



## MEXICO PE/VC ENVIRONMENT

*2013 Update*

### STRUCTURAL REFORMS

Since taking office on December 1, 2012, Mexican President Enrique Peña Nieto has been deeply committed to make Mexico a more dynamic, modern and competitive economy. Taking advantage of Mexico's macroeconomic stability, President Peña Nieto has promoted important structural changes to transform Mexico, including reforms to the financial, tax, energy, telecommunication, education and political systems.

#### *Financial Reform*

Early November 2013, the Mexican Senate approved the financial reform, which focuses on key pillars, including promoting credit among development and private banks, stimulating healthy competition among financial institutions, and strengthening of the financial system.

The financial reform places Mexican development banks as the engine behind the growth of strategic projects in the country, complementing financing from private institutions. To achieve this, the reform modifies the structure and regulations to allow greater autonomy, placing greater flexibility in investment criteria, and facilitating credit not only to entrepreneurs but also to small and medium-sized enterprises.

The reform also looks to promote credit among private financial institutions. To promote better credit availability and lower interest rates, the reform modifies the guarantee execution procedures to allow greater enforceability for guarantee recovery, as well as a new procedure allowing creditors to choose the path for credit recovery including bankruptcy, mortgage foreclosure, etc. A key initiative included in the financial reform is that the Bank of Mexico (BANXICO) will be in charge of regulating banking commissions and interest rates related to credits.

The financial reform looking to promote healthy competition between financial institutions, will create a financial institution bureau that will inform about to the practices of financial institutions: administrative penalties, claims and other information that is relevant to inform the users of the performance in the provision of their services, and thus contribute to appropriate decision making for the users of financial services. Another key element to promote competition is the introduction of the credit mobility framework, allowing credit holders to move to a different financial institution granting better credit conditions than the original credit-issuing financial institution.

One of the most important elements of the financial reforms concerns bankruptcy proceedings. First and foremost, the reform establishes that the objective of bankruptcy proceedings is the protection of creditors. The reform also reinforces that the bankruptcy judge is the leader of the proceedings, possessing all required capabilities to uphold the law, but removes the judge's ability to modify and extend set timeframes for bankruptcy proceedings. Included in the reform is a new

priority/seniority ranking for repayment among creditors. Regarding inter-firm transactions, the reform states that this type of transaction, as well as subordinate creditors, will become junior to common creditors. The reform also introduces the concept of custody, referring to the notification to debtors so as to avoid abandoning the proceedings without leaving a legitimate representative, and guarantee withholding, referring to the situation when the established credit guarantee is at risk of disposition, liquidation, hiding or insufficient to cover the debt. Likewise, the reform also incorporates a new procedure for preliminary recognition of bankruptcy and entrance into a bankruptcy proceeding.

Another element included in the financial reform is the plan to increase market maker's effects on the Mexican Stock Market. The reform considers a modification to the stock market laws to allow brokers and/or market makers to offer their services and work with local and international institutional investors.

#### Structural Reform Implications

The financial reform has great implications on the private equity and venture capital industry in Mexico. In first instance, funds will see greater desire from development banks to co-invest in strategic projects. Likewise, funds will be able to acquire better financing from financial institutions for their portfolio companies due to increased credit information transparency, just as greater competition among these financial institutions.

Another key implication the financial reform has on the private equity and venture capital industry is the improvement of the rules and procedures regarding bankruptcy proceedings, allowing funds to have greater certainty on the timeframe and operation of bankruptcy courts, avoiding extending bankruptcy procedures, such as the current situation of airline Mexicana.

#### *Energy Reform*

The long awaited Mexican Energy Reform was passed by the lower house of the Mexican Congress on December 12th 2013. The reform ends the state monopoly on energy, while opening oil and gas production as well as distribution and production of electric energy to private investment. Currently the sector is controlled by two state owned entities, the national oil company, Petróleos Mexicanos (PEMEX) and the federal electricity commission, Comisión Federal de Electricidad (CFE). Even though some marginal private investors' involvement was allowed in some subsector activities, full private participation within the sector has not been a possibility until now. The reform sets forth the general framework under which the secondary legislation will be drafted and implemented to allow for complete private sector immersion into oil, gas and power production activities.

The reform establishes that subsurface hydrocarbons are property of the Mexican nation, just as concessions and private ownership of such are prohibited. Nevertheless, the new operational regime foresees granting of operational licenses as well as private ownership of hydrocarbons once extracted from the subsoil.

The State will incorporate private sector participation by way of conferment of contracts focused on exploration and production (E&P) activities. The Reform introduces four-contract modalities, as well as the possibility to create hybrid contracts. Nevertheless, the secondary legislation could introduce additional modalities not initially presented with the Reform.

- i. Service Contracts – oil companies perform E&P activities for the State in return for a fixed fee in cash.
- ii. Profit Sharing Contracts – oil companies will bear the financial costs and risks of the E&P activities in consideration for a percentage of the revenues.
- iii. Production Sharing Contracts – oil companies will bear all the E&P expenses and will be paid a share of the production after cost recovery.
- iv. Licenses – oil companies will acquire title to the hydrocarbons acquired after extraction and payment of taxes.

The reform state that reporting of expected revenue and conferment of E&P contracts for accounting and financial purposes will be allowed for both PEMEX and the oil companies, provided that the contracts include express affirmation that hydrocarbons in subsurface are property of the Mexican nation. Taxation wise, PEMEX and the oil companies will be subject to a special tax regime that will be determined by the Ministry of Finance once the secondary laws are in place.

The energy reforms states that allocation will be subject to a public bidding process. However, PEMEX will have a preferential right to request to carry out the E&P activities in specific fields and will grant the allocation to oil companies as long as it demonstrates that it possess the necessary technical, financial and administrative capabilities to carry out the E&P activities in an efficient and competitive manner. Furthermore, PEMEX will have the possibility to request that the Ministry of Energy authorize conversion of previous projects and new allocations to allow PEMEX to contract with third parties. Additionally, the reform dictates enactment of procurement rules intended to guarantee openness and transparency for E&P contracts & allocations. Specifically, the reform mandates that all procurement procedures and projects be subject to external audits and public disclosure of all contractual terms and conditions.

The reform establishes that activities corresponding to the midstream (transportation, storage, wholesale) and downstream (oil refining, natural gas processing) sectors are no longer exclusive activities of the State, accordingly opening these activities to private investment.

The Reform mandates the establishment of a sovereign wealth fund (Fondo Mexicano del Petroleo) in the form of a public trust, whose trustee will be Mexico's Central Bank. The fund, which should begin operations by 2015, will be tasked with administrating, receiving, distributing and investing oil revenues.

Pursuant to the changes implemented by the energy reform, new State agencies and existing State regulatory bodies will attend to specific responsibilities to ensure adequate operation of the new system. The Ministry of Energy will: a) establish and coordinate Mexico's energy policy, b) determine which fields are subject to E&P Contracts and award Allocations, c) design the E&P

Contracts, and d) grant permits for downstream operations. The new National Hydrocarbons Commission will be in charge of: a) technical advisory to the Ministry of Energy, b) control bidding and awarding of E&P Contracts, c) supervision of E&P Contracts and d) enactment of E&P regulation. The Energy Regulatory Commission will be responsible for midstream activity permits, access by third parties to hydrocarbon distribution pipelines and storage facilities and regulation of first hand sale of midstream products. The National Center of Natural Gas Control will be responsible for the operation of the national natural gas distribution and storage system. The National Industrial Security and Environmental Protection for the Hydrocarbons Sector will regulate and oversee environmental and industrial security aspects of oil and gas operation

The energy reform also modifies power production. The transmission and distribution of electric power, as well as planning and control over the national grid are exclusive activities reserved for the State. However, the reform provides that the State may enter into contractual relationships with private companies to participate on behalf of the State, in financing, installing, operating, maintaining and expanding the national grid's infrastructure. Power generation is no longer considered a public service, wherefore private investors will be allowed to generate and sell electric energy for public service purposes.

Ministry of Energy: The reform also establishes modifications to State's regulatory bodies. The Ministry of Energy will be responsible for establishing terms and conditions to foster growth, access and sector competitiveness. The Energy Regulatory Commission will regulate electricity fees and grant permits for power generation. A new National Energy Control Center will operate the national grid and administer the wholesale electricity market.

Regarding oil and hydrocarbon exploration and extraction activities, as well as public transmission and distribution of electric power are considered of social interest and public order. In light of the strategic nature of such, they have a priority over other use or activity affecting real estate, therefore the secondary legislation will set forth rules and conditions for the compensating affected parties by the use of their real estate for the abovementioned activities.

The energy reform mandates that PEMEX and CFE transform into "Productive State Enterprises" that will openly compete in the marketplace along private entities. This change in nature mandates that the new corporate purpose going forward is to increase economic value and revenues for the State. Both companies will have budgetary autonomy and will have to adopt industry best practices for their organizational, administrative and corporate structure. Each company will have a new Board of Directors consisting of ten members, comprised of five members representing the government (Minister of Energy will be board president with a tie breaking vote) and five professional independent advisors. An important change for PEMEX is that the workers union will no longer have a seat at the Board of Directors.

#### Structural Reform Implications

The energy reform has positive implications on the private equity industry in Mexico. Funds will now be able to invest in oil companies that pursue E&P contracts and allocations, as well as the

midstream activities (transportation, storage, wholesale) and downstream activities (oil refining, natural gas processing).

Likewise private equity funds can now participate in companies and/or projects to generate and sell electricity, as well as companies who enter in contractual relationships with CFE to participate in the financing, installing, operating, maintaining and expanding the national grid's infrastructure.

### *Telecommunication Reform*

On June 10, 2013, the telecommunication reform bill, proposed by Mexican President Enrique Peña Nieto, was ratified into a law. The new telecommunication law is focused on six pillars covering the strengthening of fundamental expression and information rights, development of the legal and institutional framework, promotion of competition, infrastructure improvement, and the establishment of a national digital agenda.

Among the initiatives covered to develop an adequate legal and institutional framework, the bill establishes that the Federal Telecommunications Institute will have the sole power to grant and revoke telecommunication and broadcasting concessions, while the bill replaces the actual Federal Antitrust Commission with the Federal Economic Competition Commission to ensure free competition, as well as prevent, investigate and punish monopolies, monopolistic practices, and the restrictions to the efficient functioning of the market.

The telecommunication bill establishes that among the initiatives for infrastructure development to promote the access and use by the population to broadband and telecommunications services, a national fiber optic broadband network will be developed jointly with a shared wireless network based on the 700 MHz spectrum.

The key pillar of the telecommunication reform is the opening of the sector to foreign direct investment. Now international investors can participate up to 100% in telecommunications and satellite communications, but can only invest up to 49% in broadcasting based on reciprocity rules with the investor's home country.

### Structural Reform Implications

The telecommunication reform has positive implications on the private equity and venture capital industry in Mexico. Local funds with capital from international investors, as well as international funds, can now take majority ownership positions in satellite and telecommunications companies. Unfortunately, funds with international capital will not be able to take majority ownership in broadcasting companies, as they will be limited by reciprocity rules up to 49% ownership stake.

### *Corruption*

Mexico is taking a strong stance to fight corruption. Early December, Mexican Senators have passed a bill that seeks to create a national anti-corruption commission. This commission will be in charge of preventing, investigating and applying administrative sanctions to citizens and/or

government officials that incur in acts of corruption, such as influence trafficking, bribery, embezzlement, among others. Proposed sanctions for government officials include suspension, destitution and/or permanent ban from public positions and fines that would have to take into consideration the damages caused to public finances; the latter sanction would also apply to individuals.

Once the National Anti-Corruption Commission is set in place, it will replace the Public Function Ministry. The Commission will also have to coordinate with the comptrollers of the Chief Audit Office (ASF) and the Federal Institute of Access to Information and Data Protection (IFAI).

The proposal also considers the creation of a specialized public prosecutor, associated to the Mexican Attorney General's Office, which will be in charge of prosecuting corruption crimes. This public prosecutor can also enforce sanctions such as preventive detention, custody and account freezing. Another key initiative included in the proposal is the extension of up to 10 years for crime prescriptions, in order to avoid older acts of corruption by individuals and/or government official to go unpunished.

#### Outlook

The anti-corruption bill is now pending approval and/or modification from the House of Deputies, event that will take place in early 2014. Even though the anti-corruption reform is building a structure to investigate and apply sanctions to acts of corruption, it still comes short as it does not attack the origin or causes of corruption in the country.

#### *Tax Reform*

On October 31, 2013, the Mexican Senate ratified a comprehensive tax reform. The approved tax reform modifies the value added tax regimen (IVA) to apply duties to particular products, such as pet food and gum, and temporary imports for manufacturing activities, even those under the manufacturing for export (IMMEX) program, as well as level border state IVA to national level IVA (16%).

The approved tax reform also modifies the corporate tax regimen (ISR), including adjustments to the agricultural sector to allow further tax deductions, setting further restrictions and requirements for tax-deductible items, as well as reducing tax deductibility to 47% or 53% of payments made to employees when qualifying as exempt income for the latter. The reform also repeals the corporate consolidation and small contributor tax treatments.

In addition, the tax reform considers additional production and services excise taxes, including an 8% tax on "junk food" sales, a 39.80 MXP per metric ton of CO2 tax on fossil fuel sales, and a 1 MXP per liter tax on sugar beverages. The approved tax bill includes a 7.5% royalty based on annual sales on the mining industry, as well as a 10% tax on dividends and capital gains from Mexican Stock Market activities.

Under tax laws in force up to December 31, 2013, Mexican companies had to calculate tax obligations under both the standard corporate tax (ISR, set at 30% after eligible deduction) and a flat-tax (set at 17.5% of cash inflows with limited deductions), and pay the highest tax corresponding from these two tax standards. Now the approved tax reform eliminates the flat-tax, thus Mexican companies no longer need to work under double tax accounting methods (income tax and flat tax) and will only pay the standard corporate tax.

### Structural Reform Implications

The approved tax reform has repercussion for the private equity and venture capital industry not only at the fund level, but also at the portfolio company level. In first instance, funds with investments in specific industries, such as mining, and/or consumer product good companies, such as sugar beverages, will be directly affected at the portfolio company level by the new production and services taxes, just as by the new value added tax regimen, although the full exposure to these new taxes will be determined whether the Mexican Congress approves any tax stimulus to these industries. The reduction in deductibility for employee compensation will create a burden both for funds as well as portfolio companies.

Private equity funds that own significant portions of portfolio companies and are under the corporate consolidation regime will be affected by the disappearance of this tax regime. Fortunately a similar tax regimen, known as the optional integration regimen, will take its place. The only considerations to enter this regimen is that funds have to own more than 80% of the portfolio company's controlling shares and the regimen can only last three years.

The new dividend tax will affect private equity funds that plan to recover their investments through dividends. A 10% tax is levied on dividends distributed by resident companies to foreign tax residents and Mexican individuals. The 10% distribution tax will also apply on distributions from a Mexican permanent establishment to the foreign head office. The taxpayer of this tax is the beneficiary of the dividend, but it is the distributing entity who is charged with withholding the 10% tax on net distributions. The 10% tax does not apply on the distribution of profits earned prior to 2014 that have already been subject to corporate tax.

Contrary to the reform's initial proposal, the dividend taxpayer is the foreign tax resident or Mexican individual recipient, and not the distributing entity. This provides an opportunity for foreign residents to apply reduced withholding rates under applicable tax treaties. Tax treaties entered by Mexico generally establish a 0% or 5% preferential withholding rate for dividends derived from profits that have already been subject to tax at corporate level, provided the recipient holds a substantial participation in the distributing entity, which is generally defined as a minimum participation percentage in the resident entity's voting shares. As a result, foreign dividend recipients may reduce the withholding tax rate on dividends distributed by Mexican companies, provided they meet the substantial participation requirement established in the applicable tax treaty. For these purposes, interest participation may be held either directly or indirectly, depending on the provisions set forth under each treaty. For instance, the tax treaty with the US requires a direct participation.

In the case where the foreign recipient is a tax transparent entity, the applicable tax treatment on dividends will be assessed by considering each of the members' residence jurisdiction. For example, where a US tax transparent entity with Spanish and Swiss members receives dividends from a Mexican company, those dividends will be treated in Mexico under the provisions of the tax treaties entered with Spain and Switzerland, in the proportion of each member's participation in the transparent entity. This may result in a problem where the individual member's participation does not meet the minimum percentage to qualify as substantial for purposes of applying the preferential rate foreseen in the applicable tax treaty.

In addition to declared dividends, the definition of dividend for purposes of the 10% withholding tax will include, among others: (i) interest paid on preferred shares; (ii) loans to shareholders and partners, unless the loan is established for less than one year, incurred in the operations of the business and meets certain requirements; (iii) payments that are considered non-deductible and benefit the shareholders; (iv) amounts not recognized as a result of omissions of income or unrealized purchases; and (v) transfer pricing adjustments to income or expenses as a result of assessments by the tax authorities for related-party transactions.

Regarding the 10% tax on capital gains, the tax will only affect transactions derived from the sale of shares traded in the Mexican Stock Exchange. Gains are calculated for each transaction and consider the average acquisition cost, as well as brokerage fees, among others, to determine the taxable basis. The resulting tax is withheld and paid over by the financial intermediary that intervenes in the transaction. Nonetheless, the 10% tax on capital gains will not apply when the recipient's residence jurisdiction has concluded a tax treaty with Mexico. In this case, the foreign recipient must deliver a statement under oath stating this situation to the relevant financial intermediary. Likewise, private equity funds that exit their investment through initial public offerings (IPOs) will not be subject to this capital gains tax.

## PENSION FUNDS TO CONTINUE DRIVING THE PE/VC INDUSTRY

Mexican pension funds, known as AFOREs, currently have asset under management totaling 2,005.8B MXP (154.2B USD) as of September 2013, quantity representing almost 12.7% of the Mexican GDP, and a growth of almost 3.25% from 2012.

AFOREs have been the driving force behind the growth of the Mexican capital market. Until September 2013, AFOREs have invested a total of 84,011M MXP (6,460.4M USD) in companies and projects thru the structured instruments CKDs and FIBRAS. CKDs have raised from AFOREs a total of 68,847M MXP (5,294.3M USD), representing 89.5% of total raised capital, while FIBRAS have raised 15,164M MXP (1,166.1M USD), representing 16.7% of total raised capital. Until 3Q2013, AFOREs have invested 3,325M MXP (255.7M USD) in four CKD capital calls (81.3%), as well as 11,344M MXP (872.3M USD) in four FIBRA capital calls (29.5%). AFOREs have also been part of the recent spur of IPOs in the Mexican Stock Market (BMV). AFOREs have invested a total of 16,166M MXP (1,243.1M USD) in Initial Public Offerings until the past quarter, but have placed 5,268M MXP (405M USD) only in 2013.



### *Investment Strategy Modifications*

Recently CONSAR made a change to the AFORE investment strategy to allow for greater diversification of its portfolios, increase hedging mechanism to protect the pensioner's savings, as well as modifying rules for CKD and FIBRA investments. Regarding CKDs, fund managers may invest AFORE committed capital in mutual funds or vehicles listed in the BMV until these funds will be used in a selected investment. Regarding FIBRAs, AFOREs, thru SIEFORE portfolios 2 to 4, could invest in FIBRAs to finance infrastructure and real estate projects since 2008. But in early October 2013, CONSAR authorized SIEFORE 1, the most conservative portfolio, to invest up to 5% of its assets under management in FIBRAS, given the performance and growth of this type of instrument. Likewise, all SIEFOREs are now allowed to invest up to 5% of their assets under management in REITs of known international markets.

Currently, AFOREs can invest up to 20% of their SIEFORE portfolios in international markets, but in 2011, CONSAR authorized AFOREs to further invest globally thru international mandates. Now AFOREs can invest 20% of their asset under management intended to international markets with global investment management firms who will select appropriate investment opportunities.

### *Structural Reform Implications*

AFOREs will not have to worry about increasing tax burdens related to the recently passed tax reform. This reform considered a 10% tax on dividends from investments in the Mexican stock market (BMV). After intensive lobbying, the Mexican pension fund regulator (CONSAR), together with the Mexican Afore Association (AMAFORE), negotiated with Mexican legislators so that pension funds would be exempt from this dividend tax.

### *Outlook*

AFOREs have further capacity to invest both in CKDs and FIBRAs. AFORE regulations limit investments in CKDs to 20% of total assets under management, meaning that AFOREs, currently investing over 3.4% of AUM, still have the potential to invest over 332,300M MXP (25,553.7M USD) in CKDs in the coming years.

Looking forward, CONSAR is lobbying a reform to the AFORE regulations so that SIEFOREs can invest directly in PE/VC and Real Estate funds, instead of using the CKD structure; reform that is expected to be achieved in the short term.

## DEVELOPMENT OF THE MEXICAN CAPITAL MARKET

### *IPO Boom*

2012 marked the year when companies and investors alike changed their view of the Mexican Stock Market. Companies became eager to attract capital partners, while investors saw potential in Mexican companies, as well as a growing Mexican capital market and a stable macroeconomic

environment. This situation led Mexican companies to raise a then record total of 101,394M MXP (7,797.1M USD) through initial and secondary public offerings, from which 60% came from Mexican institutional and individual investors while the rest came from international investors.

In 2013, Mexican companies continued to seek capital partners through the Mexican Stock Market at a record level. Until late October, fourteen companies completed initial public offerings (IPOs), raising 116,942M MXP (8,992.7M USD) from Mexican and international investors thru Rule 144A and Regulation S. Likewise, four companies completed secondary public offerings (SPOs), raising over 42,342M MXP (3,256.1M USD). The record level of capital fundraising in the Mexican Stock Market places Mexico as the fifth country with the greatest number of public offerings in the world.

#### IPOs as an Exit Strategy

IPOs in the Mexican Stock Market continue to be a viable exit strategy for private equity and venture capital funds. In June 14, 2013 City Express Hotels, sponsored by private equity fund WAMEX, raised 2,915.6M MXP (224.2M USD) from Mexican investors (60.25%) and international investors (39.75%). Likewise on September 18, 2013, low-cost airline Volaris, backed up by private equity funds Discovery Americas and Columbia Equity Partners, raised 4,239.3M MXP (326M USD) from Mexican and international investors.

#### *FIBRAs Growth*

In 2004, Mexican legislators developed a security known as Fideicomiso de Infraestructura y Bienes Raíces (FIBRA), with the objective to stimulate and develop the real estate market in Mexico while creating a diversified asset class for local and international investors. But it was not until 2010, when a series of complementary rules and regulations were set in place to complement the legal framework for structuring the trusts.

After all the modifications to the legal, tax and regulatory framework, Fibra Uno was the first player to go through an IPO in 2011, raising 3,315M MXP (254.9M USD) thru the Mexican Stock Market, as well as international markets via Rule 144A and Regulation S. Since then, six other FIBRAs have entered the market (*Fibra MQ, Fibra Hotel, Terrafina, Fibra Inn, Fibra Shop and Fibra Danhos*) covering diverse property types including industrial, office, hotel and retail. 2013 has been a hot year for FIBRAs, as FIBRA IPOs have raised a total of 25,428M MXP (1,955.4M USD) along with 26,927M MXP (2,070.6M USD) in secondary public offerings, from local and international investors.

Looking at 2014, there is a pipeline of FIBRAS expected to go through an IPO including retail giants: Gigante, Liverpool, and Comercial Mexicana, the shopping center chain AcostaVerde, as well as the luxury resorts chain AM Resorts.

#### FIBRAs as an Exit Strategy

FIBRAs have come up as a clear exit strategy for real estate and infrastructure funds in Mexico. The first instance took place when Prudential Real Estate Investors Latin America

combining two of its closed-end funds, PLA Industrial I & II, to become the initial portfolio for *Terrafina* IPO. A more recent example took place in July 2013 when Mexico Retail Properties sold three retail fund portfolios to *Fibra Uno*.

#### Structural Reform Implications

The recently approved tax reform considers a 10% tax on dividends. Fortunately, FIBRAs will not be subject to this tax, since FIBRA distributions are considered income from real estate operations, not dividends as REITS in the US. Therefore investors in FIBRAs will continue to be subject to their individual income tax laws, with FIBRAs making the appropriate tax retentions. The tax reform also eliminates tax incentives for hospitality service operations if the income generated from these operations is greater than 5% from that of room rent. This tax incentive elimination may affect hospitality FIBRAs, including *Fibra Inn* and *Fibra Hotel*, which have two income components: room rent and services.

#### Outlook

Even though the growth and expansion of FIBRAs in Mexico seem promising, FIBRAs still have to improve key aspects, such as professional corporate governance and a regulated/standardized cost structure, to be able to further attract local and international investors.

### ENTREPRENEURSHIP

Since his first months at office, Mexican President Enrique Peña Nieto has also shown his deep commitment and desire to boost the development of Mexico's entrepreneurial community.

#### *INADEM*

The first action by Mexican President Enrique Peña Nieto to support entrepreneurs was the founding of the National Institute for Entrepreneurs (INADEM). The institute seeks to implement, coordinate and execute national policy to support entrepreneurs and small and medium-sized companies. Likewise, INADEM aims to encourage an entrepreneurial culture and support the creation and consolidation of micro, small and medium-sized enterprises, while facilitating these companies to grow and becoming competitive in national and international markets.

In its effort to support entrepreneurs and small and medium-sized enterprises (SMEs), INADEM is in charge of managing a 500M MXP (38.5M USD) Entrepreneurship Fund and a 7,238M MXP (556.6M USD) Fund for SMEs. During 2013, INADEM launched 19 calls for projects across its different committees, receiving a total of 7,356 applications by entrepreneurs and SMEs, from which INADEM selected 806 projects for funding from both the Entrepreneurship and SMEs Funds. For those projects that were not selected, INADEM launched in early November the Transparency Mechanism, where entrepreneurs & SMEs can observe the evaluation results of their projects, as well as feedback on how to improve them for future funding applications.

Unfortunately INADEM has not been diligent enough in funding projects, approximately only 50% of the selected project have been funded by early December. In order to speed up the

process for fund delivery, INADEM will change several processes, including the beginning of calls for projects in January instead of May, refining of project evaluation methodologies, among others. Likewise for 2014, INADEM will have greater funds available to help more entrepreneurs and SMEs, as it will now merge both the Entrepreneurship and SME Funds, into a 9,377M MXP (721M USD) National Fund for Entrepreneurs.

One key initiative set forth by INADEM was the transformation of the SME Week into the Entrepreneurship Week. The event, held in Mexico City during early August, had the goal to provide the event's assistants the opportunity to discover a comprehensive offer of workshops and programs designed to equip them with essential tools to solve diverse needs such as: business and financial advice, training, credit, search for strategic partners, links with government entities, investors and investment funds, as well as technology consulting. This event gathered more than 63,000 assistants, as well as 252,000 web followers, assistance 30% greater than SME Week 2012.

As part of Entrepreneurship Week, INADEM launched the National Entrepreneur Network, an online tool that integrates different training, accelerators, incubators and financing options, both public and private, to businesses that exists across the country, so that entrepreneurs and SME's can find regional and national support.

### *MUSEIC*

Another big push by Mexican President Enrique Peña Nieto to support entrepreneurs, as well as small and medium enterprises, is the recent founding of the Mexico-U.S. Entrepreneurship and Innovation Council (MUSEIC). Founded on September 12, 2013 with the vision that entrepreneurs will be the engine behind Mexican and US economies, MUSEIC's task is to coordinate bilateral efforts to promote and develop entrepreneurship.

MUSEIC is organized in seven binational subcommittees of public and private volunteers working towards strengthening entrepreneurship and innovation in the following areas: 1) connecting the Mexican diaspora, 2) increasing technology commercialization, 3) promoting female entrepreneurship, 4) improvement of legal frameworks, 5) binding technology clusters, 6) building small and medium enterprises, and 7) providing access to capital.

With the inauguration of MUSEIC, Mexico became the first Latin American country to join the U.S. State Department's Global Entrepreneurship Program, which promotes entrepreneurship around the world through diverse private and US government programs aimed at promoting economic development and creating jobs in emerging markets. This program focuses on seven key areas for entrepreneurial development including: 1) identification, 2) training, 3) networking, 4) guiding to financing, 5) facilitating market access, 6) enabling supportive policy and 7) celebrate entrepreneurial accomplishments. This will allow Mexican entrepreneurs to obtain further support from US private and government programs that have a track record of developing and launching startups and SMEs.

## PROMOTION OF THE PE/VC INDUSTRY IN MEXICO

The Mexican Association of PE & VC Funds (AMEXCAP), performing its role of promoting and stimulating the PE/VC industry in Mexico, organized in 2013 important events not only to attract international fund managers and institutional investors, but also to join local fund managers, institutional investors, scholars, government institutions, as well as entrepreneurs.

#### *Mexico PE Day*

The first event Mexico PE Day, held on May 16 in New York, consisted of a series of conferences, panels and roundtables covering diverse topics including the role of NAFIN in developing Mexico's private equity industry, regulatory & legal environment updates, AFORE's role in financing domestic projects, institutional investors view of Mexico, among others. The event was a success as it gathered more than 167 attendants coming from 31 Limited Partners managing over 31T USD, 24 General Partners and 15 Service Providers.

#### *Mexico VC Day*

The second event, Mexico VC Day, was held on October 17 in San Francisco. The event consisted of a series of conference and panels covering diverse topics including the role of NAFIN in developing the Mexico's venture capital industry, the entrepreneurial ecosystem in Mexico, impact investing, exits option for VC funds, among others. The event was a success as it gathered more than 120 attendants coming from 20+ Limited Partners, 40+ General Partners, 40+ industry players and more than 12 entrepreneurs.

Looking forward, AMEXCAP has to continue promoting Mexico's PE & VC industry through similar events, not only in the US, but also in other regions such as Europe and Asia. Important topics that have to be covered in these events are the positive effects caused by the recent structural reforms (tax, financial, electric & telecomm) on the PE & VC industry, as well as the founding/improvement of different government organism promoting entrepreneurship, fund formation, financing and investment opportunities.

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