



Latin American Private Equity &  
Venture Capital Association

# 2013 Scorecard

The Private Equity  
and Venture Capital  
Environment in  
Latin America



Multilateral Investment Fund  
Member of the IDB Group



DEVELOPMENT BANK  
OF LATIN AMERICA

In Cooperation with:

**Economist Intelligence Unit**

The  
Economist

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## 2013 Scorecard on the Private Equity and Venture Capital Environment in Latin America

# Executive Summary

The 2013 LAVCA Scorecard on the Private Equity and Venture Capital Environment in Latin America reflects ongoing efforts by regional regulators to foster a stable climate for investment. Large and small economies alike improved their capacity to monitor the development of the PE/VC industry, improve transparency and disclosure laws and create better conditions for local entrepreneurs.

Although there was little movement in the overall regional rankings, six of the twelve countries showed improvements in their scores this year. All changes were positive, and even in countries with precarious overall investment climates, scores and rankings remained stable. Improvements in the Dominican Republic allowed it to jump from the bottom of the list to tie Argentina for second to last place, and Mexico and Colombia are slowly closing in on Brazil and Chile's leadership positions. Chile continues to rank number one with a score of 76, followed by Brazil (72), Mexico (67) and Colombia (61).

Chile led the regional ranking for the eighth consecutive year, and in 2013 improved its score due to the adoption of international financial reporting standards by non-listed firms. The country heads the region in intellectual property protection, judicial transparency and perceived corruption. Chile maintains active government support of SMEs and start-ups, most recently through Start-Up Chile, a program aimed at fostering entrepreneurship that has positioned the country at the heart of efforts across the region to create an entrepreneurial culture. However, a new funds law that would simplify fund formation, ease tax burdens and create other advantages for the PE/VC industry is still pending.

Brazil continues to stand out as a pioneer and innovator in PE/VC specific regulation in Latin America. With unique fund structure laws and streamlined restrictions on foreign investment, the country remains in second place in the regional ranking. A robust self-regulation code aimed at improving fund transparency and disclosure that went into effect in 2011 will have its first results reported in 2013, although enforcement and penalties for non-compliance

## SCORING CRITERIA

*The criteria used in this study were chosen in close consultation between LAVCA and the Economist Intelligence Unit (EIU) research team, and reflected LAVCA's internal consultations with its members working in the industry. The real-world relevance of each of the criteria was initially evaluated through in-depth interviews conducted in late 2005.*

*For this eighth edition of the Scorecard, the EIU conducted 19 interviews in January and February 2013 with LAVCA members who are fund managers or regulators based on the Latin American region. The primary object of the interviews was to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. In addition, the EIU received replies from another eight individuals to a set of written survey questions that were circulated in December 2012 and January 2013. The LAVCA Legal Committee conducted a peer review of the score notes in 2013.*

*Five of the thirteen criteria – tax treatment, minority shareholders rights, restrictions on institutional investors, capital markets development and corporate governance requirements – once again this year received double weighting to reflect their central prominence in investments decisions made by PE/VC funds.*

*Overall score is the weighted total of all Scorecard indicators, ranging from 0-100, where 100 equals the best/strongest environment.*

*See Appendix A for a listing of the sources used by EIU researchers for the 2013 Scorecard.*

remain uncertain. Investors and regulators from across the region are paying close attention to the successes and challenges stemming from these new laws.

Mexico increased its overall score for the second year in a row due to an improvement in the indicator for entrepreneurship. The time and number of procedures required to start a business were reduced below regional averages, and university and government incubator and accelerator programs continue to expand. In addition, the new administration is focusing on competition while promising important reforms in key sectors including telecoms and energy. The Mexican stock market outperformed most other regional exchanges, and the economy has continued to grow while other countries in the region have suffered slowdowns.

Colombia also increased its score on entrepreneurship, reflecting the active role of state development banks and growing government support to improve the entrepreneurial ecosystem. Bancoldex, the main state development agency, has launched a new credit line and program to promote innovation. A local private equity and venture capital association, ColCapital, was also formed this year with the assistance of Bancoldex alongside the Multilateral Investment Fund. Even with this significant progress, the basic PE/VC framework needs improvement, and the country continues to suffer from high levels of perceived corruption and a complex tax environment.

Peru posted the region's most significant score improvements of 2013, with the implementation of a long-awaited change by the banking superintendent to reform pension fund investment laws. The new laws enable PE/VC funds to manage a larger share of the country's growing pension assets, causing the score for restrictions on institutional investors to return to its 2011 level. Peru is recognized for being a capable and serious reformer in the region, with macro-level reforms and a commitment to economic stability spurring rapid economic growth.

A counterpoint to the good news across the region, Argentina continues to deteriorate in both its macro environment and approach towards private investment. With no score change this year the country remains near the bottom of the regional rankings, now tied with the Dominican Republic for second-to-last place. With the nationalization of Repsol-YPF, ongoing legal action by international creditors, tightening currency restrictions and a lack of local institutional investors, the country remains broadly unattractive for PE/VC investment. This negative environment hinders the country's otherwise vibrant entrepreneurial community, with Argentine start-ups beginning to look elsewhere for funding and expansion opportunities.

There were few major score changes in small countries across Latin America and the Caribbean. Changes for 2013 include a score increase for the second year in a row for the Dominican Republic, which set up its first seed fund last year in collaboration with the Inter-American Development Bank. There has been a steady increase in fund managers taking note of smaller opportunities, particularly in Central America and the Caribbean. With pan-regional investors looking opportunistically at new deal flow and comparatively low valuations in smaller economies, local governments are beginning to awaken to opportunities to improve their countries' respective PE/VC environments.

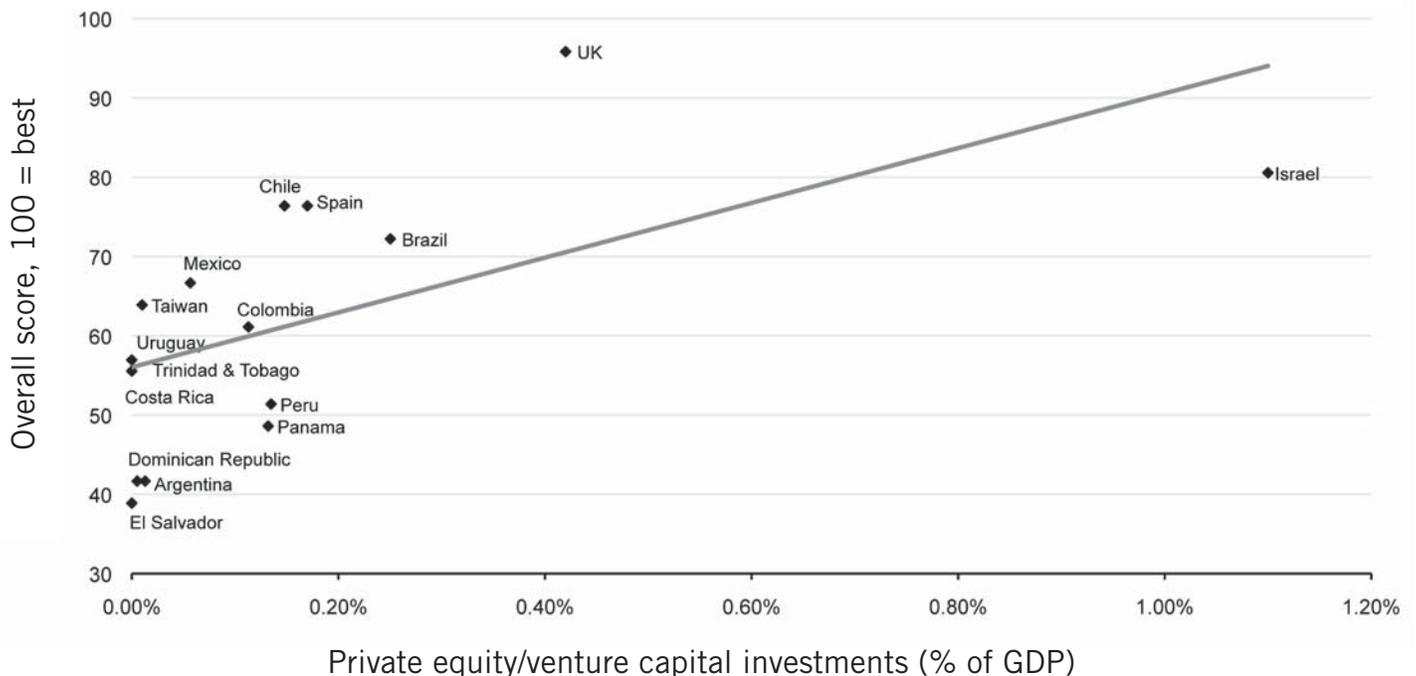
The full list of scoring criteria is:

- Laws on PE/VC fund formation and operation
- Tax treatment of PE/VC funds and investments
- Protection of minority shareholder rights
- Restrictions on local institutional investors investing in PE/VC
- Protection of intellectual property rights
- Bankruptcy regulation (encompassing bankruptcy procedures/creditor rights/partner liability in cases of bankruptcy)
- Capital market development and feasibility of local exits
- Registration/reserve requirements on inward investments
- Corporate governance requirements
- Strength of the judicial system
- Perceived corruption
- Use of international accounting standards and quality of the local accounting industry
- Entrepreneurship

## 2013 Scorecard

	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	El Salvador	Mexico	Panama	Peru	Trinidad & Tobago	Uruguay	Israel	Spain	Taiwan	UK
<b>Overall score</b>	<b>42</b>	<b>72</b>	<b>76</b>	<b>61</b>	<b>56</b>	<b>42</b>	<b>39</b>	<b>67</b>	<b>49</b>	<b>51</b>	<b>57</b>	<b>57</b>	<b>81</b>	<b>76</b>	<b>64</b>	<b>96</b>
Laws on PE/VC fund formation and operation	1	4	3	3	2	2	0	2	2	2	2	2	4	3	4	4
Tax treatment of PE/VC funds & investments	1	3	3	2	3	1	2	3	2	1	3	3	2	4	3	4
Protection of minority shareholder rights	2	3	3	3	1	2	1	3	2	1	2	2	4	3	1	4
Restrictions on local institutional investors investing in PE/VC	0	3	3	3	1	1	1	3	2	3	2	2	4	3	2	4
Protection of intellectual property rights	2	2	3	2	3	1	2	2	2	2	3	2	2	3	3	4
Bankruptcy procedures/creditors' rights/partner liability	2	3	3	2	2	1	2	2	2	2	2	3	2	3	3	3
Capital markets development and feasibility of exits	2	3	3	2	2	1	2	3	2	2	2	1	3	3	3	4
Registration/reserve requirements on inward investments	1	3	3	3	3	3	3	3	3	3	4	3	3	3	3	3
Corporate governance requirements	2	3	3	3	2	3	1	3	2	3	2	2	4	3	2	4
Strength of the judicial system	2	2	3	2	3	1	1	2	2	1	2	3	3	2	2	4
Perceived corruption	1	1	3	1	3	1	1	1	1	1	1	3	3	3	2	3
Quality of local accounting/use of international standards	4	4	4	2	4	3	3	3	2	4	3	3	4	4	3	4
Entrepreneurship	3	3	3	3	2	2	2	3	1	2	2	2	3	2	4	4

### Overall Score Against PE / VC Investments



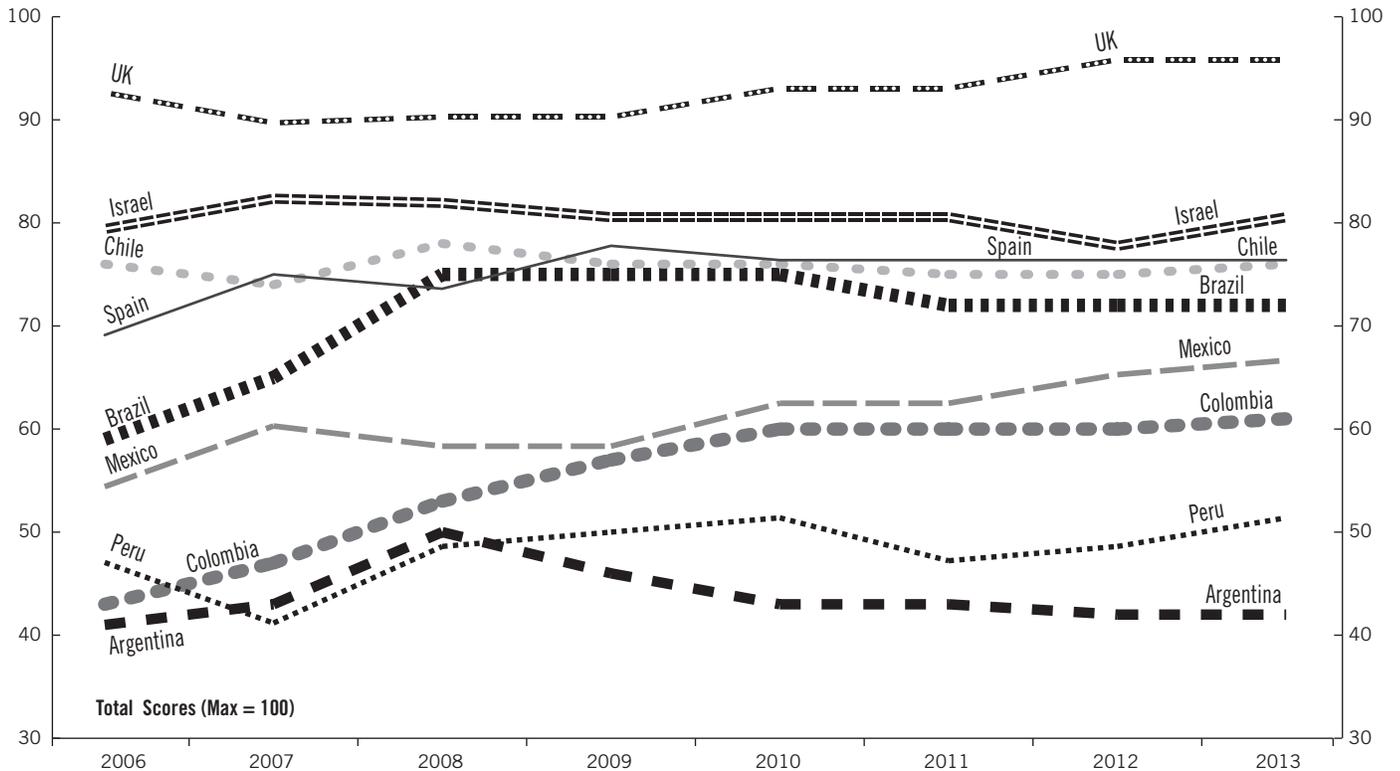
Source: 2013 LAVCA Industry Data

## Overall Score Ranked by 2013 scores

Regional Rank	Country	Score <i>(1-100 where 100 = best)</i>	Change from 2012 (▲▼)	PE/VC % GDP
	UK	96	-	0.42%
	Israel	81	▲ 3	1.10%
1	Chile	76	▲ 1	0.15%
	Spain	76	-	0.17%
2	Brazil	72	-	0.25%
3	Mexico	67	▲ 2	0.06%
	Taiwan	64	▲ 1	0.01%
4	Colombia	61	▲ 1	0.11%
=5	Trinidad & Tobago	57	-	0.00%
=5	Uruguay	57	-	0.00%
7	Costa Rica	56	-	0.00%
8	Peru	51	▲ 2	0.13%
9	Panama	49	-	0.13%
=10	Argentina	42	-	0.01%
=10	Dominican Republic	42	▲ 3	0.01%
12	El Salvador	39	-	0.00%

Overall score is the weighted total of all scorecard indicators, ranging from 0-100 where 100=best / strongest environment

### Evolution of Select PE/VC Markets: 2006-2013



## Country Profile

# ARGENTINA

	2013	2012
<b>OVERALL SCORE</b>	<b>42</b>	<b>42</b>
<b>REGIONAL RANKING</b>	<b>10TH</b>	<b>10TH</b>

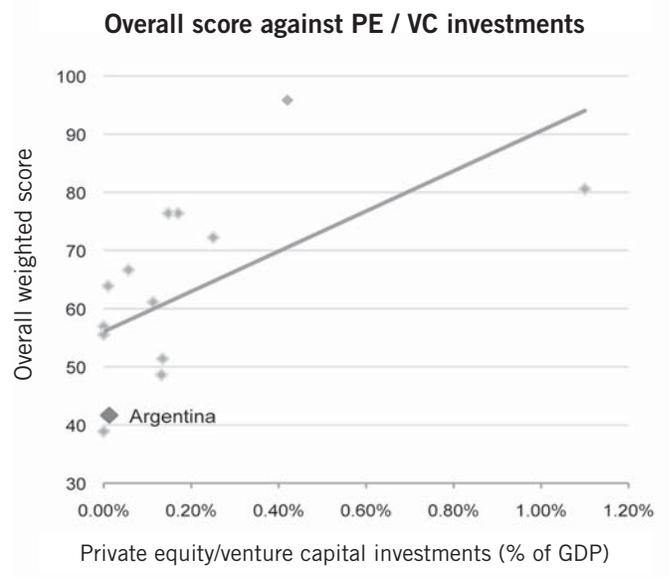
Argentina's score remained near the bottom of the regional rankings this year due to a number of negative indicators, including the continued lack of a specific regulatory framework for PE/VC and local institutional capital, and a deteriorating overall business environment. This hinders the country's otherwise vibrant start-up community, as entrepreneurs look elsewhere for funding and expansion opportunities.

**Strengths:** Argentina continues to boast one of the strongest entrepreneurial communities in the region, particularly in the IT sector. Despite the challenges in doing business in the country, Argentina's accounting standards remain among the best in the region.

**Challenges:** Legal uncertainty, an unstable macroeconomic environment, a high perception of corruption and a lack of local institutional investors make the country broadly unattractive for private equity.

	score	change
<b>Overall score</b>	<b>42</b>	
Laws on PE/VC fund formation and operation	1	
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	0	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	1	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	4	
Entrepreneurship	3	

Indicators are scored from 0-4 where 4 = best score  
Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



## Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	The lack of a specific regulatory framework for PE/VC is still a major constraint in Argentina. The Funds Law only makes general provisions for funds of various types, some of which can be used to operate PE/VC funds. For this reason, offshore vehicles have generally been most common. However, in the City of Buenos Aires fund managers based in Argentina increasingly find it difficult to document to authorities (particularly the Justice Inspector) that a fund is a non-Argentine entity with participating entities registered abroad and that shareholders are foreign nationals; for this reason other jurisdictions are generally preferred. Those seeking to invest only in Argentine firms and with Argentine capital have taken to registering funds as corporations ( <i>sociedades anónimas</i> ) as a workaround solution to the absence of a more specific legal framework (Interviews, February 2013, January 2012; EIU Financial Services Report, December 2012; EIU Country Finance
Tax treatment of PE/VC funds & investments	1	Argentina remains a complex, high-tax environment for PE/VC. The general corporate tax rate is 35%, and Argentine entities are taxed on worldwide income, receiving a tax credit on foreign income paid. Other taxes facing funds include a financial transactions tax (an effective rate of 0.4%); taxes on management companies' services (3% local tax on gross income and 21% value-added tax on fees); and in the city of Buenos Aires stamp tax (1%). Capital gains derived from the transfer of shares of local companies are exempted for non Argentine residents but subject to normal tax rates of 35% for locally based funds. The income tax applies to dividends paid to a resident entity from one that is not a resident. Dividend payments made by local entities are assessed a withholding tax of 35% only if payment amounts exceed accumulated taxable income. (EIU Country Commerce, July 2012, July 2011; Interviews February 2013, January 2012)

## Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	While laws are moderately good, enforcement is weak. Regulation encourages PE funds to invest in Argentine businesses incorporated abroad and for some funds discourages the taking of minority positions at all. Most relevant regulations such as the capital market reform of 2001 are applicable only to publicly traded firms. The 2008 corporate governance code issued by the securities commission is entirely voluntary. The shareholder law does allow for shareholder agreements and domestic and international arbitration clauses. Enforceability is very problematic. The impact of a new capital markets reform adopted by Congress on November 29, 2012 remains unclear; concerns exist about the extent of powers allocated to the National Securities Commission unilaterally to declare null and void actions by regulated security issuers deemed harmful to securities purchasers or minority investors, and to appoint supervisors to intervene in such firms for up to 180 days. (EIU Country Commerce, July 2012; EIU Country Finance, November 2011, October 2010; interviews February 2013, January 2012; Wall Street Journal website, November 12, 2012; Canosa Abogados website, February 14, 2013)
Restrictions on local institutional investors investing in PE/VC	0	The December 2008 re-nationalization of social security closed the door to participation of pension funds as institutional investors. While ANSES, the social security administrator, can allocate up to 50% of surpluses in government bonds and local private companies' shares, there is no clear provision for investing in PE/VC funds. Insurance companies are allowed to invest only in liquid instruments that are externally rated. (EIU Country Finance, November 2011, October, 2010; EIU Financial Services Report, December 2012; Interviews, February 2013, January 2012)
Protection of intellectual property rights	2	The Office of the US Trade Representative continued to include Argentina on its Priority Watch List in 2012. The latest USTR's report states that Argentina took significant action against unauthorized distribution of pirated content over the internet. However, it also noted that Argentina still does not provide adequate protection against unfair commercial use of undisclosed tests and other data generated to obtain marketing approval for pharmaceutical products. (EIU Country Commerce, July 2012, USTR Special 301 Report 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	The 2002 <i>Ley de Quiebras</i> allows firms to restructure debts through an extra-judicial procedure without the unanimous shareholder approval previously required (and with approval of only 2/3 of creditors). However, employees and tax authorities receive priority over creditors. For the past several years, the government has promoted work-outs outside the court system and from 2011 an amendment allows employees to form a cooperative to participate in the reorganization. World Bank Doing Business 2013 finds bankruptcy is slightly quicker and less costly, and yields a somewhat lower recovery rate for creditors, as compared to the regional average. Bankruptcy liability concerns are not a major obstacle to PE/VC investing if provisions are stated. (Interviews, February 2013, January 2012)
Capital markets development and feasibility of exits	2	Argentina's thin capital markets deteriorated further in 2008 after the government nationalized the private pension-fund system. Uncertainty in the domestic capital market and high inflation prevent the development of a long-term fixed interest rate market. Further capital market development is hampered by a lack of local institutional investors. The country's stock exchange is fairly small and dominated by listings by large foreign companies. Also, Argentina remains outside of ongoing efforts to merge stock markets across countries, such as the effort undertaken with the integrated Latin American market (MILA). Most trades are made in government issued debt instruments. Recently implemented foreign-exchange and import controls, which are intended to prop up the balance of payments, will accentuate capital flight. (EIU Risk Briefing, EIU Country Finance, November 2011; EIU Financial Services, December 2012; US Investment Climate Statement, 2012, Interviews January 2013)
Registration/reserve requirements on inward investments	1	Argentina's low scores reflects a system of complex and frequently shifting exchange controls and reporting requirements that has become even more onerous in recent years. Bringing money in and out of the country is a major obstacle for potential foreign investors and offshore PE/VC funds. Inflows of foreign portfolio funds must remain in the country for a minimum of 365 days, and 75 % of the investment amount must be deposited in an interest-free US-dollar account with a local bank for 1 year (30% in the case of capital contributions made by a fund as a direct investor with a stake of 10% or more in a local company). Foreign currency transactions between residents and non-residents must be registered by the central bank, and capital repatriation of portfolio investments exceeding US\$500,000 needs authorization from the central bank. Effective October 31st, 2011, all purchases of foreign currency are subject to clearance by the tax revenue agency, with all transactions verified by banks and foreign exchange houses. In an effort to combat money-laundering, in February 2012 the government reduced the daily limit on cash transactions made in markets to Ps1,000 per person, from Ps10,000, affecting trades in shares and investment funds among other transactions, all of which must now be done through bank accounts authorized by the central bank. Fund managers report, however, that there are some legal loopholes by which some of these restrictions may be worked around. (EIU Country Commerce, July 2012, July 2011; Interviews, February 2013, January 2012, January 2011)
Corporate governance requirements	2	Standards exist under the 2001 capital markets reforms, but only for publicly traded firms, and enforcement through the judicial system is lengthy. Shareholder agreements and arbitration clauses are used, but enforceability is uneven. World Bank Doing Business 2013 rates Argentina as average in regional terms on ability of shareholders to sue, above average on disclosure, and well below average on director liability. In the City of Buenos Aires, the Justice Inspectorate has become stricter concerning companies' disclosures of their shareholders, making it difficult for <i>sociedades anonimas</i> —required by federal law to have at least 2 shareholders – to bypass this requirement by having special-purpose subsidiary, lawyer or manager with 0.01% shares. The Justice Inspectorate has instead been requiring them to register as branches or to have more shareholders with larger ownership shares. Other jurisdictions are more flexible in this regard. (EIU Country Commerce, July 2013; EIU Country Finance, November 2011; Interviews February 2013, January 2012)
Strength of the judicial system	2	Commercial arbitration exists, but the Argentine justice system remains slow. The government's commitment to an independent judiciary has become uncertain and politicisation of the Supreme Court is frequent. This remains true despite the high profile case of the media group Clarin, in which the Supreme Court ruled against government's interests in late 2012. Government influence over private enterprise continues, and, in any dispute with the government, the judiciary can be subject to political pressure. (EIU Risk Briefing, EIU Country Commerce, July 2012; US Investment Climate Statement, 2012; cnn.com, December 2012)
Perceived corruption	1	Corruption continues to be a hurdle for attracting PE/VC funding. Reforms are required to improve the corrupt and inefficient legal system. Weak institutions and lack of transparency continue to foster corruption. Argentina maintains a high rank on Transparency International's 2012 Corruption Perceptions Index (102 out of 174). Without a strengthening of the legal system, it will be difficult to address the problem of corruption, which permeates many levels of government. (EIU Country Report, January 2013; EIU Risk Briefing; Corruption Perceptions Index 2012)
Quality of local accounting industry/use of international standards	4	Local accounting norms are generally in line with international standards. Argentine GAAP is used by SMEs as a whole, though full international standards are followed by those that also do business abroad and larger firms. International auditors are reliable. Listed companies are required to use IFRSs from 2012, though they remain prohibited for private companies. (Interviews February 2013, January 2012; Deloitte IASPLUS 2013; US Country Commercial Guide, 2012)
Entrepreneurship	3	The cost of starting and the time to register a business is significantly below the regional average, as is the contract enforcement. The economic crisis earlier this decade promoted a burst of entrepreneurial activity as well as greater public, media, and governmental support for start-ups and small business. There is good managerial talent and an open entrepreneurial culture as compared to the region. However, the amount of red tape and labour costs remain a concern for businesses. (World Bank Doing Business 2013, Interviews, January 2012)

## Country Profile

# BRAZIL

	2013	2012
<b>OVERALL SCORE:</b>	<b>72</b>	<b>72</b>
<b>REGIONAL RANKING:</b>	<b>2ND</b>	<b>2ND</b>

Brazil's overall score remained the same as in 2012. The country's innovative fund frameworks, along with a tax and regulatory environment favorable to private equity investment, helps Brazil perform well on multiple indicators. A robust self-regulation code aimed at fund transparency that went into effect in 2011 will have its first results reported in early 2013, although enforcement and penalties for non-compliance remain uncertain.

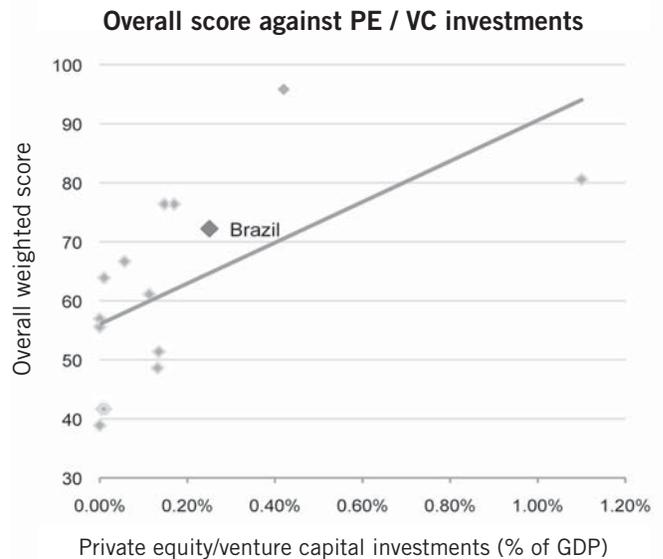
**Strengths:** The regulatory framework for fund formation and the quality of accounting standards are among the country's major strengths, though Brazil scores strongly on most indicators.

**Challenges:** Brazil still faces challenges in addressing the perception of corruption and an inefficient judicial system that makes property rights enforcement lengthy and expensive.

	score	change
<b>Overall score</b>	<b>72</b>	
Laws on PE/VC fund formation and operation	4	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	3	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	4	
Entrepreneurship	3	

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



### Brazil ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	Brazil has two main fund frameworks: <i>fundos mutuos de investimento em empresas emergentes</i> (FIEEs), created for VC activity and <i>fundos de investimento em participacoes</i> (FIPs), created for PE funds. Many Brazilian fund managers also utilize offshore limited partnerships to structure funds. A new "self-regulation" code for both FIEEs and FIPs established by the Brazilian Association of Private Equity and Venture Capital (ABVCAP) and Brazilian Financial and Capital Markets Association (ANBIMA) went into effect in March 2011. Norms address issues in the formation and governance of funds such as transparency, conflicts of interest, related party transactions, and composition of investment committees. Compliance with the code is obligatory for members of both associations, though results have not been published to enable better assessment of compliance as well as impacts on performance. There is already some talk of the need for further revisions, and it appears as if the code's impacts will mainly be felt in the medium to long term. ABVCAP promises to release the results of its first annual database (covering 2012) on the VE/PC industry by April 2013, based on reporting by fund managers required under the code. (Interviews, January 2013, January 2012; ABVCAP website, January 2013; Valor Economico, December 20, 2010)
Tax treatment of PE/VC funds & investments	3	Brazil has a complex and multi-layered tax system with an effective corporate tax rate of 34% (slightly less for smaller companies). As of December 2011, foreign-exchange transactions for portfolio investments of over four years in duration are exempt from the financial operations tax ( <i>Imposto sobre Operações Financeiras</i> —IOF) that is levied on other types of foreign investment. Since 2006, foreign investment in regulated PE/VC funds is exempt from income and capital gains tax provided it does not come from entities registered in tax haven countries and that the stake in the fund does not exceed 40%. Domestic investors are taxed at 15%. Dividends paid to residents and non-residents are not subject to withholding. Investment funds set up as FIPs are pass-through. (Interviews January 2013, January 2012; EIU Country Commerce, September 2012; EIU Country Finance, April 2012)

## Brazil ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	The corporate law framework extends substantial protections to minority shareholders, and introduces shareholder controls, rights and a mandatory distribution of dividends. Preferred, non-voting shareholders must have at least one of the priorities accorded by corporate law to voting shareholders. Preferred, non-voting shares may not exceed 50% of all shares. Shareholders representing 10% of the capital have the right to elect one member of the audit committee. Minority rights are more limited under a limited liability company or a closed SA. (EIU Country Commerce, September 2012, September 2011; EIU Country Finance, April 2012; ibgc.org.br; Interviews, January 2013, January 2012)
Restrictions on local institutional investors investing in PE/VC	3	Brazilian pension funds have been active investors in PE/VC for over a decade. However, some pension funds continue to demand a seat on the investment committees of funds they invest in. This practice makes international investors wary due to governance conflicts. While funds' zeal may fade over time as they become more familiar with the asset class, they are guided in practice by technical assistance from activist institutional investors abroad. "Open" pension funds (those not limited to employees and retirees from specific companies) may invest 60% of AUM in variable income instruments, including funds. Since September 2009 "closed" pension funds may invest 10% of reserves in PE/VC and 10% in offshore funds. Insurance companies may invest up to 50% of reserves in variable income instruments. (EIU Country Finance, April 2012; Interviews, January 2013, January 2012; Valor Economico, December 20, 2010)
Protection of intellectual property rights	2	Brazil has overhauled its intellectual property legislation in recent years, improving IPR protection and enforcement, for which the USTR upgraded Brazil from its IPR Priority Watch List to its Watch List in 2007. However, piracy is common in the software and music industries. Although the process of registering patents and trademarks has improved, the Office of the US Trade Representative noted that Brazil should clarify that the National Health Surveillance Agency has no authority to review patent requirements for pharmaceutical patent applications. (EIU Country Commerce, September 2012; USTR 2012 Special 301 Report)
Bankruptcy procedures/creditors' rights/partner liability	3	Bankruptcy procedures enacted in February 2005 have brought positive results. Brazil's law creates a 180-day window to negotiate restructuring deals with creditors inside or outside the court system and gives creditors 30 days to respond to restructuring plans. Where bankruptcy is inevitable, the law allows for more rapid proceedings and includes creditors. Ease of tax evasion by insolvent firms remains an obstacle. The World Bank's Doing Business 2013 finds that resolving insolvency is more time-consuming, less costly, and yields a much lower recovery rate than regional averages. (Interviews, January 2013, January 2012; Doing Business Report, 2013)
Capital markets development and feasibility of exits	3	The strength and high turnover rate of the Brazilian stock market offer investors better exit options relative to other regional markets. Brazil's stock exchange, BM&FBovespa, is the largest in Latin America in terms of market capitalization and one of the largest in the world. As of end-2012, BM&FBovespa had 364 listed companies, falling from 373 in December 2011, and a market capitalization of US\$1.2trn. The market saw a dramatic fall in the number of IPOs in 2012, down from 11 to 3, but nearly 30 companies are expected to go public in 2013. The authorities have been trying to encourage a culture of equity financing through regulatory changes, including measures to protect the interests of minority shareholders, tax measures and looser listing requirements for SMEs to be able to hold IPOs. The National Development Bank (BNDES) is taking measures to encourage its invested start-ups and companies to go public. Despite its size, local currency and derivative markets are relatively underdeveloped. (EIU Financial Services Report, January 2013; EIU Risk Briefing, BM&FBovespa; New York Times; Interviews, 2013)
Registration/reserve requirements on inward investments	3	Simple online registration of forex transactions exists for record-keeping. As of March 2011, the central bank's authorisation to pay dividends to foreign shareholders is no longer required. The central bank requires registration of all investments so that foreign parties can secure their right to acquire foreign currency directly from authorized institutions. There are no reserve requirements. (EIU Country Commerce, September 2012)
Corporate governance requirements	3	Public companies are required to use external auditors and publish annual financial reports. In 2001, the Bovespa created 3 new segments, each with progressively higher governance requirements (a fourth, Bovespa Mais, was later added for SMEs). As of December 2012, 126 firms had agreed to these corporate governance standards. The Securities Commission (CVM) published voluntary, non-binding governance standards in 2002, and firms are voluntarily requested to report on their non-compliance. Shareholder agreements are a common and legally enforceable means of dealing with these issues in non-listed invested firms. The World Bank's Doing Business 2013 continues to rate Brazil's shareholders' ability to bring suits as well below the regional average, but director liability and disclosure requirements well above. (Interviews, January 2013, January 2012; EIU Country Commerce, September 2011; EIU Country Finance, April 2011; Pellon & Asociados, February 1, 2012, Doing Business Report, 2013)
Strength of the judicial system	2	Generally, contracts in Brazil are upheld. However, cases move slowly through the generally fair, but slow judicial system. According to the World Bank's Doing Business 2013 report, it takes an average of 731 days to enforce a contract, slightly higher than the regional average of 727. Alternative dispute settlement mechanisms via private arbitration are available and function well. (EIU Country Commerce, September 2012; US Investment Climate Guide 2012; World Bank Doing Business report, 2013)
Perceived corruption	1	Businesses report that corruption is an obstacle to investing and operating in Brazil. Clientelism and a lack of accountability foster corruption at all levels of government. Corruption is reported to be problematic in business dealings with some divisions of the government. Brazil's tax and social security systems have also been the source of corruption incidents in recent years. Brazil's Transparency International ranking improved only slightly, falling from 73 to 69 in 2012. (EIU Country Report January 2013; EIU Risk Briefing; US Country Commercial Guide 2012; Transparency International)
Quality of local accounting industry (international standards)	4	Movement toward IAS has been rapid in recent years. Companies listed on the Novo Mercado section of the stock exchange must use US GAAP. All listed corporations as well as financial companies were required to transition to IFRS by 2010, though IFRS are not formally permitted for non-listed entities in their external financial statements (it must be noted, however, that in practice some SMEs follow their principles and IFRS principles have been built into Brazilian statutory accounting principles in recent years). Amendments in 2007 to the Corporate Law bring Brazilian GAAP in line with IAS for both listed and non-listed firms. International auditors are present. (EIU Country Commerce September 2012, September 2011; Interviews January 2013, January 2012; Deloitte IAS Plus 2013; Ernst & Young, February 12, 2012)
Entrepreneurship	3	Though the time and procedures required to start a business in Brazil are above regional averages, start-up costs remain low. The government provides support for the development of SMEsthrough subsidized loans and simplified tax procedures. The 2013 budget for the government-funded Brazilian Innovation Agency (FINEP) remains high after experiencing a 63% increase in 2011 to BRL\$6bn. In addition, 94% of the Brazilian development bank's financing operations were allocated to SMEs in 2011. In January 2012, a new law introducing a sole proprietor limited liability company came into effect. Although it is too early to assess the impact of this new kind of corporate organisation on PE/VC, it will most likely facilitate start-up creation, as it enables owner-operators to obtain limited liability without the need of having any partners. The nascent entrepreneurship rate in Brazil barely averaged 4% between 2011 and 2012. (World Bank Doing Business, 2013; FINEP; GEM Global Report, 2012; Mondaq website www.mondaq.com; EIU/LAVCA 2013 Survey)

## Country Profile

# CHILE

	2013	2012
<b>OVERALL SCORE:</b>	<b>76</b>	<b>75</b>
<b>REGIONAL RANKING:</b>	<b>1ST</b>	<b>1ST</b>

Chile continues to lead the regional ranking. This year, Chile experienced a score increase from the adoption of international financial reporting standards by all non-listed firms. The country also benefits from an improving entrepreneurial environment, anchored by active government support of SMEs and start-ups. Opportunities remain for Chile to set up more efficient fund structures to raise capital from local investors.

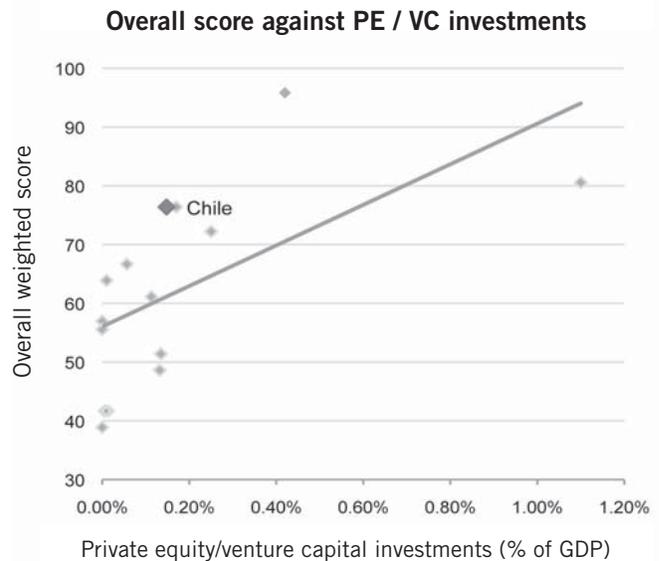
**Strengths:** Chile excels in all categories compared with regional averages, particularly intellectual property protection, judicial transparency and perceived corruption.

**Challenges:** The country's overall score would benefit from an easing of the restrictions that require foreign funds to set up local Chilean structures in order to secure commitments from Chilean investors.

	score	change
<b>Overall score</b>	<b>76</b>	<b>▲ 1</b>
Laws on PE/VC fund formation and operation	3	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	3	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	3	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	▲ 1
Entrepreneurship	3	

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



### Chile ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	3	The process of opening a <i>fondo de inversión público</i> with the <i>Superintendencia de Valores y Seguros</i> (SVS) remains slow and costly. <i>Fondos de inversión privados</i> (FIPs) are more flexible, have less oversight (they do not need to be registered with the SVS), and are more frequently used for nationally domiciled PE and VC funds targeting Chilean firms. FIPs are created by private contracts, managed by a corporation ( <i>sociedad anónima</i> ), but are not subject to taxation themselves. Few internationally managed or regionally oriented PE funds are set up onshore because of the lack of pass-through provisions, and the additional time and expense of a feeder fund is necessary in order to attract investment in such funds by Chilean pension funds (see Restrictions of Institutional Investors). Law 18,815 of 1989 allowed the first risk-capital funds ( <i>fondos de inversión de desarrollo de empresas</i> —FIDEs), giving Chile one of the oldest PE/VC industries in the region. A new Funds Law that would simplify fund formation, ease tax burdens, and create other advantages for the PE/VC industry has not passed in Congress, and passage seems unlikely before the next presidential election later this year. (EIU Country Finance, May 2012; Interviews, February 2013, February 2012; EIU/LAVCA 2011 Survey; PricewaterhouseCoopers, September 2007)
Tax treatment of PE/VC funds & investments	3	The tax regime affecting PE/VC investments is complex and moderately burdensome but fairly stable. Closed-end funds are pass-through entities, with quota holders subject to taxation only upon dividend distribution or when there are capital gains from the sale of liquidation of their shares. Corporate tax on the quota holder is assessed in two stages, with a first stage rate of 20% on income from 2011 (up from 17% in 2010 but made permanent by a September 2012 law which also rescinded scheduled reductions of this originally temporary tax to 18.5% in 2012 and 17% in 2013). A second-category tax applies on profits distributed to shareholders or partners of the quota holders, or repatriated to a parent company abroad; the rate is 35%, for which the first category tax serves as a tax credit. For private investment funds (FIPs), tax is deferred to the moment of dividend payment, and in many instances capital gains taxes can be avoided. Foreign investors still face some obstacles, including lack of pass-through provisions, though they also enjoy tax-stability guarantees. A value-added tax of 19% on fund administrator commissions for foreign participants makes Chile less attractive for hosting regional funds. In general, Chilean entities face a heavier tax burden on outward than on inward investments (i.e., in Chilean-domiciled funds and Chilean firms). Incentives apply for VC investing in both start-up and non-publicly traded firms for both quota holders (with capital gains exempt) and for shareholders (eligible for capital gains reductions). (Interviews, February 2013, February 2012; EIU Country Commerce, January 2013)

## Chile ScoreNotes

Aspects	Score	Notes
	(4-0)	
Protection of minority shareholder rights	3	The 2000 <i>Ley de OPAS</i> law first established minority rights for public firms. A new corporate governance law effective January 1, 2010 goes further in regulating issues for public firms with minority investors. For private firms (limited liability companies and closed SAs), there are fewer requirements. Shareholder agreements are a frequent recourse, with a good degree of enforceability. The <i>sociedad por acciones</i> (a share-issuing limited-liability company) allows for additional flexibility in the transfer of shares and the agreement and exercise of corporate control, and is increasingly used as a corporate vehicle during the invested company's period of VC/PE investment. (Interviews, February 2013, February 2012; EIU Country Commerce, January 2013; EIU Country Finance, May 2012; EIU/LAVCA 2010 Survey)
Restrictions on local institutional investors investing in PE/VC funds	3	Pension funds may only invest in funds that are registered in Chile (though they may invest in stocks and other instruments abroad), resulting in international firms establishing local 'feeder funds' when they wish to access their investment in regional funds. Pension funds face limits on how much they can invest in any given foreign investment vehicle and on overall asset allocation to alternative assets (of which PE/VC is one component), with both but fixed according to a flexible rate determined periodically by the Central Bank and Pension Superintendency; the effective limit has become tighter under this formula. Reporting requirements are onerous. There is, however, an increasingly broad pool of capital available for institutional investment, lessening a bit the dominance of pension funds in this area. Since June 2007, banks may create subsidiaries within an investment up to 1% of their assets in PE/VC fund administrators. CORFO, the major state development agency may invest up to 40% of a fund's shares, in addition to a wide range of soft credit lines it offers for VC and PE. Insurance companies are also significant players. Insurance companies may invest in either public or private funds, on and offshore, within the range set by law and the SVs. (Interviews, February 2013, February 2012; EIU Country Finance, May 2012, May 2011)
Protection of intellectual property rights	3	Chile remains on the USTR's Priority Watch List due to issues with pharmaceutical patents and a lack of protection mechanisms for new technology. Chile's government sent Congress a bill to strengthen the protection of pharmaceutical patents with the aim of bringing to an end this lengthy conflict with the USTR, which has threatened to introduce trade sanctions against Chile unless the matter is properly addressed. The country ratified WIPO's Patent Cooperation Treaty in 2008; in 2011, it acceded to the International Convention for the Protection of New Varieties of Plants. In late 2009, Chile passed a major upgrade to its domestic copyright legislation, albeit without provisions targeting copyright infringement on the Internet. (EIU Country Commerce, January 2012; Investment Climate Statement, 2012; USTR 301 Report, 2012)
Bankruptcy procedures/creditors' rights/partner liability	3	The bankruptcy law of 2005 facilitates extra-judicial accords with creditors. Firms may ask courts to call creditors' meetings and name an expert facilitator to help negotiate debt restructuring within the thirty days prescribed by law. Yet, it remains almost impossible for restructuring firms to obtain fresh injections of capital given the lack of priority in repayment accorded to lenders or investors. Limited partner liability is limited to capital share. The World Bank's Doing Business 2013 report notes that the bankruptcy process is about average in speed and cost and has a lower recovery rate in Chile compared to regional averages. (Interviews, February 2013, February 2012)
Capital markets development and feasibility of exits	3	Chile has the largest stock of credit in Latin America, as well as a higher availability of financing through other channels such as the corporate bond market. Although the market for initial public offerings (IPOs) is small, it has been gaining strength, with three IPOs in the first half of 2012. The Santiago stock exchange recorded four IPOs in 2011, up from one in 2010. While Chile's capital markets have developed overall, low levels of market capitalisation and high costs associated with listing requirements have meant that IPO exits are not an option for the vast majority of SMEs. Fund managers indicate that companies with annual sales of less than US\$100m would have difficulty executing an IPO. The Chilean government is considering a package of reforms intended to boost liquidity and trading activity in capital markets. As part of this reform process, the stock exchanges in Chile, Colombia, and Peru were combined into the Latin American Integrated Market (MILA) in May of 2011, a move which is expected to lead to more IPOs. As of September 2012, 228 Chilean companies were listed in MILA and stock market capitalisation was US\$307bn. (EIU Financial Services Report August 2012; MILA website - mercadomila.com; Interviews, February, 2013, January 2011)
Registration/reserve requirements on inward investments	3	A simplified procedure created in 2000 enables foreign portfolio investors to obtain a Chilean tax ID number from their locally-registered custodial bank or broker. There are no reserve or minimum-stay requirements or exchange controls, though a financial analysis unit continues to monitor suspicious financial transactions under money-laundering and terrorist-financing legal restrictions. (EIU Country Commerce, January 2013)
Corporate governance requirements	3	A new corporate governance law effective January 1, 2010 strengthened legal provisions for publicly traded companies regarding board composition and procedures, independent board members, shareholder meetings, and disclosure policies. In April 2010, the SVS announced that all publicly listed firms must publish their financial accounts on their websites. The 2000 <i>Ley de OPAS</i> initially set up governance norms for public corporations. Privately held companies have fewer legal requirements. A financial fraud scandal that erupted in mid-2011 with a prominent publicly traded Chilean retailer (which was PE-backed in the past and whose stock was held by prominent pension funds) resulted more recently in criminal prosecutions, prison terms and/or fines for some company officials. While this demonstrated the effectiveness of the legal system (as other lawsuits seeking damages are still pending), it seems to have led to a stricter supervision by regulators, and fund managers with responsibilities for regional Latin American funds continue to see standards in Chile as higher than other countries in which they operate. The World Bank's Doing Business 2013 continues to score Chile above the OECD and regional averages on disclosure requirements and director liability, though somewhat below average on ability of shareholders to file suit. In practice, investors rely a great deal on shareholder agreements to establish workable corporate governance practices. (EIU Country Commerce, January 2013, January 2012; Interviews, February 2013, February)
Strength of the judicial system	3	In general, Chile's judicial system is transparent and independent, though it operates slowly. Although there have been government attempts to influence the Supreme Court in some decisions, the judiciary is widely considered to be high quality, with rule of law and respect for contracts seen as strong and courts viewed as trustworthy. Neither the courts nor the government tend to favour domestic companies over foreign ones. The law permits the use of private, alternative dispute resolution mechanisms, such as arbitration centres, and enforceability is perceived as effective. (EIU Risk Briefing; EIU Country Commerce, January 2013; US Country Commercial Guide 2012; Interviews February 2013)
Perceived corruption	3	Chile stands out among Latin American countries for its relatively low level of perceived corruption. Transparency International ranks Chile as the least corrupt country in Latin America. The quality of the bureaucracy is high and implementation capacity is strong. The country has firm institutional traditions that form a solid framework for public officials. Low corruption levels will be reduced further with the completion of a civil-service reform aimed at increasing accountability and transparency. (EIU Risk Briefing; Transparency International, Interviews February 2013)
Quality of local accounting industry (international standards)	4	This score has been upgraded because the adoption of IFRS is near completion country-wide, and fund managers confirm that accounting standards have improved in invested firms. As of 2009, IFRS are required of all listed firms, and by end-2013, all non-listed firms are required to have them in place. International accounting firms are present in Chile. In general, accounting standards at invested firms are seen by fund managers as having improved considerably in recent years, and the adoption of IFRS is seen as a significant improvement over the former Chilean GAAP. (Deloitte IAS PLUS 2013, Interviews February 2013, February 2012)
Entrepreneurship	3	Chile continues to foster a strong entrepreneurial environment. Government support for SMEs and start-ups is growing through the creation of a national competitiveness council and the activities of the development agency, CORFO, which provides financial support to start-ups. Interviewees laud the significant role of CORFO in VC. The cost of starting a business is also one of the lowest in the region. In the World Bank's 2012 Doing Business guide, Chile's 'Starting a Business' ranking jumped from number 62 to 27. The government also improved the business registration process through an online system. (World Bank Doing Business 2012, Interviews February 2013, January 2012)

Country Profile

# COLOMBIA

	2013	2012
<b>OVERALL SCORE:</b>	<b>61</b>	<b>60</b>
<b>REGIONAL RANKING:</b>	<b>4TH</b>	<b>4TH</b>

Colombia's overall score increased this year with an improvement in the country's indicator on entrepreneurship. Over the past year the Colombian government has been actively promoting entrepreneurship with incentive programs for the creation of SMEs. Regulators have advanced in needed improvements to the PE/VC fund framework, and further simplification of the process for the incorporation of funds is anticipated in 2013. The country continues to suffer from a perception of high levels of corruption and the tax environment remains complex.

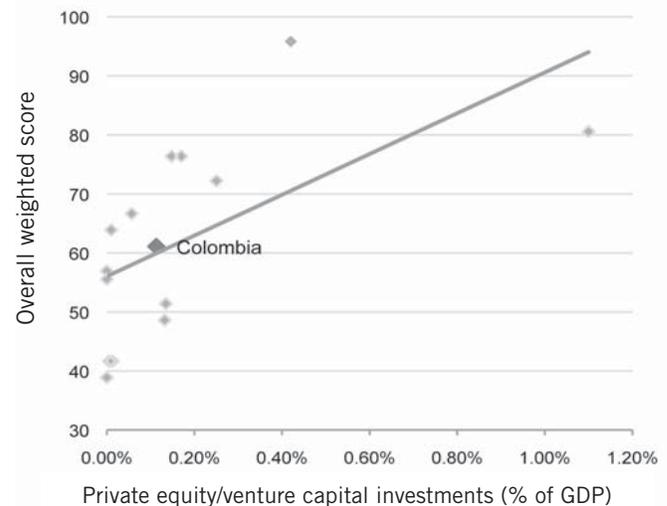
**Strengths:** The environment for entrepreneurs is improving, and Colombia continues to score well on laws for fund formation, restrictions on institutional investors and protection of minority shareholder rights when compared to regional averages. Corporate governance requirements are also relatively strong.

**Challenges:** The perception of corruption and the implementation of international accounting standards remain obstacles for the country. Colombia also scores below the regional average for its somewhat complex tax environment for the PE/VC industry.

	score	change
<b>Overall score</b>	<b>61</b>	<b>▲ 1</b>
Laws on PE/VC fund formation and operation	3	
Tax treatment of PE/VC funds & investments	2	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	2	
Entrepreneurship	3	<b>▲ 1</b>

Indicators are scored from 0-4 where 4 = best score  
Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)

### Overall score against PE / VC investments



### Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Laws on PE/VC fund formation and operation	3	With ongoing improvements in the regulatory structure since the establishment of the basic framework for PE/VC in 2005/ 2007, some areas remain to be addressed. Decree 2555 of 2010 regulates the formation and management of <i>fondos de capital privado</i> (FCP) as a portfolio with assets separate from those of its manager, two-thirds of which must be invested in unlisted firms. Officially, FCPs do not require prior approval from the Superintendent of Finance (SFC) to begin operations, since automatic registration is ensured after 15 business days if the SFC has not acted on a new fund application. In practice, fund managers prefer to have the explicit approval of the SFC prior to initiating operations, and some fund managers have expressed concerns over delays related to asset valuation formulas. Local regulations state that FCPs must be managed by a local supervised entity (a brokerage firm, fiduciary entity or investment bank) and that the investment decisions can be delegated to a third party <i>gestor profesional</i> , either a local or foreign entity. A reform to the FCP regime anticipated in 2013 would simplify the incorporation process, including the automatic authorization for FCPs which are part of the same family ( <i>familias de fondos</i> ). (Interviews, January 2013, January 2012; EIU/LAVCA 2012 and 2011 Survey; EIU Country Finance, May 2011; Website, Superintendencia Financiera; ww.latinlawyer.com)
Tax treatment of PE/VC funds & investments	2	Colombia has a complex tax environment for PE/VC investing. A wealth tax of 1.0-6.0% for individuals and companies chartered before January 2011 remains in effect. PE/VC funds are not subject to income tax as partnerships, and the tax liabilities of investors depend on whether they are resident individuals or entities and the type of income. Dividends paid by a Colombian company to foreign investors are not subject to income tax provided that they correspond to profits subject to corporate income tax in Colombia. If they correspond to non-taxed profits, they are subject to withholding at the standard corporate rate, reduced from 33% in 2012 to 25% in 2013. Under the same reform, withholding tax is only assessed at the time of actual payment to shareholders, rather than based on daily valuations of the assets. The same reform created an 8% temporary tax on corporate profits dubbed "CREE" for 2013-15 applicable to resident corporate entities. Financial transactions are subject to a 0.4% tax. Pass-through for Colombian investors in foreign-domiciled funds is guaranteed. Colombia provides unilateral relief for double taxation. (EIU Country Commerce, January 2013, January 2012; EIU Viewswire, December 21, 2012; EIU LAVCA Survey 2013; latinlawyer.com, June 21, 2012; EIU/LAVCA 2011 Survey; Interviews January 2013, January 2012)

## Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Protection of minority shareholder rights	3	In the standard corporate form ( <i>Sociedad Anónima</i> ), decisions are approved by a favourable vote of 51% of subscribed shares represented. Supermajorities of 70-80% are required for decisions to distribute profits below the percentage prescribed by Colombian law, to waive presumptive rights upon the issuance of shares, and to approve payment of shares via dividends. 25% of shareholders are required to summon an extraordinary shareholders' meeting. Shareholder agreements are permitted under 2005 law, and are commonly used to establish voting and special minority rights. The 2007 voluntary national corporate governance standards (" <i>Código País</i> ") for public companies address general aspects of corporate governance, with some positive implications for minority shareholders. Awareness of minority rights continues to grow with efforts to promote self-reporting on compliance with a voluntary code for closely-held and family-owned companies. (Interviews, January 2012, January 2011, EIU/LAVCA 2010 and 2012 Survey; EIU Country Commerce, January 2013, January 2012; latinlawyer.com, June 21, 2012)
Restrictions on local institutional investors investing in PE/VC	3	The presence of pension funds has grown in PE investing despite limitations, and insurers remain small but potentially important players. In August 2010, Decree 2955 altered rules for mandatory pension funds and insurers, addressing limits on related party transactions, and limits on life insurance companies' and mandatory pension funds' holdings within any given PE/VC fund (40%). Mandatory pension funds may also offer individual retirees a "multi-fund" system of options that are conservative (no PE investments), moderate risk (up to 5% in PE), and high risk (up to 7% in PE); further liberalization of these limits is currently under study. Pension funds and life insurers may invest up to 5% of overall assets in PE/VC funds. Only PE funds that are exclusively available to professional investors are available for pension fund investment. Pension funds have been permitted to invest in funds of funds since 2009. Fund managers are concerned with the recent consolidation of pension fund managers, reduced from six to four by recent mergers. (Interviews January-February 2013, January 2012; EIU/LAVCA 2013 Survey; EIU Country Finance, May 2011; latinlawyer.com, June 21, 2012)
Protection of intellectual property rights	2	Colombia has made efforts to improve IPR by increasing institutional capacity, and supervision and protection of IP, but there is room for improvement in enforcement and prosecution of IPR infringement. Software and apparel industries are significant targets for piracy and counterfeiting. In 2012, Colombia remained on the US Trade Representative's lower-level Watch List due to inadequacies in IPR protection, specifically in the areas of internet and optical disc piracy. With the ratification of the U.S.-Colombia Trade Promotion Agreement in October 2011, Colombia promised to extend further and stronger IPR protections. Initial amendments for the implementation of the treaty have resulted in developments on the rapidity with which patent and trademark applications are assessed. (EIU Country Commerce, January 2012; USTR Special 301 Report 2012, Intellectual Property Rights Toolkit Colombia, export.gov, June 2011)
Bankruptcy procedures/creditors' rights/partner liability	2	A new bankruptcy law implemented in 2006 sought to make liquidation a last resort. Shareholders are last in the repayment hierarchy of distressed firms. According to the World Bank's Doing Business 2013, compared to regional averages, resolving a bankruptcy in Colombia takes less than half the time and expense, and yields more than twice the recovery rate for creditors. Limited liability is established under corporations and limited liability companies, the two most common corporate forms in Colombia. Liability is limited to capital share for shareholders in terms of debts incurred for commonly used corporate forms. (Interviews, January 2013, January 2012; EIU/LAVCA 2009 Survey; latinlawyer.com, June 21, 2012)
Capital markets development and feasibility of exits	2	The stock market declined during the global downturn, but is now rising steadily. There have been a few IPOs in the past few years, with the latest in November 2012. Despite relatively low activity, appetite for Colombian stocks is still strong, evidenced by new offerings placed by firms already listed. Fairly low levels of market capitalization and high costs of meeting listing requirements hinder stock market access. Firms continue to fear enhanced tax scrutiny after a listing. The local currency bond market is dominated by public sector debt, leaving little opportunity for corporate issues. However, local capital markets are still developing. An integrated stock market covering Colombia, Peru and Chile (MILA) came into operation in May 2011 and is expected to advance the market for IPOs in the medium-term. Regulatory improvements in 2011 included direct investment access to all markets through a local broker without the requirement of establishing a foreign investment fund. Short-term investment instruments are more widely available than long-term ones. In addition, the participations ( <i>unidades de participación</i> ) in FCPs are now automatically listed in the National Registry of Securities and Issuers, simplifying the IPO of FCPs' securities. (EIU Financial Services Report, December 2012; EIU Risk Briefing, Interviews, January 2013)
Registration/reserve requirements on inward investments	3	Foreign investment does not require prior approval, but it must be registered with the Central Bank to guarantee access to foreign currency for repatriation. There are no reserve requirements, minimum-stay requirements, or exchange controls. (EIU Country Commerce, January 2013; Interviews, January 2013, January 2012)
Corporate governance requirements	3	Since 2005 efforts have yielded some improvements in corporate governance. Law 964 of 2005 required listed companies to have 25% independent directors and a broad set of corporate governance standards. In 2007, a voluntary code (" <i>Código País</i> ") was adopted with 41 provisions on subjects such as tender offers, related party transactions and audit committees; as of March 2012, 131 companies had adopted the code. A decree in May 2009 increased director and board liability and provided for sanctions against offending parties of listed companies. Since February 2011, under Circular 007, a "comply or explain" regulation has been instituted. According to the World Bank's Doing Business 2013, disclosure requirements, shareholder ability to sue, and director liability are all considerably higher than regional averages for Colombian publicly traded firms. Promotion efforts have focused on awareness and adherence to a separate voluntary code for closely-held and family-owned companies. (Interviews, January 2013, January 2012; EIU/LAVCA 2013 and 2011 Survey; Website: superfinanciera.gov.co; EIU Country Finance, May 2011)
Strength of the judicial system	2	Lower levels of the judiciary are viewed as susceptible to corruption and are described as slow and cumbersome. Colombia is taking steps to speed up proceedings through the enactment of the new Code of General Proceedings effective January 2014. According to the World Bank's Doing Business ranking, enforcement of contracts in Colombia takes almost twice as much time as the regional average. Arbitration clauses are viewed as necessary. The Supreme Court is impartial and respected. Domestic arbitration of investment disputes in PE/VC contracts is commonly conducted through the chambers of commerce and viewed as effective. But, fund managers prefer foreign venues. International arbitration of investment disputes is also available and valid, and referenced in shareholders' agreement at the request of foreign investors. In Law 1563 of 2012, international arbitration awards issued in Colombia are not subject to exequatur or recognition proceedings. (EIU Risk Briefing; EIU Country Commerce, January 2013; Bank Doing Business Report 2013; Interviews January 2013)
Perceived corruption	1	While political institutions are stable, the illegal drug trade and weak accountability contribute to corruption. Colombia ranks 94 out of 174 in Transparency International's Corruption Perception Index. Recent high-profile corruption cases in concessions management suggest that enforcement may be improving, but corruption remains the greatest challenge for doing business in Colombia. Changes in oil transfers to the regions along with the enactment of the Anticorruption Statute in 2011 are examples of recent government efforts to decrease corruption. (EIU Risk Briefing; EIU Country Commerce, January 2012; US Investment Climate Statement 2012, Transparency International)
Quality of local accounting industry (international standards)	2	Colombia lags on this indicator because national standards diverge significantly from U.S. GAAP and IFRS, and delays in implementing international standards have continued to be noted by observers. International accounting firms are present, but IFRS are still not permitted for listed or unlisted firms. The country is adjusting the structure of accounting bodies in order to converge toward IAS and IFRS, under Law 1314 of July 2009. After earlier postponements, 2014 is now the transition period and 2015 the final date for adoption of full IFRS by public firms, large companies whose parents or subsidiaries report under IFRS, and companies exporting or importing over 50% of their sales or purchases. (Deloitte IAS PLUS 2013; EIU/LAVCA 2011 Survey; latinlawyer.com, June 1, 2012; Interviews January 2013, January 2012)
Entrepreneurship	3	The score has been upgraded to reflect the growing government support provided in 2012 to improve the entrepreneurship climate. In addition to the already existing tax deductions on R&D investment, the government has recently undertaken various incentive programs for the development of small and medium enterprises. Colombia's development bank Bancoldex launched a new credit line to promote innovation as well as a US\$5m program that awards grants to dynamic and innovative projects. Bancoldex also signed its 6th investment commitment in a private equity fund. The newly created government program Promover Empresa aims to identify entrepreneurship initiatives, provide business training in 39 cities and facilitate seed capital availability. Colombia improved its ranking in the World Bank's Doing Business indicators for 'Starting a business' from the 65th position to 61st in 2012. (Doing Business 2013, The World Bank; EIU/LAVCA 2013 Survey)

## Country Profile

# COSTA RICA

	2013	2012
<b>OVERALL SCORE:</b>	<b>56</b>	<b>56</b>
<b>REGIONAL RANKING:</b>	<b>7TH</b>	<b>7TH</b>

There have been few changes in the PE/VC ecosystem in the past year in Costa Rica. While the country enjoys a favorable tax environment for PE investing and good access to local markets by foreign investors, the local equity market is undeveloped. Although Costa Rica has a specific legal vehicle for the creation of funds that can invest in privately-held Costa Rican companies, most activity remains in the form of regional funds set up through offshore vehicles.

**Strengths:** The country's main strength is the quality of accounting standards, and it performs above regional standards in perceived corruption. It continues to perform well in indicators including tax treatment, protection of intellectual property rights and requirements on inward investment.

**Challenges:** Costa Rica continues to be deficient in its protection of minority shareholder rights, and local institutional investors are restricted from investing in PE/VC. The country also lacks a strong entrepreneurial community. While the country has developed initiatives to promote small businesses, government support remains weak.

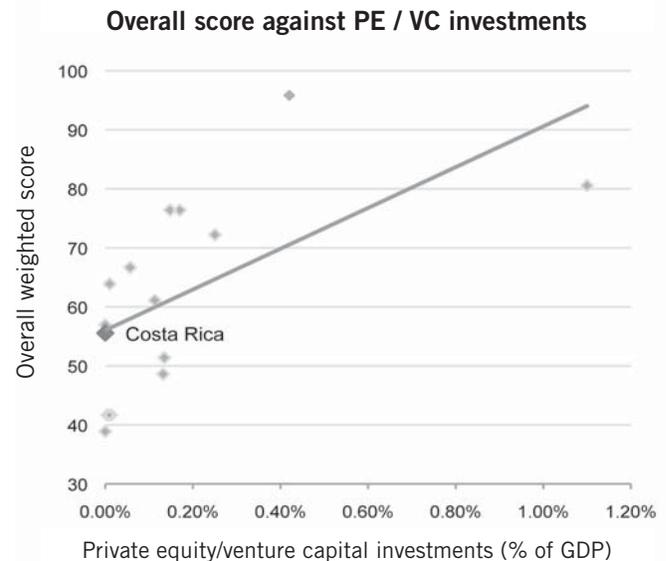
### Costa Rica ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Despite two initiatives in the past half-dozen years designed to foster a domestically rooted PE industry, most activity remains in the form of regional funds set up through offshore vehicles. With an amendment to the existing investment fund regulations effective November 1, 2011 by the National Financial System Supervisory Council (CONASSIF), Costa Rica now has a specific legal vehicle designed for creation of funds that can invest in privately held Costa Rican firms. The new law provides detailed requirements and procedures for the registration of fund managers ( <i>sociedades administradoras de fondos de inversión</i> ), as either corporations (SAs) or branches of foreign corporations, as well as for the establishment of both closed and open funds, including minimum capital requirements, limits on fund manager participation, prospectus guidelines, and maximum closing times. These general rules now apply to the new category of risk capital investment funds along with specific rules governing their operation, such as diversification and concentration of investments and minority rights. It will be important to closely follow its impact in coming years, but as of February 2013 no funds have yet been established. In June 2007, the stock exchange launched the Alternative Stock Market (MAPA), a junior market which is not regulated by the securities commission for the sale of shares by registered firms, typically SMEs, who wish to attract capital from institutional investors. However, the initial experience of the MAPA has been frustrating, with only a handful of firms receiving successful MAPA-sponsored assistance enabling private placements and others still receiving advice in the hopes of achieving that goal. (Superintendencia General de Valores website; Consejo Nacional de Supervisión del Sistema Financiero website; Interviews, February 2013, January 2012; EIU/LAVCA 2011 Survey; EIU Country Finance, February 2012, February 2011)

	score	change
<b>Overall score</b>	<b>56</b>	
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	1	
Restrictions on local institutional investors investing in PE/VC	1	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	3	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



## Costa Rica ScoreNotes

Aspects	Score	Notes (4-0)
Tax treatment of PE/VC funds & investments	3	The favourable tax environment for PE investing continued in 2012, as a tax reform package that would have raised withholding tax to 30%, assessed a value added tax of 14% on fund management services, and raised capital gains tax was declared unconstitutional by the Supreme Court in April 2012. The government has now abandoned these reforms. There is no capital gains tax except where the purchase and sale of shares is the shareholder's habitual activity, in which case a 5% tax applies to the sale of locally registered investment fund assets. Enforcement of these norms is uneven. Interest payments and financial commissions taking the form of foreign remittances are subject to a 15% withholding tax at the source. Dividends paid to non-resident shareholders are subject to a 15% withholding tax (applicable only on post-tax business profits, unlike most other countries); however, no withholding is assessed if dividends are paid to another Costa Rican company or if the home country of the firm does not allow credits for taxes paid in Costa Rica. (EIU Country Commerce, November 2012, October 2011; EIU Country Finance, February 2012; Interviews, February 2013, January 2012)
Protection of minority shareholder rights	1	In general, the concept of minority rights remains poorly understood with little established jurisprudence or judicial training in the area. No legal requirements exist on the percentage of shares that constitute effective control. Applicable rules must be written into the corporation's own statutes or bylaws. Any shareholder or group of shareholders representing at least 25% of the capital stock may convene a shareholders' meeting. Protections must be incorporated by investors in shareholders' agreements through arbitration clauses given slowness of judicial system. In some cases, funds seek alternative firm structures such as trusts where minority rights can be better enforced. (Interviews, February 2013, January 2012, EIU Country Commerce, November, 2012, October 2011; EIU Country Finance, February 2012)
Restrictions on local institutional investors investing in PE/VC	1	The pension system is partially privatised, though the five state-owned funds that dominate the market have relative operational autonomy and compete with the privately managed funds. The eight registered <i>operadoras de pension complementarias</i> (OPCs) cannot invest more than 5% of assets in a single company, nor can they place more than 50% in government bonds; they must invest at least 15% in mortgage-backed securities, and may invest up to 10% in preferential or common stock. In practice, purchases are still restricted mostly to government and commercial paper, though more flexible limits including some riskier asset classes (such as BBB-rated securities and some types of investments abroad) have been established in recent years. If and when nationally domiciled PE fund managers and funds are set up under the 2011 law established for this purpose, it will be important to see whether regulations will be issued to permit investment in this asset class by pension funds. The National Insurance Service (INS) plays a minor role as an investor in the stock exchange, mainly in the markets for bonds and commercial paper. (Interviews, February 2013, January 2012; EIU Country Finance, February 2012, February 2011; Pension Superintendency website, July 2012)
Protection of intellectual property rights	3	The legal framework for intellectual property rights (IPR) protection is in place and progress continues to be made on developing an interagency task force. Although the country has not adequately enforced these laws due to lack of resources and training among enforcement agencies, this concern has lessened following the passage of a reform in 2008 connected to the DR-CAFTA. In 2011, Costa Rica established a new policy addressing crimes related to IPR. Nevertheless, the country remains on the USTR Watch List 2012 due to shortcomings in IPR enforcement. The rate of software piracy has declined steadily, but remains high. Business software piracy in Costa Rica was estimated at 58% in 2011, unchanged from 2010. (US Country Commercial Guide 2012; USTR Special 301 Report, 2012; Country Commerce, October 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy provisions, spelled out in both the civil procedures, and commercial codes, are clear and similar to U.S. law, though enforceability is uneven. In general, regulations tend to promote liquidation rather than restructuring. The World Bank's Doing Business 2013 reports that bankruptcies are resolved more slowly, at slightly lower cost, and with a significantly lower recovery rate than the regional average. Equity investors are generally not liable beyond the amount invested, but managers and board members are. As in the United States, penal law will apply to criminal malfeasance in some instances of bankruptcy. (Interviews, January 2012, January 2011; U.S. Country Commercial Guide 2012)
Capital markets development and feasibility of exits	2	The local equity market is undeveloped, and IPO exits remain difficult but not impossible. In 2012, the total volume traded in Costa Rica's exchange was US\$60bn, the vast majority of which was in public-sector debt instruments. Foreign access to local markets is good. With the acquisition of listed domestic firms by international concerns, de-listings have become common. The creation of the Alternative Market for Shares (MAPA) in 2007 created a possible new opening for private placements of shares for SMEs by smoothing disclosure and regulation required for issuing a stock. However, this practice remains limited to date. (Interviews, January 2013, January 2012; EIU Risk Briefing; EIU Country Finance, February 2012, Bolsa Nacional de Valores www.bolsacr.com, US Investment Climate Statement, 2012)
Registration/reserve requirements on inward investments	3	All foreign-exchange transactions take place through the Banco Central de Costa Rica (BCCR), the national banking system and private banks. But there are no requirements on where proceeds can be deposited. Despite this, stringent "know your client" regulations effective March 2009 require banks to keep a register of all depositors and all those making transactions there, particularly those operating on behalf of companies with operations outside of Costa Rica. Export and other sources of foreign income are recorded by the BCCR. Registration of capital is not mandatory, but the central bank does not guarantee availability of foreign exchange for repatriation for non-registered investments. (EIU Country Commerce, November 2012, October 2011; EIU Country Finance, February 2012)
Corporate governance requirements	2	A Corporate Governance Law (passed in 2009 and revised in 2010) exists, but legal norms, training and jurisprudence remain weak in such basic areas as conflict of interest and related-party transactions. A system of supervision is optional. No legal requirements exist on the percentage of shares that constitute effective control. Shareholder agreements and arbitration clauses are often deemed necessary to shore up deficiencies in invested firms, but enforceability is sometimes an issue. Bearer shares are forbidden. According to the World Bank's Doing Business 2013, Costa Rica has weak disclosure requirements and shareholder rights to take legal action against the board by regional standards, but average director liability. (Interviews January 2011, January 2010, EIU Country Commerce, November, 2012, October 2011; EIU Country Finance February 2012, February 2011)
Strength of the judicial system	3	The judicial system is independent and retains high legitimacy, but the legal process remains complex and sluggish. This, along with the lack of specialized commercial courts, makes arbitration a highly attractive option for businesses. Alternative methods for dispute resolution are available through several arbitration centres. Arbitration has reportedly worked successfully. Respect for the rule of law, which is higher than in most Latin American countries, will reduce uncertainty for foreign investors and ensure continued political stability. Contracts are generally upheld and investments are secure. (EIU Risk Briefing, Interviews January 2013, US Country Commercial Guide, 2012; Investment Climate Statement, 2012)
Perceived corruption	3	Despite some isolated cases of corruption in recent years, the country's political stability persists and Costa Rica enjoys the lowest levels of corruption in the region. Costa Rica is widely recognized for its long-standing democratic tradition. Its state institutions have successfully avoided infiltration by interests allied to the illegal drug trade. Costa Rica ranked 48 in Transparency International's 2012 Corruption Perception Index, being one of the lower rankings in the region. (EIU Country Report, February 2013; EIU Risk Briefing; Transparency International)
Quality of local accounting industry (international standards)	4	International norms are used by medium to large enterprises and international firms are present and competent. IFRS are required for both listed and unlisted companies. The junior stock market for private share placement requires the use of IAS. (Interviews, February 2013, January 2012; Deloitte IAS PLUS 2013)
Entrepreneurship	2	There have been increased government initiatives organized to promote SMEs, such as incubators and seed funds, but government support remains weak. Informants note, however, that the reduction in business start-ups procedures has experienced a steady progress. While the cost of starting a new business remains relatively low, the time and number of procedures required to start a business are still above regional averages and act as potential deterrents to new entrepreneurs. Interviewees also stress the prevalence of dynamic mid-cap companies. (World Bank Doing Business 2013; Interviews, January 2013, January 2012)

## Country Profile

# DOMINICAN REPUBLIC

**OVERALL SCORE:**                    2013                    2012  
                                                  42                        39  
**REGIONAL RANKING:**   10TH(TIED) 11TH(TIED)

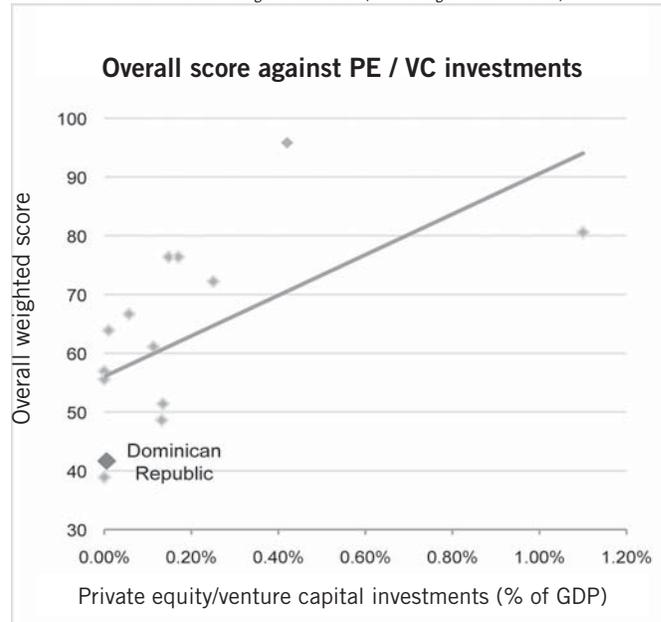
The Dominican Republic climbed out of its position at the bottom of the regional ranking this year, thanks to improvements in the country's scores on entrepreneurship and perceived corruption. A new presidential administration has committed to increased transparency and responsible management of public resources. Nonetheless, the country still faces a number of obstacles in improving the investment environment. Despite improvements at the executive level, corruption permeates the judicial system, and a high tax environment also acts as an overall deterrent.

**Strengths:** The country is open to inward investment and maintains international accounting standards and corporate governance requirements.

**Challenges:** The Dominican Republic continues to score poorly on the majority of indicators including restrictions on institutional investors, tax treatment and the strength of the judicial system

	score	change	
<b>Overall score</b>	<b>42</b>	<b>▲</b>	<b>3</b>
Laws on PE/VC fund formation and operation	2		
Tax treatment of PE/VC funds & investments	1		
Protection of minority shareholder rights	2		
Restrictions on local institutional investors investing in PE/VC	1		
Protection of intellectual property rights	1		
Bankruptcy procedures/creditors' rights/partner liability	1		
Capital markets development and feasibility of exits	1		
Registration/reserve requirements on inward investments	3		
Corporate governance requirements	3		
Strength of the judicial system	1		
Perceived corruption	1	▲	1
Quality of local accounting/use of international standards	3		
Entrepreneurship	2	▲	1

Indicators are scored from 0-4 where 4 = best score  
 Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



## Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	The Dominican Republic took promising steps with the promulgation of a new Trust Law in September 2011 and implementing regulations issued since by various regulatory entities. The law allows for the formation of investment trusts ( <i>fideicomisos de inversion</i> ) under the fiduciary responsibility of fund managers, as well as public offering trusts ( <i>fideicomisos de oferta publica</i> ); fund managers ( <i>administradoras de fondos de inversion</i> ) may administer either open or closed-end funds but not both). In principle, the trusts enjoy certain tax exemptions and are eligible for pension fund investments. Until now, all PE/VC funds have operated from offshore in the absence of viable domestic instruments, or through domestic investors operating limited liability companies or holding companies, and repatriating proceeds offshore. The score was upgraded in 2012 in recognition that creation of the investment trust vehicle is an important first step, but it will be important to assess going forward whether PE/VC funds are actually set up under the trust Law, as none have been as of February 2013. (Pellerano and Herrera Abogados website, February 2012; Banco Central website February 2012; Superintendencia de Valores website 2011; iflr.com website, October 1, 2011; Interviews, January 2013, January 2012)

## Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Tax treatment of PE/VC funds & investments	1	The country remains a high tax environment in relevant areas. The flat income tax rate for corporations (also applicable to capital gains) has remained at 29% since it increased from 25% in 2011. The tax rate under a November 2012 reform, effective January 1st 2013, will be reduced to 28% for 2014 and to 27% from tax year 2015. The withholding tax on dividends paid to a resident or non-resident were reduced from 29% to 10% from January 1st 2013, though there is no longer credit against income tax liabilities. Payments abroad to non-domiciled persons or entities remain subject to 25% retention, except interest payments to financial institutions abroad, instead subject to 10%. Historically, pass-through has not been automatic and must be structured carefully through shareholder agreements and arbitration clauses; however, the September 2011 Trust Law establishes certain tax exemptions for investments in investment trusts and public offering trusts. Tax incentives and exemptions for investments in the Dominican exchange were eliminated in January 2013. (Interviews, January 2013, January 2012; EIU Country Report, February 2013; EIU Viewswire, November 7, 2012; deloitte.com, Dominican Republic Highlights 2012 and World Tax Advisor, December 14, 2012)
Protection of minority shareholder rights	2	Minority rights have been weakly protected and understood under the most common SA ( <i>sociedad anonima</i> ) form. With expanded auditing and reporting requirements under a new corporate law that went into effect in June 2009, minority board members can now gain access to more timely and transparent financial information. Minority rights are weaker in the limited liability company form, although a one-tenth minority can vote to appoint an independent accountant to conduct audits. (Interviews, January 2013, January 2012; Superintendencia de Valores website, Ley General 479-08; Headrick, Rizick, Alvarez & Fernandez, Boletin Informativo, December 2008)
Restrictions on local institutional investors investing in PE/VC	1	It is unclear if pension funds will become active players in the industry under the September 2011 Trust Law, which opens up the possibility for both investment trusts and public offering trusts. Under regulations issued by the Risk Standards and Investment Limits Commission (CCLR), investments by pension funds are subject to prior authorization and approval includes quarterly risk classifications; fund managers must have at least US\$10m under management and two years experience; and the fund instrument must have been created at least six months prior and have three separate, unrelated investors committed. While limits for pension funds investment in other types of instruments have been specified and modified through a raft of regulations since this law passed, no specific limits are set for investment trusts and public offering trusts. Under the Insurance Law, companies are restricted from engaging in most equity investing. (Interviews, January 2013, January 2012; Superintendencia de Pensions website, February 2013)
Protection of intellectual property rights	1	The Dominican Republic has made minor advances over the past few years, such as increasing government use of licensed software and decreasing television broadcast piracy. Enforcement of IPR laws remains a major concern for businesses. The country remains on the USTR 2012 Watch List. While the US government notes ongoing efforts to implement the CAFTA-DR accords, which have strengthened IPR, there are still concerns about sufficient enforcement, the widespread availability of pirated goods, and delays in issuing patents. (US Investment Climate Statement 2012, USTR Special 301 Report 2012)
Bankruptcy procedures/creditors' rights/partner liability	1	Compared to the regional average, resolving bankruptcies remains a slightly slower and much more costly process, and the recovery rate is much lower for claimants. A bankruptcy bill that would simplify restructuring has languished in Congress since 2007, though the new government that took office in 2012 has shown signs of trying to revive it. Partner liability is a grey area that needs to be defined carefully in company statutes and shareholder agreements. (Doing Business 2013, The World Bank; Interviews January 2013, January 2012)
Capital markets development and feasibility of exits	1	The availability of finance from the domestic banking system is limited. The Central Bank's expansive monetary policy has helped to improve credit activity since May 2012. The country lacks a viable stock market and local IPOs are not an exit option. The financial system is inefficient relative to its CAFTA-DR partners. The country's domestic exchange is focused on fixed-income and commercial paper, and while it has grown rapidly, it remains small and does not provide a significant channel for equity finance. In 2012, the Bolsa de Valores handled US\$1.3bn worth of transactions, mostly in the secondary market and fixed-income securities. (Interviews January 2010; EIU Risk Briefing, US Investment Climate Statement, 2012; Bolsa de Valores de la Republica Dominicana)
Registration/reserve requirements on inward investments	3	There are no reserve requirements or exchange controls, and registration is simplified under CAFTA-DR. (EIU Country Report, February 2013; Interviews, January 2013, January 2012)
Corporate governance requirements	3	A new corporate law that came into effect in December 2008, as amended effective February 2011, created limited liability companies and divided corporations ( <i>sociedades anonimas</i> ) into public and private, establishing important governance standards, annual auditing requirements, obligations to inform shareholders of transactions representing more than 15% of the firm's assets and restrictions on related party transactions. The legal oversight of accounting commissars ( <i>comisarios de cuentas</i> ) was strengthened with requirements that they be certified public accountants and separated from the board. With respect to limited liability companies ( <i>sociedades de responsabilidad limitada</i> ), it remains unclear if the benefits of flexibility come at the expense of less rigorous corporate governance. According to World Bank's Doing Business 2013, the country has slightly higher disclosure requirements, average shareholder ability to sue, and below average director liability, by regional standards. Sanctions and policing of financial reporting remain problematic. (Interviews Jan 2013, Jan 2012; Superintendencia de Valores website, Ley General 479-08; www.drlawyer.com, Feb 2013)
Strength of the judicial system	1	While the Supreme Court is viewed as being fairly independent, the judiciary is relatively weak and prone to corruption. There have been instances of local firms taking advantage of the courts to quickly end a dispute with a foreign company. The judiciary tends to be slow and ineffective. However, there is an alternative system of dispute resolution via the arbitration mechanisms in the chambers of commerce. The risk that a contract will not be enforced remains moderate. The average contract enforcement period is below regional averages. (EIU Risk Briefing; US Investment Climate Statement 2012, Doing Business Report 2013, The World Bank)
Perceived corruption	1	Corruption is fostered by a lack of accountability in all government levels, which creates an uneven playing field in the business community. Foreign firms indicated that they face systematic corruption, limiting their ability to defend their interests. Given the new administration's willingness to adopt austerity measures and increased public pressure to hold the government accountable, country's score has been upgraded. This is considered an important step towards transparency in public resources management with potential spill over effects in conducting business. Although the Dominican Republic continues to rank poorly in the Corruption Perceptions Index, it improved its score from 2.6/10 to 3.2/10 in 2012. (EIU Country Report, January 2013; EIU Risk Briefing; Transparency International)
Quality of local accounting industry (international standards)	3	Under a September 2011 Circular issued by the securities commission, all public companies had a transition period during 2011 to implement certain specified IFRS, and were required to come into full compliance with IFRS as of January 1, 2013. A February 2010 resolution of the Institute of CPAs of the Dominican Republic set a clear timeline for implementation of IFRS by public companies, with some standards becoming mandatory in 2010. IFRS are permitted but not obligatory for non-listed firms, and since 2007 standards adapted to smaller firms have been in place for small and medium-sized businesses. International auditors are present and reliable. (Deloitte IAS PLUS 2013; Interviews January 2013, January 2012; Superintendencia de Valores website, February 2013)
Entrepreneurship	2	The first seed capital fund of the country was created in July 2012. Two regional development banks funded a US\$1.2m seed capital fund that will make resources available to early stage companies. Although the costs to embark on entrepreneurial activities remain relatively high, this is considered an important step to develop an entrepreneurial culture in the Dominican Republic and to increase availability of VC. In addition, the country slightly improved its rank in 'Ease of Starting a Business', ranking 137th compared to last year's 140th position. Though modestly, the government supports entrepreneurship centres within the educational system. Interviews indicate that PE is a more attractive option when starting a business unless multilateral banks are involved, in which case VC is viable. (EIU/LAVCA 2013 Survey; Interviews, Jan 2013; Doing Business 2013, The World Bank; Inter-American Development Bank website www.iadb.org)

Country Profile

# EL SALVADOR

	<b>2013</b>	<b>2012</b>
<b>OVERALL SCORE:</b>	<b>39</b>	<b>39</b>
<b>REGIONAL RANKING:</b>	<b>12TH</b>	<b>11TH (TIED)</b>

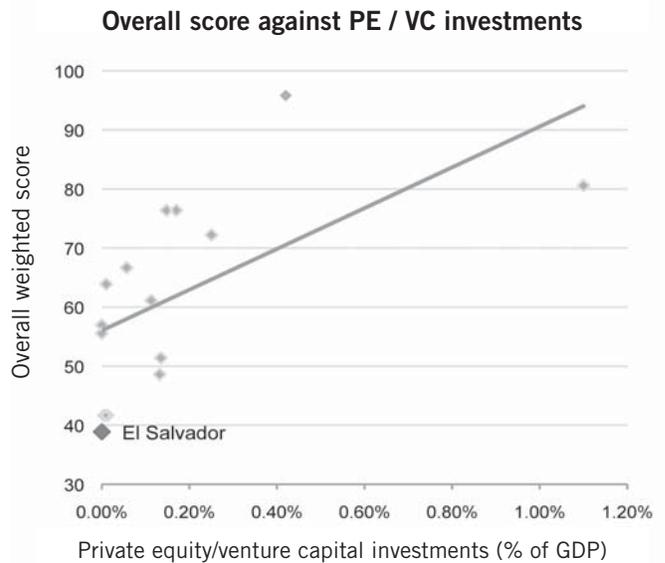
El Salvador's overall score did not change from 2012, and the country continues to be positioned at the bottom of the regional ranking. PE/VC funds are located offshore, as there is a lack of regulation that allows funds to operate domestically. The country still needs to develop adequate regulation to improve corporate governance and the protection of minority shareholder rights. Corruption and a weak judicial system are continuing obstacles for the country.

**Strengths:** El Salvador has limited strengths, but remains open to inward investment.

**Challenges:** The country remains below the regional average on indicators including laws on PE/VC fund formation, restrictions on local institutional investors, corporate governance, protection of minority shareholder rights and strength of the judicial system.

	score	change
<b>Overall score</b>	<b>39</b>	
Laws on PE/VC fund formation and operation	0	
Tax treatment of PE/VC funds & investments	2	
Protection of minority shareholder rights	1	
Restrictions on local institutional investors investing in PE/VC	1	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	1	
Strength of the judicial system	1	
Perceived corruption	1	
Quality of local accounting/use of international standards	3	
Entrepreneurship	2	

*Indicators are scored from 0-4 where 4 = best score  
Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)*



*El Salvador ScoreNotes*

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	0	There are no specific regulations allowing for funds to form and operate, though until about 2010 authorities would sometimes recognize funds and accord them certain fiscal advantages (such as exemption from an withholding tax) on case-by-case basis. All PE/VC activity in El Salvador remains limited to offshore funds or networks of angel investors. (Interviews, February 2013, February 2012; EIU Country Finance, December 2011).
Tax treatment of PE/VC funds & investments	2	PE funds and investors face a significant tax burden that has grown in recent years. From January 1, 2012, corporate income tax rates were increased from 25% to 30% for those entities earning more than US\$150,000 per year. In addition, effective fiscal year 2012, distribution of profits (including dividends and "hidden profit distribution in the form of loans, advance payments or other kinds of financing") to resident or non-resident shareholders by resident corporations is subject to 5% withholding for residents of most countries and 25% for those deemed to be tax havens. A capital gains tax on 10% of net proceeds of transactions or the sale of securities applies. El Salvador has no tax treaties with other countries. (Ernst & Young, February 9, 2012; EIU Country Commerce, June 2012, June 2011; EIU Country Finance, December 2011; Interviews, February 2013, February 2012)

## El Salvador ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	According to fund managers, minority rights protection remains problematic, as family-owned businesses dominate and minority rights are not well understood. Minority shareholders can convene a board meeting, but have few other statutory rights, so applicable rules must be written into each company's statutes or bylaws. Minority rights must be addressed in shareholders agreements and arbitration clauses, though enforceability is poor given lack of specialized courts or judicial training. In some cases funds prefer that invested firms incorporate offshore or that agreements refer to foreign venues, where better protections exist. (EIU Country Commerce, June 2013, June 2012; EIU Country Finance, December 2011; Interviews, February 2013, February 2012)
Restrictions on local institutional investors investing in PE/VC	1	There are no formal restrictions on insurance, but in practice funds under management are limited by size of market, which remains small. Nearly all of the pension funds' assets under management take the form of fixed-return instruments, of which the vast majority are held in public sector instruments. Pension funds may invest in listed stocks, and also may invest a maximum of 10% of their portfolio abroad and 30% in foreign shares listed on the local exchange, though issuers must have two risk classifications. No specific provision is made for investing in PE funds. (Interviews, February 2013, February 2012; EIU Country Finance, December 2011)
Protection of intellectual property rights	2	Judiciary and regulatory enforcement remain a concern for businesses. CAFTA-DR provisions require the country to continue to strengthen legal protections, but there has been no major crackdown on pirated goods. Software piracy is rampant, with pirated products representing as much as 80% of all software in 2011. The national courts continue to deal with IPR disputes, and despite its overall competence, the court system is reported to be extremely slow and the process frustrating. (EIU Country Commerce, June 2012; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	The Commercial Code, Code of Mercantile Processes, and Banking Law contain sections on bankruptcy, but there is no separate bankruptcy law or court. According to World Bank Doing Business 2013, resolving a bankruptcy is slower but considerably less costly than the regional averages, and the recovery rate for creditors is somewhat higher. Commercial arbitration remains relatively new, and has been resisted by the judiciary. There is no partner liability beyond its capital share (though managers and board members are liable), except in cases of fraud. (US Country Commercial Guide 2012 and 2011; Interviews, February 2013, February 2012)
Capital markets development and feasibility of exits	2	VC and PE are still limited to offshore funds as of November 2011. Despite the fact that foreign investors may invest directly in El Salvador's stock exchange and that no restrictions apply to foreign purchase on any type of portfolio investment, the stock market is not well capitalized. Given scarcity of equity finance, most companies raise capital through debt issuance. Most activity on the market is focused on public-sector securities, with equity trades playing a limited role. The volume of stock transactions barely reached US\$37m in 2012. Underdevelopment of capital markets remains a key constraint to El Salvador's long-term growth. The equity market is still not a viable option for PE/VC exits from the country. (EIU Risk Briefing; Bolsa de Valores de El Salvador, Interviews, January 2013, US Investment Climate, 2012)
Registration/reserve requirements on inward investments	3	The Central Reserve Bank ( <i>Banco Central de Reserva</i> ) oversees persons and institutions that carry out foreign exchange (forex) transactions, which remain unrestricted. The origin and destination of any transaction exceeding US\$10,000 must be reported to central bank officials. The destination of all transactions involving the purchase of forex must be reported to the Ministry of Finance ( <i>Ministerio de Hacienda</i> ) for tax purposes. There are no reserve requirements or exchange controls in this dollarized economy. (EIU Country Commerce, June 2012)
Corporate governance requirements	1	Only minimal corporate governance requirements are in place, such as holding annual meetings, annual publication of financial reports, ability of minority shareholders to call a meeting, and registering companies in the commercial registry. According to the World Bank's Doing Business 2013, disclosure requirements are below average, director liability is zero, and ability of shareholders to sue is on par, compared with regional averages. Shareholder agreements and arbitration clauses may be used, but enforceability is questionable. Some funds prefer that invested Salvadoran firms incorporate offshore and/or make reference to foreign legal venues in their bylaws and statutes to avoid these problems. (EIU Country Commerce, June 2012, June 2011; EIU Country Finance, December 2011; U.S. Country Commercial Guide, 2012; Interviews, February 2013, February 2012)
Strength of the judicial system	1	The judiciary is inefficient (particularly the lower courts), sluggish and politicised, which means that contractual agreements are often not respected. Efforts to increase the independence of the judiciary exist but remain insufficient and corruption is persistent. Proceedings can be costly and some cases have been tainted by manipulation of the legal system by private interests. Final rulings are sometimes not enforced. Recent modifications to the country's arbitration law have resulted in judicial encroachment into arbitration proceedings, raising concerns for the business community. The World Bank's involvement in judicial modernization programs, along with new legislation designed to facilitate trials and appeal process that came into force in 2011, may lead to improvements in the long term. (Interviews, January 2012; EIU Risk Briefing, EIU Country Commerce, June 2012; US Investment Climate Statement 2012)
Perceived corruption	1	Corruption remains a problem, particularly in lower levels of government. Despite efforts to reinforce government accountability, particularly through implementation of the Law on Transparency in 2011, the country's rank in Transparency International's Corruption Perception index deteriorated in 2012 as it increased from 80 to 83. The Attorney General was recently attributed a special office, the Anticorruption and Complex Crimes Unit, to handle cases of public corruption, of which there have been a few prominent examples in recent years. However, corruption persists in the judicial system. (EIU Country Report, 1st Quarter 2013; EIU Risk Briefing; US Investment Climate Statement 2012; Transparency International)
Quality of local accounting industry (international standards)	3	Substandard accounting practices are still found in many SMEs, and formal standards also lag behind international norms, though some improvements from a decade-long perspective are evident to fund managers. IFRS are permitted but not required for listed companies (of which there are very few on the country's exchange); they are not permitted for unlisted companies. Double-bookkeeping remains common. Outside audits by registered auditors are required of all firms, though standards are considered low in the domestic accounting industry and efforts to institute criminal penalties for falsification of tax documents for auditors and accountants were defeated by the opposition in 2010-11. Funds investing in Salvadoran firms find it important to conduct both financial as well as fiscal audits. International auditors are present. (Deloitte IAS PLUS 2013; EIU Country Finance, December 2011; Interviews February 2013, February 2012)
Entrepreneurship	2	While the number of procedures and required time to start a business is below regional averages, the cost of starting a business remains one of the highest in the region. Interviewees indicate that even though there is less red tape involved in starting a business than in other Central American countries, El Salvador remains less entrepreneurial than its neighbours. There are large gaps in business training in terms of investor outreach and internet usage, which constrains the entrepreneurial environment. (Doing Business 2013, The World Bank; Interviews, January 2013, January 2012)

## Country Profile

## MEXICO

	2013	2012
<b>OVERALL SCORE:</b>	<b>67</b>	<b>65</b>
<b>REGIONAL RANKING:</b>	<b>3RD</b>	<b>3RD</b>

Mexico remained third in the regional ranking, although its overall score rose this year with an improved score on entrepreneurship. The new administration has placed an emphasis on entrepreneurship and competition, encouraging a business-friendly environment for local and international investors. Mexico's capital markets continue to diversify, and the BMV outperformed other markets in the region in 2012. Although the process to invest in Development Capital Certificates (CKDs) is still complex, the structure continues to gain acceptance as a local fundraising vehicle, allowing Afores to add liquidity to PE/VC funds.

**Strengths:** Compared to regional averages, Mexico is strong in tax treatment, corporate governance requirements, capital markets development, protection of minority shareholder rights and restrictions on local institutional investors.

**Challenges:** Due to a weak framework for fund formation, larger funds attracting foreign capital continue to set up vehicles offshore. Additional areas of weakness include bankruptcy procedures, protection of intellectual property rights, an inefficient judicial system and a negative perception of corruption.

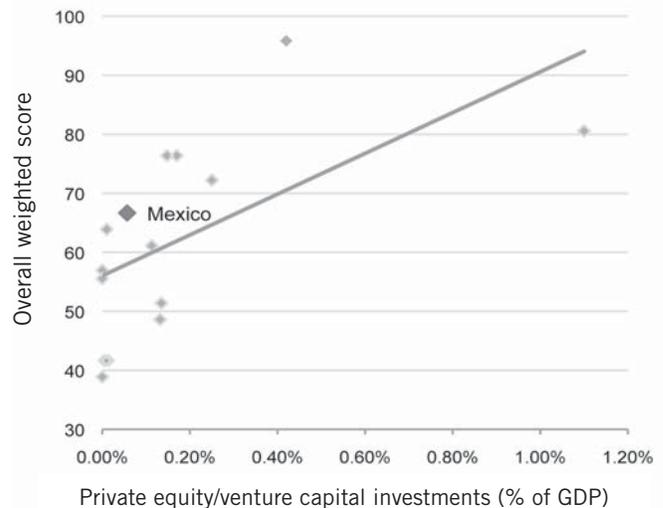
## Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Attracting pension fund and other types of investment to PE/VC funds operating in Mexico is still complex, but it is becoming easier. Today, many fund managers set up parallel vehicles to attract different types of investors. Larger offshore funds attracting foreign capital remain as limited partnerships in Canada. The CKD scheme created in 2009 allows for pension funds—as well as some other types of institutional investors—to invest in exchange certificates ( <i>certificados bursátiles de capital de desarrollo</i> , or CKDs) that are issued by a trust ( <i>fideicomiso emisor</i> ) created and managed by a fund manager. By mid-2012—the latest available breakdown—there were 26 CKD issues for approximately 50.7bn pesos (US\$3.9bn), 41% of which was raised for real estate investments. CKDs use the tax regime created in 2006 ( <i>fideicomisos de inversion de capital privado</i> , FICAPs), offering limited disclosure for invested firms, ease of fiscal transparency for national investors, and some possibility of tax deferral in certain instances. In the past three years, separate “funds of funds” have been established for PE, VC/early stage, and seed capital. (Interviews, Jan 2013, Jan 2012; EIU, Financial Services Report, Jan 2013; practacallaw.com, Aug 2012)
Tax treatment of PE/VC funds & investments	3	Mexico's tax system combines some advantages for certain aspects of PE/VC investing while the increased general tax burden since a 2007 tax reform persists. CKD trusts ( <i>fideicomisos emisores</i> ) are eligible to receive tax transparency if certain requirements are met; pension funds (Afores) do not face income tax. Investments in PE/VC funds remain ineligible for tax incentives and exemptions available for investments in listed firms. Corporate capital gains on the sale of fixed assets including equity shares are considered a part of regular taxable income, with proceeds inflation-indexed and losses deductible. Dividends are not taxable if paid out of net after-tax profits and if the company has sufficient funds in its “net tax profit” account to cover the dividend (if funds are insufficient, they are taxed at a gross corporate rate). Under a 2007 tax reform, companies must calculate their tax obligations under both the flat-tax (IETU, applied at 17.5% from 2010) and standard corporate tax (ISR, set at 30% after eligible deductions from 2011) schemes and essentially must pay whichever is higher. The flat tax eliminates significant deductions. (EIU Country Commerce, July 2012, August 2011; EIU Financial Service Report, January 2012; Country Finance, April 2011; Interviews, January 2013, January 2012; bakermckenzie.com; taxand.com)

	score	change
<b>Overall score</b>	<b>67</b>	<b>▲ 2</b>
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	3	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	3	
Entrepreneurship	3	▲ 1

Indicators are scored from 0-4 where 4 = best score  
Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)

## Overall score against PE / VC investments



## Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	Minority shareholders with 25% or more of shares (or 10% for public companies) have the right to appoint directors and can name board members with only 10% of the votes. Companies are required to form independent audit and corporate governance committees. A special corporate category created in 2006, the <i>Sociedad Anónima Promotora de Inversión</i> (SAPI), is frequently used by PE funds. It provides greater legal protection for minority shareholders by allowing special bylaw provisions, such as “drag-along” and “tag-along” rights, which facilitate exit strategies. In all cases, shareholder agreements and arbitration clauses remain crucial. There are lingering concerns about the uncertain enforceability of shareholder agreements given lack of jurisprudence, though so far such agreements in SAPIs have not faced legal challenge. Family and personal ties can still dilute minority shareholder voice. (EIU Country Commerce, July 2012, August 2011; EIU Country Finance, April 2011; Interviews January 2013, January 2012)
Restrictions on local institutional investors investing in PE/VC	3	Reforms adopted in 2008, and effective 2009 allow privatized pension funds (Afores) to invest in PE/VC funds under capital development certificates ( <i>certificados bursátiles de capital de desarrollo</i> or CKDs). CKDs must be traded on the Mexican exchange (BMV). There is no guarantee of payment of principal, interest or yields, and the certificates are tied to the issuing funds’ longer term success. As of January 2010, AFORES can invest up to 10% of their assets in infrastructure, real estate, and PE funds. In 2011 requirements for pre-funding of CKDs were eliminated, and pension funds were allowed to invest up to 10% of assets in commodities and hire external fund managers. In 2012 pension funds were allowed to invest in Mexican general partners that invest not only in Mexico (as before) but also those that invest abroad. In December 2011, the National Commission for the Retirement Savings System (Consar) called for greater flexibility in the ability of pension funds to invest in individual securities in foreign markets and international PE funds, and a further easing of restrictions along these lines is expected under the new government that took office in December 2012 in the short to medium term. Toward the end of the last government, some further limited improvements were made in the CKD structure, such as improving the ability of fund managers to issue capital calls. Insurance companies’ portfolio investments in corporations are mostly limited to registered securities, or to those funds which the National Insurance Commission has individually approved for receipt of investment. In principle, however, insurers may also invest in CKDs, and they have begun tentatively to explore this asset class. (Private Equity International, January 13, 2011; EIU Financial Services Report: Mexico, January 2013; Interviews, January 2013, January 2012; EIU LAVCA Survey 2013)
Protection of intellectual property rights	2	Mexican law protects intellectual property through a combination of national laws and international conventions. Although recent changes have strengthened penalties for violation, the large informal sector makes enforcement weak and inconsistent. A large amount of resources are still needed for more IPR prosecutions. While noting the country’s progress on IPR enforcement issues, the US Trade Representative kept Mexico on its Watch List for high levels of piracy, prevalence of counterfeiting and lack of coordination between federal and state levels. Mexico’s ratification of the Anti-Counterfeiting Trade Agreement by Congress is pending. (EIU Country Commerce, July 2012; US Investment Climate Statement, 2012; USTR Special 301 report 2012)
Bankruptcy procedures/creditors’ rights/partner liability	2	In the view of Mexico-based fund managers, legal delays and lack of transparency in inter-firm transactions remain. This is despite bankruptcy reforms of 2000 (amended in 2003, 2005, and 2007) that in principle established improved norms and procedures. According to the World Bank’s Doing Business 2013, bankruptcies are resolved much faster and with a considerably higher recovery rate compared to the regional average, albeit at higher cost. FICAPs have shared legal responsibility between general partners and investors, unlike offshore vehicles typically set up under limited liability rules. Partner liability must be addressed clearly in shareholder agreements, though legal enforceability can be an issue. (Interviews, January 2013, January 2012; EIU Country Commerce, July 2012)
Capital markets development and feasibility of exits	3	With a market capitalisation of US\$525.1bn at end-2012, the Bolsa Mexicana de Valores is Latin America’s second-largest stock exchange after Brazil’s Bovespa. It outperformed almost all other markets in the region in 2012. Mexico’s capital markets continue to diversify their presence in the global market. In 2011, the partnership between the Mexican stock exchange and the US-based CME Group, resulted in the establishment of direct market access for international investors through derivative order routing in the Chicago Mercantile Exchange. There were three IPOs in 2012. Legislation requiring small and medium-sized companies (SMEs) to enter the market as a SAPI was eased. SMEs no longer have to undertake the long three-year transition to another corporate form, the variable-capital stock-traded corporation. IPOs are being stimulated in part by added liquidity from the pension funds presence in the market. Funds can also directly buy stocks through a type of stock certificate. IPO exits are still not viable for smaller firms but there are prospects for medium-sized firms. PE fund managers cite increasingly favourable conditions for fund exits that will benefit SMEs financing. (Interviews, January 2013, 2012; EIU Financial Services Report, January 2013)
Registration/reserve requirements on inward investments	3	Under money laundering regulations, registration is easy and straightforward, and there are no reserve requirements or other exchange controls. (EIU Country Commerce, July 2012)
Corporate governance requirements	3	Governance rules for listed corporations ( <i>sociedades anonimas</i> ) reflect global standards and provide protections for minority shareholders. Listed Mexican firms must comply with reporting requirements set out by the local securities regulator CNBV. Practices among non-listed firms are improving. The SAPI corporate category created in 2006 allows firms to avoid some requirements established for conventional corporations for three years, in return for adopting the voluntary Code of Improved Corporate Practices, which has led to improvements. Overall, there remain concerns about corporate governance more broadly in Mexico in terms of weak oversight and reporting requirements, prevalence of tight family and interpersonal networks, and full enforceability of shareholder agreements. The World Bank’s Doing Business 2013 continued to rate disclosure requirements in Mexico well above the regional average, director liability on par with the regional average, and shareholder ability to file suit slightly below average. (Interviews, January 2013, January 2012; EIU Country Finance, April 2011).
Strength of the judicial system	2	The judicial system is very slow and inefficient in dealing with disputes and is sometimes corrupt. Investors and companies avoid using the courts due to delays, a lack of transparency and weak contract enforcement. Delays are especially lengthy in real estate transactions. International commercial arbitration has grown in importance though enforceability of such arbitration settlements can be problematic and expensive. (Interviews January 2010; US Investment Climate Statement 2012; EIU Country Commerce Report, July 2012)
Perceived corruption	1	Some sluggish advances are being achieved in the government’s efforts to institutionalise transparency and to reduce the scope for discretionary action, but the corrupting influence of organised crime remains a serious problem in many areas. Government transparency has improved through contracts involvement of the private sector. There are signs that the government is making efforts to reduce red tape through online tools fostering transparency. However, corruption still impedes private sector development and government transparency is still limited at the state and local levels. In 2012, Transparency International ranked Mexico 105 out of 174 countries for perceived transparency, a decline from its 2011 ranking of 100. Concerns remain about the ability of Mexican authorities to control the drug trade and about corruption in Mexican law-enforcement and judiciary agencies. (EIU Country Commerce Report, July 2012; EIU Risk Briefing; US Investment Climate Statement 2012; Transparency International)
Quality of local accounting industry	3	Mexico is converging toward international standards, though practices remain uneven at smaller and family-owned businesses. All listed companies were required to use IFRS starting in 2012, but unlisted firms are not allowed to follow them formally in external financial statements (even if in practice they may use IFRS-like principles). The standard for non-listed firms, Mexican GAAP, is similar to IFRS, though it requires inflation-adjusted accounting when three-year inflation cumulatively totals 26% or more (which has not been the case for many years). International auditors are present and competent. (EIU Country Commerce, July 2012, Aug 2011; Deloitte-IAS PLUS 2013; Interviews, Jan 2013, January 2012)
Entrepreneurship	3	The view on Mexico’s entrepreneurial climate is increasingly improving. According to the World Bank’s Doing Business Report, Mexico notably improved its rank in the ‘Starting a Business’ indicator, jumping from the 74th position to 36th in 2012. Time and number of procedures to start a business were reduced below regional averages and cost of starting a business remained low. Fund managers cite improving business-university linkages and an increased number of government incubator and accelerator programs as major contributors to the entrepreneurial climate in 2012. These factors are considered essential to improve the entrepreneurial environment which is why the country’s score has been upgraded. (World Bank Doing Business 2013; Interviews, January 2013)

## Country Profile

# PANAMA

	<b>2013</b>	<b>2012</b>
<b>OVERALL SCORE:</b>	<b>49</b>	<b>49</b>
<b>REGIONAL RANKING:</b>	<b>9TH</b>	<b>8TH (TIED)</b>

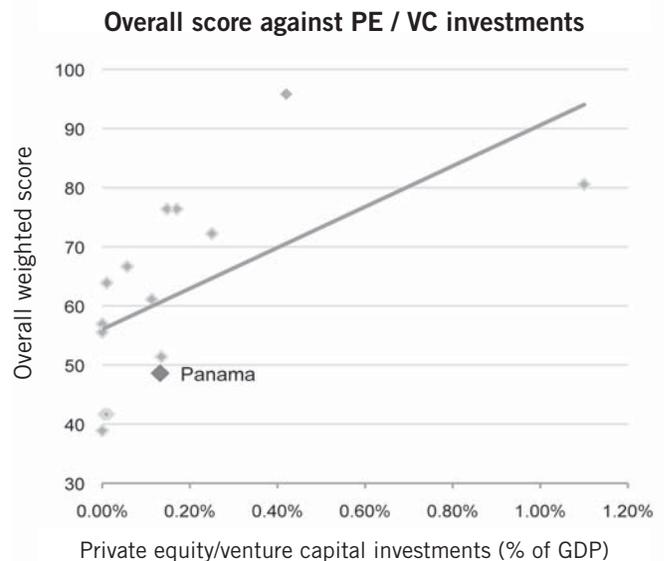
Panama's overall score did not change from 2012. While the economy continues to perform well and attract foreign investment, the country's PE/VC industry is still in very early stages of development. Most activity is from offshore vehicles or funds operating across the Central American region. Additionally, although the Panamanian government implemented a number of policies to improve the entrepreneurial climate throughout 2012, the entrepreneurship ranking declined.

**Strengths:** Panama's main strength remains its openness to inward investment.

**Challenges:** The country faces a number of challenges and ranks below regional averages on most key indicators including tax treatment, entrepreneurship, minority shareholder rights, laws for fund formation, corporate governance and quality of accounting standards.

	score	change
<b>Overall score</b>	<b>49</b>	
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	2	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	2	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	2	
Entrepreneurship	1	

Indicators are scored from 0-4 where 4 = best score  
Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



### Panama ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	PE/VC activity remains scarce and incipient in Panama, but there are a few funds operating across the entire Central American region that operate from and/or in the country. Since specifically designed PE/VC legal vehicles are lacking, in principle other fund instruments (e.g., those intended for mutual funds) can be adapted, but most operate from offshore vehicles. (EIU Country Finance, March 2012; Interviews, February 2013, February 2012)
Tax treatment of PE/VC funds & investments	2	A 10% withholding tax applies on dividends to investors from operations in Panama on nominal shares, though some funds using offshore vehicles are able to avoid this. A withholding tax rate of 5% applies on dividends derived from operations outside of Panama, as well as from the export of goods from Panama. The rate is 20% for bearer shares. Most payments remitted abroad to beneficiaries not resident in Panama are subject to income tax withholding. The fiscal reform of March 2010 lowered the corporate income tax rate from 30% to 27.5% of net income for fiscal year 2010, and to 25% beginning in 2011. No tax is imposed on capital gains from sales of shares registered with the National Securities Commission in most situations. Gains from other sales of equity are, however, subject to taxation at the standard corporate rates. (Interviews February 2013, February 2012; EIU Country Commerce, November 2012; EIU Country Finance March 2012)

## Panama ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	For unlisted corporations (SAs), no specific laws govern matters such as who can convene a shareholders' meeting or what constitutes effective control, and there are no specific financial disclosure requirements beyond tax returns. No legal requirements exist on the percentage of shares that constitute effective control. However, in order for decisions made at a shareholders meeting to be valid, all shareholders must either be present or there must be a quorum and all absent shareholders must have communicated their wish to abstain. Funds work with sophisticated, internationally trained lawyers who are able to incorporate minority rights into enforceable statutes and shareholder agreements. In this context, the concept of minority rights is well understood and legally enforceable. (EIU Country Commerce, November 2012; EIU Country Finance March 2012; Interviews, February 2013, February 2012)
Restrictions on local institutional investors investing in PE/VC	2	Insurance companies are allowed to invest only in public sector debt securities, mortgages, mortgage-backed securities and securities issued through the local stock market or duly approved by the National Securities Commission. Insurance companies may invest up to 25% of required reserves abroad, but may only place their funds in investment grade securities of well-established companies. Pension funds may invest 45% of assets in stocks; there are only two private AFPs in Panama. Pension funds remain an attractive, but only potential, investor for the PE/VC industry. (EIU Country Finance, March 2012, February 2011; Interviews, February 2013, February 2012)
Protection of intellectual property rights	2	Licensing of products in Panama poses no significant challenges, and franchising of recreation, tourism, and restaurants is common. Although piracy remains a concern for businesses and internet piracy is increasing, enforcement of intellectual property rights has improved significantly in the past decade through the creation of a special prosecutor's office and a commercial court that hears IPR cases involving infringements of consumer-protection law. The US government considers Panama's legal framework to be adequate in regards to intellectual property protection. However, carrying out such cases is a slow process. The rate of business-software piracy in Panama was estimated at 72% in 2011. (EIU Country Commerce, November 2012; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	A mechanism exists for firms to be liquidated or restructured through bankruptcy judges. According to the World Bank's Doing Business 2013, liquidating a bankrupt business is a quicker, but more costly process in Panama than in Latin America as a whole, yielding a lower recovery rate. Recent high-profile cases of insolvent firms have been handled in an orderly fashion. Liability beyond capital share is not a concern. (Interviews, February 2013, February 2012)
Capital markets development and feasibility of exits	2	The Panama Stock Exchange's stock index continued performing well in 2012 following a strong performance in 2011 and 2010. However, even though the stock exchange is well managed, it is used predominantly as a market for debt securities. The market for equities is small. International and local development banks still provide the majority of equity financing. There were no initial public offerings (IPOs) on the Panama Stock Exchange (Bolsa de Valores de Panama, BVP) during 2011 and 2010. Panama achieved investment grade status in March 2010, a significant step forward for its capital markets. In 2006, the SEC approved the Panama Stock Exchange as a Designated Offshore Securities Market, which gives qualified investors the ability to acquire securities on the exchange without having to register with the SEC. (Interviews, January 2011; EIU Country Finance, February 2011, 2012; US Investment Climate Statement 2012)
Registration/reserve requirements on inward investments	3	Panama has no exchange controls, and repatriation of capital is unrestricted. But it does have reporting requirements designed to prevent money-laundering and terrorist financing. There are no reserve requirements or restrictions on portfolio investment. (EIU Country Finance, March 2012)
Corporate governance requirements	2	Corporate governance standards under the commercial code are fairly minimal, and the prevalence of family-owned firms encourages a culture of secrecy. However, Law 2 passed in February 2011 requires lawyers or agents to know the identities of holders of bearer shares and to report their identity upon request by the authorities, under "know your investor" provisions. The use of such shares has been particularly common by corporations with only foreign-sourced income and thus no Panamanian tax liability. Typically, funds establish clear terms on voting rights, quorums, calling meetings, and other governance issues in shareholder agreements. When registered with authorities, such agreements are well understood and enforceable. Within the regional context, the World Bank's Doing Business 2013 scores Panama low on disclosure requirements and director liability, and high on shareholder ability to sue, as compared to regional averages. (EIU Country Commerce, November 2012; EIU Country Finance, March 2012; Interviews, February 2013, February 2012)
Strength of the judicial system	2	Courts in Panama generally uphold contracts, although the system is slow and tends to be vulnerable to backlogs and corruption. While commercial law is comprehensive, the judiciary often lacks transparency and businesses do not always trust the judicial system as an independent arbiter in commercial disputes. This accounts for the significant inclusion of arbitration clauses into contracts. A US government report points that enforcement bodies have not been able to successfully prosecute a number of high-profile cases. As of September 2011, the government has been working on the establishment of a new accusatory system that will accelerate criminal justice cases. (EIU Risk Briefing; US Investment Climate Statement 2012)
Perceived corruption	1	Despite the Panamanian government's public commitment to fight corruption, concrete results have not been delivered. Panama's legal system and civil service suffer from corruption and a lack of independence. Foreign investors regularly complain about shortcomings in financial transparency and corruption in procurement decisions. There have also been instances of private sector contracts awarded without a bidding process and a lack of pre-auditing of several government department projects. Transparency International ranked Panama in 83rd position out of 176 countries in its 2012 Corruption perceptions Index, compared to 86 out of 183 countries in the previous year. Although mechanisms to fight corruption exist, they are not applied rigorously. (EIU Country Commerce, November 2012; US Investment Climate Statement 2012, Transparency International)
Quality of local accounting industry (international standards)	2	As of tax year 2007, IFRS are required for firms with earnings over US\$1M; as of 2008, for those with earnings of US\$500,000-US\$1M; and as of 2009, for those with earnings of US\$250,000-US\$500,000. A separate set of IFRS for SMEs exists and is mandatory. However, these laws remain under legal challenge as of February 2013 and there has been resistance to implementation of these standards. SMEs, traditionally family-owned, have had poor accounting standards. Large international accounting firms are present. Income statements for all firms with more than US\$50,000 in annual revenues, or US\$100,000 in assets, must be prepared and signed by a CPA. (Deloitte IAS PLUS 2013; EIU Country Commerce, November 2012; Interviews, February 2013, February 2012,)
Entrepreneurship	1	According to the Global Entrepreneurship Monitor, the nascent entrepreneurship rate declined from 11% to 8% in 2012. However, government policy has made important efforts to improve the entrepreneurial climate. Corporate taxes have decreased, and business registration processes have been improved. According to the World Bank, Panama's 'Ease of Doing Business' ranking is better than the regional averages in every category. (Interviews, January 2011; Doing Business 2013, The World Bank; GEM Global Report, 2012)

## Country Profile

## PERU

	2013	2012
<b>OVERALL SCORE:</b>	<b>51</b>	<b>49</b>
<b>REGIONAL RANKING:</b>	<b>8TH</b>	<b>8TH (TIED)</b>

Peru's overall score increased this year due to the lifting of restrictions on institutional investors looking to invest in PE/VC funds. This positive development is a direct benefit of broader pension reforms enacted in 2012. Beyond this good news, Peru's macroeconomic outlook is one of the strongest in the region and growth is expected to continue at a rapid pace over the next several years. Registration requirements are simple and straightforward for both local and foreign investors, and its corporate governance requirements are also relatively strong.

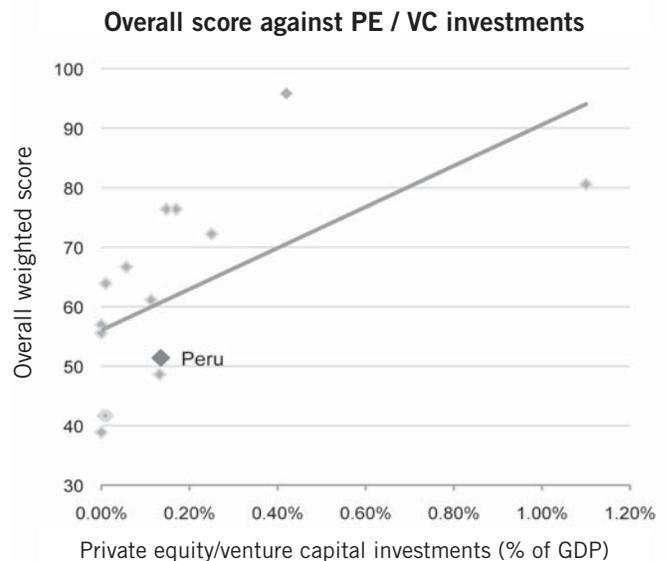
**Strengths:** Peru's major strengths are the use of international accounting standards, loosened restrictions on institutional investors, inward investment and corporate governance.

**Challenges:** The country is positioned at the bottom of the region in many key areas for the PE/VC industry, including tax treatment and minority shareholder rights. Peru also needs further advances in the legal structure for fund formation. Corruption and a weak judicial system remain obstacles for the country.

	score	change
<b>Overall score</b>	<b>51</b>	<b>▲ 2</b>
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	1	
Restrictions on local institutional investors investing in PE/VC	3	▲ 1
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	1	
Perceived corruption	1	
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



## Peru ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	<i>Fondos de inversion</i> continue to be the only legally established framework and are more suited to PE than VC, which remains underdeveloped. The main regulator is the securities superintendency, SMV (formerly CONASEV) and the process is burdensome, though it is no longer necessary to be registered as a fund manager to be able to gain SMV approval for a fund launch and it is also possible to launch a fund through a public offering (however, diversification requirements and maximum investment limits apply). It is now possible to create unsupervised investment funds through private offerings. If pension fund investment is sought in a fund, approval must be gained additionally from the superintendency of banking, insurance, and pension fund administrators (SBS). Since foreign investors face steep tax rates, offshore co-investment funds typically have to be set up. Offshore funds find it relatively easy to operate. (Interviews, February 2013, February 2012)
Tax treatment of PE/VC funds & investments	1	Although funds are pass-through for income tax purposes since 2004, the tax environment in Peru remains complex, with a corporate rate of 30%. Since 2010, capital gains obtained by local and foreign investors through transfers via the Lima Stock Exchange (LSE), previously tax exempt, are levied at the regular corporate tax rate; the general capital gains rate for transfers outside the LSE is 30% in the case of non-resident legal entities and 5% in the case of non-resident natural people and legal entities. From February 2011, capital gains from an indirect transfer of shares in a Peruvian company are, in some instances, subject to income tax, and the Peruvian company and Peruvian co-investors are considered liable jointly and separately for the non-resident transferor's corresponding tax debt if they are considered related parties within the previous 12 months. A 4.1% withholding tax is levied on dividend distributions to resident individual shareholders and to non-resident shareholders. Transactions conducted via the financial system are subject to 0.005% financial transactions tax as of April 1, 2011 (previously 0.05%). As of March 2011, the general value-added tax rate assessed on management fees charged by VC funds was reduced to 18%, in line with the overall reduction in the VAT. (EIU Country Commerce, June 2012, June 2011; Interviews, February 2013, February 2012)

## Peru ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	Minority shareholders enjoy limited protection in Peru, such as subscription rights and the right to participate and be informed of meetings. In general, the minimum quorum for a general meeting is 50% of subscribed voting shares on the first call, and most decisions are taken by a simple majority of shares present. For major decisions, the minimum quorum is two-thirds on the first call and 60% on the second, and the decision requires an absolute majority of the total number of voting shares issued by the corporation. However, in the case of joint stock corporations ( <i>Sociedades Anónimas Abiertas</i> "SAAs"), for major decisions, the minimum quorum is 50% on the first call and 25% on the second call. Joint stock corporations must also disclose non-confidential information at the request of shareholders representing at least 5% of capital. Shareholder agreements and private arbitration are the main recourse to strengthen minorities, though the former's legal enforceability remains uneven given courts' lack of specialisation and slowness in adjudicating cases. (EIU Country Commerce, June 2012; Interviews, February 2013, February 2012)
Restrictions on local institutional investors investing in PE/VC	3	This score is upgraded, back to the score Peru held two years ago, to reflect the positive benefits to pension funds' investment regime widely expected under a broader July 2012 pension reform (Law 29903), even though final implementing regulations were still pending as of mid-February 2013. Under the former limit of 3% of AUM in "variable income" instrument (a broad category including VC/PE), Peru's four pension fund administrators (AFPs) quickly exhausted their annual limits in the early months of the year. Now, under the country's multifund structure of individual beneficiaries' portfolio choice and management with its four basic components, assets held by AFPs under "mixed funds" (type 2) will be able to invest up to 15% of these funds in alternative assets (a narrower category now established, including PE/VC) and those held under "growth funds" (type 3) will be able to invest up to 20%. Alternative assets include both domestic and overseas investments, though a separate limit of 32% of overall assets invested abroad (in all asset classes) currently applies. In addition, under the July 2012 pension reform, incentives are created for greater competition among AFPs for individual affiliates, and thus better risk-reward ratios in their investment strategies, based on a revised system of bidding and commissions. In addition, the delays in approval of PE firms seeking to raise capital from AFPs, first reported in the 2011 Scorecard, have continued to ease, in the view of fund managers. Insurance firms face more restrictions and are not active investors in PE/VC. (Interviews, February 2013, February 2012; Superintendencia de Bancos, Seguros y AFPs website, July 2012)
Protection of intellectual property rights	2	Peru has improved its IPR protections, in many cases bringing them up to US and international standards. As far as Industrial property rights matters, the Decision 486 of The Andean Community Commission establishes the legal framework for trademarks and patents. Despite solid legislation, IPR are still violated due to under-policing. Peru remains on the USTR's Watch List as a result of rampant piracy, low enforcement, and weak penalties for violators. Despite the criminalization of intellectual property rights violations and an increase in raids of large-scale distributors, an estimated 98% of music and the majority of individually owned motion pictures are still pirated. (EIU Risk Briefing, EIU Country Commerce, June 2012; US Investment Climate Statement 2012; USTR Special 301 Report 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy procedures set up under the National Institute for the Defense of Free Competition and Intellectual Property (INDECOPI) remain subject to delays and judicial intervention, but there has been some progress in recent years in the ability to restructure or liquidate troubled firms. The creditor hierarchy is similar to that of US bankruptcy law. Compared to regional averages, the World Bank's Doing Business 2013 finds that bankruptcy settlements take the same time, cost much less, and award less to plaintiffs. In general, under Peruvian Business Law, shareholder liability is limited to capital share. (US Country Commercial Guide 2011 and 2010; Interviews, February 2013, February 2012)
Capital markets development and feasibility of exits	2	In May 2011, stock exchanges in Peru, Colombia, and Chile began cross-border stock trading in a system called Integrated Latin American Market (MILA). The merger could be long-term positive development, but has not yet improved the IPO market. However, the domestic exchange increased the number of registered companies from 266 to 283 in 2012. The equity market capitalisation of the stock exchange was US\$90.2bn as of Feb 2012. The costs of listing are high and that the size of the market and level of liquidity make it prohibitive for all but large firms (revenues above \$200m) to go public. Authorities continue to modernise regulations to make the Peruvian stock exchange more transparent and to increase minority shareholders rights. Larger private firms sometimes try to restrict outsider interest in their companies through "cross-shareholding" or "stable shareholder" arrangements. (EIU Financial Services Report, March 2012; US Investment Climate Statement, 2012; Bolsa de Valores de Lima, Interviews February 2013).
Registration/reserve requirements on inward investments	3	Overall registration requirements are simple and straightforward. Foreigners can participate directly in the capital markets, and reserve requirements (on US dollar deposits and some credit from abroad) do not pose significant restrictions. (EIU Country Commerce, June 2012; EIU Financial Service Report, March 2012)
Corporate governance requirements	3	Peruvian public companies face strong financial disclosure requirements and greater ability of shareholders to sue by regional standards, according to World Bank's Doing Business 2013, in addition to above average director liability. CONASEV set up a voluntary corporate governance code in 2002 under which open joint stock corporations ( <i>sociedades anónimas abiertas</i> ) could become signatories to a public registry and agree to submit annual reports on governance compliance; thus far adherence has been good among privately held companies, transparency is sometimes problematic. Board composition and decision-making are only partially regulated and are often addressed through shareholder agreements, with uneven but improving enforceability. Closed stock corporations have from two to 20 shareholders, and have fewer restrictions. Under a controversial 2012 law, directors may be held responsible for damages they cause the company through transactions with which they were involved. (Interviews, February 2013, February 2012; EIU Country Commerce, June 2012, June 2011)
Strength of the judicial system	1	The judiciary is the least trusted public institution, with domestic courts lacking impartiality and strength. Transparency has progressed, but poor training and low pay have engendered a culture of bribery. Lima's commercial courts have reduced the timeframe for business cases from an average of two years to two months, with enforcement reduced from 36 months to 3 to 6 months. However, contracts are difficult to enforce. According to the World Bank, Peru ranks 115th in the world in terms of enforcing contracts, with higher costs of claim than regional averages. Peru has signed several bilateral agreements, which offer foreigners alternative dispute settlement procedures, intensively used to avoid involvement in judicial processes. Alternative methods of dispute resolution have been applied, such as arbitration, which has gained ground as an efficient alternative through increased security, speed, expertise and flexibility. (EIU Risk Briefing; US Investment Climate Statement 2012; World Bank Doing Business 2013; Interviews, January 2012)
Perceived corruption	1	Corruption and a large informal economy continue to inhibit efficiency in Peru, especially in the judicial system. However, the country is one of four worldwide that is participating in a G8 anti-corruption initiative aimed at improving transparency, which has already led to some positive developments, particularly in the field of e-governance. Nonetheless, persistent corruption in public projects has undermined some of President Humala's support. Peru's rank in Transparency International's Corruption Perceptions Index worsened in 2012, increasing from 80 to 83. In order to improve transparency, Law 27806 (Transparency and Access to Public Information Law) made mandatory for public entities to publish on their web site information about execution of budgets and agreements (EIU Country Report 2012; US Investment Climate Statement 2012; Transparency International).
Quality of local accounting industry (international standards)	4	IFRS are required for listed but not non-listed firms. International standards are widely in use among medium and large-size firms and standards are improving in smaller businesses under strong government encouragement for wider adoption of IFRS. Inflation adjustment is required. International firms are present in Peru. (Deloitte/IAS PLUS 2012; Interviews, February 2013, February 2012).
Entrepreneurship	2	Costs and time associated with starting a business are low by regional standards. The government has recently facilitated the ease of starting new businesses. In particular, Peru has simplified requirements for operating licenses and has also improved efficacy in registering property. Educational programs for entrepreneurs are actively increasing their geographic scope beyond Lima. However, interviewees consider that government support for SMEs is still weak. (World Bank Doing Business 2013; Centre for International Private Enterprise; Interviews February 2013).

Country Profile

# TRINIDAD AND TOBAGO

**OVERALL SCORE:**                    2013                    2012  
                                                   57                        57  
**REGIONAL RANKING:**    5TH (TIED)    5TH (TIED)

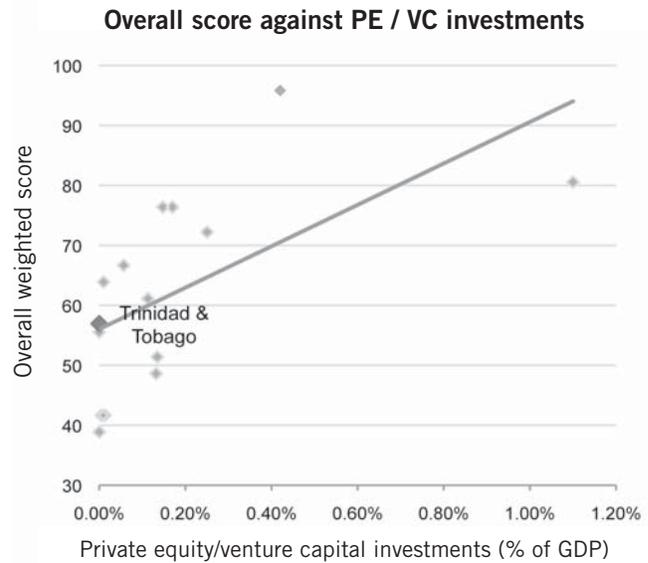
Trinidad and Tobago's overall score did not change from 2012. Trinidad and Tobago is one of the wealthiest and most developed countries in the Caribbean. The country's economy is strongly influenced by the petroleum industry, a target sector for PE investments in 2013. Trinidad remains open to inward investment and the country's capital markets are fairly well developed by Caribbean standards. It also has a favorable tax environment, but the basic framework for fund formation continues to be inadequate.

**Strengths:** Trinidad and Tobago's main strength is its openness to inward investments and the free movement of foreign capital. Tax treatment and protection of intellectual property rights are also favorable.

**Challenges:** The island is weak in areas including perceived corruption, laws on fund formation, corporate governance and bankruptcy procedures

	score	change
<b>Overall score</b>	<b>57</b>	
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	2	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	4	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	3	
Entrepreneurship	2	

*Indicators are scored from 0-4 where 4 = best score  
 Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)*



*Trinidad and Tobago ScoreNotes*

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Closed-end funds must be registered as "reporting issuers" under the Securities Industry Act, and fund managers must register as "investment advisers"; the Inspector of Financial Institutions at the Central Bank must grant approval for investment of Statutory Funds under the Insurance Act. Such closed-end funds, intended for institutional investors, are restricted to "sophisticated purchasers" as defined in the Securities Industry Act. In practice, the limited PE activity in the country takes place in this form. The basic framework created by the Venture Capital Act of 1994, with amendments in 2004, still remains in place but serves primarily as a vehicle for one-off tax incentives and is seldom used for fund formation. The act requires pre-approval for any VC fund by a government agency, which remains understaffed. It does not allow for closed-end funds, and instead assumes that all investments are "evergreen." It also does not make provision for dividends, and exit strategies are unclear. (Interviews February 2013, January 2012; Inter-American Development Bank, internal document, November 2010)
Tax treatment of PE/VC funds & investments	3	There remains a fairly light tax environment for PE/VC investments, and no concerns about pass-through. There has been very little activity under the Venture Capital Act, making its tax incentives somewhat superfluous. Funds not registered under the VC Act are taxed at the standard corporate rate of 25%, fairly low by regional standards. Dividends are tax exempt for local investors after one year, and there is no capital gains tax; this obviates concerns about pass-through laws. An issue for foreign investors remains the withholding tax of 15% (for individuals) and 10-15% (for companies, depending on the extent of voting shares owned) on gross dividend remittances. However, Trinidad has double tax treaties which would negate or reduce the tax for recipients in most relevant countries. (Interviews February 2013, January 2012; US Country Commercial Guide 2011)

## Trinidad and Tobago ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Confidence in existing practices and protections remains weak. The Companies Act of 1995 provides some rights, such as disclosure of directors and substantial shareholders, the right to attend meetings and vote, and right to fair notice, including about votes to sell, lease or transfer substantial company assets, and right to equitable buy-out in latter circumstances. The law is based on Canadian regulations, and jurisprudence is similar to that in Commonwealth countries. However, given delays and expense, enforceability of rights and lack of accessible remedies are an issue for minority investors. With weak fiduciary responsibility of management, strong potential for conflicts of interest, and poor checks and balances, minority investors are often in a weak position. (Interviews February 2013, January 2012)
Restrictions on local institutional investors investing in PE/VC	2	By mid-2008, the Central Bank loosened cap of 50% on statutory funds investible by pension funds and insurance companies in variable-rate instruments. Firms and funds mentioned must still be registered with the local securities commission, must be solvent, have retained earnings, and a structure of dividends. So far, institutional investors have not demonstrated an appetite for investing in this risky, unknown asset class despite ample liquidity, presumably due to corporate governance and minority rights concerns noted above. Also, regulation of insurance sector and pension funds remains generally weak and outdated, even after the 2008 Financial Institutions Act reforms. (Interviews February 2013, January 2012; IDB internal document, November 2010; US Country Commercial Guide 2010)
Protection of intellectual property rights	3	IPR legislation is consistent with WTO standards and is rated "TRIPS-plus" by US Department of Commerce. Enforcement issues remain in some copyright areas, especially in music and video industries. In 2008, the government set up a cabinet-level committee to suggest recommendations to regulate media issues, but a new committee has not been appointed since 2010 elections. US State Department, despite concerns, notes that IPR enforcement is improving with seizure and destruction of pirated material and arrests of individuals. (EIU Risk Briefing; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	The Insolvency Act of 2007 allows creditors to file a bankruptcy petition against a firm with unpaid debts. If petition is granted by courts, the Companies Act allows receiver to take over to try to restore solvency. In practice, firms can be liquidated with debt protection but not reorganized. Liquidations tend to be lengthy and costly and partner liability is limited to capital share. The World Bank's Doing Business 2013 finds that resolving insolvency is lengthier, costlier, and yields a lower recovery rate than regional averages. (Interviews February 2013, January 2012; US Country Commercial Guide 2011)
Capital markets development and feasibility of exits	2	Capital markets remain fairly well developed by modest Caribbean standards, with a full range of financing options open to firms. A "junior exchange" was set up in 2011 to facilitate private share placements to SMEs. Since January 2013, no IPOs had reportedly taken place, most likely because listing and governance requirements are not clearly established. The stock market is small and functions well, with no restrictions on foreign investor borrowing. The government has its own security and exchange commission for market regulation, and the stock exchange has a takeover and merger code for its listed companies. SEC regulation of the market is perceived to be poor. The stock market is generally more robust than others in the region, but shares are concentrated amongst a few institutional investors. Improvements in regulation and inflation easing should increase the contractual savings sector and potentially improve capital market depth. By end of 2010, market capitalisation was TT\$78.5bn (10.1% increase). There were 37 listed companies in 2012. (EIU Risk Briefing, Trinidad and Tobago Stock Exchange; US Investment Climate Statement 2012; Interviews January 2013, January 2012)
Registration/reserve requirements on inward investments	4	There are no reserve requirements or exchange controls. Remittances are unlimited. (Interviews January 2012, January 2011; US Country Commercial Guide 2011)
Corporate governance requirements	2	The Companies Act of 1995 is recognized as incomplete by authorities, and corporations are typically opaque regarding their auditing procedures. The level of professionalism and independence in terms of board composition is weak. There has been no action on proposals to adopt more stringent standards and to formalize a set of codes to improve monitoring and enforcement. Investors in PE/VC funds report difficulties in fiduciary responsibility, conflicts of interest, and checks and balances even when issues are spelled out in shareholder agreements (whose legal enforceability and lack of actionable remedies remain a concern). Stricter guidelines exist for publicly traded companies. These include recommendations to have two independent directors and requirements to have at least three directors. The World Bank's Doing Business 2013 scores Trinidad at the regional average for disclosure requirements but significantly above average on the ability of shareholders to file suit and above average on director liability. (Interviews, February 2013, January 2012; Eastern Caribbean Securities Exchange; Trinidad and Tobago Guardian Online, November 11, 2011)
Strength of the judicial system	2	The judiciary provides a level playing field for foreign investors, but judicial processes remain extremely slow. Actions have been taken to speed up the final resolution of 3,500 civil and commercial cases, but it will take time to work through the backlog. Indications are the judiciary has initiated a promising pilot this year where 200 civil cases are being transferred to the existing dispute resolution centre of the Trinidad Chamber of Commerce and Industry, which actively promotes mediation training in commercial issues. Any settlement reached through this mechanism will be recognised as final by the court. Nevertheless, shareholder agreements are virtually unenforceable, complicating arbitration procedures. EIU analysts note that the police and judicial system needs further reforms. Still, the Bilateral Investment Treaty with the US allows for alternative dispute resolution procedures for US investors, such as binding arbitration. (EIU Risk Briefing; US Investment Climate Statement 2012; Interviews January 2013, January 2012)
Perceived corruption	1	Trinidad and Tobago struggles with widespread corruption, which erodes government effectiveness. Although it does not appear to seriously damage business, public perceptions of corruption are strong and hinder PE/VC. Government efforts since 2010 allowed for slight improvement in Transparency International's Corruption Perceptions Index, awarding the country 80th place in 2012 compared to 91st in 2011. (EIU Risk Briefing; US Investment Climate Statement 2012, Transparency International)
Quality of local accounting industry (international standards)	3	IFRS are required for all listed and unlisted firms, but there are still frequent problems with financial transparency. Private closed companies can elect to not be audited, but those receiving external equity typically do so under shareholder agreements establishing this obligation. International accounting firms are present, but cannot give unqualified financial audit reports on some invested companies given the dearth of benchmark pricing data for assets in such a small market. Since the bailout of financial services firm CL Financial, auditors are reluctant to give independent asset valuations and many will only give qualified opinions. There are restrictions on the ability to rectify impaired asset values in such audits. (Deloitte IASPLUS 2013; Interviews February 2013, January 2012)
Entrepreneurship	2	Entrepreneurial climate and public support for entrepreneurship are fairly strong. Costs of starting businesses remain low, but lack of access to capital and reliable credit information is an issue. The process required to start a business is in line with regional averages. However, in 2012, the nascent entrepreneurship rate declined from 13.9% to 9%. The new business ownership rate also decreased from 9.3% to 7%. (Doing Business 2013, The World Bank; Interviews, January 2011, GEM Global Report, 2012)

## Country Profile

# URUGUAY

**OVERALL SCORE:**            2013            2012  
                                      57                57  
**REGIONAL RANKING:**    5TH (TIED)    5TH (TIED)

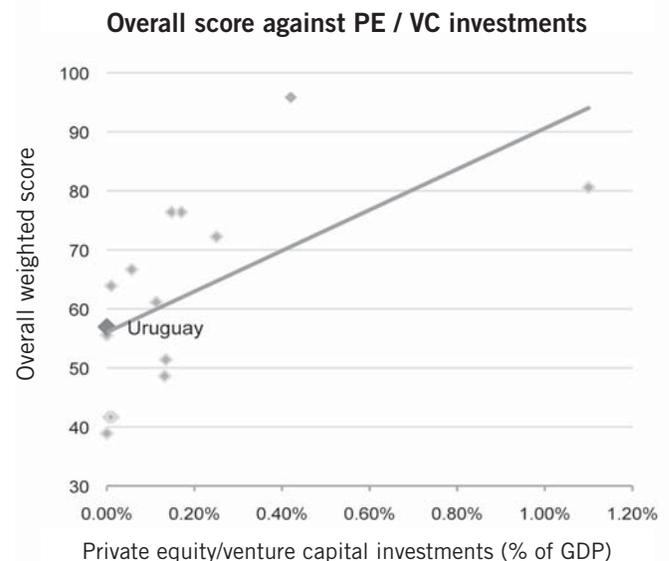
There were few changes in the PE/VC industry in Uruguay over the past year. While Uruguay remains in the top five in the regional ranking, the country's lack of a legal framework for PE/VC funds and restrictions on local institutional investors continue to hinder the development of domestic PE/VC funds. However, the country continued to experience strong economic growth in 2012, and has fostered an entrepreneurial community that is garnering the attention of regional investors.

**Strengths:** Uruguay's strengths remain its favorable tax treatment, openness to inward investments and bankruptcy procedures. The country also ranks well above the regional average in perceived corruption.

**Challenges:** The country needs to develop its capital markets, strengthen its laws on fund formation and reduce restrictions on institutional investors. Corporate governance requirements and protection of intellectual property rights should also be improved.

	score	change
<b>Overall score</b>	<b>57</b>	
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	2	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	1	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	3	
Perceived corruption	3	
Quality of local accounting/use of international standards	3	
Entrepreneurship	2	

Indicators are scored from 0-4 where 4 = best score  
 Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



### Uruguay ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	A trust ( <i>fideicomiso</i> ) legal figure exists and can be adapted for PE/VC funds, and where government-sponsored funds participate as co-investors they insist on such a structure. Yet, trusts can be cumbersome for foreign investors. Offshore vehicles can be set up by Uruguayan-domiciled fund or by offshore funds seeking co-investment by Uruguayan investors, and are generally more common. Most PE/VC investment in Uruguay firms comes in the form of funds with a regional focus set up offshore. (Interviews, January 2013, January 2012)
Tax treatment of PE/VC funds & investments	3	Since July 2007 the corporate income tax ( <i>impuesto a la renta de la actividad empresarial</i> or IRAE) rate has stood at 25%. Individuals and entities also pay a net worth tax ( <i>impuesto al patrimonio</i> ) on assets held in country, at a rate of 1.5% generally and of 2.8% for financial institutions. Capital gains are taxed only as part of normal corporate income under requirements to adjust for inflation (though capital gains are subject to personal income tax). Dividends paid to resident individual shareholders and non-resident shareholders, both individual and corporate, coming from countries which have not executed a double taxation convention with Uruguay, are subject to a 7% tax, while those received by resident corporations are exempt. An act that went into effect on January 1, 2011 assesses personal income tax on returns from investments abroad that are directly or indirectly paid to resident individuals, at a rate of 12%, granting a tax credit for tax paid abroad. (Interviews January 2013, January 2012; EIU Country Commerce, April 2012, April 2011)

## Uruguay ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on local institutional investors investing in PE/VC	2	Pension funds are able to invest only in locally domiciled companies, trusts or publicly traded investment funds and have statutorily-defined conservative risk profiles, which has effectively barred their participation as LPs in PE/VC funds. Private insurance companies mobilize fewer assets, are subject to similar restrictions, and are virtually absent. (Interviews January 2013, January 2012)
Protection of intellectual property rights	2	Uruguay has tough penalties for intellectual property infringement, but enforcement is extremely weak, especially within the software industry. Uruguay was taken off USTR's Watch List in 2006 and has improved both its copyright and trademark enforcement in recent years, though some industry groups have criticised current licensing requirements and the slowness of the patent system. A government initiative to adopt "open source" software remains pending despite strong support in the public sector (EIU Risk Briefing; EIU Country Commerce, April 2012; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	3	The Bankruptcy and Business Reorganisation Act (BBRA), or Act 18,387, of October 23, 2008 (slightly modified in September 2009 and in 2012) improves creditors' alternatives for action against a defaulting debtor, and provides for more expeditious collection proceedings and for expedited payments to creditors ordered by trustees if approved by judges. Successful restructurings or liquidations have occurred under the law, though authorities have recently sought to avoid misuse of protected reorganizations for purposes of tax sheltering or evasion. The World Bank's Doing Business 2013 reports that the resolution of bankruptcies is faster, less than half as costly, and with a higher recovery rate than the respective regional averages. Unless there is demonstrated fraud or wrongdoing, limited partners and shareholders bear no liability beyond capital shares in instances of bankruptcy. (EIU Country Commerce, April 2012, April 2011; Interviews January 2013, January 2012; iflr1000.com)
Capital markets development and feasibility of exits	1	The capital markets in Uruguay remain underdeveloped with start-up capital extremely scarce and liquidity significantly low. The country relies heavily on the banking sector for capital sources, though institutional investors are gaining more space through the issues of bonds and trust interests. Exits remain overwhelmingly strategic. The enactment of a PPP statute, the imminent launch of several infrastructure projects, and the increase in the percentage of the pension funds' assets that can be invested in these projects from 25% to 50%, are expected to encourage domestic project bond issuances and spur a greater development of the capital markets in the short to medium term. The Montevideo exchange is only comprised of a few firms with little trading, most of which are focused on sovereign bonds and public securities. Up to September 2012, the primary market totalled US\$520m. Most operations are in the public sector, and the country has plans for a domestic debt clearinghouse to attract international capital. Uruguay remains open to foreign investment, and the government does not require screening mechanisms or government authorization to access capital markets. (EIU Risk Briefing, EIU Country Commerce, April 2012; US Investment Climate Statement 2012; Bolsa de Valores de Montevideo; Interviews January 2013)
Registration/reserve requirements on inward investments	3	Uruguay has simple registration rules with no reserve requirements or exchange controls. The purchase and sale of foreign currency is unregulated, as are payments abroad in foreign currency. However, all foreign-exchange transactions must be made through the banking system or through currency-exchange houses authorised by the central bank ( <i>Banco Central del Uruguay</i> ). Legal remittance must be registered with the Central Bank for statistical purposes. (EIU Country Commerce, April 2012; Interviews January 2013, January 2012)
Corporate governance requirements	2	There are weak standards of transparency of finances and decision-making, particularly for closed SAs. At the end of each fiscal year, open SAs must publish general balance sheets and profit-and-loss statements, including allocation of earnings. Closed SAs need not publish their financial statements unless they invoice 100,000 re-adjustable units (about US\$3.16M in January 2013) or have total assets exceeding 30,000 indexed units (a unit equivalent to US 13.0 cents in late January 2013). Issuers of listed securities are subject to periodic disclosure requirements vis-à-vis the regulator and the stock exchanges, as well as requirements to adopt corporate governance and internal controls practices. Disclosure requirements and director liability remain weak by regional and particularly OECD standards, though shareholder ability to bring suits is still strong compared to regional averages published by the World Bank's Doing Business 2013. Funds deal with these issues effectively through shareholder agreements. (EIU Country Commerce, April 2012; Interviews January 2013, January 2012; Instituto Nacional de Estadística website, January 29, 2013)
Strength of the judicial system	3	Uruguay's judiciary is independent, but the trial process is slow and decisions can be opaque. An improved arbitration process has advanced the strength of the judicial system in previous years. Investors are able to choose between the judicial system and arbitration for dispute settlement. Bankruptcy cases are particularly prone to delay and exceed the regional average. They often take over two years to close a business, with around a 28% recovery rate. These judicial delays result in increased expenses and often render trials uneconomical. (EIU Risk Briefing; Interviews January 2013; US Investment Climate 2012; Doing Business 2013, The World Bank)
Perceived corruption	3	There are strong laws to prevent bribery and corruption in Uruguay. The country's rank in Transparency International's 2012 Corruption Perceptions Index is the best of the region along with Chile's. Some perceptions of public sector's corruption remain, specifically regarding the awarding of public contracts, but they are not widely seen as obstacles to investment. (EIU Risk Briefing, US Investment Climate Statement 2012; Transparency International)
Quality of local accounting industry (international standards)	3	By law, all Uruguayan companies must follow IFRSs existing as of July 31, 2007. There are also a few additional local standards which must be met. The auditor's report refers to conformity with Uruguayan GAAP, which is similar to international standards prevalent in Europe. International auditors are present and reliable. (Interviews, January 2013, January 2012; Deloitte IAS PLUS 2013)
Entrepreneurship	2	The creation of new start-up businesses is constrained by a culture of small family businesses. The costs of starting a new business in Uruguay are lower than the regional average, but higher than the OECD average. On the other hand, the country is encouraging entrepreneurship, and in recent years, new processes for facilitating incorporation have been approved, such as the "do it yourself" proposition aimed at eliminating the need of hiring someone to do the paperwork. After skyrocketing more than 100 positions in the World Bank's Doing Business category of 'Starting a business', Uruguay slightly decreased its ranking from 31 to 39 in 2012. Costs of starting a business remain above OECD averages. The research and Innovation Agency (ANIE) has reportedly played an increasing role in supporting early-stage companies and young entrepreneurs. Up to December 2012, ANIE had funded more than 100 innovation projects and young entrepreneurs' ideas. (Interviews, January 2013; Doing Business 2013, The World Bank)

## Country Profile

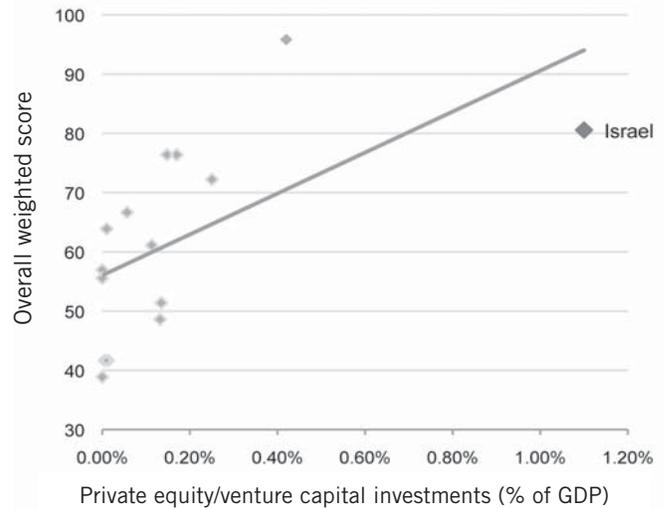
# ISRAEL

	score	change	
<b>Overall score</b>	<b>81</b>	<b>▲</b>	<b>3</b>
Laws on PE/VC fund formation and operation	4		
Tax treatment of PE/VC funds & investments	2		
Protection of minority shareholder rights	4		
Restrictions on institutional investors investing in PE/VC	4	▲	1
Protection of intellectual property rights	2		
Bankruptcy procedures/creditors' rights/partner liability	2		
Capital markets development and feasibility of exits	3		
Registration/reserve requirements on inward investments	3		
Corporate governance requirements	4		
Strength of the judicial system	3		
Perceived corruption	3		
Quality of local accounting/use of international standards	4		
Entrepreneurship	3		

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)

### Overall score against PE / VC investments



### Israel ScoreNotes

Aspects	Score	Notes (4-0)
Laws on PE/VC fund formation and operation	4	Clear, favourable laws have permitted a large-scale VC industry to develop since the early 1990s, with a smaller PE industry. The scope of VC activity remains high relative to the size of the economy, and there is a mix of domestic and foreign fund managers with a heavy reliance on foreign fundraising. Fundraising has been up and down since the global recession, with a sharp decline in 2009-10 and a rebound in 2011 followed by a decline in 2012: last year 575 Israeli high-tech firms raised US\$1.92bn from local and foreign investors, a 10% drop from 2011. (EIU Financial Service Report, August 2012; EIU Country Finance, December 2011; IVC Research Center, January-February 2013)
Tax treatment of PE/VC funds & investments	2	Companies are generally subject to tax on their corporate income, and dividends and interest paid to shareholders are usually subject to dividend tax where income is distributed, though double-tax treaties may affect this for foreign shareholders. The December 5, 2011 Law for Changing the Tax Burden called for a number of tax increases, which resulted in a downgrade in this score in last year's scorecard. On January 1, 2012 the following increases went into effect: capital gains rates (inflation-adjusted), 24% to 25%, withholding taxes on interest, 20% to 25% and withholding on dividend income, from 24% to 25% (or 30% for "significant shareholders" with more than a 10% stake). In addition, the law reversed the previous multi-year corporate income tax reduction schedule set in place in July 2009, and instead raised the rate from 24% to 25%, where it remains. Since January 1, 2009, foreign investors are exempt from tax on all equity investments (listed or not) made from that date. In May 2009, the Ministry of Finance exempted foreign investors from tax on profits derived from PE funds, aligning tax benefits on these funds to those of Israeli VC funds. (EIU Country Commerce, August 2012; Israel Venture Association www.iva.com)
Protection of minority shareholder rights	4	For all limited liability companies (publicly traded or not) a minority exceeding 25% may block most decisions. Election of board members is determined by simple majority of those attending the annual meeting. Institutional investors with more than a 5% share must attend and vote. The role of minority investors and accountability of majority shareholders is bolstered in public companies by amendments to the Companies Law passed by the parliament in April 2011. (EIU Country Commerce, August 2012; EIU Country Finance, December 2011)
Restrictions on local institutional investors investing in PE/VC	4	This score has been upgraded reflecting the significant and unrestricted role that institutional investors play in PE/VC fundraising. Since 2002, all restrictions have been lifted for insurance companies, subject only to prudential oversight by regulators. Insurers play the central role in the management of financial assets in Israel. There are no specific limits on investment categories. Pension funds enjoy a similar freedom to invest in alternative assets such as PE/VC funds and have played an important role in infrastructure funds in particular, though like insurers they have come under tighter financial supervision and regulation in the past few years. (EIU Financial Services Report, August 2012; EIU Country Finance, December 2011)
Protection of intellectual property rights	2	In February 2010, Israel reached an agreement to modify its intellectual property laws in light of concerns raised by the US. This agreement was made after Israel agreed to improve data protection, the term of pharmaceutical patents, and the provisions on publication of patent applications. Israel recently enacted legislation on pharmaceutical data and patent publication, but regulations concerning patent term extension are still pending. As a result, Israel remains on the USTR's Priority Watch List. Generally, patents, trademarks, industrial designs and copyrights are legally recognised in Israel, and there is adequate enforcement of property rights. Jurisdiction problems regarding intellectual property (IP) protection still exist since responsibility for IP protection in the West Bank and Gaza was transferred to the Palestinian Authority in September 1995. In practice, the transfer of responsibility has resulted in less enforcement in those regions. (EIU Country Commerce, August 2012; USTR Special 301 Report 2012)

## Israel ScoreNotes

Aspects	Score Notes (4-0)
Bankruptcy procedures/creditors' rights/partner liability	2 Settling a bankruptcy continues to be a very lengthy and costly process as measured against OECD standards, with claimants averaging a considerably lower recovery rate, according to World Bank Doing Business 2013. The Companies Act provides general guarantees of limited liability similar to most Western countries, though courts may lift it in cases of criminal abuse or malfeasance. Under a limited partnership, the general partner has full liability and there must be at least one partner with limited liability who is not involved in management. (EIU Country Commerce, August 2012, August 2011)
Capital markets development and feasibility of exits (ie, local IPOs)	3 Market experts report that slower domestic growth led to declining stock transaction volumes on the Tel Aviv Stock Exchange (TASE) in 2012. Latest available data shows TASE's market capitalization grew by 21% in 2011. The post-crisis economic recovery led to an increase in IPOs on the TASE, though the number of IPOs slowed in 2011 due to global uncertainty. IPO activity remains far below levels preceding the 2008-09 global financial crisis. According to TASE figures, there were seven IPOs in the first ten months of 2011 compared to 56 IPOs in 2007. There were 569 listed companies as of June 2012, 24 fewer than at end-2011. The decision of biotechnology and alternative energy companies to go public on the domestic exchange demonstrates its success in attracting high-tech companies to Israel—in the past, they most likely would have turned to foreign exchanges, particularly the US Nasdaq. (EIU Financial Services Report, August 2012; EIU Country Finance, June 2011, TASE website, BlueStar Indexes, 2012)
Registration/reserve requirements on inward investments	3 There is registration for monitoring purposes by Bank of Israel, but there are no reserve requirements or exchange controls. The few remaining restrictions on institutional investors were abolished at end-2012. Individual and financial intermediaries must issue reports on foreign-currency transactions. (EIU Country Commerce, August 2012)
Corporate governance requirements	4 In 2007, the Israel Securities Authority (ISA), which is the financial services regulator, adopted the recommendations of a 2006 government committee and has since been formulating corporate governance regulations for public companies. Some of the regulations approved by parliament in December 2009 and applied from 2010 include: declarations of accurate financial statements by senior executives; an appendix by the board and management regarding effectiveness of internal auditing and principles of disclosure. Public companies must have at least two outside directors, an internal auditor, and an audit committee. In March 2011, the parliament amended the Companies Law to make the audit committees more independent and to strengthen the power of directors representing the public and minority investors. There are fewer formal requirements for privately held companies. Election of board members usually requires a simple majority of voters in attendance. Israel continues to score well above OECD averages on disclosure requirements, director liability, and power of shareholders to file suit. (Doing Business 2013, The World Bank; EIU Country Finance, December 2011)
Strength of the judicial system	3 Israel has a strong and independent judiciary and a solid framework covering issues such as monopoly power and competitive practices. Contractual arrangements are generally secure. Despite the absence of a written constitution, Israel has a system of basic laws which lays out civil and political rights. The Supreme Court has also become particularly active in strengthening the constitutional protection of basic laws. In addition, laws governing commercial activity and the status of foreign firms in the country are clear. However, according to the World Bank, the time associated with enforcing contracts is almost as twice as high as average OECD levels. This remains as a concern for businesses. (EIU Risk Briefing; EIU Country Commerce, August 2012; US Investment Climate Statement 2012; World Bank Doing Business 2013, The World Bank)
Perceived corruption	3 Out of 180 countries surveyed for public-sector corruption, Transparency International's Corruption Perceptions Index lowered Israel's ranking to 39th place in 2012 from 36th in 2011. Israel ranked third for the Middle East region, behind Qatar and the United Arab Emirates for 2012. Despite several high-profile political corruption scandals, overall corruption is not a major issue. Israel signed the OECD Bribery convention in 2008 and has criminalized bribery. (EIU Country Commerce, August 2011; EIU Risk Briefing; Transparency International)
Quality of local accounting industry (international standards)	4 IFRS continue to be required for listed companies (except banks), and permitted for non-listed firms (but not banks). The process of adjustment of Israeli standards to IAS was completed in the first quarter of 2008. The largest international accounting firms maintain offices in Israel and are widely used. (Deloitte IASPLUS 2013; EIU Country Commerce, August 2012, August 2011)
Entrepreneurship	3 According to the World Bank, the ease of starting a business remained significantly high in 2012, decreasing only slightly from the 2011's rank. While the number of procedures and cost of starting a business are on par with the OECD average, the time required to start a business is far above the OECD average. (Doing Business 2013, The World Bank)

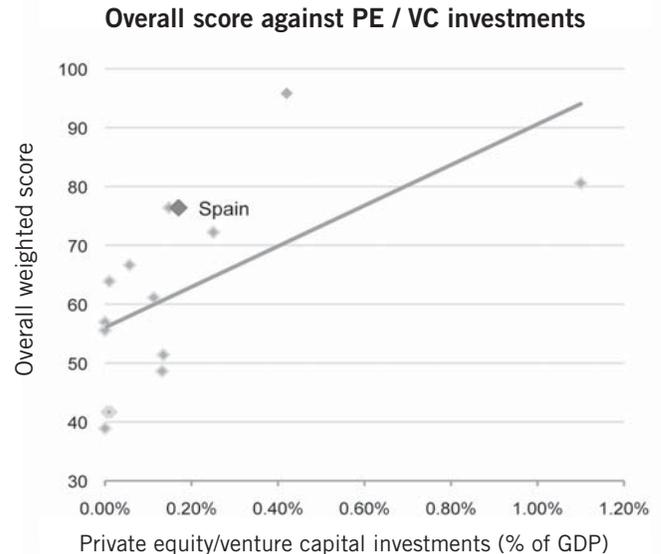
## Country Profile

## SPAIN

	score	change
<b>Overall score</b>	<b>76</b>	
Laws on PE/VC fund formation and operation	3	
Tax treatment of PE/VC funds & investments	4	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	3	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



## Spain ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	3	<i>Sociedades de Inversión</i> (SICAVs) are the main juridical form. <i>Ley 25/2005</i> simplified the regulatory burden to establish SICAVs, allowed acquisition of non-financial firms in order to de-list them (within a one-year maximum), and permitted the creation of private funds of VC funds aimed at institutional investors. SICAVs may not invest more than 25% of their assets in a single company or more than 35% in companies belonging to the same group. Companies that manage collective investment institutions are allowed to manage VC funds or the assets of VC corporations. Minimum capital of €1.2M is required for stand-alone firms and €1.5M for funds. SICAVs may invest up to 20% of their assets within the mandatory investment co-efficient in other VC firms, so long as the latter do not hold more than 10% of their assets in other VC firms. According to the Spanish Venture Capital Association (ASCRI), the total volume of investment in PE/VC over the course of 2012 was €2.52bn, down 11% from 2011 but well above the low point reached in 2010 with the Spanish financial crisis (€1.67bn). Fundraising was €2.17bn in 2012, down 9% from 2011, with 70% of new funds raised by international funds. The EC Directive on Alternative Investment Fund Managers must enter into national law of member states by end-2013 and will align regulation of PE/VC investing across the EU; Spain is currently discussing the terms of its adoption of the Directive as of February 2013. (ASCRI website, February 2013; EIU Country Finance, September 2011; Interview February 2008)
Tax treatment of PE/VC funds & investments	4	Capital gains obtained from sales of portfolio companies between the second and 15th year of the investment are tax-exempt for up to three years from listing, provided the VC funds are listed with the securities regulator (CNMV). The period may be extended up to 20 years with prior CNMV authorization. Dividends are not taxed as long as the fund owns at least 5% of a company and has held that stake continuously for a year before dividends are distributed; otherwise a 21% withholding tax applies (up from 19% from January 2012). The law also provides a 100% deduction for double taxation of dividends for companies and shareholders, and it exempts fund managers from value-added tax. Pass-through provisions are absolute for non-resident entities and individuals, but an exemption of €1,500 applies for resident investors. Spain withholds tax on dividends, though an exemption applies to EU-member residents in cases in which they have held at least 5% of share capital of a Spanish company for at least one year continuously. The basic corporate tax rate (which also serves as the base rate for capital gains taxation) remains at 30%, where it has stood since 2008. Newly issued shares, dissolutions, and capital reductions and increases are subject to a 1% transfer tax. (EIU Country Commerce, February 2012; EIU Country Finance, September 2011; EVCA Tax and Legal Committee/Baker & McKenzie, 2010; Interview, February 2008)
Protection of minority shareholder rights	3	The Company Law, as unified under Royal Decree 1/2010 of July 2010, allows for registration of companies with strong protections of minority rights established in their charters. A 5% minority can call an extraordinary meeting or demand an outside audit in a <i>sociedad anonima</i> (corporation) or in a <i>sociedad de responsabilidad limitada</i> (SRL, or limited liability company). In SRLs, shares are transferable only with the consent of other controlling shareholders. However, since July 2010 SRLs may opt for a traditional structure or a holding company structure ( <i>sociedad comanditaria por acciones</i> ) for the SRL-issued shares. (EIU Country Commerce, February 2012; Interview, February 2008)
Restrictions on local institutional investors investing in PE/VC	3	Regulations on insurance companies and pension funds, which took effect in February 2007, made shares in VC entities' assets suitable for investment by insurance companies and opened the way for them to invest in VC funds. There continue to be limits on concentration: insurance companies may not invest more than 10% of their assets in securities issued by a single company and no more than 20% may be in a single investment fund. For pension funds, 90% of a fund's assets must be invested in four categories: mortgage loans, bank deposits, property assets and financial assets that are traded on organised markets. No more than 5% of financial assets of a single pension fund may be invested in securities issued by the same institution, and no single pension fund can make an investment in a security that exceeds 25% of the investor's equity. The number of pension funds has more than doubled in the past two decades as Spaniards have gradually accepted the idea of building private funds for retirement. (EIU Financial Service Report, December 2012; EIU Country Finance September 2011; Interview, February 2008)

## Spain ScoreNotes

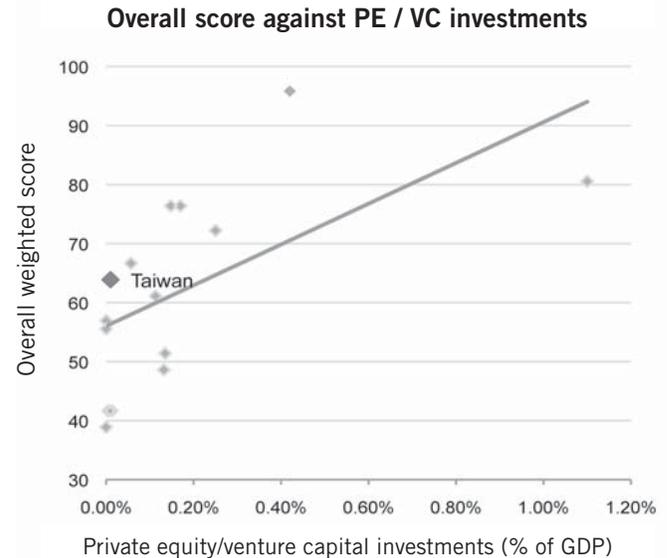
Aspects	Score (4-0)	Notes
Protection of intellectual property rights	3	Spanish laws are consistent with European Union intellectual property legislation. Spain has ratified all the main international conventions that allow non-Spanish nationals to protect their local rights. In fact, Spain has a dedicated Centre for the Technological Development of Industry, which encourages and financially supports technology exchange agreements between Spanish and multinational companies. Patents, industrial designs, trademarks and copyrights are all recognized in Spain. Although enforcement efforts are strong, piracy has seen an increase in the last years. Following almost two years of hot public debate, in December 2011 the government issued a new internet regulation targeting websites that provide links to copyrighted material on peer-to-peer networks or on public servers in December 2011. (EIU Country Commerce, February 2012; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	3	Spain's bankruptcy system is considered fair and transparent. A 2004 law increases the penalties for firms that do not undertake a reorganization negotiation ( <i>concurso voluntario</i> ) with creditors when they face insolvency, by enabling creditors to hold owners materially and personally responsible for debts. Bankruptcy reorganizations are now more common. In the most widespread corporate form ( <i>sociedad anonima</i> ), liability of shareholders is limited to the amount of capital contributed as long as there is no proof of malfeasance or fraud; limited liability companies also exist. Under both forms, non-voting shareholders have preferential rights in the event of liquidation. World Bank Doing Business 2013 continues to show that resolving bankruptcies is a shorter but somewhat more costly process and yields a higher recovery rate for creditors in Spain, compared to OECD averages. (EIU Country Commerce, February 2012; U.S. Country Commercial Guide, 2011; Interview, February 2008)
Capital markets development and feasibility of exits	3	The Spanish Bourses and Markets ( <i>Bolsas y Mercados Españoles</i> or BME) was formed at end-2001 as Spain's national unified stock exchange and debt and derivatives market. It was created through the merger of four separate exchanges in Madrid, Barcelona, Bilbao and Valencia into one holding company. According to the World Federation of Exchanges, there were two IPOs on the BME in 2012, one in 2009, zero in 2008 and seven in 2007. Three IPOs of savings banks took place in the month of July 2011, raising a total of €5.7bn. (EIU Country Finance December 2011; EIU Financial Services Report, December 2012, EVCA website: <a href="http://www.evca.eu">www.evca.eu</a> )
Registration/reserve requirements on inward investments	3	There is simple reporting of transactions by the resident party to the Ministry of Industry or the Bank of Spain for statistical purposes and to avoid money laundering. There are no exchange regulations, minimum-stay requirements, or reserve requirements. (EIU, Country Commerce, February 2012)
Corporate governance requirements	3	In 2006-07, a somewhat strengthened code, called <i>Codigo Conthe</i> , was adopted for listed firms, with 58 specific recommendations dealing with issues relating to bylaws, general meetings, board operations, and remunerations for directors and senior management. Listed firms are required to report annually on their compliance, which is evaluated by the National Securities Markets Commission (CNMV). All <i>sociedades anonimas</i> (SAs) are required to undergo external audits by a registered auditor, but companies with smaller assets, turnover, or workforces may submit abbreviated annual accounts not reviewed by an auditor. Subsequent modifications in 2011 were made to the code regarding director pay and performance-based pay structures, pursuant to various European Union directives. Despite these standards, concerns remain, particularly about privately held companies. In the World Bank's Doing Business 2013, Spain ranks below the OECD average in scores on disclosure and shareholder ability to sue but above average on director liability. (Interview, February 2008; EIU Country Commerce, February 2011; EIU Country Finance, September 2011)
Strength of the judicial system	2	The Spanish judicial system is largely open and transparent but can be sometimes sluggish. Bankruptcy procedures are considered fair. The judicial branch is independent of the executive branch, and judges are in charge of both prosecution and criminal investigation. Reforms are planned to improve speed and efficiency, but the authority of the judiciary will continue to be compromised by the extent to which it is politicized. Cases that involve piracy can take up to two years to reach the courts, by which time the offending companies have already ceased operation. Firms that frequently deal with the legal system should plan for costs and delays involved in litigation. (EIU Risk Briefing; EIU Country Commerce, February 2012; US Investment Climate Statement 2012)
Perceived corruption	3	Spain scored 65 out of 100 in Transparency International's 2012 Corruption Perceptions Index, a slight increase over its 2011 score of 62. Spain has a wide variety of corruption laws, penalties, and regulations that are generally enforced on a uniform basis, with no obvious bias against foreign investors. (EIU Country Commerce, February 2012; US Investment Climate Statement 2012; Transparency International)
Quality of local accounting industry (international standards)	4	Spain completed its gradual transition to the EU version of IAS in 2007 and has followed subsequent modifications of EU accounting guidelines. Since end-2005, IFRS have been legally mandated for listed companies. As of 2007, unlisted companies may use IFRS in consolidated statements but may not use it in separate statements. International auditors have a strong presence. (Deloitte/IAS PLUS 2013; EIU Country Finance, September 2011; Interview, February 2008)
Entrepreneurship	2	According to the World Bank, Spain slightly decreased its score in the "Ease of Starting a Business" in 2012, from 134 to 136. Although Spain has made important progress in reducing the cost to start a business and decreasing minimum capital requirements, the number of procedures and time required to start a business remain above the average of OECD countries. (Doing Business 2013, The World Bank)

## Country Profile TAIWAN

	score	change	
<b>Overall score</b>	<b>64</b>	<b>▲</b>	<b>1</b>
Laws on PE/VC fund formation and operation	4		
Tax treatment of PE/VC funds & investments	3		
Protection of minority shareholder rights	1		
Restrictions on local institutional investors investing in PE/VC	2		
Protection of intellectual property rights	3		
Bankruptcy procedures/creditors' rights/partner liability	3		
Capital markets development and feasibility of exits	3		
Registration/reserve requirements on inward investments	3		
Corporate governance requirements	2		
Strength of the judicial system	2		
Perceived corruption	2		
Quality of local accounting/use of international standards	3	▲	1
Entrepreneurship	4		

Indicators are scored from 0-4 where 4 = best score

Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



### Taiwan ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	Transparent laws permit widespread fund activity, though with some requirements and restrictions (minimum capital of NT\$200M to start a fund; banks with a limit of 5% ownership in any one fund; and qualified securities houses limited to a 10% stake in any one firm and their investments must not exceed 5% of their net worth). Taiwan had 183 venture capital companies at end-December 2010, according to the most recent annual figures published in English by Taiwan Venture Capital and Private Equity Association (TVCA). Local general partners have come to dominate the industry in Taiwan, constituting 51% of all deals from 2005-10. (McKinsey, March 2011; EIU Country Finance, September 2011; TVCA website, February 2013)
Tax treatment of PE/VC funds & investments	3	A new capital gains tax on sale of securities, passed in July 2012 and effective January 2013, complicates somewhat the generally favourable tax environment for the VC/PE industry in Taiwan. Under the new rules, companies will still be subject to the alternative minimum tax (AMT) on capital gains, but the minimum rate levied will rise from 10% to 12% and the annual tax-free threshold will be reduced from NT\$2m (US\$65,000) to NT\$500,000 (US\$17,000). The taxable portion of capital gains will be lowered by 50% if the shares have been held for longer than three years. Individual investors will have the choice of paying a flat rate of 15% or having their transactions subject to a levy linked to the performance of Taiwan's main stockmarket index, with the latter option phased out from 2015. Taiwan has a single flat tax rate of 17% (lowered from 20% in May 2010) on all corporate income exceeding NT\$120,000. A 0.3% financial transaction tax is levied against the seller on all securities sold, and there is a 2% levy on all financial institutions. Since 1998, income from business operations is taxed only once, as part of personal income. Individuals are subject to a 15% withholding tax on dividends, but local firms and registered foreign companies are not. Withholding tax on dividends paid by registered non-resident companies to non-residents is 20% (25% for registered companies and 30% for non-resident individuals), though a 10% surtax on undistributed earnings can offset the 20% withholding tax. Resident enterprises are taxed at 15%. Dividends received by a resident company from portfolio investments are fully exempt. Those received by shareholders as a result of an expansion are not taxable until transferred, and those derived from securities-exchange transactions by a VC fund are tax-exempt during a limited period. Dividends of foreign institutional investors subject to home country taxation are 100% tax exempt. (EIU Country Finance, December 2012; EIU Country Commerce, December 2012, December 2011)
Protection of minority shareholder rights	1	Minority rights remain weak in both law and practice among Taiwan's family-run businesses. For both limited companies and companies limited by shares, most resolutions require a simple majority shareholder vote, with more than one-half of votes represented. If a quorum is not reached after two meetings within one month, a majority of shareholders who represent one-third or more of total issued shares may carry a vote. For special resolutions, a majority is required from at least two-thirds or three-fourths of shareholders present. Regarding mergers and acquisitions, companies can use a compulsory share exchange during a transaction, and approach the management of target companies and request a shareholders' meeting, at which a two-thirds majority could force minority shareholders to sell. (EIU Country Commerce, December 2012, December 2011; EIU Country Finance, September 2011)
Restrictions on local institutional investors investing in PE/VC	2	For insurance companies, stakes in an individual company's stocks or bonds must not exceed 10% of its capital, and its stakes in all stocks and bonds cannot exceed 35% of capital. As of June 2007, insurers are allowed to engage in the discretionary investment business, and their limit for overseas investments is 45% of enterprise funds. The insurance industry continues to experience consolidation in Taiwan, and many foreign insurers have exited the market in recent years. Pension funds remain underdeveloped and government-run and invest very conservatively. (EIU Financial Services Report, December 2012; EIU Country Finance, September 2011, September 2010)
Protection of intellectual property rights	3	The US Trade Representative (USTR) removed Taiwan from its Watch List in January 2009, signalling improvements in its intellectual property (IP) environment. However, in its March 2012 annual report, the USTR highlighted continuing IP problems in Taiwan, including the availability of counterfeit pharmaceuticals, illegal textbook copying, online infringement of copyrighted material, and inadequate protection for the outward appearance of products. Furthermore, the report stated that Taiwan had become a trans-shipment point and market for counterfeit clothing and luxury goods smuggled from China. The International Intellectual Property Alliance stressed in February 2012 that Taiwan had physical piracy "generally under control", but it added that internet piracy remained an urgent problem. Taiwan has undertaken actions to continue to improve its intellectual property protection, including the 2008 creation of an Intellectual Property Court for all new civil and administrative IP litigation, and most recently, an amendment to the Patent Law strengthening the protection period of medical patents. (EIU Country Commerce, December 2012; US Investment Climate Statement 2012)

## Taiwan ScoreNotes

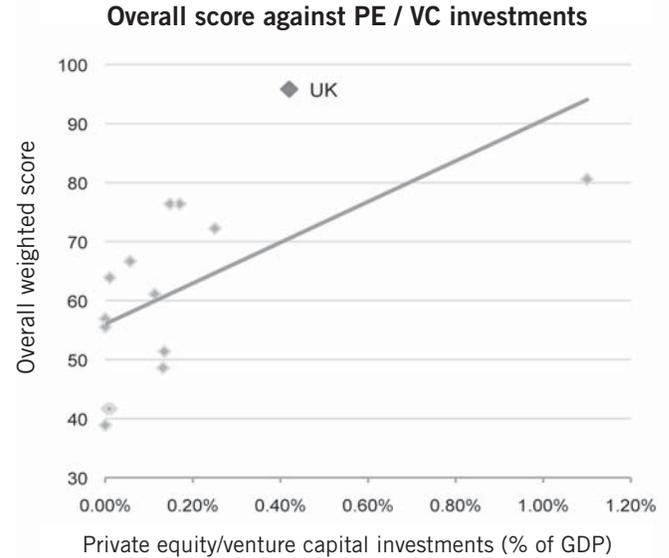
Aspects	Score	Notes
Bankruptcy procedures/creditors' rights/partner liability	3 (4-0)	Corporate reorganization, which is part of Company Law, applies only to public companies or those issuing bonds, and can be time-consuming. Firms often use recourse to it as a bargaining chip to extract better terms from creditors. The law favours creditors and liquidation. According to the World Bank's Doing Business 2013, the cost of resolving bankruptcy is much lower than the OECD average, time period is shorter, and creditor recovery rates much higher. Reorganization allows creditors to share in a bankrupt firm's assets on a proportional basis. Partner liability is limited to capital share. (EIU Country Finance, September 2011, September 2010; EIU Country Commerce, December 2011)
Capital markets development and feasibility of exits	3	Taiwan's capital market is mature and active; both domestic- and foreign-invested firms can access an array of credit instruments which are allocated on market terms. The stock exchange has recorded a mixed performance since early 2011, owing to shifting risk appetite among foreign investors in particular. This is likely to be accentuated by the new capital-gains tax on the sale of securities that came into effect in January 2013. At least seven IPOs took place over the last year. At the end of 2011, 790 companies were listed in the Taiwan Stock Exchange, with a market capitalisation of US\$636bn. In order to broaden the range of options for traders, Taiwan recently amended its regulations to allow domestic issuers to issue warrants linked to foreign securities and indices of foreign securities exchanges. (EIU Financial Services report, December 2012; US Investment Climate Statement 2012, Taipei Times)
Registration/reserve requirements on inward investments	3	The Central Bank has recently taken a series of measures to reinforce an existing system of real-time reporting of large foreign-exchange (forex) transactions. Exchange controls were relaxed pursuant to Taiwan's accession to the WTO. There are no reserve or minimum-stay requirements. (EIU Country Commerce, December 2012)
Corporate governance requirements	2	Transparency of governance remains a problem in privately held firms since small families or family conglomerates tend to run SMEs, with blurry distinctions among owners, managers, directors and supervisors. Minimal requirements exist for privately held firms: quorum with one-half of votes present, most resolutions passed by simple majority, and if no quorum after two meetings within a month a one-third presence of votes suffices for quorum. For special resolutions, a majority is required from at least two-thirds or three-fourths of shareholders present. For both limited and share-holding companies, companies with capital of NT\$30M or more must have their accounts audited. Since 2002, listed companies must include independent directors. The exchange introduced a voluntary code of governance in 2002, including provisions for at least two independent directors and a supervisor, liability insurance for board members, and separation of chairman and CEO roles. As compared to OECD averages, the World Bank's Doing Business 2013 rates the country as average in director liability, below average in shareholder ability to sue and well above average in disclosure requirements. (EIU Country Commerce, December 2012, December 2011; EIU Country Finance, September 2011)
Strength of the judicial system	2	The judiciary is independent of the executive branch, but organised crime is known to influence the outcome of some court cases by means of bribery and physical threats. Decision-making within the judiciary is also slow. Although Taiwan is not a member of the various international judicial bodies that mediate investment disputes, these are rare in practice and are generally resolved based on domestic law. Contract rights are generally well-respected. The Arbitration Association in Taipei, a non-profit organization that has agreements with other arbitration institutions, manages disputes in several fields according to what the disputants have established regarding rules of procedures and governing law of the dispute. (EIU Risk Briefing; EIU Country Report December 2012; US Investment Climate Statement 2012)
Perceived corruption	2	Laws, regulations, and penalties against corruption are strengthening. The US government reports that corruption allegations are generally investigated, even when they involve senior and elected officials. Taiwan worsened its score slightly in Transparency International's 2012 Corruption Perceptions Index, with its overall country ranking moving from 31 to 37. (EIU Country Report, February 2013; US Investment Climate Statement 2012; Transparency International)
Quality of local accounting industry (international standards)	3	Subpar accounting practices, with multiple sets of accounts, have been common in Taiwan. However, the country is completing in 2013 the first of two stages of a plan adopted in May 2009 to transition to IFRS, as listed companies and supervised financial institutions began adopting in 2012 and fully adopted in 2013. For this reason, this score has been upgraded. For all other firms IFRS must be adopted fully starting 2015, with early adoption available starting 2013. International auditor are present. (Deloitte IASPLUS 2013; EIU Country Commerce, December 2012, December 2011)
Entrepreneurship	4	The number of procedures, time, and cost required to start a business are significantly lower than the regional average in East Asia and on par with OECD countries. In 2010, Taiwan reduced the corporate tax rate. In 2012, Taiwan implemented measures to facilitate online business registration. (Doing Business 2013, The World Bank)

Country Profile

UK

	score	change
<b>Overall score</b>	<b>96</b>	
Laws on PE/VC fund formation and operation	4	
Tax treatment of PE/VC funds & investments	4	
Protection of minority shareholder rights	4	
Restrictions on local institutional investors investing in PE/VC	4	
Protection of intellectual property rights	4	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	4	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	4	
Strength of the judicial system	4	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	
Entrepreneurship	4	

Indicators are scored from 0-4 where 4 = best score  
 Scores reflect the effect of double weighted indicators (see Scoring Criteria for detail)



UK ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	The UK has the largest PE/VC sector in Europe, with UK-based funds accounting for about 20% of global investments. Clear laws facilitate the formation of PE/VC funds, which are not distinguished from each other. Many different forms exist: stand-alone funds, funds established as subsidiaries of large financial institutions, venture capital trusts, closed-end investment funds, funds set up by “qualified investors” with high net worth, and Enterprise Investment Schemes. The scope of venture capital activity remains high relative to the size of the economy, though the financial crisis caused a decrease starting in 2009 and winding down or selling off of some PE fund managers. According to data released by the European Private Equity and Venture Capital Association (EVCA) in May 2012, the UK was the source of more than 40% of the total capital raised by European private-equity houses in 2011, or €16.5bn (US\$23bn) out of a total of €39.8bn. Based on a survey released in May 2012 and carried out for the British Venture Capital Association by PricewaterhouseCoopers, the association put total private-equity funds invested in the UK at £6.5bn in 2011, down from £8.2bn in 2010. The Alternative Investment Fund Managers Directive to establish EU-level regulation of the hedge fund and PE industries came into force on July 21st 2011. EU members have until July 22nd 2013 to transpose the directive into national law. The directive will impose capital and disclosure requirements on alternative fund managers across the EU. Approved fund managers will be able to market their funds across the EU, rather than seek country-by-country approval. In December 2012 the European Commission published supporting provisions for the directive, based on recommendations provided by the European Securities and Markets Authority. (EIU Financial Services Report, January 2013; EIU Country Finance, June 2011; BVCA website; European Commission website)
Tax treatment of PE/VC funds & investments	4	Incentives are generous, and tax rates are low and advantageous. Under the Enterprise Investment Scheme (EIS) type of fund, private individuals obtain tax relief on investments in unquoted companies and offset losses against income tax if there are no capital gains against which to offset them. Shareholders in venture capital trusts enjoy tax incentives and capital gains are not taxed. Corporate taxes are on a progressive scale from 20% to 24% that benefits smaller enterprises. Corporate capital gains on portfolio investments are taxable in the country of residence of the investor unless they make the investment via a subsidiary, in which case, corporate capital gains are taxed at the same rate as income. However, in many cases, inflation indexation provisions may turn a nominal gain into a deductible loss. The UK has no withholding tax on dividends, while interest is taxed at 10%. A dividend paid by a UK company to a resident individual carries a tax credit of 10% of the value of the dividend. UK resident individual portfolio shareholders in foreign companies are also eligible for the 1/9 tax credit under domestic law from April 6, 2008. (EIU Country Commerce, October 2012, October 2011; EIU Country Finance, June 2012)
Protection of minority shareholder rights	4	Formal governance requirements remain less stringent for private limited than public limited companies, and are more relaxed for small and medium-sized private companies. PE/VC funds generally seek to bolster their voice through minority rights provisions in shareholder agreements and through dispute settlement provisions involving commercial arbitration, which are readily enforceable. For private limited companies, there needs to be at least one director. Private companies defined as “small” (based on turnover, balance sheet, and workforce criteria) may submit a shortened balance sheet and notes, and a special auditor’s report (unless claiming audit exemption). At minimum, medium-sized companies must submit an abbreviated profit-and-loss account, a full balance sheet, special auditor’s report, directors’ report and notes to the accounts. (EIU Country Commerce, October 2012; EIU Country Finance June 2012)
Restrictions on local institutional investors investing in PE/VC	4	Insurance companies may invest where they choose, provided they take a responsible attitude to investing. Investment must be within the bounds of solvency requirements for insurers set since January 1, 2005, introducing a more risk-based approach to calculating capital. Firms possessing with-profits liabilities of more than £500M must hold capital equivalent to the greater of their statutory requirements and make a realistic calculation of expected liabilities. Other insurance companies only have to meet the statutory solvency requirements, but must provide the Financial Service Authority (FSA) with risk-based calculations. Since 2003, the same basic freedom is granted to pension funds established since 1995. They remain key investors in PE/VC funds, even though their risk profile has become more conservative since the mid-2000s, driven by the need to fully fund liabilities under revised financial reporting standards as well as maturing age profiles and poor stockmarket performance. (EIU Country Finance, June 2012, June 2011)

## UK ScoreNotes

Aspects	Score (4-0)	Notes
Protection of intellectual property rights	4	Intellectual property rights are fundamentally secure in the UK. Enforcement mechanisms are comparable to those found in the US, although as in other European countries, pirated software and fraudulent trademarked goods are widely available. The courts are reliable in enforcing licensors' rights, except in the case where IPR interferes with free trade within the European Union. The UK has also launched independent reviews of its IPR framework and new regulations are expected to be enacted in 2013. Companies are usually able to obtain legal judgments against systematic and large-scale violations of their patents, trademarks, registered designs and copyrights. Software piracy is generally below average European levels. (EIU Country Commerce, October 2012; EIU Risk Briefing; US Investment Climate Statement 2012)
Bankruptcy procedures/creditors' rights/partner liability	3	Regulations adopted in 1999 govern insolvency procedures for liquidating distressed firms in an expedited fashion. There is no precise analogue to US-style Chapter 11 in which a firm can be restructured while enjoying considerable short-term relief from its debts. According to World Bank Doing Business 2013, resolving a bankruptcy is significantly quicker and less costly and yields a significantly higher recovery rate as compared to OECD averages. (EIU Country Finance, June 2012; EIU Country Commerce, October 2012, October 2009; Financial Times, 31 August 2010)
Capital markets development and feasibility of exits	4	The UK's financial markets are among the most sophisticated in the world, and London is one of the world's leading financial centres. The London Stock Exchange (LSE) has strengthened its position after a merger with the Italian exchange in 2007. The LSE remains a sought-after destination for stock offerings: in 2012, The LSE group ranked second among European markets with the higher number of IPOs (73). London is the largest European centre for private-equity investment management, with UK based funds accounting for about 20% of global investments. According to data released by the European Private Equity and Venture Capital Association (EVCA) in May 2012, the UK was the source of more than 40% of the total capital raised by European private-equity houses in 2011, or €16.5bn out of a total of €39.8bn. (EIU Country Finance, June 2011; EIU Financial Services Report, 2012; EIU Risk Briefing; London Stock Exchange)
Registration/reserve requirements on inward investments	3	There are no exchange controls in the UK, and European Union rules require free movement of capital throughout the bloc. Banks monitor transactions for suspected money-laundering, and the law requires them to have a Money-Laundering Reporting Officer. Registration exists for monitoring purposes but there are no reserve requirements. (EIU Country Commerce, October 2012)
Corporate governance requirements	4	All UK-incorporated companies, which are listed on the Main Market of the London Stock Exchange, are required to report on how they have applied the UK Corporate Governance Code issued by the UK Financial Reporting Council. From April 2010, all companies with a premium listing, regardless of their country of incorporation, are required to report on how they have applied the code, which was revised on May 28, 2010. Questionable remuneration practices were the subject of an August 2009 code issued by the Financial Services Authority, which was given legal backing with the April 2010 passage of the Financial Services Act. Outside auditing and annual financial reporting are looser for small and medium-sized private firms. Such firms are subject, however, to the Companies Act 2006, which requires all firms upon registration to detail the rights of the shareholders, borrowing powers and the duties of directors, but also removes the previous requirement of an annual general meeting. The World Bank's Doing Business 2013 rated UK's strength of investor protection index at 8.0 on a scale of 10 (with ten being the highest), two points above the OECD average, and ranking 10th globally, as in 2012. (EIU Country Finance, June 2012; EIU Country Commerce, October 2012)
Strength of the judicial system	4	The UK is an established market-based economy in which contracts are enforced by an independent and reasonably efficient judicial system. Disputes can be resolved in courts or any other alternative dispute resolution such as arbitration. EIU Business Environment Rankings score the country's fairness and transparency of legal system favourably. (EIU Risk Briefing; EIU Business Environment Rankings; US Investment Climate Statement 2012)
Perceived corruption	3	Foreign investors generally do not perceive corruption of public officials to be a problem for doing business in the UK. The UK retains a fairly stable position in the Transparency International's Corruption Perceptions Index, ranking 17 out of 174 countries in 2012. The UK introduced the Bribery Act of 2010 to bring its legislation up to OECD standards. The law, which covers the criminal law in relation to bribery, imposes increased regulation and crime can be prosecuted even if committed abroad. (EIU Risk Briefing; US Investment Climate Statement 2012, Transparency International)
Quality of local accounting industry (international standards)	4	International financial reporting standards, as adopted by the European Union, continue to be required for listed companies. In order to be listed on the Main Market of the London Stock Exchange, companies must prepare their accounts following IAS. IFRS are permitted in both consolidated and separate company statements for non-listed firms. Inflation-adjusted accounting is still in use for tax purposes although not for financial reporting. The Finance Act 2009 institutes a senior accounting officer penalty regime, with annual certification of the adequacy of accounting systems for tax purposes, effective January 1st 2010, with penalties for non-compliance. (Deloitte/IAS PLUS 2013; EIU Country Finance, June 2012; EIU Country Commerce October 2012, October 2011)
Entrepreneurship	4	The cost of starting a business ranks as one of the lowest in the world. In 2012, the UK passed reforms to enhance the entrepreneurial climate and to improve efficiency of contract enforcement, and added amendments to streamline bankruptcy procedures. According to the World Bank, costs and time associated with starting a business are on par with OECD country averages. (Doing Business 2013, The World Bank)

## APPENDICES

### Appendix A: Select bibliography

The following cross-national data and information sources were used in the preparation of the 2013 Scorecard:

Economist Intelligence Unit, Country Finance, Country Financial Services and Country Commerce series (by country), Business Environment Rankings and Market Indicators and Forecasts series, 2012

Deloitte IAS PLUS, "Use of IFRS by Jurisdiction," <http://www.iasplus.com/country/useias.htm>

European Corporate Governance Institute, "Index of Corporate Governance Codes" (by country)

The World Bank, World Bank Group Entrepreneurship Database, "Doing Business " series, various countries, 2012

U.S. Department of State, Country Commercial Guide series (various countries and years)

U.S. Department of State, Investment Climate Statement, 2012

U.S. Trade Representative, Special Report, 2012

Global Entrepreneurship Monitor, Global Report, 2012

Transparency International, Corruption Perceptions Index, 2012

IVC Research Center, Summary of Israeli Private Equity Deals, 2012

Asociacion Espanola de Entidades de Capital - Riesgo, Press release 2013

Emerging Markets Private Equity Association, 2012

European Private Equity and Venture Capital Association Yearbook, 2012

### Appendix B: Interviews

For this scorecard, the EIU conducted new interviews in January and February 2013 with LAVCA members who are fund managers based in the LAC region. These aimed primarily to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. We promised these individuals anonymity.

As in 2012, the interviews for the 2013 Scorecard were designed, first, to hear from fund managers working in all the focus countries about their experience in making investments. Second, the interviews sought to gauge the extent to which recent legislative change--or accumulated experience with existing legal frameworks--had affected the business environment for fund managers.

For the debut Scorecard released in 2006, the interviews had served a somewhat different purpose. They were conducted with a broader range of market participants, including attorneys and service providers as well as some US-based fund managers active in multiple countries of the region. Their primary focus at that time was to refine the original 12 criteria and assign them different weights. Also, the interviews for the first two Scorecards were influential in the decision of including entrepreneurship as an additional indicator that significantly impacts the VC/PE business environment.

## CONTRIBUTORS

The 2013 Scorecard on the Private Equity and Venture Capital Environment in Latin America is prepared annually by the Economist Intelligence Unit on behalf of the Latin American Private Equity & Venture Capital Association (LAVCA). LAVCA provides additional analysis for the report.

### Economist Intelligence Unit



The Economist Intelligence Unit is part of the Economist Group, the leading source of analysis on international business and world affairs. Founded in 1946 as an in-house research unit for The Economist newspaper, we deliver business intelligence, forecasting and advice to over 1.5m decision-makers from the world's leading companies, financial institutions, governments and universities. Our analysts are known for the rigor, accuracy and consistency of their analysis and forecasts, and their commitment to objectivity, clarity and timeliness.



The Latin American Private Equity & Venture Capital Association is a not-for-profit membership organization dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 150 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of US\$50 billion, directed at capitalizing and growing Latin American businesses.

LAVCA's mission – to spur regional economic growth by advancing venture capital and private equity investment – is accomplished through programs of research, networking forums, education and advocacy of sound public policy. More information at [www.lavca.org](http://www.lavca.org)



### *Additional Contributors*

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May 29, 2013  
Santiago, Chile

**Colombia Private Equity &  
Venture Capital Forum**  
November 13, 2013  
Bogota, Colombia

*For more information on Member benefits, please visit the Membership Section of our website ([www.lavca.org](http://www.lavca.org)) or contact Lindsay Walsh at [lwalsh@lavca.org](mailto:lwalsh@lavca.org)/+1 646.315.6739*

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