

## Special Feature: Proposed New Immigrant Investor Program

On March 18, 1997, Lucienne Robillard, Federal Minister of Citizenship and Immigration, announced some proposed changes to the Immigrant Investor Program. The program was introduced in 1986 with the intention of promoting economic growth in all regions of the country by providing a means for experienced business persons to immigrate to Canada and make substantial investments in small to medium-sized businesses. Over the last decade, the program has brought very different results for different provinces. Also, "*despite a significant interventionist role on the part of CIC (Department of Citizenship and Immigration) , the program has been vulnerable to mismanagement, abuse, and fraud*"<sup>1</sup> , as stated in a report prepared by the federal department.

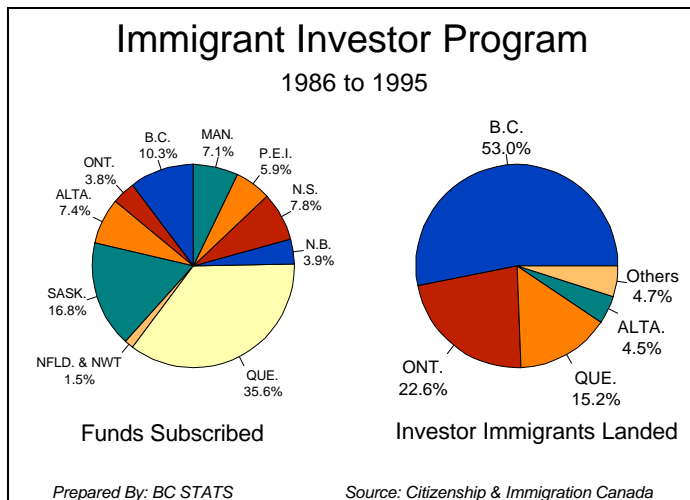
One of the problems that B.C. is facing with regards to the existing Immigrant Investor Program is that the majority of investor immigrants absorbed by the province made their investment in other provinces. In 1996, about 54 per cent of all the investor immigrants chose B.C. as their intended destination, while the province received less than six per cent of all the funds invested during the same period of time. As a result, B.C. might have been disadvantaged, compared to other provinces, by the imbalance between the costs of settling the investor immigrants and the economic benefits from their investments. The high costs associated with settling investor immigrants include provincial medical services and English language training for the investor immigrants themselves and their children. As pointed out in previous issues of *Immigration Highlights*, despite the relatively small numbers, immigrants in the Investor Class have the lowest average English language ability, and at the same time the average number of accompanying children is the highest for the Investor Class immigrants.

The major reason for this imbalance is that, in the existing Investor Immigration Program, a three tier system has been adopted that requires three different minimum amounts of investment depending on the choice of province where the investment is made. Currently, the minimum investment is \$350,000 (Tier 2) for B.C., Quebec, Ontario, and Nova Scotia; \$250,000 (Tier 1) for the rest of Canada. Tier 3 is a special investment arrangement in which return of the entire principal is guaranteed after five years of commitment and the minimum investment for this tier is \$500,000. The intention of the tier system was to encourage investment in all parts of Canada by allowing a lower minimum in provinces which receive less than 10 per cent of total Canadian business immigrants in any year.

As part of the program objectives, investment money was supposed to be used in higher risk ventures, and as a result investments under the program were generally perceived not to be sound investments by investor immigrants. This perception also prevailed among potential investor immigrants due partly to the poor performance history of many investment projects and partly to the incidences of mismanagement and fraud. Investor immigrants were quick to find out that they could lower their risk by investing in Tier 1 regions while they could still choose to live in the province they preferred. Since the inception of the program, British Columbia has been the most favored province for investor immigrants due in part to its mild climate and proximity to Asian-Pacific countries, the source of most investor immigrants.

While the tier system creates disincentives for investment money to come to B.C., a different dimension of competition for investment also exists between Quebec and other Tier 2 provinces. The *Canada-Quebec Accord on Immigration* signed in 1991 has given Quebec unparalleled authority over the administration of independent immigrant selection and processing. This different treatment for Quebec has made it more difficult for B.C. and other provinces to compete for investments due to the flexibility that Quebec enjoys in the administration of its own immigrant investor program. During the period 1986 to 1995, Quebec attracted 35.6 per cent of all the subscribed investments in Canada while it only absorbed 15.2

per cent of immigrant landings under the Investor Class. Some of these investor immigrants who made their investment in Quebec were believed to have settled in B.C., as B.C. absorbed 53.0 per cent of investor immigrant landings during the same period of time.



In the new Immigrant Investor Program proposed by the federal government, the tier system will remain in effect except that Tier 3 will no longer exist. The minimum investment will increase to \$450,000 (Tier 2) for B.C., Quebec, Ontario, and Alberta; and to \$350,000 (Tier 1) for other parts of the country. In addition, it is proposed that the responsibility of management and administration of the program be largely transferred to the provinces and territories. New privately administered immigration funds will no longer be allowed; however the provinces may

appoint private sector fund managers to manage their provincial funds or approve private sector funds owned and managed by investment dealers or trust companies. The nature of investment in the new program will also be changed to require 60 per cent of the funds to be invested in an eligible Canadian business selected by the investors, and the remainder 40 per cent to be invested according to the provinces' investment criteria which are not subjected to federal rules.

Many of the problems that B.C. has been dealing with in regards to the Immigrant Investor Program have not been addressed by these proposed changes. The imbalance of costs and benefits created by the tier system, although acknowledged by the federal government, remains unaddressed. In the same federal report, it was noted that "*The number (of investment subscriptions) does not reflect actual residence because immigrants are not required to settle in the destination indicated on their visas. Many investors invest in Tier 1 provinces and settle in Tier 2 provinces.*"<sup>1</sup> Under the proposed changes, the province will also be administratively and financially responsible for the costs of operating and regulating the new program. It may also be a concern that the proposed changes will encourage investment funds to be channeled to ventures that are less risky in nature as under the new program 60 per cent of the funds will be allowed to be invested at the discretion of the investors. This may defeat the original purpose of using the program to stimulate regional economic growth by attracting high-risk capital that is normally difficult to raise from domestic business sectors.

The actual economic benefits that will be generated from the new program are further questioned since under the proposed changes there is no limitation on financing schemes and the investor immigrants will be allowed to finance a substantial portion of their investment domestically rather than injecting their own money. Given all these concerns and unaddressed problems inherent in the program, one of the biggest issues might be the question of whether a balance between costs and benefits of operating the program could be achieved.

<sup>1</sup> Regulatory Impact Analysis for the New Immigrant Investor Program, March-1997, Department of Citizenship and Immigration, Government of Canada.