain ideas diffusion. This opens up space for skilled or entrepreneurial individuals to fulfil the role of “knowledge-carriers” and contribute to national knowledge generation (NIESR, 2013).
- 5.79 The extent of knowledge transfers are likely to go further than the initial migrant entrepreneur arriving in the UK with innovative knowledge. There is an increasing focus on the impacts of diaspora networks on international knowledge transfers. Migrant entrepreneurs may be able to use connections from their country of origin to maintain access to new ideas and technologies, therefore reducing information and communication costs (NIESR, 2013).
- 5.80 Migrant entrepreneurs may also introduce ‘disruptive’ technologies to the UK that transform the market. As a result, UK firms have to adapt to higher levels of competition.

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“Disruptive innovation is an innovation that helps create a new market which eventually disrupts an existing market over the course of a few years or decades, displacing an earlier technology”

Department for Business Innovation and Skills/UK Trade and Investment
response to MAC call for evidence

- 5.81 A recent example of disruptive technology is the introduction of Nutmeg to the finance sector. Though the founder of Nutmeg is a British citizen, he was living and working in the USA when he established his business idea. He relocated back to the UK through UKTI’s Global Entrepreneur Programme in 2011 and launched the online investment management business Nutmeg. The company has since grown from a single entrepreneur to now employing 60 high-skilled employees in London. So far the company has raised £28 million in private-sector funding. The novelty of online investment management is attracting a new market of customers who are now able to invest lower amounts of money, in addition to taking some of the market share away from large investment banks.
- 5.82 A more general example of recent disruptive technology is the development of taxi apps. These apps allow customers to hail a cab from their mobile phones, and saves drivers from driving around looking for passengers. This is a lower cost model for drivers, allowing consumers to benefit from lower fares.
- 5.83 In addition to bringing knowledge or new products, migrant entrepreneurs may bring with them a set of perspectives or experiences that differ from that of typical UK entrepreneurs. There is a growing body of literature that finds a positive effect of diversity on productivity growth and innovation (Fassio et al., 2015).
- 5.84 Often entrepreneurs invest their funds into established UK companies and then play an active part in the running of the company. A study of firms in China found that when directors had foreign experience (i.e. returning migrants), firms had higher productivity and profitability (Giannetti et al., 2012). Furthermore, Nathan and Lee (2011) find that management team diversity has small but robust effects on the development and implementation of new products and processes.
- 5.85 As mentioned previously, there can be a “cluster effect” whereby migrants tend to locate in the same area, which facilitates knowledge-sharing. A paper by Agrawal et al. (2008) finds that both spatial and social proximity increase the probability of knowledge among individuals. It concludes that where inventors are not socially or culturally close, co-location can substitute for these differences.
- 5.86 In addition to sharing information with each other, often migrant entrepreneurs will hire and train UK employees. The benefits from migrant experts training

employees can be separated into two effects: the UK population obtains knowledge and skills at a lower cost, and the skill level of the workforce will increase more quickly than if domestic workers had to rediscover knowledge for themselves. There is evidence to suggest that the impact of foreign experts on the workforce is largest during the earlier stages of company development (Markusen and Trofimenko, 2007). Therefore, having migrant entrepreneurs launch their businesses in the UK and hire employees within three years as part of the Tier 1 (Entrepreneur) visa, helps to facilitate the transmission of skills and knowledge from other countries into the UK and to diffuse them across the UK economy.

“The best new ideas and businesses are often sparked by diverse people with different skills, perspectives and experience mingling with each other in a global city like London, combined with the availability of capital, a favourable business climate, an openness to new ideas and a willingness to take risks. Just look at how many of the entrepreneurs in Tech City are migrants...”

Migreat (2015). *Open to Entrepreneurs: Start-up Visa Policies Report*. Migreat. Available at: <http://pi.migreat.com/entrepreneur-and-innovator-visa-report>

5.87 Case study 5.3 presents a tech company who chose to launch in the UK due to its thriving tech sector.

Case Study 5.3

Employees: three

Investment to date: £500,000

This Tier 1 (Entrepreneur) from Imperial College London co-founded a company that builds reliable sustainable and automated electricity grids in India and Rwanda, and has a strong social enterprise ethos. The business has been in operation since 2012, and has attracted over £500,000 funding to date – the majority being private investment. The company is also currently raising separate funding for two major scale-up projects.

In addition to creating three full-time jobs, the company also contributes to the UK by mostly using UK suppliers. Furthermore, once subsidiaries generate profit, then those profits would come back to the parent company and be taxed in the UK.

The team’s key reasons for basing their business in the UK were their links with Imperial College London, and the advantages of the established tech sector.

“We wanted to base ourselves somewhere with good international links and a healthy tech industry.”

Source: Tier 1 (Entrepreneur)

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Competition

- 5.88 Businesses set up by migrant entrepreneurs could generate additional benefit to the UK if they stimulate competition in their industry or market. As new firms enter the market, the level of competition increases. This encourages incumbent firms to generate new ideas, adapt to disruptive technologies, and increase their productivity in order to remain competitive. 'Native' consumers should benefit from increased competition and choice, while the economy benefits from greater innovation (NIESR, 2013).
- 5.89 However, there may be a point at which too many firms competing in a market may result in a sub-optimal allocation of resources, potentially limiting opportunities to exploit economies of scale.

“Entrepreneurship in the UK is a key driver of productivity and admitting talented overseas entrepreneurs benefits both the Scottish and UK economy by increasing competition, opening markets and broadening horizons of native entrepreneurs.”

Scottish Government response to MAC call for evidence

- 5.90 Productivity increases do not simply arise as a result of migrant entrepreneurs adding to the number of competing companies in a particular market. They may also arise as a result of the innovative goods and services or even production methods that migrant entrepreneurs may introduce to the UK. If these innovations result in them creating a superior product, or a lower cost product, then other firms will be forced to adapt to the changing circumstances. This may raise productivity across the industry, and may in turn stimulate further innovations.
- 5.91 These examples of productivity increases would result in lower costs or higher revenue for the firm, which translate into increased profits and higher wages for workers. The result of increased profits and higher wages is that there is more consumer spending and higher levels of investment which contributes to higher economic growth.

“Benefits to the international competitiveness of UK businesses: while competition may not be immediately welcomed, it is by having a competitive environment that companies are forced to improve their offerings: if a company’s ‘home’ market is quite rigid, participants will be tempted to stay in a ‘comfort zone’. If the home market in the UK is highly competitive and dynamic, then those UK businesses that can flourish here are more likely to be good enough to expand into other countries.”

J. Dunlop & Co. response to MAC call for evidence

5.6 Costs of migrant entrepreneurs

Crowding-out of native entrepreneurs

- 5.92 One concern is that migrant entrepreneurs may displace a number of native entrepreneurs. There may be limited resources available to entrepreneurs in the UK, and the presence of migrant entrepreneurs may mean that native entrepreneurs lose out on credit supply or human capital because they are required to compete for the same resource. For example, there may be a limited amount of financing available for early-stage, high risk businesses from angel investors and venture capital funds. Hart and Acs (2011) discuss the possibility that, in the USA, it may not be the case that migrant entrepreneurs have unique abilities, but rather it is the institutional environment of the USA that enables them to found high impact, high-tech businesses. Thus, the counterfactual to a migrant-owned business might simply be a similar native-owned business.
- 5.93 This particular study finds no evidence to suggest substantial differences – in terms of industry, size, patents or research and development expenditure – between migrant and native businesses (Hart and Acs, 2011).
- 5.94 Studies by the OECD (2010) and Fairlie and Meyer (2000) find evidence to suggest that an increase in migrant entrepreneurship decreases the propensity of natives to engage in self employment activities, thus suggesting that there may be some “crowding-out” of native entrepreneurs.

Low value business

- 5.95 In section 5.2 we discussed the possibility that encouraging entrepreneurship would lead to an increase in lower quality or marginal entrepreneurs. In particular, literature tends to draw a distinction between “opportunity entrepreneurs” - those who become entrepreneurs because they sense a profitable opportunity, such as a gap in the market - and those who become self-employed out of necessity. “Necessity entrepreneurs” are generally considered to enter self-employment in response to difficulties accessing the labour market and tend to generate small personal income and little wider value in terms of jobs, taxes or consumer benefits. The Tier 1 (Entrepreneur) route may to some extent encourage necessity entrepreneurship if the business being established is viewed by the migrant as a means to facilitate migration and settlement in the UK, rather than an end in itself.

Displacement

- 5.96 We have discussed how migrant entrepreneurs can generate higher levels of competition in their industries. In some cases, native firms will be unable to compete and will be forced to exit the market, which may lead to some labour market churn in the short term. However, as discussed previously, the UK as a whole might be expected to gain from such competitive effects, provided that they do not undermine economies of scale. Moreover, these gains may be dependent on the competition effects arising from a genuine advantage in

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production costs, rather than the migrant entrepreneur competing on the basis of a lower reservation wage.

“... if a new business set up by an immigrant is able to take market share from existing UK businesses, then it is likely to be doing so by offering its customers a more attractive proposition. Although the ‘defeated’ business might be vocal, numerically the majority of those in the UK affected will be customers who find a greater benefit from using the new product/service.”

J. Dunlop & Co. response to MAC call for evidence

Impacts on public services and congestion

- 5.97 We are not aware of any studies which examine the use of public services by Tier 1 entrepreneurs as a specific sub-set of immigrants. We therefore assume that the impacts of migrant entrepreneurs on public services are broadly similar to the average non-EEA migrant, as outlined in the MAC’s 2012 report “Analysis of the Impacts of Migration”. It is worth noting that entrepreneurs only make up a very small proportion of the annual inflow of non-EEA migrants into the UK – in 2014 Tier 1 (Entrepreneur) main applicants accounted for only 0.2 per cent of total successful entry clearance visas. As such, any impacts on schools or healthcare are likely to be minor. In Chapter 2, we saw that the ratio of dependants to main applicants is high, particularly for out-of-country applicants. It is possible that there are some costs associated with the relatively large quantity of dependants, though evidence is limited.
- 5.98 We did receive some evidence from partners as to the public services typically used by Tier 1 entrepreneurs. Evidence from Ernst & Young LLP pointed out that migrants are now required to pay the immigration health surcharge and, therefore, Tier 1 entrepreneurs make a contribution towards the provision of the NHS healthcare they receive. InvestUK Ltd, Law Firm Limited, Tier 1 Global Business Consultants Ltd and Magrath LLP all said that their Tier 1 (Entrepreneur) clients predominantly choose private healthcare provision and so do not present a burden on the NHS. Ying de Group, Lewis Silkin LLP and InvestUK Ltd also said that their clients typically opt to send their children to private schools; therefore not all Tier 1 entrepreneurs make use of state funded education.

5.7 Conclusions

- 5.99 Economic theory suggests that high quality migrant entrepreneurs have the potential to contribute directly and indirectly to economic growth. In addition to generating employment and revenue through their business activities, their impacts spread further into the economy by influencing and facilitating knowledge transfers, innovation, competition and productivity.

Chapter 5: Economic impacts of Tier 1 entrepreneurs

- 5.100 There are also potential downsides associated with migrant entrepreneurship, namely crowding-out native entrepreneurs, displacement, and a lowering of the average quality of market entrants. Given the limited data available, it is impossible to determine the overall impact of migrant entrepreneurs on the UK.
- 5.101 The evidence we received from partners and conversations we had with Tier 1 entrepreneurs leads us to conclude that at least some migrant entrepreneurs in the UK are introducing innovations into the UK market and potentially helping to raise productivity. In this chapter we have presented specific case studies for a number of Tier 1 entrepreneurs who have established innovative businesses with high growth potential.
- 5.102 From the data matching exercise we carried out, we were able to see that as of 2015, 1,580 Tier 1 entrepreneurs registered on the IDBR have created 9,850 jobs and generate a combined turnover of £1.45 billion.
- 5.103 Despite the evidence emphasising the value of migrant entrepreneurs, we also found that a sizeable proportion of Tier 1 entrepreneurs are not making significant economic contributions. Our IDBR analysis shows that a large proportion of Tier 1 entrepreneurs were not operating in highly skilled or innovative industries.
- 5.104 These findings, together with the evidence presented in Chapter 4, suggest that there is scope to improve the overall structure of the route in order to ensure maximum benefits are being delivered to the UK economy. We will examine options for reforms in Chapter 6.

Chapter 6: Tier 1 (Entrepreneur) route

6.1 Introduction

- 6.1 This chapter presents the issues that policymakers may need to consider when designing an entrepreneur visa route, together with the evidence that we received from stakeholders regarding these issues. We focus first on the initial selection criteria; in other words, the criteria to determine whether an applicant is awarded an entrepreneur visa in the first place. We then consider the extension criteria. These are the criteria that determine whether a migrant entrepreneur be allowed to continue their business activities in the country after the initial period of leave to remain.
- 6.2 Our discussion in this chapter focuses primarily on the selection and extension criteria specific to the Tier 1 (Entrepreneur) route. Discussion around the criteria and requirements for the Tier 1 (Graduate Entrepreneur) route can be found in Chapter 7.
- 6.3 In discussing the design of an entrepreneur visa route, we keep in mind the types of applicant that an entrepreneur visa route aims to attract. In Chapter 2, we outlined a working definition of the term 'entrepreneur' as it might apply to the entrepreneur visa routes. Ideally, an entrepreneur route would target applicants meeting that definition.
- 6.4 We assume that policymakers have three high-level goals when designing an entrepreneur visa route, namely that the route be:
- Selective – only genuine entrepreneurs who wish to set up a valid business are able to meet the entry criteria;
 - Effective – the criteria allow genuine entrepreneurs to set up and grow a business; and
 - Beneficial – the route delivers significant economic benefits to UK residents.

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6.2 Motivation for reform

- 6.5 Whilst the economics literature that we presented in Chapter 5 sets out a range of positive impacts that could potentially be generated by migrant entrepreneurs, what we have found in practice suggests a mixed impact of Tier 1 (Entrepreneur) migrants. In Chapter 4 we illustrated the range of activity being undertaken by recent Tier 1 (Entrepreneur) migrants. Whilst at the top end we found evidence of some highly innovative businesses that are quite plausibly generating the types of impact we described in Chapter 5, we also found that a substantial element of the route is made up of lower value businesses that are less likely to have these impacts.
- 6.6 It is difficult to comprehensively gauge the effectiveness of the route as there is relatively limited evidence on the activities and business outcomes of Tier 1 (Entrepreneur) migrants. Currently there is very little monitoring of migrant businesses under the route, an issue that we return to later in this report. Nevertheless, from the available data together with views submitted to us by partners, there is evidence to suggest that the UK's Tier 1 (Entrepreneur) visa route is not particularly effective in selecting high quality migrant entrepreneurs. This is consistent with the recent experiences of other countries which have reviewed similar routes, as discussed in Chapter 3. There appears to be considerable potential to reform the route so that it delivers higher quality entrepreneurs, whilst simultaneously working more effectively for those who use it.
- 6.7 In the evidence we received, there was widespread support for reform of the entrepreneur visa routes, although the rationale for reform differed between partners. A number of partners suggested that the current route was allowing migrant entrepreneurs to establish low quality businesses, whilst for other partners the issue was that the current design was not working optimally for high quality entrepreneurs.

“The UK would benefit from a visa system able to attract and retain the best and brightest entrepreneurs. Specifically, entrepreneurs who create businesses and jobs, increase competition, lower prices and increase productivity. By most accounts, neither the Tier 1 (Graduate Entrepreneur) Visa, nor the Tier 1 (Entrepreneur) Visa are attracting enough of the most valuable entrepreneurs.”

The Entrepreneur Network response to MAC call for evidence

“...while the existing Tier 1 Entrepreneur route does deliver economic benefits to the UK, there is considerable scope for this route to deliver significantly more to the UK economy.”

Kingsley Napley response to MAC call for evidence

“The Tier 1 Entrepreneur visa route should be re-designed to better mirror the business models and commercial realities of the business life cycle, to both enable the desired foreign direct investment projects to come to the UK and reduce the likelihood that the route is used by those who are not genuine entrepreneurs.”

Department for Business Innovation and Skills/UK Trade and Investment response to MAC call for evidence

6.8 In the rest of this chapter we discuss the following issues in turn:

Selection issues

- The genuine entrepreneur test - how to assess the prospective entrepreneur’s business plan
- Whether and how to recognise third party endorsement of a migrant entrepreneur’s proposal
- Whether to apply a minimum investment threshold
- Whether to have criteria around the individual skills, qualifications and business experience of the migrant entrepreneur, distinct from their business proposal
- Whether to place any restrictions on the route, including:
 - Sector restrictions/targeting
 - Innovation requirement
 - Region restrictions/targeting
 - Extent of the migrant entrepreneur’s involvement in the running of the business
- Whether to permit applications from entrepreneurial teams

Extension issues

- Which *metrics* to use to judge business progress; what *levels* to set benchmarks at; and the flexibility with which these are applied
- How to deal with business failure
- Whether to monitor business progress between entry and extension
- The duration of the initial visa

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Overarching issues

- Whether to have one overarching entrepreneur route that aims to cover all circumstances, or a number of routes targeting entrepreneurs at different stages of business development, with different selection criteria applying to different routes.

6.3 Selection issues

The genuine entrepreneur test

- 6.9 Whilst the aim of an entrepreneur route is to provide significant economic benefit to the UK, it would not be advisable for the Government to attempt to pick winners amongst the applicants for Tier 1 (Entrepreneur) visas. The Government cannot determine *ex ante* which combinations of applicant and business plan might become commercial successes, nor would it be advisable to aim to do so. Therefore, currently immigration officers aim to assess the genuineness of the business plan rather than its likelihood of success.
- 6.10 Submissions that we received from a number of law firms indicated that the complexity of the genuineness test prevents the Tier 1 (Entrepreneur) route from being truly effective. Payne Hicks Beach said that the rules of the genuineness test are overly convoluted and unclear to the extent that they may be dissuading potential entrepreneurs from applying for the visa. More broadly, the evidence from law firms suggests that there is a distinct lack of clarity in the requirements associated with the genuineness test. Consequently, there was a call from some partners for more structured, transparent guidance to be available to applicants.
- 6.11 Whilst partners expressed considerable concern about the effectiveness of the genuineness test, there was recognition that some scrutiny of the business proposal is required. The submission from Payne Hicks Beach summarises a common view of the test: if it is to be retained then immigration officers should be provided with specialist training. Several partners made similar assertions that currently the immigration officers are insufficiently trained to make decisions about applicants and business plans, not least as a result of the criteria being too subjective.

'The current criteria are sufficient to prevent abuse, particularly the introduction of the genuine entrepreneur test. The test is highly subjective which is demonstrated by a 50% refusal rate. Better training and guidance should be given to ECOs and Home Office caseworkers on how to assess the subjective requirements. But the interview process is the way to ensure there is no abuse.'

Payne Hicks Beach response to MAC call for evidence

- 6.12 We met with immigration officers in Sheffield and were impressed with the thoroughness and professionalism with which they reviewed sometimes complex cases in areas where they would not be expected to be expert. Nevertheless, we accept that there may be ways to improve the delivery of the assessment and that the selection criteria are relatively subjective. Many of the law firms that provided evidence included appeals for more objectivity in the genuineness test. Their argument is that this would make evaluation of applications a simpler task for immigration officers and prevent their clients from being refused on what are seen as spurious grounds.
- 6.13 As described in Chapter 3, most of the Tier 1 (Entrepreneur) equivalent visa systems across the globe show some element of subjectivity in selection. Given the complexity of entrepreneurship, it may be that only schemes with an element of subjectivity in the assessment are sufficiently flexible to cover the wide range of scenarios that may be presented whilst allowing discretion to reject poor quality applications.
- 6.14 Moreover, adopting a checklist approach could potentially open the route up to abuse. Immigration officers would no longer be able to use discretion to determine non-genuineness, allowing non-genuine applicants to easily tailor their applications to meet the required criteria.
- 6.15 Instead, it may be more appropriate to simply acknowledge the necessity of a subjective element to selection and to seek out a more effective method by which to implement such an assessment.

Third party endorsement

- 6.16 One alternative to a genuineness test conducted by immigration officers is the use of third party endorsement. There is evidence from literature and international comparisons to suggest that this may be an efficient way to filter applications for entrepreneur visa routes. The idea is that, by effectively outsourcing the assessment of migrant entrepreneurs to those individuals or bodies with more specialist knowledge than immigration officers, the quality of the assessment is improved. Furthermore, where the third party endorsers are required to invest into the candidates they

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endorse, there is an additional financial commitment backing up the assessment.

- 6.17 One notable example from international comparison is Canada's Start-up visa, which places great emphasis on the importance of endorsement from selected industry partners, as described in Chapter 3. Under this scheme, once a letter of support has been received from an approved venture capital fund, angel investor group or business incubator, there are few additional requirements to meet in order to obtain a visa. Since applicants to this scheme are given permanent residence from their initial application, it would appear that the Canadian government has confidence in the robustness of this selection process. However, it ought to be noted, that, since this scheme is still relatively new and has experienced limited uptake, it may be too early to accurately assess the robustness of such a system. Whilst the UK already uses third party endorsement in the Tier 1 (Graduate Entrepreneur) visa route, there may be benefits to incorporating some degree of third party endorsement in the Tier 1 (Entrepreneur) route as an alternative to the genuineness test.
- 6.18 One idea put forward by partners was for the Home Office to waive the genuineness test for applicants with endorsements from other government agencies. For example, the Scottish Government stated that all migrants accepted on to their entrepreneur programmes have undergone extensive due diligence by the Scottish Government. As the Scottish Government has already satisfied themselves as to the genuineness of the applicant they argue that it is unnecessary for immigration officers to carry out a genuineness test in these cases. Participants on UK Trade & Investment's (UKTI) Global Entrepreneurship Programme (see Box 6.1) could be treated similarly.

Box 6.1: UKTI's Global Entrepreneur Programme

UKTI run a Global Entrepreneur Programme (GEP) which aims to help overseas entrepreneurs and early-stage technology businesses or start-ups that want to relocate their business to the UK.

- To qualify for GEP support, you must be an overseas-based entrepreneur or technology business and looking to establish your global business headquarters in the UK.
- Support is free and includes help to develop business plans, assistance with relocating to the UK, providing introductions to investors, guidance on how to grow internationally, mentoring from experienced entrepreneurs and continued help once located in the UK.
- In return for this support, overseas entrepreneurs are encouraged to set up their headquarters in the UK.
- A team of 18 successful entrepreneurs, known as 'dealmakers', help to identify potential participants.
- Entrepreneurs generally have to apply for Tier 1 (Entrepreneur) visas in order to relocate to the UK.
- The Global Entrepreneur Programme has helped to relocate 340 businesses to the UK, raised over £1bn investment since 2004 and has created over 2500 high-value jobs since 2004.

Source: UKTI

- 6.19 Alternatively, there could be potential to work directly with the institutions typically involved in investing in early-stage businesses including accelerator programmes, angel investor syndicates and venture capital funds. Provided that the arrangements in place are robust and can be monitored over time, their endorsement of selected migrant entrepreneurs could potentially be accepted in lieu of a Home Office assessment of the business plan.

These institutions are regulated and will have their own checking processes; some even employ a Dragons Den approach in reviewing business plans etc. There should be a list of approved bodies. The provisions should allow for different funding requirements or no funding requirement in some cases."

Penningtons Manches response to MAC call for evidence

- 6.20 This approach is appealing because it would be in the interest of the financial institution to only endorse those applicants that represent a good investment. This is due to the fact that endorsement by a financial institution would involve their provision of at least the minimum investment as required by the selection criteria (i.e. £50,000) in return for a specified equity stake. In this way, if the institution endorsed a non-genuine business, then they are sure to lose their investment. As such, the use of a financial institution as an endorsing body in this way should lead to a reduction in abuse of the visa. Support for this was found in the Penningtons Manches

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survey, which indicated that 90 per cent of expert respondents believed that endorsement from a venture capital (VC) firm could act as a predictor of a business' success.

- 6.21 There is a risk that any abuse could potentially shift to a higher level. Specifically, such a policy could allow venture capitalists and other such figures to set up an operation in which they charge a fee to endorse non-genuine entrepreneurs. Therefore, any move to use third party endorsement in the Tier 1 (Entrepreneur) route would almost certainly require the creation of a list of approved institutions that are permitted to participate, similar to the Canadian approach. As noted earlier, any such list of approved endorsing bodies probably ought to include relevant public bodies such as the Scottish Government and UKTI.
- 6.22 One issue to consider with third party endorsement is determining with which partners it would be appropriate to work. Under the current Tier 1 (Entrepreneur) route, there is already partnership with VC firms and a small number of approved accelerator programmes who can provide funding to Tier 1 (Entrepreneur) migrants to enter under the £50,000 route. However, partners told us that VCs do not usually invest in early-stage businesses, and usually invest at a later stage of growth with much more significant sums of money. Therefore, VCs may not provide a very fruitful source of third party endorsement for start-ups and early-stage businesses.

“...the major challenge for prospective immigrant entrepreneurs is in actually being able to access these official sources of funding prior to applying for the Entrepreneur visa. ... Venture capitalists tend to invest in entrepreneurs with prior experience in starting businesses, or whose businesses have already been operational for a few years...with the result that the UK misses out on promising young entrepreneurs and early stage ventures that have not yet had time to develop relationships with VCs”

Migreat (2014). *UK Entrepreneur Visa Report. A UK Immigration System open to Innovation and Promising Entrepreneurs*

“Angels are more likely to be willing to invest small sums at this [early] stage, whilst being prepared to provide further sums as the business' needs evolve. VCs seek to invest much higher sums since the transactional cost of investing sums much below £2m are regarded as too high.”

UK Business Angels Association response to MAC call for evidence

- 6.23 One alternative to VCs would be to accept endorsement from certain accelerator programmes, perhaps expanding the list of those approved by UKTI to reflect recent growth in accelerator programmes in the UK. The merits of such a system are largely in line with those outlined previously.

Namely, the accelerator would be investing into the business; hence it would be in their interest to only endorse genuine entrepreneurs that had potential for success. It was noted that, as opposed to VC firms, accelerator endorsement is more appropriate for those entrepreneurs with relatively new ventures. In this way, using accelerators as the third party endorsing body would make the route more suitably geared towards start-up companies that may have more growth potential than a system that utilises VC firms.

“The £200k cash requirement is nonsensical and represents no test of the entrepreneur or their idea. The £50k reduced limit for VCs is meaningless – VCs only invest hundreds of thousands or millions and for accelerators has limited impact – not every good entrepreneur needs an accelerator, most accelerators give less than £50k.”

UKTI GEP dealmaker response to MAC call for evidence

- 6.24 However, some partners emphasised that accelerator programmes are not suitable for all start-ups and, therefore, should not be the only route for start-ups. The UKTI GEP dealmaker noted that, whilst accelerator endorsement could have a positive impact, ‘the best entrepreneurs do not need an accelerator’. One firm told us that they believe that mandating accelerator endorsement would not be an efficient system as it would add an unnecessary complication for those entrepreneurs that already have access to funding.
- 6.25 We return to the issue of third party endorsement by accelerator programmes in Chapter 7 where we explore the potential to expand the existing Tier 1 (Graduate Entrepreneur) route.
- 6.26 Our commission from the Government asked us to examine the potential for funding from angel investors to be recognised within the Tier 1 (Entrepreneur) route. Angel investors could also be used to provide third party endorsement. The UK Business Angels Association (UKBAA) stated that angel investors provide both finance and guidance for entrepreneurs. Moreover, these individuals do tend to take more risks with their investment, which may be beneficial for those very early-stage ventures that would likely be excluded by VC firms. Whilst they target businesses at a similar stage of development, accelerator programmes are sometimes considered to have too narrow a focus to encompass all early-stage ventures. As such, the use of angel investment under the Tier 1 (Entrepreneur) route may address the gaps in coverage of the entrepreneurial spectrum.
- 6.27 One concern that was raised in the consideration of angel investors as endorsing bodies is the difficulty in regulating such individuals. That is, angel investors can be any individual with available finances to invest. The UKBAA in their evidence suggested that any move towards utilising angel

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investors as endorsing bodies could potentially follow the Financial Services and Markets Act 2000 (Financial Promotion) Order. That is, any angel investor seeking to provide third party endorsement would be required to evidence their certification as a high net worth individual or a sophisticated investor.

*“In terms of the Financial Services and Markets Act 2000 (“FSMA”) and the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (“FSMAO”), individuals seeking to make angel investments in SMEs are required to provide evidence that they are either a **“certified high net worth individual”**, **“self-certified sophisticated investor”** or a **“certified sophisticated investor”**.”*

UK Business Angels Association response to MAC call for evidence

- 6.28 The UKBAA told us that a Certified High Net Worth Individual either has an annual income to the value of £100,000 or more; or net assets to the value of £250,000 or more. A Sophisticated Investor has to meet one or more of the following categories:
- is a member of a network or syndicate of business angels;
 - has made more than one investment in an unlisted company in the two years prior;
 - works, or has worked in the two years prior, in a professional capacity in the private equity sector, or in the provision of finance for small and medium enterprises; or
 - is currently, or has been in the two years prior, a director of a company with an annual turnover of at least £1 million.
- 6.29 However, there is a concern that opening up third party endorsement to all angel investors would be slightly open-ended, and therefore subject to abuse. Whilst the requirements that must be met to certify as a sophisticated investor are relevant to the investment in SMEs, acting as a certified high net worth individual appears to require only available finance and, hence, there is a lack of scrutiny towards these individuals. For instance, wealthy individuals could set up as angel investors in order to endorse family members or friends as Tier 1 (Entrepreneur) migrants.
- 6.30 It is unclear to what extent the Home Office could rely on the certification of high net worth individuals and sophisticated investors, especially those that are self-certified. The UKBAA told us that they are in the process of developing an accreditation process for angel investors, which could potentially be used in the scrutiny of angel investors in the future. However, until that time, angel investment may be too broad a term with too loose a

regulatory framework for all angel investors to be considered as suitable third party endorsing bodies.

- 6.31 In order to circumvent this issue, some partners suggested that syndicates or regional groupings of angel investors could potentially be used. These might individually apply to UKTI for endorsement, similar to the existing process in place for accelerator programmes. The British Venture Capital Association (BVCA) told us that these collections of angel investors are subject to a higher degree of regulation and, as such, would be more suitable candidates for third party endorsement of Tier 1 (Entrepreneur) migrants.
- 6.32 It was also suggested that the Angel CoFund may provide a way to open up to angel investors. The CoFund was launched by the British Business Bank in 2011 and works alongside syndicates of business angels, matching angel investments in high potential businesses. Octopus Investments indicated that the Angel CoFund approval process has created a scalable and practical way to assess complex business cases, which may mean that an endorsement from the Angel CoFund could be seen as a reliable third party endorsement.
- 6.33 It appears therefore that there is some potential for angel investor syndicates to be recognised in the Tier 1 (Entrepreneur) visa route. However, whereas Financial Conduct Authority (FCA) oversight of VC firms means that all VC firms are potentially suitable partners, there is no such blanket regulation or accreditation of angel investors at this point in time. There may however, be potential for UKTI to work with UKBAA to approve a small number of angel investor syndicates to provide a third party endorsement, or at the least to bring Tier 1 (Entrepreneur) migrants through the lower £50,000 investment threshold. Any such arrangement should be carefully piloted and thoroughly monitored and evaluated before being rolled out further.
- 6.34 In conclusion, whilst it would likely be overly restrictive to move towards a system that exclusively draws on third party endorsement, we recommend that third party endorsement of Tier 1 (Entrepreneur) applicants be introduced to a much greater extent. Where reliable third party endorsement can be provided it is likely to be the most effective way to select migrant entrepreneurs. We also recommend that, whilst the Home Office retains the need to undertake basic checks, all applicants that have third party endorsement from an approved body are not subject to any Home Office assessment of the business plan. We return to this in our recommendations in Chapter 8.

Assessment of business plans

- 6.35 However, those applicants that do not have third party endorsement would still require their business plans to be assessed within the visa application system. As noted earlier, it was a common perception amongst our partners

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that immigration officers are not suitably trained to assess the specifics of a business plan. As such, some partners suggested that the assessment of the genuineness should be given to experts in the entrepreneurial field. J. Dunlop & Co. suggested that the Home Office should recruit a team ‘with expertise in assessing business plans’ to complement the existing caseworker teams.

- 6.36 However, many of the submissions we received went further, calling instead for a more specialist body altogether to assess the business plans. The argument is that utilising the expertise of individuals or bodies with business experience would make the system more effective at distinguishing genuine entrepreneurs from fraudulent applicants.

“When experts and third parties are involved in the application process, rejection rates drop to 20% or less; as is the case in Australia, Italy and New Zealand. Including quality checks by third parties during the visa process can cut down on abuse by discouraging non-genuine applicants which can further reduce the backlog of applications.”

Migreat (2015). *Open to Entrepreneurs: Start-up Visa Policies Report*. Migreat. Available at: <http://pi.migreat.com/entrepreneur-and-innovator-visa-report>

- 6.37 For example, Fragomen Worldwide suggested that the genuineness test would be improved by involving UKTI in the initial stages of candidate assessment as they would be in a position to take more of the subjective genuineness criteria into account. One of the reasons that UKTI might be adequately prepared for such a task is due to their involvement in the GEP (see Box 6.1).
- 6.38 UKTI identifies potential candidates for the GEP through its team of successful entrepreneurs, known as ‘deal makers’. As such, there may be some potential to build on existing UKTI capability in this area as an alternative way to assess the genuineness of applicants.

“I am of the opinion that if the Home Office wishes to continue to predetermine whether a business idea may be successful, that they request the assistance of a relevant business sector/government department with appropriate qualifications to make this assessment.”

Dearson Winyard response to MAC call for evidence

- 6.39 Alternatively, a submission that we received from a UKTI GEP dealmaker suggested that ‘a skilled panel of ex-entrepreneurs’ would be an efficient way in which to appraise any applications whose business value was in doubt. This concept is supported by the survey of industry experts

undertaken by Penningtons Manches, in which 79 per cent of the respondents agreed that an interview by an expert panel would be an appropriate selection tool.

- 6.40 In Chapter 3 we discussed that a number of countries make use of such a panel to evaluate applications. For instance, the recent Start-Up Denmark visa requires all business plans to be submitted to a panel which assesses the application. This panel consists of start-up and business experts.
- 6.41 International comparison suggests that the most effective set-up of such a panel would include experts that have experience both in the business world and also in the identification of, and investment in, early-stage entrepreneurial ventures and talent. Further, it should be noted that the selection process of these experts would require careful consideration of the incentives of the panel members as a preventative measure against abuse of the route.
- 6.42 Another possibility raised by partners is that the Home Office could commission an organisation to undertake the assessment on its behalf. For example, the Home Office could contract a professional services firm to screen business plans prior to prospective Tier 1 (Entrepreneur) migrants submitting an application for a visa.

Investment Thresholds

- 6.43 There are no data available on the proportion of Tier 1 (Entrepreneur) migrants entering under the lower £50,000 threshold. More generally, whilst at the point of extension, evidence must be provided that demonstrates that the money was invested, there is however little evidence available as to how Tier 1 (Entrepreneur) migrants invest their funds. Due to this lack of data, we were reliant on partner evidence on these issues.
- 6.44 In evidence submitted to us, partners generally agreed that the availability of funds to invest into a business is not an ideal indicator of entrepreneurial ability. However, despite this argument, there was a recognition that an investment threshold of some description is necessary to safeguard against abuse of the route. Elsewhere in this chapter, there is discussion about the other criteria and requirements that could be used to complement the investment threshold when undertaking the evaluation of an application. In the following sections, we examine the arguments put to us regarding the level at which the investment threshold should be set to make this criterion more effective, as well as the sources of funding that are eligible for the lower £50,000 investment threshold.

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"The requirement for the potential Tier 1 Entrepreneur migrant to have access to the current minimum funding requirement of £200,000 is not an adequate gauge, in and of itself, of the genuineness of the applicant. Some felt that the business idea, and its likely effect on the economy, should be given more importance."

Kingsley Napley response to MAC call for evidence

- 6.45 Kingsley Napley noted that there are alternative measures beyond the financial investment for determining the prospective economic benefits that an entrepreneur may bring to the UK. For example, this could include further consideration of the business idea's potential in its respective market. Similarly, Fragomen Worldwide recommended that there should be a trade-off between the investment threshold and the other selection criteria when assessing applications.

"As well as availability of funds, the Home Office should consider talent, background and experience. There needs to be a less restrictive, more holistic approach taken. Where someone is lacking in one area, there should be flexibility to compensate in other areas."

Fragomen Worldwide response to MAC call for evidence

- 6.46 The inclusion of this additional flexibility would benefit individuals that fit particular entrepreneur profiles. For example, we were told that many tech start-up businesses require very little in the way of initial capital. As such, a relaxation of the investment threshold could open the route to more tech start-ups.
- 6.47 Regarding the *level* of the investment thresholds, some partners told us that the £200,000 minimum threshold was too high for some business types, namely those early-stage ventures, particularly in the digital technology sector that have yet to participate in extensive rounds of funding. Theoretically, this could make the route difficult to access for very early-stage start-ups. However, the lower £50,000 route provides a pathway for these firms. We were told that, whilst the £50,000 threshold is broadly at an appropriate level, even this lower £50,000 threshold may render the route inaccessible to some start-ups. Therefore, there may be some scope to reduce this limit slightly to better reflect the average investment from angel investors and accelerator programmes in early-stage businesses.
- 6.48 The £200,000 investment threshold has been in place since before the introduction of the PBS in 2008. As such, it is a reasonably arbitrary threshold but, aside from the issues with financing for start-ups mentioned above, we did not receive strong views as to the level of the higher investment threshold. There may be an argument to raise the threshold

slightly to ensure it does not continue to fall in real terms, in part to prevent low quality applications. However, if the selection criteria for the Tier 1 (Entrepreneur) route are reformed to increase the average quality of Tier 1 (Entrepreneur) migrants, there may in time be an argument to reduce the higher investment threshold. We return to the issue of investment thresholds in our recommendations in Chapter 8.

Sources of funding

- 6.49 As part of our commission from the Government, we were asked to consider the possibility of including crowdfunding as a source of funding that could benefit from the lower £50,000 investment threshold. A number of popular crowdfunding platforms have developed in the UK in recent years. There are a number of different models but, in general, crowdfunding platforms offer entrepreneurs the opportunity to raise investment for their business through small contributions from a large number of backers. This was illustrated in Table 2.2.
- 6.50 Raising investment through crowdfunding does not necessarily mean that the entrepreneur gives up equity in return; the investment can take the form of a donation or a loan, or there can be non-monetary rewards. Therefore, this source of funding can be particularly attractive for entrepreneurs with early-stage ventures.
- 6.51 However, it is not common for crowdfunding backers to be able to individually undertake due diligence on the companies or entrepreneurs into which they are investing, although some crowdfunding platforms carry out legal due diligence on behalf of all crowdfunders before the investment is made final. As a result, it is not clear that raising investment represents a robust, expert assessment of the potential of the business in the same way as when angel investors or a VC firm invest for an equity stake. Furthermore, in their survey of experts, Penningtons Manches found that less than half of respondents agreed that crowdfunding backing could act as a predictor of success.
- 6.52 Overall, we recognise that crowdfunding platforms provide a valuable source of funding to early-stage businesses and that there is some potential for crowdfunding to be used as a valid source of funding under the £50,000 route in the future. However, it is not yet clear that it would be appropriate to incorporate crowdfunding platforms into the entrepreneur visa routes as a source of funding to benefit from the lower investment threshold.

Individual skills, qualifications or business experience

- 6.53 Under the current Tier 1 (Entrepreneur) rules, there is no explicit requirement for an applicant to demonstrate that they have skills, qualifications or business experience that are relevant to the business that they propose to establish. However, these would be considered in assessing the genuineness of the application.

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6.54 Many partners noted that this did not put suitable weight on the applicant's background. Partners pointed out that accelerator programmes, angel investors and VC firms, tend to emphasise the potential of the entrepreneur as an individual, rather than the initial business plan when making investment decisions. The logic behind this is that whilst any flaws in a business plan may be worked on, the characteristics and experience of the entrepreneur are more permanent. In a meeting with representatives of COADEC, DueDil, Passion Capital and Seedrs, it was noted that criteria could perhaps focus on previous business history, relevant qualifications and/or professional experience as well as personal networks and contacts. The business plan would hence become a less important aspect of the overall application, which allows for business evolution. Overall, there was broad support from partners for there to be some assessment of the individual skills, qualifications or business experience of the applicant as part of the selection process.

Route restrictions

- 6.55 The current sector restrictions applied to the activity of Tier 1 (Entrepreneur) migrants are relatively minimal. Tier 1 (Entrepreneur) migrants are precluded from property development, property management, or investing in any residential accommodation. Furthermore, applicants intending to switch from Tier 1 (Post-Study Work) or Tier 4 (General Student) visas are required to run a business that has its main activity at National Qualifications Framework (NQF) level 6 or above, which is the equivalent of degree level activity.
- 6.56 In responses to our call for evidence, partners expressed little support for more extensive sector restrictions. However, there are examples of more extensive sector restrictions in other countries. For instance, Ireland's Start-up Entrepreneur Programme refuses applications that are in the retail, personal services or catering sectors, as well as any other businesses of this nature. Further, the Start-Up Denmark visa scheme only accepts businesses that are innovative and scalable and, hence, it is stated that restaurants, retail shops and import/export enterprises will not usually be considered for this visa.
- 6.57 On the other hand, some countries utilise a more positive approach by which specific sectors are acknowledged as being particularly beneficial and therefore tailor their visas to encourage entrepreneurialism in those sectors. For example, Spain's Ley de Emprendedores requires that the proposed business plan is in a sector that the government has targeted for development.
- 6.58 This approach was advocated by some of our partners. Lewis Silkin LLP suggested incentivising investment into a pre-determined list of sectors that have been identified as beneficial. They recommend perhaps introducing a lower investment threshold or an accelerated route to ILR for those applicants aiming to invest into these sectors. In particular, Lewis Silkin LLP

recommended such changes in order to benefit those involved in “knowledge intensive services” such as IT, as well as the professional, scientific and technical sector which they identify as being industries in which the Government should be encouraging growth. Magrath took the argument one step further and suggested that the Shortage Occupation List be used to identify the sectors into which significant investment is needed.

- 6.59 Kingsley Napley suggested a slightly different approach. Their argument was that sector targeting may not be efficient and that the potential benefits of the business idea itself ought to be taken into account. Whilst it is acknowledged that there may be benefits to accepting business plans into under-developed industries, there could equally be huge economic benefits to allowing an innovative product to disrupt what may be an existing saturated market.
- 6.60 Some partners were concerned that introducing restrictions on the types of business that Tier 1 (Entrepreneur) migrants can operate would have a negative impact. The Scottish Government told us that high quality entrepreneurship can be beneficial regardless of the sector in which it takes place. Thus, the focus should firmly be placed on the quality of the entrepreneur rather than the sector of their work (see paragraphs 6.53 and 6.54 above). On a more negative note, a couple of the law firms raised their concerns that introducing any sector targeting, positive or negative, could potentially cause serious market distortions. Penningtons Manches highlighted the potential for another “dot com type boom”.
- 6.61 Another form of more general restriction applied by some countries is the requirement that the proposed business be innovative. Whilst a number of the evidence submissions that we received proposed an innovativeness criterion, there were very limited suggestions on what this may look like in practice. The clearest proposal was from the Universities of Oxford, who suggested that perhaps, in line with a more flexible evaluation of the extension criteria, the development of intellectual property may be used as an indicator of business progress.
- 6.62 Payne Hicks Beach took this suggestion further by recommending the reintroduction of the former innovator category, which was in place prior to the introduction of the Points Based System in 2008. They suggested that there should be two entrepreneur routes: the first having the current £200,000 investment threshold and the second for innovators only which would have a lower or non-existent investment threshold.
- 6.63 It is highly likely that bodies such as accelerators, angel investors and venture capitalists would take innovativeness into account in assessing applications from migrant entrepreneurs. Therefore, if third party assessment is incorporated into the entrepreneur route then there may automatically be greater emphasis on innovation. As such, whilst it may not be necessary to add an innovation requirement, the Government may wish to consider setting out in the route objectives that Tier 1 (Entrepreneur)

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migrants should be establishing innovative businesses in order to set a clear signal to applicants. Our specific recommendations on this issue can be found in Chapter 8.

- 6.64 Kingsley Napley and Nesta also raised the issue of region targeting. As demonstrated in Chapter 2, the majority of in-country Tier 1 (Entrepreneur) applications are linked to addresses in London. The objective of such an approach would be to channel investment into areas of the UK outside of London, potentially contributing to regional economic growth outside of the capital. However, as noted above, there are risks involved in the Government attempting to direct economic activity in this way.

Active involvement in the business

- 6.65 One of the main differentiating features of the Tier 1 (Entrepreneur) route compared to the Tier 1 (Investor) route is the requirement that the migrant be actively involved in the running of their business. In the evidence we received, partners indicated that this was an important requirement but that the current rules were not sufficiently robust in this area. In Chapter 4, we discussed how some Tier 1 (Entrepreneur) migrants use the route as an alternative to the Tier 1 (Investor) route; whilst sitting on the board of directors fulfils the requirement for active involvement, they have little day to day involvement with the business.
- 6.66 Start-Up Denmark states that all entrepreneurs must have demonstrable active involvement in the day to day operation of the business. Placing an emphasis on day to day involvement would restrict the 'Investor-lite' activity described in Chapter 4.
- 6.67 Another approach, followed in Singapore and some other countries is to require that the entrepreneur take a minimum share in the firm. In theory, this would make the firm itself consider more thoroughly which migrants that they would wish to join their board of directors. As such, the onus would be on the firm to take on an entrepreneur that had the necessary skill set or network of connections, as outlined above. It would be in the firm's best interest not to abuse the system as a minimum share threshold would represent a greater cost to the firm if the migrant has little to offer beyond their financial investment.
- 6.68 There is the concern that minimum share rules could be worked around through the creation of holding companies. That is, migrant entrepreneurs could set up a company which they own outright and, then use this company to take a small stake in the target business. Therefore, the emphasis should probably be on the time commitment of the entrepreneur to the business. In particular, it should be considered that evidence of active involvement would require proof of significant involvement in the day to day operations of the business as opposed to legalities.

Entrepreneurial Teams

- 6.69 Under current rules, two migrants may make a joint application through the Tier 1 (Entrepreneur) route as an entrepreneurial team. It was suggested that, in some cases, teams are created simply to reduce the financial burden, as the team just has to raise £200,000 in total. During our visit to meet with caseworkers in Sheffield, caseworkers commented that some teams consist of one entrepreneur and one inactive member, which would represent abuse of the route. In order to address this issue, a rule could be introduced that prevents entrepreneurial teams from making joint applications to the route. However, there are concerns that this would unnecessarily exclude some genuine entrepreneurial teams. It may instead be sensible to change the investment threshold for entrepreneurial teams so that, perhaps, the minimum investment threshold is applied per main applicant. This would remove the financial incentive to apply as a team.

6.4 Extension and settlement criteria

- 6.70 In addition to the criteria used to select Tier 1 (Entrepreneur) migrants initially, there are also a set of criteria used to determine whether a Tier 1 (Entrepreneur) migrant is allowed to extend their visa or to be granted indefinite leave to remain in the UK. The challenge is to select extension criteria that strike a balance between flexibility for the business and certainty for the entrepreneur, whilst also ensuring that those receiving visa extensions are delivering significant economic benefits to the UK.
- 6.71 At the point of extension, the migrant entrepreneur will have had three years in which to invest their funds and to develop their business. As such, the extension ought to carry less risk than the initial grant of entry since the decision can be based on the demonstrable progress of the business. However, determining a suitable level of progress or business performance to merit a visa extension is not straightforward.

“...there is little clear guidance that they can follow in order to determine whether they will meet the necessary qualifying criteria. This puts entrepreneurs who come to the UK in an unnecessarily vulnerable position. In our experience, this can have a number of unfavourable consequences - either leading entrepreneurs to shy away from the UK altogether (as they cannot plan ahead) sufficiently – or to modify their plans so as to invest in established businesses rather than new and innovative businesses.”

Ernst & Young LLP response to MAC call for evidence

- 6.72 Whilst there was a call from partners for more objectivity in the selection criteria, regarding extension and settlement, the focus of partners shifted towards a need for greater clarity. A number of partners also raised concerns that the extension criteria are too stringent and need to be broadened to more suitably accommodate a range of business models.

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Employment

- 6.73 A Tier 1 (Entrepreneur) is currently required to show that they have recruited two full-time employees for at least 12 months in order to be allowed to extend their visa. During our stakeholder engagement meetings, most partners agreed that, for the most part, this was a relatively low bar which was not particularly restrictive.
- 6.74 However, some partners suggested that some viable businesses would struggle to demonstrate the employment requirement. Notably, Penningtons Manches agreed that job creation was a reasonable criterion for granting visa extensions. However, we note that in some particular businesses and sectors this criterion may have a disproportionate impact. A number of partners told us that the current minimum employment threshold is inappropriate for technology companies, which are often much more capital-intensive than labour-intensive.
- 6.75 In Chapter 5 we presented analysis of the employment and turnover in companies linked to Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) migrants since 2008. Table 5.9 showed employment cross-tabulated against turnover. Interestingly there are some companies with very few employees but very high levels of turnover. This indicates that employment alone may be insufficient as a measure of the economic contribution of the business.

“At the £50,000 investment level, the requirement to recruit two full-time equivalent staff within the first two years may restrict the ability of some start-ups to make rational changes to business plans – for example, where it takes longer to get the business off the ground. Analysis by NIESR finds that this discouraged use of the entrepreneur route, and was reported as being difficult to meet. This is likely to be more of a challenge for entrepreneurs with lower capital investment costs.”

Greater London Authority response to MAC call for evidence

- 6.76 CO₂ analytics told us that their company had yet to employ any additional workers despite having been running for well over a year. As a tech start-up business, their experience had been that it was possible to run their company with the founding entrepreneurial team as the only workers. The reason that they had maintained this structure was purely financial – whilst they developed a client base, it was necessary to keep costs down and so they decided not to invest in additional labour. However they envisioned a need for substantial recruitment as the business scaled up.
- 6.77 Partners also suggested that the employment requirement may not be in keeping with the typical life-cycle of a start-up company. There were concerns that start-up companies, in particular tech firms, would not require permanent employees until the venture was well into the growth stage. We

were also told that many start-ups employ contractors/freelancers in their early stages as this provides them with the necessary freedom to change their approach or respond to the market at short notice.

- 6.78 In general, partners agreed that it would be preferable for any minimum job creation requirement to be considered in conjunction with a range of alternative metrics that could also provide proof of suitable business progression. Suggestions for these metrics included turnover, investment raised, and expenditure on contractors/suppliers. Thus, the extension criteria would no longer force Tier 1 (Entrepreneur) migrants to recruit simply to fulfil visa requirements. Moreover, it was suggested that this would make the criteria more suitable for the spectrum of entrepreneurial activity and their corresponding business life cycles. It was also suggested that this, more flexible approach, would remove the current disincentive for Tier 1 (Entrepreneur) migrants to invest in riskier ventures, when at present there is a preference for safer options that allow them to be sure they can meet the two employee requirement.

Business plan and flexibility to evolve

- 6.79 Current extension requirements are not linked to the business plan proposed in the initial application. Partners expressed mixed views as to whether the flexibility this allows is appropriate or not. Some partners told us that any requirement to follow the initial business plan would be unsuitably rigid. For example, Octopus Investments told us that rather than following their initial business plan exactly, some of their most successful businesses have instead been responsive to changing market conditions and feedback from customers. This may be particularly pertinent for start-up businesses which may require some time to finalise certain details of their business plans through trial and error in the early stages.
- 6.80 Not all partners agreed with this sentiment, though. In particular, some felt that migrant entrepreneurs should have to follow the business plan that formed the basis of their initial application.

“...the entrepreneur can completely change the nature of his or her investment. Such activity should be discouraged, and checks should be put in place for the entrepreneur to demonstrate that a genuine effort was made towards the commencement of the project that he or she initially presented to the Government.”

CS Global Partners response to MAC call for evidence

- 6.81 There are concerns that too much flexibility in the implementation of the business plan creates the potential for abuse of the route, and we described some evidence that this may be happening in Chapter 5. An extension application should ideally demonstrate some link to the initial application, or else provide a good explanation for the change of direction.

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- 6.82 There was also a call for greater flexibility at the point of extension in order to take into account the high probability of failure amongst entrepreneurs. That is, a number of partners suggested that the Tier 1 (Entrepreneur) route needs to explicitly address the issue of business failure.
- 6.83 Due to the inherent risks involved with entrepreneurship, it is inevitable that any route for migrant entrepreneurs will have failures, no matter how stringent the selection criteria. One approach could be to simply refuse an extension for an entrepreneur visa if their business has failed. This would be largely in keeping with the current extension criteria evaluation. That is, if the business has failed, the business will not be employing two full-time workers. Therefore, the entrepreneur will not meet the current extension criteria and, hence, should not be allowed to extend their visa.
- 6.84 However, many successful entrepreneurs have a history of failed business ventures before finding success. As such, there could be an argument for taking a more relaxed approach to failure, where the entrepreneur has demonstrated some potential. A number of partners raised this issue with us and suggested that the Tier 1 (Entrepreneur) route ought to afford a certain degree of flexibility in this respect. Their argument is founded on the principle that the failure of a business does not necessarily mean that the entrepreneur is lacking potential or that the entrepreneur will not have future success with another business venture.

“We should emulate Silicon Valley in recognizing that failure in one business can be a stepping stone to later success.”

J. Dunlop & Co. response to MAC call for evidence

- 6.85 In its evidence, Deloitte noted that in some countries, for example Canada, the failure of an entrepreneur’s business does not affect their permanent resident status. As described in Chapter 3, Canada has recently reformed its routes so that only migrant entrepreneurs that have secured endorsement from business incubators, angel investors, and venture capital firms are eligible for a start-up visa. This high degree of selectivity, together with relatively small volumes, means that the decision to award permanent residence is relatively low risk.
- 6.86 Deloitte also suggested that, in the UK, caseworkers should be allowed a degree of discretion to allow extensions where there are good reasons for not meeting the extension criteria.

“There would need to be sufficient safeguards in place to ensure that one or more extension criteria not being met does not automatically result in a refusal if the migrant can sufficiently evidence the reason why the specific criteria had not been met.”

Deloitte response to MAC call for evidence

- 6.87 It has been suggested that, at the point of extension, an entrepreneur with demonstrable investment or investor support for a new proposal ought to be given an extension of their visa despite their first business venture being unsuccessful. This could perhaps take the form of £200,000 available investment and/or a letter of support from a recognised endorsing body.
- 6.88 The approach chosen with regards to business failure may depend on the objectives of the route. If the Tier 1 (Entrepreneur) route has the narrow aim of job creation, then there may be the argument that a failed business is not in keeping with the objective of the route. Therefore, extending the visa of an entrepreneur with a failed business would not be appropriate.
- 6.89 However, if the route is more widely aimed at the wider dynamic impacts on innovation and productivity that may arise from entrepreneurial activity, then there may be benefits to taking a more relaxed approach. The initial selection criteria should be geared to select only those entrepreneurs that are both genuine and have business ideas that may contribute to innovation and productivity growth in the UK. As such, if the selection criteria are adequate, it may be that having these individuals enter and cultivate entrepreneurship in the UK would add to the total stock of entrepreneurial activity. There is an argument that there may be benefits to the UK of these individuals undertaking this entrepreneurial activity even if the business subsequently fails. As such, there may be merit to the adoption of a more relaxed approach to failure.
- 6.90 Overall, incorporating flexibility into the extension rules is likely to be very difficult. There would appear to be some benefit to adding some scope for discretion if the business has failed but the entrepreneur can demonstrate new investment and/or support for a new venture at the point of extension. However, the Government may wish to consider discounting the time elapsed under the visa during which the business failed when the entrepreneur applies for settlement. That is, perhaps it would be more beneficial for the UK if settlement is contingent on the entrepreneur eventually demonstrating an appropriate level of business success.

Monitoring and evaluation

- 6.91 In responses to our call for evidence, a number of partners pointed out that the initial three year leave to remain is relatively generous and that there is little to no interim monitoring of progress. Lewis Silkin LLP suggested that entrepreneurs should be asked to regularly submit documentation to

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evidence that they are following their approved business plan and demonstrate the progress being made throughout the duration of their initial visa. Similarly, CS Global Partners stated that effective monitoring throughout the duration of the initial visa would allow the Home Office to ensure that the “business activity has commenced, and that the injection of funds has truly taken place.” Their recommendation involves the entrepreneur reporting to the Home Office every six months with particular focus on the timely completion of specific goals or investments outlined in the business plan.

- 6.92 The suggestion of monitoring the entrepreneur’s progression through their approved business plan would be more consistent with a relaxed approach to business failure outlined above. However, while many partners agreed that increased monitoring would improve the route, not all agreed that the monitoring should track progress against the business plan. Instead Companies House and HMRC checks could verify the progress made by the business in a relatively light touch way.

“Allowing more flexibility in the way the entrepreneur route is structured can be supplemented by introducing a mechanism to monitor the activities of new entrepreneurs up to the 3 year extension point and beyond.... checks could be made with Companies House and HMRC to see that a business is registered and whether the person is appointed as a Director or registered as self employed. In a similar way to the audit of Tier 2 and Tier 4 sponsors, spot checks and interviews could be introduced, perhaps where checks with Companies House and HMRC suggest the person may not be engaged in business.”

Fragomen Worldwide response to MAC call for evidence

- 6.93 We note that it should, in theory, be possible to track the business activity of Tier 1 (Entrepreneur) migrants by requiring them to register as Director of a company as part of their application. Even if the migrant goes on to invest into a different company, the Companies House Director number linked to the migrant could be used to track any subsequent business activity.
- 6.94 During our meeting with immigration officers in Sheffield, we were told that each month they are permitted – at application stage – to cross check up to 250 visa applications with HMRC. However, this is across all visa routes and, therefore, means that they are only able to request HMRC checks on a small proportion of applications for Tier 1 (Entrepreneur) visa extensions. Moreover, there are other sources of data, such as the aforementioned Companies House data, which could be better utilised to provide more comprehensive monitoring of the businesses established under the Tier 1 (Entrepreneur) route.

- 6.95 In a similar vein to the suggestion from Lewis Silkin LLP, a more simple approach to monitoring could be to require that the entrepreneur regularly submits documentation to evidence business activity, without necessarily being required to demonstrate progress against the business plan set out in their application. This could potentially involve the entrepreneur annually submitting a copy of their HMRC tax return or their Companies House return to the Home Office. Providing timely progress updates could be made a condition of visa extension.
- 6.96 We recommend that the Government considers using these data to track outcomes under the route. In Chapter 5, we presented the results of a one-off matching exercise carried out for this report; this could, in theory, be carried out on a regular basis to monitor the performance of different cohorts, with the results used to feed into further policy development.

Extension period

- 6.97 During our engagement with partners, it was noted that three years of an initial visa with no interim evaluation or monitoring opened the route up to abuse. To address this, many partners suggested that the Home Office implement an effective, regular monitoring system as outlined above. However, there was an additional, parallel argument that the initial period of leave should be reduced. Payne Hicks Beach advocated a reduction in the initial visa length with an equivalent increase in the duration of the visa extension. Their suggestion is in line with the Start-Up Denmark scheme which follows a two year initial visa with a subsequent three year extension.

“Consider switching the period of leave from 3 then 2 to 2 then 3. An alternative would be allowing an applicant to apply [for extension] at any time, once they satisfy the criteria, and gain sufficient leave to take them up to eligibility for ILR. This would give greater certainty that once the extension criteria, as they currently stand, are met; the applicant is on the way to ILR.”

Payne Hicks Beach response to MAC call for evidence

- 6.98 A more common suggestion was, again, to introduce more flexibility into the duration of the initial visa. Frequently, partners indicated that entrepreneurs should be allowed to apply for an extension before the three year initial visa expires if they have already sufficiently met the extension criteria. Thus, a certain degree of flexibility and certainty can be afforded to those entrepreneurs that have reached a demonstrable level of business progress/success in the UK.
- 6.99 Generally, our partners indicated that the current fixed three year initial visa duration was unsuitable as there is no substantive monitoring in the interim. In short, it was felt that three years of free rein was overly lenient and, therefore, made the route more open to abuse. The suggestion to reduce the initial leave to remain was often accompanied by the argument that

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such a change would reduce the risk of abuse. However, a more common argument for reducing this risk was to simply have regular monitoring as discussed in the previous section. Regular monitoring requires progress updates from the entrepreneur, which acts as a preventative measure against abuse. Thus, a system of monitoring ought to be effective no matter the length of the initial leave to remain provided that the updates are sufficiently frequent.

6.5 Overarching issues

- 6.100 Some partners told us that the current Tier 1 (Entrepreneur) requirements are discouraging some potentially high quality entrepreneurs from coming to the UK. Partners repeatedly raised the concern that there is insufficient flexibility in the selection and extension criteria alike. A number of partners said that the current format of the Tier 1 (Entrepreneur) route represents a 'one size fits all' approach that may be too simplistic when considered against the wide spectrum of entrepreneurial activity. Whilst there are the two distinct investment thresholds and the separate Tier 1 (Graduate Entrepreneur) route, many partners indicated that this was insufficient to truly account for the full range of entrepreneur and business circumstances.
- 6.101 In order to address this issue, the most common suggestion amongst our partners was to introduce additional visa streams within the entrepreneur route. For instance, Payne Hicks Beach recommended the reintroduction of the innovator category. The most frequently advocated alternative was that of a start-up visa. Almost every law firm that engaged with us during this consultation indicated that there would be benefits from a start-up visa with differentiated criteria from those of the Tier 1 (Entrepreneur) route.
- 6.102 For some partners, the suggestion of a bespoke start-up visa involved the differentiation of start-up businesses from established companies. Some defined these two strands of entrepreneur visas as start-up and scale-up visas. The latter would represent those applicants that have a demonstrable background as entrepreneurs with both the skill set and funding to enter the UK and establish or expand their own business. Generally, those submissions that suggested this two-tiered approach to the entrepreneur route were in agreement that the established/scale-up business branch would maintain a high investment threshold, such as the existing £200,000 threshold.
- 6.103 The suggestions for a start-up visa varied. Nesta and Octopus Investments noted the importance of having a separate route with alternative funding criteria that are more tailored for early-stage entrepreneurs. Penningtons Manches called for a complete removal of the financial requirement for the start-up visa. Moreover, they called for three distinct sub-categories within the start-up visa, namely: innovators with no funding and no track record; those with funding, business plan and third party endorsement; and those switching from the Tier 1 (Graduate Entrepreneur) visa route.

- 6.104 BIS/UKTI and The Entrepreneurs Network recommended that the Tier 1 (Graduate Entrepreneur) visa be converted into a start-up visa. This would simply involve the removal of the requirement to be a graduate of a UK institution. In this way, entrepreneurs on the start-up visa could switch into the Tier 1 (Entrepreneur) route provided that they had access to £50,000 funding. It was suggested that Higher Education Institutions (HEI) and approved accelerators could function as third party endorsing bodies, with UKTI indicating a willingness to continue its function of approving accelerators as it does for the GEP and Sirius programmes. We discuss this proposal in more detail in Chapter 7.
- 6.105 Without the introduction of these bespoke entrepreneur visa types, partners suggested that some high potential entrepreneurs will be excluded simply because the criteria do not adequately cover the full breadth of entrepreneurial activity. It may be the case that genuine entrepreneurs are in this way being dissuaded from setting up their businesses in the UK. If so, the concern was raised that the deterrence effect would be more acute for certain profiles of entrepreneur.

“One common problem, however, may be that even the most valuable entrepreneurs may not have a great wealth of previous experience in setting up and running a business. It is essential that Immigration Rules around the Entrepreneur route are flexible and clear enough to allow accessibility without the exclusion of potential entrepreneurs and new businesses.”

Fragomen Worldwide response to MAC call for evidence

- 6.106 In particular, the evidence that we received from Fragomen Worldwide highlighted the concern that the Tier 1 (Entrepreneur) route does not suitably accommodate applicants that do not have a demonstrable track record in the entrepreneurial sphere. Many of our partners agreed with this sentiment. Notably, the Scottish Government said that those applicants aiming to set up a business for the first time “may not always have the background in the commercial world”. Overall, it was suggested by partners that the criteria needed to be more comprehensively tailored to the various profiles of genuine entrepreneurs.
- 6.107 As well as concerns about the profiles of entrepreneurs, a number of partners indicated that the entrepreneur visa routes were ill-equipped to deal with the full variety of business types with which entrepreneurs may be involved. That is to say that there is insufficient flexibility in the extension criteria to take account of the typical business life cycle. As such, it is suggested that the extension criteria are unreasonable and unrealistic for those entrepreneurs that gain their initial visa at a very early stage of their business.
- 6.108 As noted during the discussion above about funding and third party endorsement, certain investment thresholds are more relevant for certain

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types of endorsing bodies. In a similar vein, it would appear that certain investment thresholds are more reasonable for businesses in certain stages of development. In particular, the selection criteria are designed to consider any business developed to a minimum of a start-up stage. However, it has been noted that early-stage start-ups may struggle to raise the £200,000 minimum funding level. In this way it was suggested that the selection criteria are, in reality, more appropriate for developed, existing companies than they are for start-ups.

6.109 Moreover, some partners had concerns that the extension criteria were, again, more in line with the business life cycle of a company developed past the start-up stage. Specifically, there were concerns that the two job requirement was unsuitable for an entrepreneur that gained their initial visa with a start-up business. One notable example came from our engagement with graduate entrepreneur team CO₂ Analytics, outlined earlier in this report. At the time of writing, this start-up company is over a year in the making but has yet to employ any additional workers. As an early-stage tech company, they have chosen to keep costs low by foregoing employment of additional staff. It appears that this is the case with many tech start-ups in particular as it is often possible to operate the business with minimal staff until well into the growth stage. As such, this criterion does not seem suitably flexible in isolation to accommodate the full spectrum of entrepreneurial activity.

6.110 Therefore, partners believe that in its current form, the Tier 1 (Entrepreneur) route fails to adequately reflect the realities of the business life-cycle. As such, if the intention is to encourage the full range of entrepreneurial individuals and activities, then the evidence suggests that the criteria need to be broadened to better reflect this variety. In Chapter 7 we explore how the Tier 1 (Graduate Entrepreneur) visa route could be broadened out into a more general start-up visa in order to resolve some of these issues.

6.6 Other issues

6.111 During our stakeholder engagement, partners raised some issues which are outside the scope of our commission. We provide a summary of these issues below, but note that it is not in our remit to make recommendations on these issues.

Visa applications

6.112 Many of our partners told us that the sheer volume of paperwork involved in applying for Tier 1 (Entrepreneur) visas was excessively time-consuming. In particular, many entrepreneurs stated that this bureaucratic burden required them to shift their attention to their application, preventing them from putting all their efforts into running their business. As such, partners recommended that a system of digital applications be implemented in order to speed up the process. Moreover, it was noted that at the extension stage, much of the same documentation was required, despite limited changes from the

initial application. Therefore, in line with a request for digital applications, there was a call from partners that applications for extensions have some details automatically completed in order to reduce the burden on applicants.

- 6.113 A number of partners also highlighted the current processing times for Tier 1 (Entrepreneur) visas. In particular, there was a great deal of criticism around the removal of entrepreneurs' passports for extended periods as international mobility is crucial for many entrepreneurs. As such, there was a call from our partners for the introduction of a super premium service whereby applications can be processed more quickly or, at least, to return passports to the applicants in a much shorter time frame.

180 days rule

- 6.114 In a similar vein, it was noted by many partners that the 180 days rule is unreasonable in the global business market. The 180 days rule states that the entrepreneur cannot spend more than 180 days in any one year period outside of the UK in order to qualify for settlement. During our stakeholder engagement, the recurrent criticism of this rule was that it was simply too harsh, both in terms of how the twelve month period is applied, and the restriction itself. Some partners stated that developing international business ties was crucial to develop a successful business and, as such, there should not be such strict limits on the entrepreneurs' ability to attend overseas business meetings. It was recommended that, perhaps, the reason for the travel outside of the UK be recorded in order to prevent misuse.
- 6.115 As noted above, it is not for us to make recommendations in these areas. Nevertheless, we acknowledge that, to the extent that they deter high potential entrepreneurs, these issues may reduce the economic benefits from the entrepreneur routes.
- 6.116 Whilst the discussion in this chapter has been centred on the Tier 1 (Entrepreneur) route, the issues described immediately above are also broadly relevant to the Tier 1 (Graduate Entrepreneur) route. In the following chapter, we present a comprehensive discussion of the Tier 1 (Graduate Entrepreneur) route.

6.7 Conclusions

- 6.117 In this chapter we discussed the merits of a number of alternative approaches to designing an entrepreneur visa route, drawing on international comparison as well as the evidence and suggestions we received from partners in response to our call for evidence.
- 6.118 Our view is that there is a strong case for reform of the Tier 1 (Entrepreneur) visa route. In Chapter 8 we set out in full our recommendations for reform of the route. In summary, any reform should look for ways to incorporate third party endorsement into the route as a preferred approach, where appropriate partners can be identified.

Chapter 7: Chapter 7 Tier 1 (Graduate Entrepreneur) route

7.1 Introduction

7.1 This chapter examines the Tier 1 (Graduate Entrepreneur) route. First, we briefly focus on the purpose of a bespoke route for graduate entrepreneurs, distinct from the main Tier 1 (Entrepreneur) route. We then consider how the route is being used. Finally we discuss a number of issues with the route which emerged during our consultation with partners, before concluding with our thoughts on the areas where the route may be improved.

7.2 Purpose of the Tier 1 (Graduate Entrepreneur) visa route

7.2 The graduate entrepreneur route allows small numbers of international students to stay in the UK after their studies in order to start a business. Graduate entrepreneurs are by definition highly skilled, and may be well placed to establish innovative businesses. However, they may be unlikely to have sufficient funding in place to qualify for a Tier 1 (Entrepreneur) visa under the £200,000 investment threshold route.

7.3 Currently, the route is mainly focused on partnership with higher education institutions (HEIs). The HEIs sponsor graduate entrepreneurs and undertake their own assessments to determine which applicants are eligible for a place on their scheme. The UK has an excellent higher education system that is capable of offering specialised facilities specifically to graduate entrepreneurs. This can include access to university resources; interaction with highly qualified research staff and academics; business advice and support; and an expansive network of alumni.

7.4 The Tier 1 (Graduate Entrepreneur) route has the potential to produce significant benefits for the HEIs that act as endorsing bodies. The route offers the unique opportunity for universities to be involved in the support and mentoring of highly skilled graduates in their business ventures and, in turn, make gains from the future success of these companies. Notably, any

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success experienced by graduates of the HEI helps to improve the institution's reputation and raise its profile as a centre for entrepreneurialism. For example, the addition of successful entrepreneurs to the university's alumni network can act as positive signalling to prospective UK and non-UK students. In short, talented students who are particularly business-minded are likely to apply to universities that have a proven track record in facilitating business development and encouraging entrepreneurialism.

7.3 Usage of the route

- 7.5 Having been introduced in 2012, the volume of visas applied for and granted under the Tier 1 (Graduate Entrepreneur) remains low. However, after an extremely low initial uptake, usage of the route has been increasing steadily in the last couple of years. As noted in Chapter 2, the design of the route lends itself more towards in-country applications and, as such, the volume of applications granted to out-of-country applicants has remained relatively minimal. Home Office data indicates that 389 visas were issued to in-country main applicants under the route in 2014, while only 175 visas were issued out-of-country in the same period.
- 7.6 There has also been an increase in the uptake of sponsorship amongst HEIs. Universities UK (UUK) told us that almost three quarters (73 per cent) of its 133 members were participating as endorsing bodies. Despite this, there does appear to be significant variation in the extent to which universities engage with the route, with many international students being unaware that this opportunity is available to them. A study by the National Union of Students (NUS) and The Entrepreneur Network found that only 17 per cent of international students with intentions of starting a business believed that their university might be able to assist them with their venture.
- 7.7 We received evidence from a number of universities that are prominent users of the route and also met with representatives from universities at a roundtable event hosted by London Business School. Throughout our consultation, partners were generally very positive about the objectives of the route. UUK noted that, even at this early stage, there are a number of emerging case studies of graduates developing businesses with 'the potential to make a real economic contribution'. This was a relatively common theme amongst the evidence we received, with encouraging case studies being brought to our attention from most of our partners in the university sector. In particular, the University of the Arts London (UAL) submitted case studies of some of their successful graduate entrepreneurs (Box 7.1). UUK also provided case studies in their evidence, including that of case study 5.3.

Box 7.1: University of the Arts London case studies

Case Study 1: **Fernando Laposse (Central Saint Martins, BA Product Design, 2012)**
<http://www.fernandolaposse.com/>

Fernando Laposse runs a product design and events agency which specialises in making innovative consumer products from sugar. Fernando has been operating successfully as a sole trader for three years and regularly employs freelance staff to work with him on specific projects. Fernando successfully extended his Tier 1 (Graduate Entrepreneur) visa for a second year, and then transferred onto the Tier 1 (Entrepreneur) visa in December 2015.

Case Study 2: **Mariana Jungmann (London College of Fashion, MA Fashion Design Technology, Womenswear, 2013)** <http://www.marianajungmann.com/>

Mariana Jungmann has successfully established her own label, working out of a studio in East London, and employing a full-time assistant. She is currently in the process of applying to transition from the Tier 1 (Graduate Entrepreneur) visa to a Tier 1 (Entrepreneur) visa.

Her collections have received extensive press coverage, both from broadsheets and fashion journals. She currently has a number of boutique stockists and is looking to increase her wholesale supply.

Source: University of the Arts London response to MAC call for evidence

Case Study 7.1

Nationality: Lebanese

Sector: Digital Technology

Time since granted initial Tier 1 (Graduate Entrepreneur) visa: less than one year

Previous background/experience: Completed their MBA at a prestigious business school in London. They have a background in account and relationship management. In their first job, they built the operations for a huge satellite telecoms transmission project.

Employees: one part-time freelance developer who was a masters student in London.

Forecast first year cash flow: £4,250

Investment to date: £60,000 and looking to raise more investment in the next year. The entrepreneur intends to spend this £60,000 on running the business to July 2016, when they expect to have generated a suitable client base and revenue to talk to institutional investors.

This migrant entrepreneur founded a professional community-based content curation and discussion cloud platform. Such platforms are known as software-as-a-service (SaaS). This particular product generates value from its focus on specific content in its community discussions whilst also providing some degree of auto-curation of valuable content. At the time of writing, the company was running a Freemium model, whereby clients may utilise the platform for free or upgrade for a premium service, which had accumulated over 150 users. The entrepreneur has an extensive marketing campaign to further develop the client base and expand the company. At the time of writing, the migrant entrepreneur was looking to hire a Chief Technology Officer to lead and build the future technical team.

Source: Interview with Tier 1 (Graduate entrepreneur)

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- 7.8 We were also told that universities have developed robust and competitive selection procedures for applications from prospective graduate entrepreneurs. In particular, UUK noted that many of their members have developed a thorough system for evaluating business plans through a 'Dragons Den'-style process that makes use of third party external business representatives to aid the assessment.

"Since The Tier 1 (Graduate Entrepreneur) visa came into being in March 2012, University of the Arts London (UAL) has actively supported its enterprising international graduates to take up the opportunity when appropriate. The University has a robust and competitive application process via which all business proposals are evaluated in terms of viability, credibility, innovation and sustainability.

From over 80 applications the University has endorsed a total of 12 Tier 1 (GE) visas. Two of these graduate entrepreneurs have now transitioned onto the Tier 1 Entrepreneur visa and one is currently applying to make the transition. Two out of the 12 businesses supported are no longer trading. All others are currently active."

University of the Arts London response to MAC call for evidence

- 7.9 We received evidence which indicates that there are many promising entrepreneurs entering through the Tier 1 (Graduate Entrepreneur) route. Nevertheless, there is a common perception that the route is still not reaching its full potential.

"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."

British Venture Capital Association response to MAC call for evidence

- 7.10 There were conflicting views as to the cause of the route falling short of its potential. The Entrepreneur Network suggested that both the Tier 1 entrepreneur routes were "failing to attract the very best and the brightest" and, hence, were operating inefficiently. The British Venture Capital Association (BVCA) in their evidence indicated that this could be, in part, due to a lack of awareness. As noted above, there is a sizeable portion of the international student population that is unaware of the opportunities available with their universities to pursue business development. The BVCA stressed this issue and recommended that a campaign to raise awareness be undertaken in order to make the route more well-known amongst those students with entrepreneurial potential.

- 7.11 However, the Department for Business, Innovation and Skills (BIS) and UK Trade & Investment (UKTI) suggested that if the route has been underutilised, it may in part be due to the incentives faced by universities. In discussion with partners, we asked why some universities were either not registered as sponsors, or else made only limited use of their allocated quota. The responses we received indicated that there is an element of risk aversion amongst HEIs. In a meeting with representatives from across the university sector, it was mentioned that universities are particularly worried about meeting the specific criteria for audits as they are unsure what is expected of them. The reason for these concerns stems from the perceived potential sanctions for failing such an audit. Specifically, there is a fear that HEIs may lose their ability to sponsor students under Tier 4. For some universities, this risk is deemed to outweigh any benefits that may be gained from participating. One solution could be to explicitly separate Tier 1 and Tier 4 sponsorship. That is, the Government could specify that misdemeanours involving the Tier 1 (Graduate Entrepreneur) visa would not affect the HEI's ability to sponsor international students under Tier 4.

“Decoupling the risk educational institutions currently face in sponsoring students for the Tier 1 (Graduate Entrepreneur) visa from their institutional Tier 4 licence will have a huge impact, encouraging greater promotion and uptake. This wouldn't replace the effectiveness of the now defunct Tier 1 (Post-Study Work) visa, but it would improve the accessibility and attractiveness of Tier 1 (Graduate Entrepreneur) visa for those with the ambition to take that path.”

‘Made in the UK: Unlocking the Door for International Entrepreneurs’ by the National Union of Students in association with The Entrepreneurs Network

- 7.12 As well as the fear of sanctions, there is the additional concern that endorsing graduate entrepreneurs is simply more hassle than it is worth. Entrepreneur First, an established accelerator programme, indicated that the obligations of sponsoring a graduate entrepreneur can be burdensome, including costly monitoring and administrative processes.
- 7.13 Overall, usage of the route has been low but growing, with a number of partners expressing their praise for the spirit and objectives of the route. The overarching message from partners was that the route has been a success but there are further benefits to be gained and, as such, limited changes to the route should be made at this stage.

“UUK would therefore strongly recommend that further time is allowed for this still nascent scheme to become firmly embedded within universities and for its potential to be fully realised.”

Universities UK response to MAC call for evidence

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7.4 Practicalities of the route

- 7.14 Partners were generally supportive of the Tier 1 (Graduate Entrepreneur) route, suggesting that the route is performing as intended and delivering good outcomes. However, the few issues with the practicalities and general operations of the route that were raised during our stakeholder engagement are outlined in the following section.
- 7.15 Considering the potential benefits to be gained from the route, it is not surprising that many of our partners emphasised that universities needed to do more to publicise this route in order to ensure that talented individuals were aware of this option. In particular, representatives from BVCA suggested that there should be more concerted efforts to advertise the scheme to students within science, technology, engineering and mathematics (STEM) subjects. They argue that encouraging entrepreneurship amongst students of these subjects would be an effective method by which to address the general UK shortages in STEM areas.
- 7.16 Earlier in this chapter we outlined the benefits to be gained by HEIs through endorsing graduate entrepreneurs. Moreover, there are several arguments why universities might be considered to be appropriate endorsing bodies. As noted earlier, universities are likely to operate a very selective application process to ensure that they do not damage their reputation by affiliating themselves with candidates who would misuse the route. In addition, UUK submitted evidence to suggest that HEIs tend to have suitably stringent selection procedures. For instance, this evidence noted that a number of applications had been rejected by HEIs on the grounds that the business plans were 'speculative in nature' and did not 'demonstrate the necessary commitment needed' to create a successful company.

"It is worth noting here that universities are extremely selective in whom they decide to endorse for the Tier 1 GE scheme, only supporting those with a realistic chance of success. It is simply not in their interest to endorse a graduate whose business idea was likely to fail, due to the significant resource implications involved. It would also be damaging to an institution's reputation to be associated with a number of failed businesses, particularly those institutions which pride themselves on innovation and enterprise as a key part of their mission."

Universities UK response to MAC call for evidence

- 7.17 On a more basic level, it was suggested that simply being offered a place at an HEI should demonstrate that the individual is of a particularly high calibre. That is to say that the university application process itself represents a reasonably high level of selectivity. This would suggest that

universities that are endorsing graduate entrepreneurs are well-equipped to undertake due diligence on applicants.

- 7.18 Furthermore, during our engagement with partners, it became apparent that university endorsement allows for a greater focus on the individual rather than just the business plan. That is, several of our partners in the university sector stressed the point that HEIs endorse the student as an individual, rather than focusing solely on the business plan. This is particularly the case for those individuals seeking endorsement when their company is only at the seed stage of development. This is due to the fact that the business plans of such early-stage ventures are often subject to dramatic change. Moreover, the HEI will usually have personal knowledge of the applicant, having interacted with them through the applications process as well as their studies. Therefore, the university may be better placed to judge whether the individual has genuine entrepreneurial aspirations, more so than an immigration officer on the grounds that the applicant would unlikely have any demonstrable experience at this early stage.
- 7.19 However, partners noted that amongst those HEIs that endorse graduate entrepreneurs, there has been a general trend towards accepting applications only from students of their own institution. That is, most institutions will not endorse graduate entrepreneurs that did not attend that particular HEI. The reason partners suggested for this is that the HEI can better vouch for the genuineness of its own students. This issue suggests that some high potential graduate entrepreneurs may find the route closed to them if their HEI does not participate in the scheme.
- 7.20 In addition, some high potential graduate entrepreneurs may also be affected by the per institution cap on graduate entrepreneur endorsements. Although few partners told us that this was an issue for them at present, several said that they had recently expanded their programmes and were likely to draw on their full quota in the coming year. Therefore, the per institution cap may eventually result in high potential entrepreneurs being turned away in universities with particularly entrepreneurial student bodies, even while total volumes may be considerably below the overall cap.
- 7.21 On the whole whilst there were some partners, such as The Entrepreneur Network, that suggested that HEIs were not the optimal endorsing body for graduate entrepreneurs, most of the evidence we received indicated that universities are suitably well-equipped to undertake sufficient due diligence and monitoring. However, there may be some scope to broaden the route to incorporate other types of endorsing body which are discussed in section 7.5.

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Timing issues

- 7.22 Many of our partners raised concerns over issues of timing inherent within the Tier 1 (Graduate Entrepreneur) visa route. One example that was discussed in a roundtable with university representatives involved the issues of timing when switching from Tier 4 to the graduate entrepreneur route. It was felt that any delay between the expiry of the student visa and the granting of the graduate entrepreneur visa would put an entrepreneur or their team severely at a disadvantage. In particular, partners said that these early stages are crucial for the development of the product and/or business. As such, it was stated that it is of utmost importance that the entrepreneur is not forced to leave the country for an extended period to wait for their visa at this critical stage.
- 7.23 We were also told about an issue related to the composition of the graduate entrepreneur team. As opposed to the Tier 1 (Entrepreneur) visa, the graduate entrepreneur route offers some flexibility to allow for the endorsement of a business that is often still only in the seed stage. That is, graduate entrepreneurs need only present a business plan to receive endorsement from an approved HEI rather than demonstrate any financial backing. As such, it was stated that many aspects of the graduate entrepreneur's business plan are subject to change. The argument put forward by university representatives was that universities had often seen graduate entrepreneur teams require the inclusion of additional members in order to develop their product. These additional team members may be domestic or overseas students with particular expertise that would help the company to progress. Some partners called for further flexibility in the immigration rules to reflect the fact that, whilst they may not be founders from the seed stage, there may be entrepreneurial team members that are crucial to the success of the business that join at the start-up stage of the business.

Visa Duration, Extension and Switching

- 7.24 The most pivotal timing issue for the graduate entrepreneur visa centres on the fact that the initial visa is valid for 12 months. After this year, the graduate entrepreneur can either extend their visa by one additional year or they can opt to switch into the Tier 1 (Entrepreneur) visa route at this time.
- 7.25 The extension criteria for the graduate entrepreneur visa are relatively straight forward. The graduate entrepreneur must only demonstrate evidence of the minimum required maintenance fund of £945 available and provide a new letter from their endorsing HEI or UKTI that confirms that satisfactory progress has been made in the development of their business.
- 7.26 Partners told us that the initial 12 month period was an extremely short period of time in which to establish a business. Thus, this short visa duration can contribute to uncertainty regarding the immigration status of

graduate entrepreneurs, which makes it difficult to attract investment. This problem is particularly acute for those graduate entrepreneurs with businesses only at the seed stage when they receive endorsement.

- 7.27 By definition, businesses that are at seed stage are distinctly undeveloped and may not have a fully developed prototype of their product. Notably, the London Business School told us that their graduate entrepreneurs often use the summer immediately following their graduation to refine their business plan. It was suggested that, if the business is indeed at seed stage when the initial visa is granted, it is nigh on impossible to work out the business plan, develop the product, and successfully introduce the product to market to raise £50,000 within one year. Naturally, there are some exceptions to this rule, but our engagement with entrepreneurs has indicated that it takes an extended period of time to develop a suitably wide client base to raise this level of funding.
- 7.28 As such, a common complaint was that one year was an unrealistic time frame in which to take a business essentially from conception to raising £50,000 of funding. That is, one year is insufficient for a typical graduate entrepreneur to develop their business enough to switch into the Tier 1 (Entrepreneur) visa route. Throughout our partner engagement, we were told that the vast majority of graduate entrepreneurs were forced to extend their visa as they were simply unable to meet the Tier 1 (Entrepreneur) route's selection criteria. Given that the extension of the visa is relatively straightforward, albeit time-consuming, our partners suggested that the initial leave be extended to two years, with HEIs expected to withdraw their endorsement after 12 months if the business has not progressed.
- 7.29 Most partners agreed that switching into the Tier 1 (Entrepreneur) route after two years by demonstrating £50,000 of investment into the business was relatively achievable for a viable business. It was generally accepted that if, after two years, the graduate entrepreneur was unable to raise this amount of investment it was unlikely that the business would be successful. There were concerns that reducing the threshold would simply allow for graduate entrepreneurs with underdeveloped businesses to switch onto the Tier 1 (Entrepreneur) visa.
- 7.30 However, Penningtons Manches highlighted that there may be some successful graduate entrepreneurs who either cannot raise or do not require £50,000 of investment and who would not be able to switch into the Tier 1 (Entrepreneur) route. They suggest that if a graduate entrepreneur's business already meets the criteria designed to test business progress to extend within the Tier 1 (Entrepreneur) visa route, then they should be permitted to switch. At the time of writing, this would imply the creation of two full-time jobs.
- 7.31 Clearly, then, there are some distinct difficulties for graduate entrepreneurs looking to switch into the Tier 1 (Entrepreneur) route after their initial visa as a direct result of the investment threshold. In a similar vein to the

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suggestions for the Tier 1 (Entrepreneur) route, the joint submission from the Universities of Oxford suggests that a more flexible evaluation of the switching criteria would be a suitable and effective way to circumvent this problem.

“We would be interested to explore a system of multiple criteria for progression [from Graduate Entrepreneur visa] to Tier 1 (Entrepreneur) visa, for example jobs created, partnerships with other organisations, other measures of social impact, development of intellectual property.”

Universities of Oxford response to MAC call for evidence

- 7.32 Additionally, a number of partners highlighted that time spent on the Tier 1 (Graduate Entrepreneur) visa does not count towards settlement. There was a call from some of our partners in the university sector for the graduate entrepreneur visa duration to count towards settlement in order to bolster the reputation of the route. Moreover, the suggestion was made that graduate entrepreneurs were perhaps inclined to attempt switching into the Tier 1 (Entrepreneur) visa route at an inappropriately early stage of their business in order to gain years towards settlement.
- 7.33 It was noted by several partners within the university sector that HEIs often undertake their own monitoring and evaluation of the graduate entrepreneurs that they are endorsing through the duration of their visa. HEIs are incentivised to undertake such monitoring as non-compliant individuals would serve only to drain university resources and damage the institution’s reputation. Therefore, they stated that any non-compliance amongst graduate entrepreneurs ought to be captured and reported to the Home Office relatively quickly, no matter the length of the initial visa.

7.5 Expanding the graduate entrepreneur visa

- 7.34 In this section, we discuss the suggestions put forward by partners for building on the perceived success of the graduate entrepreneur visa by expanding the range of organisations that could act as endorsing bodies under the route.
- 7.35 As discussed in Chapter 6, we received lots of calls from a diverse selection of partners for a dedicated start-up visa route, including from BIS/UKTI, Greater London Authority, National Union of Students, The Entrepreneurs Network, Octopus Investments, the British Venture Capital Association and a number of legal firms. Although there were slight variations on the proposed design of such a route, the general suggestion was for a UKTI-approved accelerator programmes to be permitted to sponsor migrants under the graduate entrepreneur route.

“We would endorse a model which permitted accelerators to bring overseas entrepreneurs into their programmes on visa terms along the lines of the Graduate Entrepreneur visa. ... Broadly, the Start-Up visa would mirror the existing Tier 1 (Graduate Entrepreneur) visa, except it would be open to graduates of overseas universities and non-graduates alike. As well as universities, approved accelerators would also be permitted to provide endorsements.”

Department for Business Innovation and Skills/UK Trade and Investment response to MAC call for evidence

“The Home Office should consider permitting applications from incubators and accelerators to become Authorised Endorsing Bodies”

Greater London Authority response to MAC call for evidence

- 7.36 In their submission, BIS and UKTI noted that there are already some collaborations developing between accelerators and universities, which was supported by a few of our other partners. For example, Entrepreneur First told us of their arrangement with City University by which the accelerator finds individuals that it believes to have potential and the university endorses them for the graduate entrepreneur visa. The accelerator then covers the necessary funding and monitoring of that entrepreneur.
- 7.37 The Sirius programme (see Box 7.2) can perhaps be seen as a pilot for this approach. This programme involved UKTI running a competition to place migrant entrepreneurs in selected accelerator programmes.

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Box 7.2: UKTI's Sirius programme

The Sirius Programme is run by UK Trade & Investment, with intakes thus far in 2013 and 2014. The programme aims to help high potential overseas graduates with bright business ideas or an early-stage business, to set up in the UK by placing them on selected accelerator programmes.

Eligibility:

- There must be at most three people per team, at least 50 percent of whom must be non-British Citizens. All team members must have graduated with a relevant qualification and the full team must re-locate to the UK.
- Successful non-UK citizen applicants must either have the right to work in the UK, or be eligible for a Tier 1 (Graduate Entrepreneur) Visa endorsed by the Promoter.

Application Process:

- Applications were judged by an independent panel. Successful applicants were interviewed by at least one accelerator before being offered a place.
- Judging criteria included: the impact of their business being in the UK, how feasible the product is, team members, finances, marketing strategy, entrepreneurial skills and market potential.

The Programme:

- Teams received a 12 month place (three months acceleration and nine months of incubation) with **a leading accelerator** who provides support and mentoring to grow the groups business. Teams can continue to work with the accelerator when the 12 month programme finishes.
- £12,000 was given per individual for a year. Mentoring is also given to the team as part of the programme.

Usage and Success:

- Since the programme began in 2013, £3.6 million in equity investments has been raised and more than 50 jobs created.
- Overall, Sirius received 2,200 applications from 93 countries, from which 75 start-ups were selected – 50 per cent of which are outside London.
- In spring 2014, Sirius accelerators were classed within the top 10 in the UK.
- *'The Sirius Programme is the world's best graduate entrepreneurial programme, aiming to attract the brightest and best students and graduate entrepreneurs to set up their businesses in the UK.'* - Enterprise Education

Source: UK Trade & Investment

- 7.38 The evidence that we received was almost exclusively positive about the Sirius Programme. A number of encouraging businesses are emerging from this programme, including CO2 Analytics (Case study 7.2). However, with UKTI covering the costs of placing the candidates in the accelerator programmes, this programme is very expensive. Hence, it was generally agreed that in its current format, the Sirius Programme was unlikely to be sustainable in the longer term due to this high cost to the Government. Therefore, the suggestion to build on the Sirius approach by allowing

selected accelerator programmes to directly select migrant entrepreneurs was seen as the next step.

Case study 7.2: CO₂ Analytics

Nationality: American and Canadian

Sector: CleanTech

Time since granted initial Tier 1 (Graduate Entrepreneur) visa: one year, all have recently extended / are in the process of extending

Previous background/experience: All hold an MBA from University of Oxford

Employees: 0

Annual Turnover: £45,000

Investment to date: £32,000

This migrant entrepreneur team has set up an innovative clean-tech company which participated in UKTI's Sirius Programme. Through the use of big data analytics, the firm offers a simple, affordable tool that converts basic bookkeeping data into automated carbon footprint analysis. This analysis applies to the entire supply chain, and allows even small and medium enterprises (SMEs) to track their environmental impacts. By making this affordable to SMEs and encompassing a broader spectrum of impacts, this innovative output has entered a new market and is providing wider economic and environmental benefits to the UK.

The firm is looking to grow over the next couple of years. They aim to raise at least £150,000 by Q4 2015, with plans to start another raise process in the summer of 2016 in the region of £0.5 million - £2 million. Currently the firm does not employ any workers in order to keep costs down, though the bulk of any investment raised in future rounds is likely to go towards hiring staff. As the firm's client list grows they will need to hire highly skilled employees – primarily web developers and marketing/sales professionals.

Source: Interview with CO₂ analytics

- 7.39 Partners told us that high quality accelerator programmes would be ideal endorsing bodies for a start-up visa due to the nature of their organisation and investment patterns. Accelerator programmes would likely be required to take equity in order to ensure that they are adequately incentivised to select high potential entrepreneurs. Generally it was felt that equity and reputation considerations would be sufficient to prevent any abuse of the route on the part of the accelerators. The use of accelerator endorsement of start-up firms is explained more comprehensively in Chapter 6, although that discussion specifically considers the Tier 1 (Entrepreneur) route.

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“Accelerators are perfectly placed to access the attributes of entrepreneurs, with competition for places intense. Allowing third-party endorsement – similar to the Tier 5 (Temporary Worker – Government Authorised Exchange) visa – would be the most efficient method.⁹ To ensure there are no perverse incentives, accelerators shouldn’t be able to charge entrepreneurs for this. Ensuring only established and reputable accelerators are allowed endorse entrepreneurs should allay fears about abuse. The risk to their reputation and future ability to endorse entrepreneurs will be enough to mitigate the risks.”

The Entrepreneurs Network response to MAC call for evidence

- 7.40 We met with representatives of several accelerator programmes and are satisfied that there are some high quality accelerator programmes in the UK with robust selection procedures in place. These programmes specialise in identifying early-stage entrepreneurs with high potential and, therefore, provide an ideal partner institution. Allowing UKTI-approved accelerators to endorse applicants for Tier 1 (Graduate Entrepreneur) visas would allow these programmes to recruit start-up talent from anywhere in the world, putting them in a strong position to attract high potential start-ups to the UK.

7.6 Conclusions

- 7.41 The evidence that we received in relation to the Tier 1 (Graduate Entrepreneur) route suggests that this scheme works effectively to allow international students with entrepreneurial ideas to establish a business in the UK. Universities are gradually developing programmes to make good use of the route and have generally put in place robust and competitive selection procedures. We saw some good examples of high potential businesses being set up under this route.
- 7.42 We heard strong calls from partners that, given the success of the graduate entrepreneur model, there is a robust argument to widen the route to a broader range of endorsing bodies, primarily UKTI-approved accelerators. We return to this in our recommendations in Chapter 8.

⁹ See: <https://www.gov.uk/tier-5-government-authorised-exchange/overview>

Chapter 8: Conclusions and recommendations

8.1 Introduction

- 8.1 Our commission from the Government asked us to review the entrepreneur visa routes under Tier 1 of the Points Based System for non-EEA immigration. We were asked to consider how the routes could deliver greater economic benefit to the UK and more closely align with the business life-cycle, whilst at the same time guarding against abuse of the route.
- 8.2 In particular, we were asked to examine the use of access to funds as the primary determinant of entry under the main Tier 1 (Entrepreneur) route; to consider whether the existing criteria for entry and extension reflect the life-cycle of an early-stage business; and to examine international best practice in this field.
- 8.3 This chapter summarises our conclusions and presents our recommendations in relation to how the entrepreneur visa routes could be reformed to provide greater economic benefit to the UK economy and its residents.

8.2 Policy and data context

- 8.4 Volumes under the Tier 1 (Entrepreneur) route were relatively modest from its introduction in 2008 until 2011 when the number of applications began to rise steadily. In 2013, following the closure of the Tier 1 (Post-Study Work) route, there was a further sharp increase due to in-country switching into the Tier 1 (Entrepreneur) route. The number of visas granted in-country has remained high, peaking at 4,401 in 2014. A smaller number of visas are issued out-of-country with 1,087 issued in 2014, a slight decrease on 2013. In total, 5,488 Tier 1 (Entrepreneur) visas were issued in 2014.
- 8.5 The visa statistics show that the ratio of dependants to main applicants is relatively high on the Tier 1 (Entrepreneur) route, primarily due to the dependant visas applied for out-of-country. While the dependant to main applicant ratio in 2014 was 0.6 for in-country applicants, it was 2.1 for out-of-country applicants. Since the introduction of the route, the number of

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dependants has generally risen steadily, although there has been a slight fall in the most recent statistics. The ratio of dependants to main applicants for out-of-country applicants is higher for the Tier 1 (Entrepreneur) route than both the Tier 1 (Investor) route and for Tier 2 as a whole.

- 8.6 In evaluating the entrepreneur route, it is important to have a clear idea of the type of person the route seeks to attract. In assessing the entrepreneur routes we have therefore kept in mind a definition of entrepreneur as an individual introducing a new idea or process into the market, taking a risk in doing so. An entrepreneur also contributes their labour; that is, they are actively involved in the day to day operations of their business. In our recommendations below we set out how the entrepreneur visa routes could be reformed in order to target these individuals more selectively.

8.3 International comparisons

- 8.7 Reviewing entrepreneur visa routes in other OECD countries, it is not straightforward to conclude what constitutes 'best practice'. There is relatively little evaluation of entrepreneur visa routes and this makes it difficult to conclude which approaches produce the best outcomes. However, we have identified a number of key trends.
- 8.8 In general, there is a movement away from open-ended entrepreneur routes across OECD countries. Many countries are adopting a more selective, streamlined approach, with the aim of raising the average quality of migrant entrepreneurs. Some countries have also introduced caps to their entrepreneur routes to ensure a more select group of individuals are granted entry.
- 8.9 Increasingly third parties are being tasked with evaluating the innovativeness and growth potential of business ideas. This may be through an independent panel of experts, venture capitalists and angel investors, or incubator programmes.
- 8.10 In addition to streamlining the routes, governments are increasingly attempting to differentiate between established entrepreneurs and start-ups. This has led to a surge in the number of bespoke start-up visa routes.
- 8.11 With regard to the competitiveness of the UK's entrepreneur visa routes, some of the Tier 1 entrepreneurs we interviewed suggested that there is an element of international competition to attract talented migrant entrepreneurs. However whilst the attractiveness of the visa offer is an important consideration, the economic climate and business environment are potentially more important factors overall in choosing where to locate.
- 8.12 The UK's current visa offer to migrant entrepreneurs is relatively competitive. However, there is some concern that the criteria are not suitable for younger, more innovative businesses and the uncertainty around the application process can act as a deterrent.

8.4 How the routes are used in practice

- 8.13 As part of our review we aimed to identify and profile the ways in which the entrepreneur visa routes are used. We found a broad spectrum of activity on the Tier 1 (Entrepreneur) visa route. At the top end, and likely to be of greatest economic benefit, we found examples of migrants establishing highly innovative, high growth potential businesses. At the other end of the spectrum, we saw evidence of migrants on Tier 1 (Entrepreneur) visas that do not appear to engage in much business activity of any description. In between, we found many examples of migrants establishing low growth potential businesses which are not especially innovative.
- 8.14 The issue for the Government is to determine exactly what the objectives of this route are, in order to determine which activities to continue to facilitate under this route. Entrepreneurial activity at the top end of this spectrum is more likely to be contributing both directly and indirectly to economic growth. As such, any reform of the entrepreneur visa routes could seek to maximise the economic benefits to the UK by aiming to increase numbers at the top end of the spectrum, whilst curtailing some of the activity at the bottom.
- 8.15 We also found that some Tier 1 (Entrepreneur) migrants use the route as a low-cost alternative to the Tier 1 (Investor) route, particularly since the investment threshold on the Tier 1 (Investor) route was raised from £1million to £2million in 2014. Under this 'Investor-lite' approach, the migrant invests into an existing business in exchange for a small equity stake, but does not play an active role in the day to day running of the business.
- 8.16 Although it is debatable whether this type of activity is what is intended under the Tier 1 (Entrepreneur) route, it is also the case that this type of activity is likely to provide a useful source of funding for UK businesses that may otherwise be struggling to access finance. In our 2014 report on the Tier 1 (Investor) route, we recommended that the Government consider expanding the range of permitted investments under the route. In this vein, the Government may wish to consider whether this 'Investor-lite' activity should be facilitated under the Tier 1 (Entrepreneur) visa route, or whether it should be incorporated into the Tier 1 (Investor) route.

8.5 Do the entrepreneur routes bring economic benefits to the UK?

- 8.17 There is evidence in the economics literature to suggest that migrant entrepreneurs have the potential to contribute directly and indirectly to economic growth. They may directly generate employment and business activities, but their impacts may also spread deeper into the economy; potentially influencing and facilitating knowledge transfers, innovation, competition and productivity. Equally there may also be some costs associated with migrant entrepreneurs. For example, if they compete with

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native entrepreneurs for limited early-stage investment then they may 'crowd-out' native entrepreneurship.

- 8.18 Evidence we received from partners and conversations we had with a number of Tier 1 (Entrepreneur) migrants leads us to conclude that some migrant entrepreneurs in the UK are indeed introducing innovations and raising productivity. In Chapter 5, we presented case studies describing a number of Tier 1 (Entrepreneur) migrants who have established innovative businesses with high growth potential. However, we also showed in Chapter 4 that almost three quarters of Tier 1 (Entrepreneur) migrants fail to extend their visa, suggesting that a large proportion may not be establishing successful businesses.
- 8.19 Aggregate data on outcomes for Tier 1 (Entrepreneur) migrants overall is limited, hindering detailed evaluation of the impacts of the route. However, by matching Home Office management information first to the Companies House Directors database, and subsequently to the Inter-Departmental Business Register (IDBR), we were able to estimate the current employment and turnover in businesses with Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) migrants as company directors.
- 8.20 Out of 13,746 individuals granted Tier 1 (Entrepreneur) or Tier 1 (Graduate Entrepreneur) visas since 2008, we identified 1,580 active companies registered on the IDBR who employ a total of 9,850 people and generate a combined annual turnover of £1.45 billion. It is worth noting that a small number of highly successful companies dominate these figures – the biggest 15 companies that we identified account for almost two thirds of the turnover generated.
- 8.21 The IDBR analysis also indicates that a large proportion of Tier 1 (Entrepreneur) migrants are not operating in highly skilled or innovative industries. Furthermore, we were only able to link a relatively small proportion of Tier 1 (Entrepreneur) migrants to active businesses. Whilst there are a number of issues in the matching process as well as a recognition that many entrepreneurs' businesses fail, these findings ultimately suggest that there may be considerable scope to improve the overall structure of the route in order to improve the economic benefit to the UK of Tier 1 (Entrepreneur) migrants.

8.6 What are the key issues to consider in designing entrepreneur visa routes?

- 8.22 In Chapter 6 we outlined the range of issues to consider when examining options for reforming the Tier 1 (Entrepreneur) visa route, together with the evidence and suggestions submitted on these issues by partners in response to our call for evidence.
- 8.23 We highlighted the potential merits in drawing on third party endorsement, partnering with reliable organisations in order to select migrant

entrepreneurs. We also discussed the investment thresholds, highlighting that many partners felt that, although the investment thresholds were useful, they are not the best indicator of entrepreneurial ability. We explored whether it might be possible to add angel investment to the sources of funding that qualify for the lower £50,000 investment threshold.

- 8.24 We presented evidence from industry experts that invest in early-stage businesses who stated that, when choosing to invest in a start-up company, investors typically place greater emphasis on the merits of the individual or the team ahead of the business plan. Additionally, we presented suggestions for sector restrictions or targeting on the route, and discussed the advantages and disadvantages of such restrictions. This includes the argument that the businesses established by Tier 1 (Entrepreneur) migrants should be demonstrably innovative in some way.
- 8.25 Finally, we considered the evidence that we received in relation to the criteria which determine whether a Tier 1 (Entrepreneur) migrant is allowed to extend their visa. We also discussed evidence received regarding both the initial length of a Tier 1 (Entrepreneur) visa, and the method and use of monitoring. We return to these issues in our recommendations below.

8.7 The Tier 1 (Graduate Entrepreneur) visa

- 8.26 The evidence that we received in relation to the Tier 1 (Graduate Entrepreneur) visa suggests that this route works effectively by allowing international students with entrepreneurial ideas to establish a business in the UK. Universities are gradually developing programmes to make use of the route and have generally put in place robust and competitive selection procedures. We saw some good examples of high potential businesses being set up under this route.
- 8.27 However, a number of partners indicated that the route was not reaching its full potential. Given that the Tier 1 (Graduate Entrepreneur) visa model appears to be a success, there is a strong argument to widen the route to a broader range of endorsing bodies, primarily UKTI-approved accelerator programmes. We return to this in our recommendations below.

8.8 Our recommendations and proposals

- 8.28 Overall, we believe that there is a **strong argument that the current Tier 1 (Entrepreneur) visa route should be substantially reformed**. A more selective route would maximise the economic benefit to the UK by reducing volumes whilst raising the average quality of the entrepreneurs admitted.
- 8.29 Additionally, there is a strong case for opening up a low volume, highly selective start-up visa to attract the best entrepreneurial talent. We believe that the Tier 1 (Graduate Entrepreneur) visa, whilst still relatively new, is working well and provides a model which could be expanded to improve the visa offer to high-potential start-ups through partnering with selected accelerator programmes.

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8.30 Below, we set out our recommendations as to how these reforms might be best achieved.

Route objectives

8.31 Greater clarity around the objectives of the Tier 1 (Entrepreneur) route would help with policy design and evaluation. The aim of the route should be considered; whether the objective is simply to create jobs, or whether it is to boost innovation and productivity. Optimal policy design may vary depending on the route objectives. For example the approach to migrant entrepreneurs whose businesses fail may be different under an innovation objective, compared to a job creation objective. **The MAC recommends that the Government consider explicitly emphasising that the route aims to attract innovative entrepreneurs.**

Third party endorsement

8.32 Ideally the selection of entrepreneurs should be carried out by industry experts where possible. This is likely to be most effective where those carrying out the selection are investing funds alongside their endorsement. Drawing on the Canadian experience, this approach would have the benefit of internalising the associated administrative costs. **We recommend that the Government seeks to make greater use of third party endorsement where feasible**, including efforts to:

- Broaden the Tier 1 (Graduate Entrepreneur) visa to a “Start-up visa”, with UKTI-approved accelerators allowed to endorse individuals (graduates and non-graduates) for a limited number of visas, alongside the current authorised endorsing bodies. The provision for accelerators to endorse could either be incorporated within the current 2,000 cap applied to the Tier 1 (Graduate Entrepreneur) visa, or the cap could be modestly increased. Accelerators should be required to provide a minimum investment, perhaps somewhere in the region of £20,000 to £30,000, usually in exchange for equity in the business to ensure that they are suitably incentivised to select only high potential entrepreneurs. Given the growth in the number of accelerator programmes, UKTI may wish to examine whether there are more programmes that should be approved.
- Where appropriate, accept endorsement from other UK Government bodies e.g. Scottish Government or UKTI.
- Together with UKTI, and perhaps also in partnership with the UK Business Angels Association, examine the feasibility of approving a small number of angel investor networks or syndicates as third party endorsers, alongside FCA regulated venture capital funds.

8.33 The suggestions above are not intended to be exhaustive. There may be other opportunities to partner with reliable organisations that can provide third party endorsement. If third party endorsement is introduced, there

should be a mechanism in place for proposals to be considered from new prospective partners. Canada, for example, has recently reformed its entrepreneur route with a strong emphasis on partnership with the start-up industry, notably with incubators, angel investors and venture capital firms.

- 8.34 In selecting partners to provide third party endorsement, there should be an emphasis on reliability and robustness, with adequate scrutiny and monitoring agreed with partners in advance to guard against abuse. The aim of this approach should be quality not quantity and, hence, there may be an argument to cap the number of Tier 1 (Entrepreneur) visas available through third party endorsement.
- 8.35 Where suitable third party endorsement is provided, we recommend that this should supersede the genuine entrepreneur test and other selection criteria. Applicants with third party endorsement should be eligible for the lower investment threshold (currently £50,000). However, applicants would still need to meet the other requirements, such as the criteria regarding maintenance funds and language abilities. This should result in a much more streamlined visa application for those applicants with third party endorsement.

Genuine entrepreneur test

- 8.36 **We recommend that the Government examines alternative delivery options for the genuine entrepreneur test** for applicants who do not have endorsement from a third party.
- 8.37 Options could include, but are not limited to:
- Appointing a panel of experts with expertise in early-stage entrepreneurship (e.g. accelerators, angel investors, venture capitalists) to review business plans;
 - Recruiting specialist immigration officers qualified to review business plans;
 - Working with other government departments to scrutinise business plans – e.g. UKTI or BIS;
 - Outsourcing business plan assessment to a professional business services firm.
- 8.38 Whatever the chosen delivery method, the Government may wish to clearly set out what this test aims to assess. The MAC suggests that this assessment should consider viability, scalability and innovativeness of the business proposal as well as the credibility of the individual, with an emphasis on skills, aptitude and business experience.
- 8.39 However, there could be an initial triage assessment by caseworkers to filter out low quality applications. The MAC recognises the possibility that

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this approach may add to visa costs and that industry experts are, themselves, far from infallible assessors of entrepreneurial ability.

Investment thresholds

- 8.40 Under the current rules, the lower £50,000 investment threshold applies where the funds are provided by an approved source. Under our recommendations, this would apply instead to applicants with suitable third party endorsement. The MAC is satisfied that the current £50,000 investment threshold is roughly at the correct level, with an argument that it could be lowered slightly to reflect low start-up funding requirements in some highly innovative sectors. **The MAC recommends that the Government considers setting the lower investment threshold in the range £40,000 to £50,000.**
- 8.41 The current £200,000 investment threshold has been in place since before the introduction of the PBS in 2008. The choice of this particular threshold appears somewhat arbitrary. Many new businesses will not require £200,000 as an initial seed investment. However, the MAC is satisfied that with a lower investment threshold in place for graduate entrepreneurs, migrant entrepreneurs accepted on to accelerator programmes, and others who have suitable third party endorsement, there are a range of pathways open to talented entrepreneurs with limited investment with which to launch their business.
- 8.42 As the £200,000 threshold would continue to apply to those entrepreneurs without any third party endorsement, the MAC believes that this threshold should remain at this level to deter speculative or low quality applications. The threshold could in fact be raised slightly given that it has been unchanged for a long period of time and has therefore been falling in real terms.
- 8.43 Over time, if the new approach to selecting Tier 1 (Entrepreneur) migrants that do not have third party endorsement appears to be working well, there may be an argument to lower the investment threshold given that access to funds is not necessarily a good indicator of entrepreneurial ability.

Sources of funding

- 8.44 We were asked to consider the role that angel investors and crowdfunding platforms can play in the Tier 1 (Entrepreneur) visa route. Angel investors are key providers of investment into early-stage businesses. As described above, **we recommend that the Home Office works with UKTI and the UKBAA to explore the feasibility of approving selected angel investor networks or syndicates to provide third party endorsement under the Tier 1 (Entrepreneur) route.** It follows that migrants with funding from these approved bodies would also be eligible under the lower £50,000 investment threshold.

- 8.45 With regards to crowdfunding, the argument is much less clear. Whilst there may be potential to approve selected crowdfunding platforms in the future, the MAC's current view is that it is not clear that raising investment on a crowdfunding platform provides a robust, independent assessment of the viability of the business to an extent that merits a lower investment threshold than the main £200,000 route.

Selection criteria

- 8.46 Industry experts told us that when assessing early-stage businesses, they look primarily at the individual or team, whilst the business plan is of secondary importance. In order to build this approach into the Tier 1 (Entrepreneur) visa route, **we recommend that the Government introduces a broader emphasis on individual skills, qualifications and/or previous business history of the applicant** in addition to the business plan. For example, applicants could be asked to provide evidence of an entrepreneurial track record, work experience, and skills or qualifications that are directly relevant to the business venture that they wish to pursue.
- 8.47 The Government may also wish to consider introducing a requirement that the business proposal be innovative, although we recognise that this can be difficult to operate in practice. At the very least, the messaging around the route could signal that migrant entrepreneurs are expected to establish innovative businesses.

Route restrictions

- 8.48 Beyond the existing restrictions on property development, it is not clear that the Government should seek to introduce blanket sector restrictions on the route. That is, innovative businesses could be proposed in any sector. However, in order to ensure that Tier 1 (Entrepreneur) migrants are, on average, making a significant economic contribution, the Government may wish to consider the approach taken in Denmark, requiring that in addition to being innovative, the business established should be scalable and potentially global in nature. In Denmark this means that applications to set up restaurants, retail shops and import/export enterprises are not usually considered.

Role in the running of the business

- 8.49 The current requirement that a Tier 1 (Entrepreneur) migrant must play an active role in the running of their business does not appear to be sufficient to ensure that, in addition to bringing their financial investment, Tier 1 (Entrepreneur) migrants are bringing their skills and labour to make their business a success. This means that, in some cases, the Tier 1 (Entrepreneur) route is used by some high net worth individuals as a lower cost alternative to the Tier 1 (Investor) route. A sizeable proportion of recent intake under the route has been migrants who invest £200,000 or more into an established business that requires investment. This is generally

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desirable economic activity and is consistent with the current objectives of the route for those cases where the entrepreneur's skills and connections are of value to the business in addition to their investment.

- 8.50 However, where the migrant is purely bringing investment, rather than skills or labour, there is an argument that this activity is similar in nature to that intended for the Tier 1 (Investor) visa. The Government may wish to consider whether this activity should continue under the Tier 1 (Entrepreneur) route or whether it should be incorporated into the Tier 1 (Investor) visa.
- 8.51 If the Government chooses to restrict this 'Investor-lite' activity, we suggest that Tier 1 (Entrepreneur) migrants be required to demonstrate, particularly at the point of extension, that they will be or have been involved in the day to day running of the business.

Initial leave and monitoring

- 8.52 The initial leave to remain granted to Tier 1 (Entrepreneur) migrants is generous at three years, especially since there is no interim monitoring of progress. There was general support from partners for either a reduction in the duration of the initial leave to remain or a more robust system of interim progress monitoring. The MAC agrees that reform is needed in at least one of these areas. However, reducing the period in which Tier 1 (Entrepreneur) migrants can establish their business may make it difficult to demonstrate suitable business progress when it comes to extension.
- 8.53 **The MAC recommends that the Government consider ways to introduce interim monitoring requirements.** In particular, requiring that Tier 1 (Entrepreneur) migrants submit documentation at regular intervals (perhaps annually) to demonstrate the activity they are carrying out to grow their business. This need not be excessively burdensome if aligned with other standard reporting requirements such as HMRC tax returns, Companies House returns, etc. Extension could be made conditional on timely submission of these interim progress updates.
- 8.54 At an aggregate level, the Government may wish to consider repeating the exercise carried out by the MAC to match Home Office MI against Companies House data at regular intervals in order to track outcomes under the route and to inform future policy development.

Extension

- 8.55 Whilst the requirement to have created two full-time jobs is a relatively modest threshold, it is also somewhat inflexible. Some high potential businesses will not require the addition of two full-time employees in their first three years, whilst low potential but well-funded businesses can easily meet this criterion for the sole aim of achieving extension or settlement. **We recommend that the criteria for extension set out a range of alternative measures that could each indicate business progress,**

including turnover and investment raised in addition to employment. There may also be an argument to consider the salaries paid to recognise those who create higher skilled jobs.

- 8.56 Maintaining the employment threshold at two full-time equivalent employees seems sensible. However, including a range of other measures allows flexibility for businesses that can demonstrate strong progress in other ways. Passing the threshold on any one of these alternative measures should be considered sufficient.
- 8.57 The Government may also wish to consider allowing for some discretion to extend visas for some entrepreneurs whose businesses have failed. For example, in the case where the entrepreneur can demonstrate significant, credible investor support for a new venture.

Entrepreneurial Teams

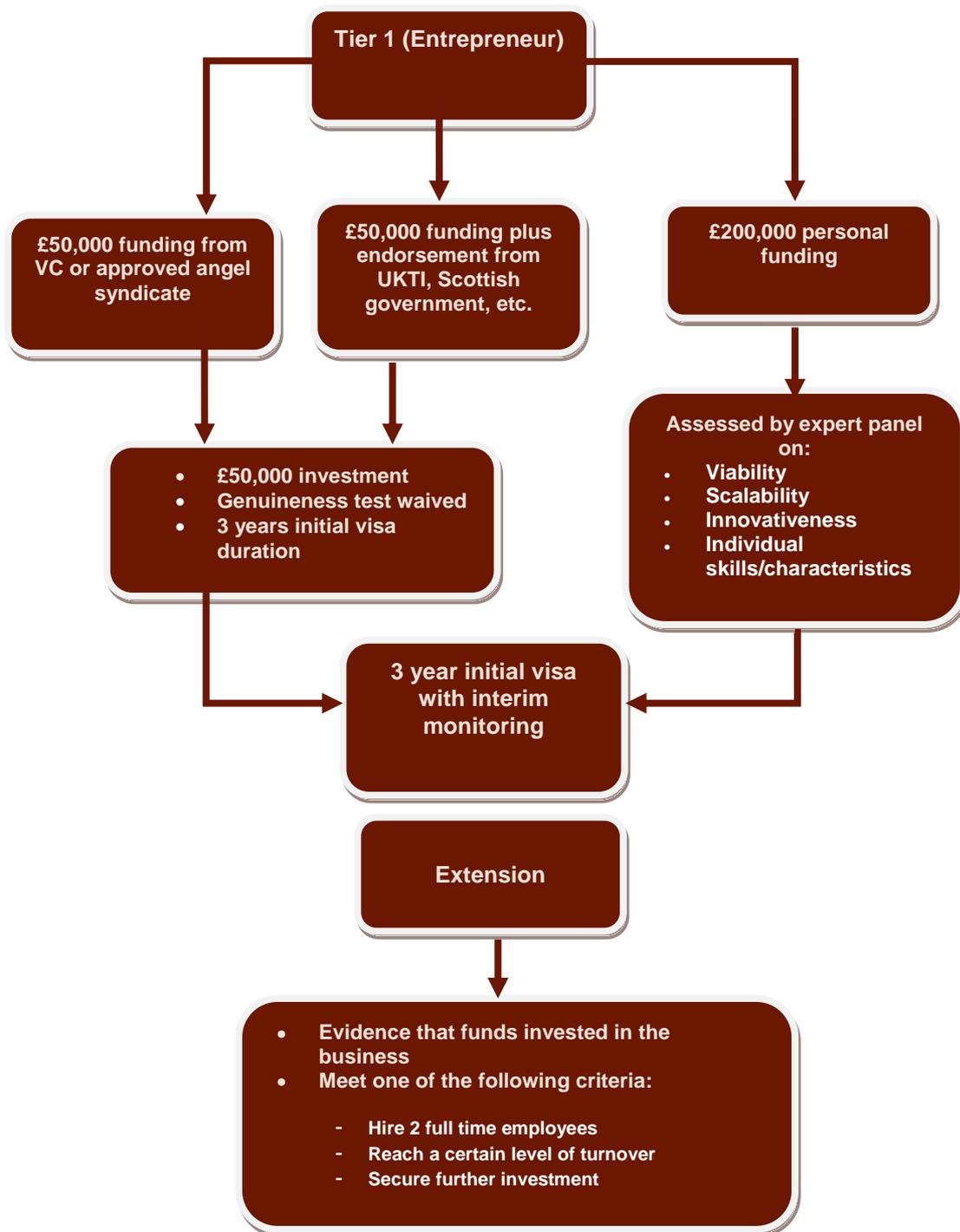
- 8.58 We found some evidence that the entrepreneurial team option is being used to dilute the investment requirement. In order to remove a financial incentive to apply as a team, **we recommend that the minimum investment thresholds be applied per main applicant in an entrepreneurial team.**

Graduate Entrepreneur route

- 8.59 Whilst a relatively new route, the graduate entrepreneur model appears to be a successful approach and we have above recommended a broadening out of this route, permitting UKTI-approved accelerator programmes to sponsor migrants under a more general “start-up visa” route.
- 8.60 Migrants on the Tier 1 (Graduate Entrepreneur) visa are currently given an initial one year leave to remain, which can be extended for a further year, provided that the endorsing body is content that the business is making progress. This is a relatively short period of time within which to get a business off the ground. Given that extension follows in most cases, **we recommend that the Government consider extending the initial leave to remain to two years.** Endorsing bodies should continue to be expected to write to the Home Office revoking their endorsement if it is clear that business activity has ceased before the end of the two year period.
- 8.61 **The MAC also recommends that graduate entrepreneurs and/or those on a wider “Start-up visa” be allowed to switch into the Tier 1 (Entrepreneur) visa route if they already meet the route’s extension criteria** as an alternative to demonstrating £50,000 of investment. Those on a “start-up visa” should also be able to draw on the renewed endorsement of their endorsing body in lieu of the genuine entrepreneur test when applying to switch into the Tier 1 (Entrepreneur) route.
- 8.62 Boxes 8.1 and 8.2 below set out the how the entrepreneur visa routes might look under the MAC recommendations.

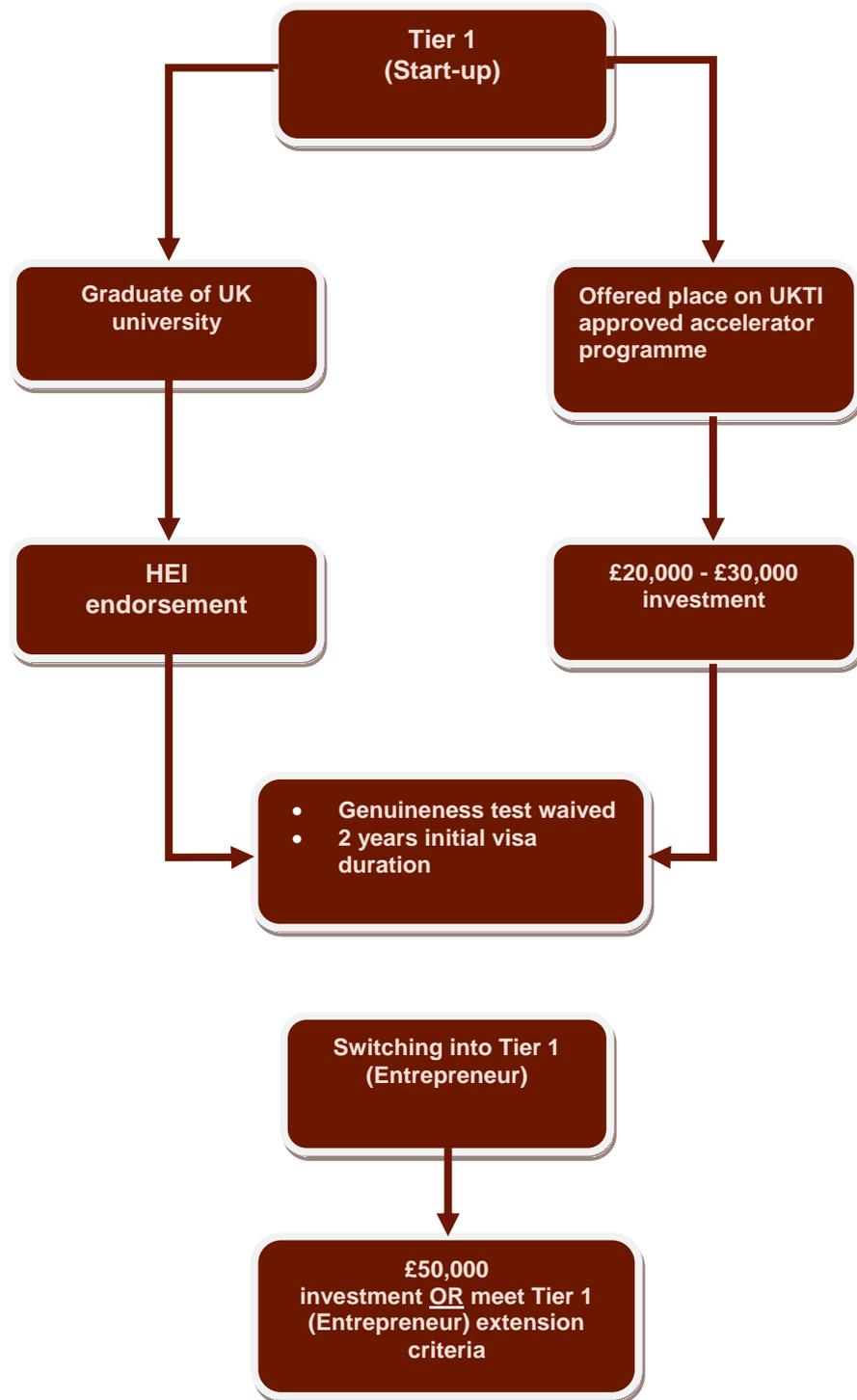
Tier 1 Entrepreneurs

Box 8.1: MAC recommendations for the Tier 1 (Entrepreneur) route



Source: Migration Advisory Committee

Box 8.2: MAC recommendations for a Tier 1 (Start-Up) visa route



Source: Migration Advisory Committee

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Other observations

- 8.63 The current criteria for the Tier 1 (Entrepreneur) visa require that the entrepreneur does not leave the UK for more than 180 days per year. This rule is in place to limit the abuse of the route. For example, some partners pointed out that often the main applicant is already running a business abroad and applies in order to expand into the UK, allowing for their family to enter as dependants. However, they then go on to spend the majority of the year in their home country attending to their original business.
- 8.64 Despite the sound reasoning behind the 180 day rule, many partners emphasised that it can be detrimental to business activities, which often require entrepreneurs to travel abroad. The Government may wish to examine whether this requirement could be applied more flexibly in cases where there is a clear business reason for the absence from the UK. Applying this rule is consistent with our view that Tier 1 (Entrepreneur) migrants should be providing their labour as well as financial investment into the business.
- 8.65 We spoke to Tier 1 (Entrepreneur) migrants whose passports had been withheld by the Home Office for extended periods of time during the application process, one for as long as six months. Not being able to leave the UK during this period can be detrimental to business operation. One entrepreneur said that he was forced to miss several important meetings with suppliers due to his passport being processed for an extended period. The majority of Tier 1 (Entrepreneur) migrants that we spoke to expressed interest in the possibility of a 'premium visa service' by which their application would be fast tracked in return for a higher fee.

Annex A: Consultation

A.1 List of organisations that responded to the call for evidence who did not request anonymity

Alice Joseph (individual)

Belle Media Ltd

BIS - UKTI

Bow Group

British Private Equity & Venture Capital Association

Centre for Entrepreneurs

COADEC

CS Global Partners

Dearson Winyard

Deloitte

Entrepreneurial Spark

Ernst & Young LLP

Fragomen Worldwide

Greater London Authority

HMRC Analysis

Home Office

InvestUK Ltd

J. Dunlop & Co

Tier 1 Entrepreneurs

James Feldman (individual)

Kingsley Napley

Law Firm Limited

Law Society of Scotland

Lewis Silkin

Magrath LLP

Migreat

National Union Students

Nesta

Octopus Investment

Payne Hicks Beach

Penningtons Manches

Scottish Enterprise

Scottish Government

The Entrepreneurs Network

Tier 1 Global Business Consultants Limited

UK British Angel Association

UKTI Global Entrepreneur Programme Dealmaker

Universities of Oxford

Universities UK

University of the Arts London

Welsh Government

Windowvation (Tier 1 entrepreneur)

Ying De Group

A.2 Indicative list of organisations we met with/attended our forums

Agility

Australian High Commission

BACCCO

Baseline360

BIS

Blake Morgan

British Chamber of Commerce

British Private Equity & Venture Capital Association

Canadian High Commission

Centre for Entrepreneurs

Child & Child

COADEC

Collider

CS Global Partners

DBR Business Consulting Ltd

Deloitte LLP

Dotforge

Duedil

Edinburgh Napier University

Edinburgh Student Arts Festival

Entrepreneur First

Entrepreneurial Spark

Ernst & Young LLP

Ethnic Minority Resource Centre

Exotic African Treats - E.A.T

Tier 1 Entrepreneurs

Faegre Baker Daniels LLP

Filmdoo

Financial Conduct Authority

Firestartr

Fladgate LLP

Fragomen Worldwide

GOVFACES

Gross & Co

Hanadi Jabado, Entrepreneur

Henley & Partners UK Ltd

HM Treasury

Home Office

Immigration Officers

InvestUK Ltd

Johnson Capital Advisory

Kingsley Napley LLP

Krishna Janka, Entrepreneur

Laura Devine Solicitors

Law Firm Ltd

Law Society

Lensationa

Leto

Level 39

Lewis Silkin LLP

London

Magrath LLP

Mass Challenge

Metix Ltd

Mishcon de Reya Solicitors

Nesta

OISC regulated immigration advisor

Passion Capital

Payne Hicks Beach

Penningtons Manches LLP

Peterson Law Associates

PlayJam

Precious Cells

PricewaterhouseCoopers Legal LLP

R&D/SMART:SCOTLAND

Radiant and Brighter

Redfern Legal LLP

Reinvent Life Sciences Pvt Ltd

Richmond Chambers

Saltire Foundation

SC Global Partners

ScotlandIS

Scottish Enterprise

Scottish Government

Scottish Institute for Enterprise

Seed Mentors Ltd

Seedcamp

Seedrs

Tier 1 Entrepreneurs

Startupbootcamp

Sveltlova ILP

Tech City UK

The Brooke Consultancy LLP

The Entrepreneurs Network

The Law Society

The Marksman

UK SBS

UK Business Angels Association

UK Trade & investment

Universities Scotland

University of Aberdeen

University of Edinburgh

University of Glasgow

University of Strathclyde

University of the Arts London

University of West Scotland

Wayra

Writer, Fast Company

Annex B: Call for evidence questions

B.1 Economic costs and benefits

1. What are the economic costs and benefits, to UK residents, of the entrepreneur routes? What economic benefit should the admission of overseas entrepreneurs deliver to the UK?
2. Does the current package of visa routes for overseas entrepreneurs meet the requirements of the UK economy?
3. Should the design of the entrepreneur visa schemes offer differentiated criteria for different types of businesses?

For example, start-ups, high-growth potential companies, or established businesses.

Please provide evidence and specific examples where possible to support your views, taking into account the following factors:

- The direct benefits resulting from the migrant's establishment of their business in the UK – this includes employment, turnover, profit etc.
- In your view, would this entrepreneurial activity have taken place without the involvement of migrants?
- The indirect benefits from wider expenditure by the main migrant and their dependants on goods and services in the UK.
- The indirect benefits to the UK economy in terms of dynamic competition impacts, knowledge spillovers and productivity gains.
- The timeframe over which these benefits may be realised.
- The costs to the UK economy related to the presence of migrant entrepreneurs. For example, does it hamper the ability of UK entrepreneurs to grow businesses, either at the start-up stage or through increased competition?

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- What pressures do migrant entrepreneurs put on resources and public services? Is there any evidence to suggest that these differ from the average migrant?
4. Would there be any benefits to the UK economy of incentivising increased entrepreneurial activity in particular sectors? The MAC welcomes supporting evidence in relation to the following factors:
- In which sectors of the UK economy do you think increased entrepreneurial activity would provide most benefit, and why?
 - What barriers may hamper foreign entrepreneurs coming to these sectors?
 - What incentives would encourage foreign entrepreneurs in such sectors, and why?
 - At a practical level, how might a scheme to incentivise entrepreneurial activity in certain sectors operate?

B.2 Selection criteria

5. Should the route be targeted at particular types of businesses? For example, particular sectors, or businesses with high-growth potential.
6. Does having minimum funding requirements of £50,000/£200,000 assist in identifying entrepreneur migrants who are likely to be successful in starting a business here? What would be the impact of a) lowering or b) raising the thresholds?
7. What other criteria could be applied to identify entrepreneurial talent? Should provision be made specifically for accelerators, or other sources of recognised third-party endorsement for potential businesses?
8. What provisions should be made for the source of funding, such as crowdfunding, seed funding, venture capital, angel investments etc? In what ways might financial due diligence be exploited more in the entry criteria?
9. Do the initial criteria, as well as the further criteria for extension and settlement, work with the business life-cycle? For example, how do the requirements of the route fit with the typical funding stages of a start-up seeking angel investment/venture capital funding?
10. Are the criteria for settlement and extension sufficient to ensure that indefinite leave to remain in the UK is only awarded to entrepreneurs who have made a substantial net positive contribution to the UK economy?

11. Are the available funds requirements for bringing dependants set appropriately to ensure that migrant entrepreneurs are able to provide for dependants without recourse to public funds?
12. What are the prime motivations for establishing a business in the UK in preference to other countries? How are these motivations affected by:
 - Economic and business factors, such as, taxation policies, regulation, the ease of doing business or economic growth prospects; and
 - Non-economic and non-business factors, such as the education system, language spoken, and social and cultural factors?

B.3 Abuse of these routes

13. Are the current criteria sufficient to ensure that the route is not used abusively, that is by individuals who do not intend to take a central role in the running of a business with genuine ambitions to grow?
14. What other criteria could be used to prevent abuse?

B.4 International best practice

15. Are there any examples of international best practice that the UK could follow? Which countries are particularly innovative in this area?

B.5 Learning from experience

16. The MAC particularly welcomes evidence from persons who have made use of the entrepreneur routes. The questions below identify some additional issues, across both routes that the MAC would like to consider:

Can you summarise your previous experience before coming to the UK using the entrepreneur routes.

- What were your reasons for choosing to establish or take over a business in the UK?
- How long have you been resident in the UK?
- How long have you been resident in the UK under an entrepreneur visa?
- Have you come to the UK on the entrepreneur visa to establish a new business, move an existing business to the UK or take over a business?
- Has the value of the business you established increased during your time in the UK? Do you expect this trend to continue? If so, please say why.

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- Have you, or do you intend to, extend your stay in the UK? Will you seek to extend your business interests in the UK or consolidate existing activities?
- In which sector does the business you established or took over operate? If this is a completely different area to your previous experience, why was this?
- Did you receive funding from a permitted, specified source prior to establishing or taking over your business? If so, what was the source of your funding? If not, was this because you were unable to source such funding or because you did not require it?
- What was the level of your initial investment in the business? What was the rationale for the level of initial investment that you made?
- How many full time equivalent jobs have you created through your business? What factors restrict, or would enhance, your ability to create jobs?

17. We would also be keen to solicit responses to the following questions:

- At what point can we reasonably expect that a migrant granted leave as an Entrepreneur to have established a successful business?
- How could we ensure effective monitoring of the progress of migrant entrepreneur's businesses?
- How should the entrepreneur visa regime deal with failure of the migrant's business?
- What would be reasonable criteria for granting extensions to the initial period of leave granted to entrepreneurs?

Annex C International entrepreneur and start-up targeted visa routes

Table C.1: Summary of international entrepreneur and start-up targeted visa routes

Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Australia	Business Innovation Stream	2012	Assets of AU\$800,000 (business & personal) [£380,000]	<ul style="list-style-type: none"> • Each application must be endorsed by an individual state • Age < 55 • Score highly on the “business innovation and investment points test” where points are awarded for: <ul style="list-style-type: none"> ○ Evidence of registered patents designs or trademarks ○ Evidence of export trade ○ Evidence of formal joint venture agreements ○ Evidence of receipt of grants or venture capital funding • A successful business career • Have had ownership interest in a company with a turnover of AU\$500,000 (£260,000) for two out of the last four years • Own a certain percent of the proposed business: <ul style="list-style-type: none"> ○ 51 per cent, if the business has a turnover of less than AUD400 000 (£205,000) per year ○ 30 per cent, if the business has a turnover of AUD400 000 (£205,000) or more per year ○ 10 per cent, if the business is a publicly listed company 	Four years	N/A

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Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Australia (contd)	Significant Business History Stream	1976	Assets of AU\$1.5m (business & personal) [£714,000]	<ul style="list-style-type: none"> •An overall successful business career •An annual business turnover of at least AU\$3m for two out of the last four years •Own a certain percent of the proposed business: <ul style="list-style-type: none"> ○ 51 per cent, if the business has a turnover of less than AUD400 000 (£205,000) per year ○ 30 per cent, if the business has a turnover of AUD400 000 (£205,000) or more per year ○ 10 per cent, if the business is a publicly listed company 	Permanent	N/A
	Venture Capital Entrepreneur Stream		AU\$1m in approved venture capital funding [£476,000]	N/A		N/A
Austria	The Red-White-Red Card	2011	N/A	<ul style="list-style-type: none"> •The intended occupation must involve a sustained transfer of investment capital to Austria •The intended occupation must create new jobs or secures existing jobs in Austria •The settlement of the worker must involve the transfer of knowledge leading to the introduction of new technologies •The company must be of considerable significance for the entire region 	One year initially	N/A

Annex C: International entrepreneur and start-up targeted visa routes

Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Canada	The Entrepreneur Startup Visa Program	2013	Required to raise: <ul style="list-style-type: none"> • CA\$200,000 (Venture Capital) [£100,000] • CA\$75,000 (Angel Investor) [£38,000] 	<ul style="list-style-type: none"> • Minimum language skills in either English or French • An “adequate amount of money” to cover initial living costs • The funding must come from an approved Canadian source • If funding has been received from an approved business incubator, the funds requirement is waived entirely 	Permanent	2,750
Chile	Start-Up Chile	2010	N/A	<ul style="list-style-type: none"> • Must NOT establish export/import companies, franchises, or consulting companies 	One year	100 places per round
Denmark	Start-Up Denmark	2015	N/A	<ul style="list-style-type: none"> • Business idea must be approved by a panel of experts • Must NOT establish a restaurant, retail shop, import or export enterprise or similar • An “adequate amount of money” to cover initial living costs 	Two years initially, up to five years	50

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Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
France	Carte de séjour compétences et talents	2006	N/A	<ul style="list-style-type: none"> • Likely to make a significant or lasting contribution, through skills or talents, to France's economic development or to its intellectual, scientific, cultural, humanitarian or athletic prestige, and directly or indirectly, to that of their own country. • This includes ONE of the following: <ul style="list-style-type: none"> ○ PhD University graduates ○ Qualified professionals with a minimum of three years of professional experience in the field in which they apply for the visa ○ Minimum investment of €300 000 (£211,000) or proof of capacity to create a minimum of two sustainable jobs in France 	Three years	N/A
	French Tech Ticket	2015		<ul style="list-style-type: none"> • Startups must be in the creation or growth phase. • Consulting firms and import-export businesses are not eligible • Applicants must apply for the VLS-TS visa in addition to this scheme. • Pass an independent panel which considers: <ul style="list-style-type: none"> • Product feasibility • Market potential • Marketing strategy • Impact of the business on Paris • Financial growth • Teams can be founded by up to 3 people; at most one can be French. 	Six months with the option to renew for a further 6 months	No specific cap but only the first 500 applications will be considered.

Annex C: International entrepreneur and start-up targeted visa routes

Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Ireland	The Startup Entrepreneur Program	2012	€50,000 business funding [£35,000]	<ul style="list-style-type: none"> • Must be deemed a High Potential Start-up <ul style="list-style-type: none"> ○ Introduce a new or innovative product ○ Capable of creating 10 jobs and €1m (£705,000) in revenue over 3-4 years ○ Have business experience ○ Less than 60 years old • Must NOT be in the sectors of: retail, personal services, catering or other businesses of this nature 	Two years initially, up to five years	N/A
Italy	Startup Visa Italia	2012	€50,000 business funding [£35,000]	<ul style="list-style-type: none"> • The business idea must be innovative and closely linked with technology • EITHER The Italian Startup Visa Technical Committee OR a certified incubator must approve the business plan • They provide a “Certificate of no Impediment“ to show there is nothing to prevent the business working as planned • Prove they have had an annual income of at least €8,400 (£6,000) over the last 12 months 	One year initially, up to two years.	N/A

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Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Netherlands	Startup Permits	2015	N/A	<ul style="list-style-type: none"> • Must work together with an experienced mentor based in the Netherlands • The product or service must be innovative • There must be a rigorous plan to develop their idea into a business • An “adequate amount of money” to cover initial living costs. 	One year	N/A
New Zealand	Entrepreneur Work Visa	2014	Capital investment of NZ\$100,000 [£43,000]	<ul style="list-style-type: none"> • Score highly on a scale which awards points for factors relating to the likely success of the proposed business and its value to New Zealand. This includes points for: <ul style="list-style-type: none"> ○ Business Experience ○ Employment creation ○ Projected turnover ○ Unique products ○ Base outside Auckland • Have a specific business plan OR purchase at least a 25 per cent shareholding of an existing business • Not be engaged in fraud or have experienced bankruptcy or business failure in the last 5 years 	One year initially, up to three years	N/A

Annex C: International entrepreneur and start-up targeted visa routes

Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Singapore	Entrepreneur Pass	2004	S\$50,000 of paid-up-capital [£23,000]	<ul style="list-style-type: none"> • Must hold at least 30% of the shares in the company • The proposed business idea must be entrepreneurial and able to create local employment. They must also fulfil at least ONE of the “innovativeness” conditions: <ul style="list-style-type: none"> ○ The company is receiving monetary funding or investment of at least S\$100,000 (£47,000) from a third-party Venture Capitalist or angel investor accredited by a Singapore Government agency. ○ The company holds an Intellectual Property that is registered with a recognised national IP institution. ○ The company has on-going research collaboration with an institution recognised by Agency for Science, Technology and Research or Institutes of Higher Learning in Singapore. ○ The company has been endorsed by a Singapore Government-supported incubator <p>30 days to inject the necessary capital.</p>	One to two years with mid-year audit checks	N/A

Tier 1 Entrepreneurs

Table C.1: Summary of international entrepreneur and start-up targeted visa routes						
Country	Visa Name	Date first introduced	Funds required	Other criteria	Length of visa granted	Cap on Successful Applicants
Spain	Ley de Emprendedores	2013	N/A	<ul style="list-style-type: none"> • Have a business plan approved by the government and prove that they have sufficient funding and is in a sector Spain has targeted for development • Those applications which create Spanish jobs will be more likely to succeed • An “adequate amount of money” to cover initial living costs 	One year	N/A
UK	Tier 1 (Entrepreneur)	2008	£200,000 Or £50,000 (from approved source)	<ul style="list-style-type: none"> • Meet the English language requirement • Pass a “genuineness” test on the business plan • Have at least £3,310 to cover initial living costs 	Three years	N/A
<p>Notes: All routes also require the applicant have a genuine intention to continuously own or maintain a management role in a business in that country. Date first introduced refers to the visa as it stands as of April 2015. There may have been previous iterations of entrepreneur-targeted visas before this date under a different name Sterling equivalent values of investment requirements calculated in July 2015 at prevailing rates. Source: Migration Advisory Committee analysis of individual country websites</p>						

Abbreviations

BIS	Department for Business, Innovation and Skills
BVCA	British Private Equity and Venture Capital Association
CEFR	Common European Framework of Reference for Languages
COADEC	Coalition for a Digital Economy
COO	Chief Operating Officer
ECO	Entry Clearance Officer
EEA	European Economic Area
FCA	Financial Conduct Authority
FEP	Federal Entrepreneur Programme
FSMA	Financial Services and Markets Act 2000
FSMAO	Financial Services and Markets Act Order 2005
GCC	Gulf Cooperation Council
GEP	Global Entrepreneur Programme
HEI	Higher Education Institution
HMRC	Her Majesty's Revenue and Customs
IDBR	Inter-departmental Business Register
ILR	Indefinite leave to remain
IPS	International Passenger Survey
LTIM	Long Term International Migration
MAC	Migration Advisory Committee
MBA	Master of Business Administration
MI	Management Information
NIESR	National Institute of Economic and Social Research
NHS	National Health Service
NQF	National Qualifications Framework
OECD	Organisation for Economic Co-operation and Development
OISC	Office of the Immigration Services Commissioner
ONS	Office for National Statistics
PAYE	Pay-As-You-Earn
PBS	Points Based System
SIC	Standard Industry Classification
SME	Small and Medium-sized Enterprise
STEM	Science, Technology, Engineering and Mathematics
VAT	Value-Added Tax
VC	Venture Capital
UAL	University of the Arts London
UK	United Kingdom
UKBAA	UK Business Angels Association

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UKTI	UK Trade & Investment
USA	United States of America
UUK	Universities UK

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