



Latin American Private Equity & Venture Capital Association

2015-2016

# Scorecard

The Private Equity and Venture Capital Environment in Latin America



Multilateral Investment Fund  
Member of the IDB Group



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## 2015/2016 Scorecard on the Private Equity and Venture Capital Environment in Latin America

# Executive Summary

The 2015/2016 LAVCA Scorecard is the first fully updated publication in the new bi-annual edition, with analysis and scores reflecting regulatory, policy, and market updates through mid-year 2015. The bi-annual frequency was adopted as a more accurate reflection of the pace of change in PE/VC industry regulation.

As PE/VC investing gains momentum in Latin America, with the emergence of new firms and record fundraising in 2014, policy makers in the region's major economies have increased their focus on industry specific regulation. As a result, PE/VC is looked at as distinct from other asset classes, and regulators have delved into more detailed and complex issues, often with the intention of protecting local institutional investors from downside risk. In some markets, this dynamic contributed to downgrades on key indicators in the 2015/2016 Scorecard. Broader tax reforms also had a negative impact on the indicator related to tax treatment of PE/VC for certain countries.

The overall effect was one of increased complexity for firms investing or raising capital in several Latin American nations, as reflected in the country-level overviews and detailed Scorenotes. At the same time, it is worth noting that many policy makers and regulators have engaged in productive dialogue with industry participants and have expressed willingness to continue revising and refining rules going forward.

As in past editions of the Scorecard, Chile ranks first, with a 2015/2016 score of 74, followed by Brazil (72), Mexico (65) and Colombia (60). Chile experienced a downgrade on tax treatment of PE/VC as a result of a tax reform passed in September 2014 which raised corporate taxes and closed some exemptions. In general, policies under the administration elected last year are reflective of an environment that is perceived to be less favorable to business and investors.

## SCORING CRITERIA

The 2015/2016 Scorecard on the Private Equity and Venture Capital Environment measures the regulatory landscape for PE/VC investments across 14 countries. The 13 indicators in this study were designed 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 indicators was initially evaluated through in-depth interviews conducted in late 2005. As a result, five of the 13 criteria – tax treatment, minority shareholders rights, restrictions on institutional investors, capital markets development, and corporate governance requirements – 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. For the 2015 edition of the Scorecard, the EIU conducted 18 interviews in February and March 2015 with LAVCA Members who are fund managers or regulators based in the Latin American region. The list of countries was revised in this edition and is available in the table of contents. Central sources used in this Scorecard are available on p. 34-35.

Brazil's overall score did not change, despite projections of negative growth for 2015 and a corruption scandal at state oil company Petrobras that has affected the investment environment as a whole. Regulation specific to private investment remains a priority, and securities regulator CVM is executing a detailed review of rules relevant to PE/VC. Ongoing revisions to fund and tax laws have not affected the country's strong scores on multiple indicators.

In Mexico, reform initiatives have advanced over the last year, including significant constitutional changes in the energy, financial, telecommunications, and education sectors, as well as reforms to the tax and political systems. Like in Chile, a comprehensive tax reform implemented in 2014 is likely to have a negative impact on PE/VC, resulting in a downgrade on this indicator. At the same time Mexico's score on bankruptcy procedures was upgraded, with a financial sector reform strengthening protections for creditors and other improvements.

For the first time in the history of the LAVCA Scorecard, Colombia's overall score decreased as a result of a downgrade on laws governing PE/VC fund formation and operations. New requirements, such as mandatory third party valuation of portfolios by designated external consultants, have created additional burdens and demands for Colombian PE investors. Nonetheless, the commitment to the development of a domestic private equity and venture capital industry remains strong, and the expectation is that policymakers and industry practitioners will continue to collaborate to revise regulations going forward.

Despite a relatively positive macroeconomic outlook, Peru also experienced a decreased score in the 2015/2016 Scorecard, due to a downgrade on the indicator for restrictions on local institutional investors. A regulatory agenda focused on protection against downside risk rather than on the optimization of the investment environment is evidenced by increasing complex rules for raising capital from local pension funds.

While the overall investment environment in Argentina has continued to deteriorate, global interest in the country is gaining

momentum in anticipation of a new administration in late 2015. At the same time, Argentina continues to boast one of the strongest entrepreneurial communities in the region, and the government of the city of Buenos Aires has been proactive in supporting entrepreneurship programs.

Finally, it is important to note that Jamaica is included for the first time in the 2015/2016 Scorecard, as a reflection of noteworthy efforts to develop the country's investment and entrepreneurial ecosystem. The Development Bank of Jamaica has teamed up with FOMIN to launch new programs targeting entrepreneurs and investors. Two countries, El Salvador and Trinidad & Tobago, were removed from the Scorecard due to lack of PE/VC activity.

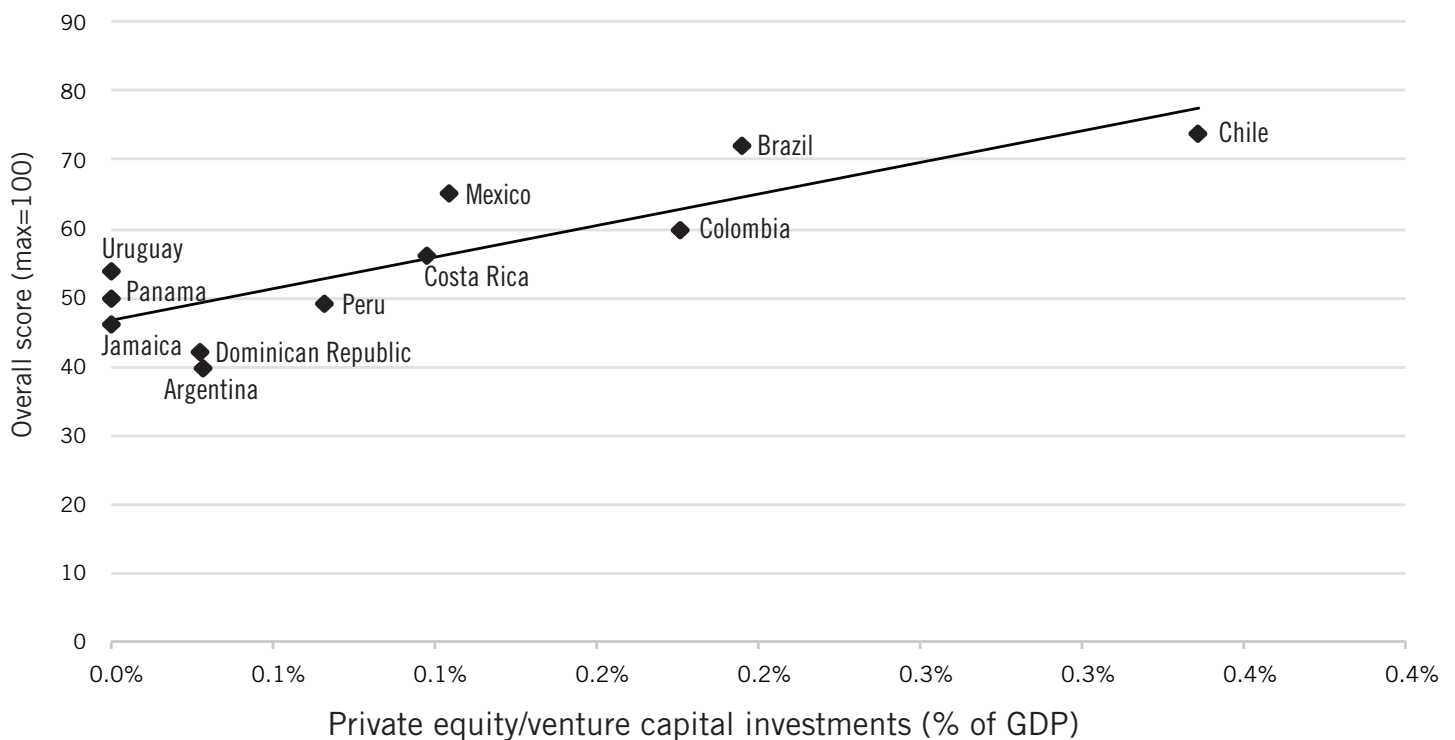
The full list of scoring criteria is:

- 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

## 2015/2016 Scorecard

	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Jamaica	Mexico	Panama	Peru	Uruguay	Israel	Spain	UK
<b>Overall score</b>	<b>40</b>	<b>72</b>	<b>74</b>	<b>60</b>	<b>56</b>	<b>42</b>	<b>46</b>	<b>65</b>	<b>50</b>	<b>49</b>	<b>54</b>	<b>82</b>	<b>78</b>	<b>94</b>
Laws on VC/PE fund formation and operation	0	4	3	2	2	2	1	2	2	2	2	4	4	4
Tax treatment of VC/PE funds & investments	1	3	2	2	3	1	2	2	2	1	3	2	4	4
Protection of minority shareholder rights	2	3	3	3	1	2	2	3	2	1	2	4	3	4
Restrictions on institutional investors investing in VC/PE	0	3	3	3	1	1	1	3	2	2	2	4	3	4
Protection of intellectual property rights	2	2	3	2	3	1	2	2	2	2	2	3	3	4
Bankruptcy procedures/creditors' rights/partner liability	2	3	3	2	2	1	1	3	2	2	3	2	3	3
Capital markets development and feasibility of exits	2	3	3	2	2	1	2	3	2	2	1	3	3	4
Registration/reserve requirements on inward investments	1	3	3	3	3	3	3	3	3	3	2	3	3	3
Corporate governance requirements	2	3	3	3	2	3	2	3	2	3	2	4	3	4
Strength of the judicial system	2	2	3	2	3	1	2	2	2	1	2	3	2	4
Perceived corruption	1	1	3	1	3	1	1	1	1	1	3	3	3	3
Quality of local accounting/use of international standards	4	4	4	2	4	3	3	3	2	4	3	4	4	4
Entrepreneurship	3	3	3	3	2	2	2	3	2	2	2	3	2	3

### Overall Score Against PE / VC Investments

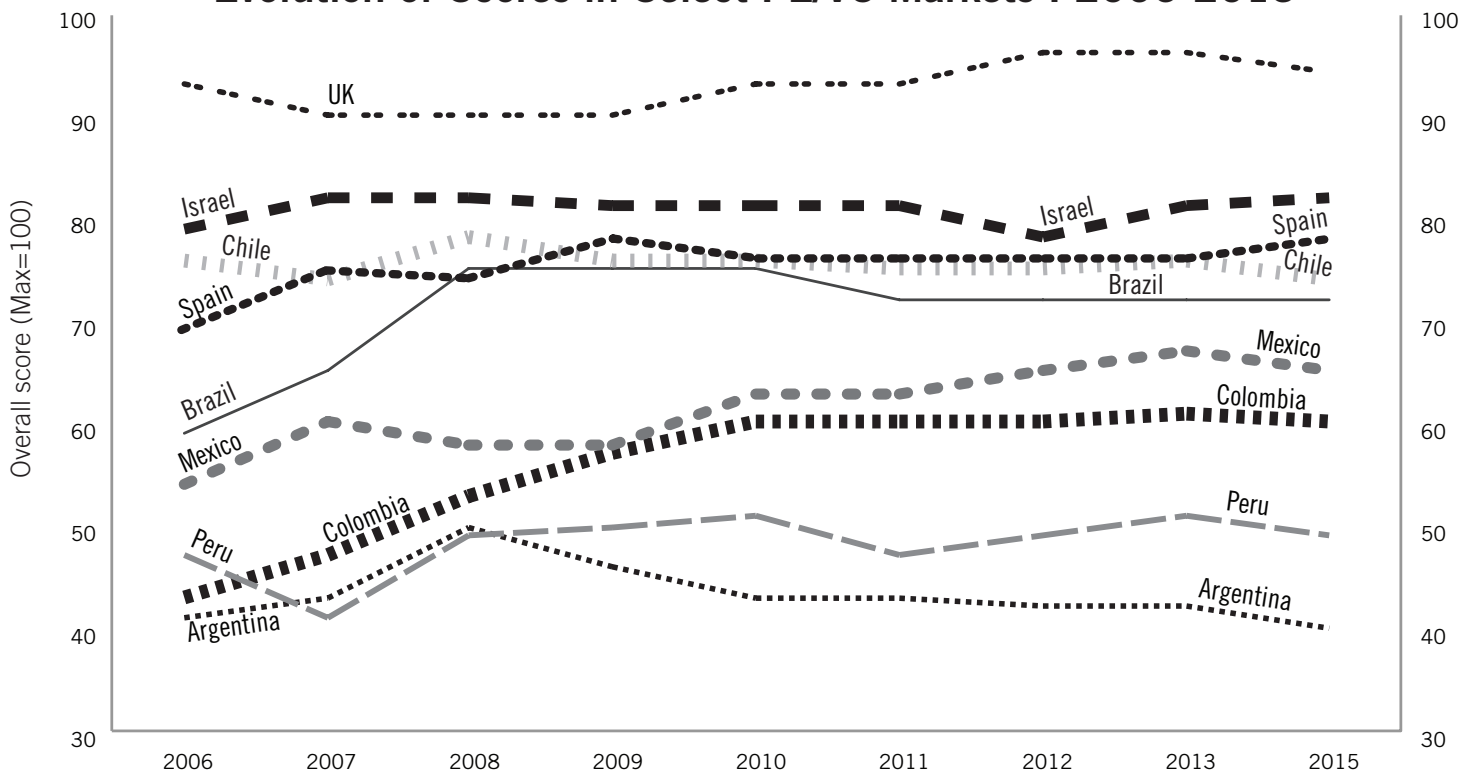


## Overall Score Ranked by 2015/2016 scores

Regional Rank	Country	Score <small>(1-100 where 100 = best)</small>	Change from 2013	PE/VC % GDP
1	Chile	74	-2	0.336
2	Brazil	72	0	0.195
3	Mexico	65	-2	0.102
4	Colombia	60	-1	0.176
5	Costa Rica	56	0	0.098
6	Uruguay	54	-3	0.000
7	Panama	50	+1	0.000
8	Peru	49	-2	0.066
9	Jamaica	46	n/a	0.000
10	Dominican Republic	42	0	0.027
11	Argentina	40	-2	0.028

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

### Evolution of Scores in Select PE/VC Markets : 2006-2015



Source: The Economist Intelligence Unit



## Country Profile

# ARGENTINA

	2015	2013
<b>OVERALL SCORE</b>	<b>40</b>	<b>42</b>
<b>REGIONAL RANKING</b>	<b>11TH</b>	<b>10TH</b>

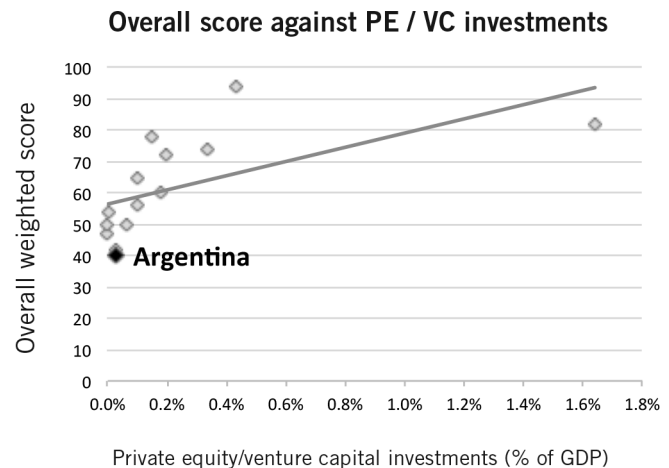
Global investor interest in Argentina is gaining momentum in anticipation of a new administration in late 2015. However the country's lack of a regulatory framework for PE/VC funds, and increasing complexity generated by exchange controls and fiscal considerations, contributed to a downgrade on fund formation and operation. Argentina saw a year-on-year decrease in the rate of new business ownership despite a vibrant start-up environment and new entrepreneurial programs promoted by the City of Buenos Aires.

**Strengths:** Argentina continues to boast one of the strongest entrepreneurial communities in the region. Despite the challenges to doing business in the country, Argentina has produced some of the most successful technology startups in Latin America, including one which listed on the New York Stock Exchange (NYSE) in 2014.

**Challenges:** Lack of laws on PE/VC fund formation and investing, an unstable macroeconomic environment, a high perception of corruption, and the absence of local institutional investors make the country largely unattractive for private equity.

	2013	2015	
<b>OVERALL SCORE</b>	<b>42</b>	<b>40</b>	<b>-2</b>
1) Laws on VC/PE fund formation and operation	1	0	-1
2) Tax treatment of VC/PE funds & investments	1	1	0
3) Protection of minority shareholder rights	2	2	0
4) Restrictions on institutional investors investing in VC/PE	0	0	0
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	2	2	0
8) Registration/reserve requirements on inward investments	1	1	0
9) Corporate governance requirements	2	2	0
10) Strength of the judicial system	2	2	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	3	3	0

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	0	The lack of a specific regulatory framework for PE/VC remains a constraint for development of a vibrant funds industry in Argentina, and merits a score downgrade given increasing evidence of resulting operational difficulties for fund managers. The Funds Law only makes general provisions for funds of various types. For this reason, in addition to exchange controls and fiscal considerations, offshore vehicles established in countries with which Argentina has double-tax treaties have generally been the most common vehicle (often with a holding company set up overseas as a limited partnership and an Argentine subsidiary). Funds have worked with investee firms to separate their administrative offices into holdings, incorporated under friendlier jurisdictions, from their operations in Argentina. (Interviews, April 2015, February 2013; latinlawyer.com, May 13, 2014; EIU Financial Services Report, December 2012)
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 and receive a tax credit on foreign income paid. Some firms incorporate fund vehicles offshore in jurisdictions which only tax locally sourced income and/or have double-tax treaties with Argentina. Other taxes facing funds include a financial transactions tax (0.4% effective rate); taxes on management companies' services (3% local tax on gross income and 21% value-added tax on fees), and city stamp tax in Buenos Aires and the provinces of 1%. (Capital gains from the sale of domestic company shares are subject to normal tax rates of 35% for locally-based funds and, from September 2013, are taxed at a reduced rate of 15% for Argentine residents and non-residents (Law 26893). Under Law 26893, dividend payments made by local entities to Argentine-resident and non-residents are assessed a tax of 10% though there is an additional 35% assessment in cases where dividends exceed taxable income (EIU Country Commerce July 2014, July 2012; Interviews April 2015, February 2013; latinlawyer, May 13, 2014)
Protection of minority shareholder rights	2	While laws are moderately good, enforcement is weak. Company law requires a minimum number of shareholders' and board of directors' meetings each year, registration or publication of share transfers, and public notice of shareholder meetings under most circumstances. Representatives of foreign shareholders must be registered in the City of Buenos Aires. Relevant regulations from the capital market reform of 2013 are applicable only to publicly traded firms. World Bank Doing Business 2015 rates the strength of minority investor protection (for public firms) as above the regional average. Shareholder agreements are common practice for private companies and domestic and international arbitration clauses are also chosen by offshore funds to use foreign legal jurisdictions. Enforceability is problematic given lengthy court delays. (EIU Country Commerce, July 2014; interviews April 2015, February 2013; latinlawyer.com, May 13, 2014)



## Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on local institutional investors investing in PE/VC	0	The December 2008 re-nationalisation of social security closed the door to the meager 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 express provision for investing in PE/VC funds. Insurance companies are allowed to invest only in liquid instruments that are externally rated. (Interviews, April 2015, February 2013; EIU Financial Services Report, December 2012)
Protection of intellectual property rights	2	Firms seeking to protect their IP (trademarks) usually first register in Argentina and then seek global protection. The opposite is true for patent protection. Argentina remained on The Office of the US Trade Representative's Priority Watch List in 2014, making few improvements over the past couple years. Concerns remain as piracy and counterfeiting is still a large problem with regards to the digital environment. A lack of political will prevents Argentina from decreasing its patent application backlog, a problem that could be resolved by Argentina passing the Patent Cooperation Treaty (PCT). In particular, Argentina still does not provide adequate protection in the pharmaceuticals industry. (Interviews, April 2015; EIU Country Commerce, July 2014; USTR Special 301 Report 2014)
Bankruptcy procedures/creditors' rights/partner liability	2	The 2002 <i>Ley de Quiebras</i> allows firms to restructure debts through an extra-judicial procedure (concurso de acreedores) with a simple board majority and with approval of 2/3 of creditors. However, employees and tax authorities receive priority over creditors. Some funds inject capital in the form of convertible notes so that they are legally considered creditors. For several years, the government has promoted work-outs outside the court system ( <i>acuerdos preventivos extrajudiciales</i> ), though these can still be lengthy if minority investors raise objections. World Bank Doing Business 2015 scores Argentina's insolvency framework at 45.1/100. Resolving insolvency is slightly quicker and less costly, and yields a lower recovery rate for creditors, as compared to the regional average. Bankruptcy liability concerns are not a concern in corporations (SAs) if provisions are stated and except in cases of bylaw violations, fraud, abuse of authority or gross negligence. Under the limited liability company (SRL) form, liability is also limited to subscribed capital share (Interviews, April 2015, February 2013; latinlawyer.com, May 13, 2014)
Capital markets development and feasibility of exits	2	Capital markets are thin and IPOs are not a viable exit option, a situation that worsened with the 2008 nationalisation of the private pension-fund system. Markets remain underdeveloped with a small mutual-fund market and an unregulated market for PE/VC. Argentinians are accustomed to holding investments in foreign markets. Uncertainty in the domestic capital market and high inflation prevent the development of a long-term fixed-interest rate market. Local institutional investors are scarce. The country's stock exchange, MERVAL, is fairly small and dominated by listings by large foreign companies. Only ten companies account for over 90% of total market capitalisation. Market capitalisation was US\$82.4bn in September 2014, despite periodic bouts of substantial peso depreciation in the period. Furthermore, Argentina remains outside of ongoing efforts to merge stock markets across countries, such as the effort undertaken with the integrated Latin American market (MILA). (EIU Risk Briefing, EIU Country Finance, November 2011; EIU Financial Services, October 2014; US Investment Climate Statement, 2014; Interviews, April 2015, January 2013)
Registration/reserve requirements on inward investments	1	Argentina's low score reflects a complex and onerous system of exchange controls and reporting requirements that has made it extremely difficult to bring money in and take money out of the country. Inflows of foreign portfolio funds and direct investment 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 one 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). Capital contributions made by a fund as a direct investor with a stake of 10% or more in a local company are exempted from the 30% deposit. Foreign currency debt incurred by residents with non-residents, and direct investments made in local companies must be registered with the Central Bank. Repatriation of new portfolio and direct investment requires prior settlement of such investment funds in the local foreign exchange market. Portfolio investment repatriations exceeding US\$500,000 require authorisation by the Central Bank. Direct investment repatriations do not require such authorization, although the Central Bank is defacto or informally restricting such repatriations due to foreign currency scarcity. Money laundering restrictions limit daily cash transactions made in markets affecting trades in shares and investment funds among other transactions. Fund managers continue to find legal loopholes by which some of these restrictions may be worked around. (EIU Country Commerce, July 2014, July 2012 Interviews, April 2014, February 2013)
Corporate governance requirements	2	Corporations (SAs) must submit an annual profit-and-loss statement and balance sheet to the Justice Inspectorate ( <i>Inspección General de Justicia</i> ) of the City of Buenos Aires or to provincial authorities for publication in the official bulletin. Annual balance sheets must be audited. Companies must have one or more internal auditors ( <i>síndicos</i> ), chosen by shareholders, when their capital exceeds Ps. 10m or when involved in regulated activities. For limited liability companies (SRLs), if capital exceeds Ps10m, the company must submit an annual report including balance sheet and profit-and-loss statement for publication. An auditing committee, with at least one regular <i>síndico</i> and one alternate, must be chosen. Additional standards exist for publicly traded firms. World Bank Doing Business 2015 rates Argentina as below the regional average on director liability and shareholder ability to sue, average for conflict of interest regulation, and above average for disclosure, shareholder rights, governance structure, shareholder governance, and corporate transparency. (EIU Country Commerce, July 2014, July 2013; Interviews April 2015, February 2013)
Strength of the judicial system	2	Corporations (SAs) must submit an annual profit-and-loss statement and balance sheet to the Justice Inspectorate ( <i>Inspección General de Justicia</i> ) of the City of Buenos Aires or to provincial authorities for publication in the official bulletin. Annual balance sheets must be audited. Companies must have one or more internal auditors ( <i>síndicos</i> ), chosen by shareholders, when their capital exceeds Ps. 10m or when involved in regulated activities. For limited liability companies (SRLs), if capital exceeds Ps10m, the company must submit an annual report including balance sheet and profit-and-loss statement for publication. An auditing committee, with at least one regular <i>síndico</i> and one alternate, must be chosen. Additional standards exist for publicly traded firms. World Bank Doing Business 2015 rates Argentina as below the regional average on director liability and shareholder ability to sue, average for conflict of interest regulation, and above average for disclosure, shareholder rights, governance structure, shareholder governance, and corporate transparency. (EIU Country Commerce, July 2014, July 2013; Interviews April 2015, February 2013)
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. Argentina ranks poorly on both the World Bank's and Transparency International's 2014 corruption measures, ranking 107 out of 175 countries in perceived transparency and in the 41st percentile for control of corruption. Without a strengthening of the legal system, it will be difficult to address the problem of corruption, which permeates all levels of government. (EIU Country Report, January 2013; EIU Risk Briefing, 2015; Transparency International, 2014; World Governance Indicators, 2014)
Quality of local accounting industry/use of international standards	4	Standards in use are in line with international accounting norms. Some listed companies are required to use IFRSs from 2012 (depending on size and sector), though they remain prohibited for private companies in external financial statements and for tax purposes. Local accounting norms (Argentine GAAP) are generally in line with international standards such as US GAAP and IFRS. Argentine GAAP is generally used by SMEs, and funds specialized in seed and early-stage capital tend to work with firms to move them toward IFRS. Given the dual structure that many investee companies set up to facilitate investment receipt, the parent company (often a holding) incorporated abroad will follow IFRS for consolidated accounts or whatever approximation is used in that jurisdiction, while the Argentine operations will follow Argentine GAAP. International auditors are present and reliable. (Interviews April 2015, February 2013; Deloitte IASPLUS 2015)
Entrepreneurship	3	In 2013, the government launched 'Innovative Argentina 2020' to boost technical innovation by means of R&D investment in key sectors. Government support for entrepreneurship continues to be strong in the city of Buenos Aires with school curricula playing a role in encouraging this type of activity. Globant, an Argentine-based software company, was the only Latin American IPO on the NYSE in 2014. Fund managers indicate that deal flow continues to be strong and risk-taking culture for new businesses is high but red tape remains a concern. There is good managerial talent and an open entrepreneurial culture compared to other countries in which fund managers operate. Despite this good progress, Argentina performed weakly in some key indicators of entrepreneurial activity such as "Starting a business" from the World Bank Doing Business (146 out of 189) and the rate of new business ownership from GEM which has fallen to 5% from 7% in 2012 (World Bank Doing Business Report 2015; GEM Global Report, 2014; Wall Street Journal, July 18th 2014, SciDevNet ( <a href="http://www.scidev.net">www.scidev.net</a> ), March 2013; Interviews, April 2015)

## Country Profile

# BRAZIL

	2015	2013
<b>OVERALL SCORE:</b>	<b>72</b>	<b>72</b>
<b>REGIONAL RANKING:</b>	<b>2ND</b>	<b>2ND</b>

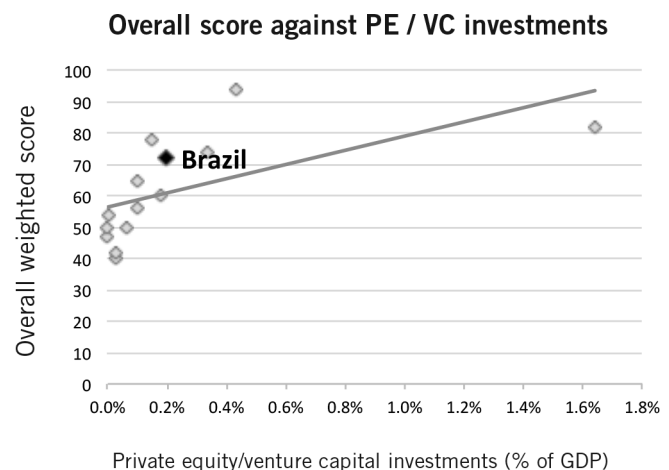
Brazil's overall score did not change compared to 2013/2014. Brazil's economy will see negative growth in 2015 and a corruption scandal at Petrobras has had a major impact on capital markets and the investment environment as a whole. Nonetheless, regulation specific to private investment remains a priority, and securities regulator CVM is executing a detailed review of rules relevant to PE/VC. . Ongoing revisions to fund and tax laws have not affected the country's strong scores on multiple indicators.

**Strengths:** The regulatory framework for fund formation, ongoing revision of PE/VC regulation by CVM, and the quality of accounting standards are among the country's major strengths, though Brazil scores strongly on most indicators.

**Challenges:** Brazil faces major macroeconomic challenges in the coming years with high inflation and low growth. There is much work ahead on addressing corruption and an inefficient judicial system makes property rights enforcement lengthy and expensive.

	2013	2015
<b>OVERALL SCORE</b>	<b>72</b>	<b>72</b>
1) Laws on VC/PE fund formation and operation	4	4
2) Tax treatment of VC/PE funds & investments	3	3
3) Protection of minority shareholder rights	3	3
4) Restrictions on institutional investors investing in VC/PE	3	3
5) Protection of intellectual property rights	2	2
6) Bankruptcy procedures/creditors' rights/partner liability	3	3
7) Capital markets development and feasibility of exits	3	3
8) Registration/reserve requirements on inward investments	3	3
9) Corporate governance requirements	3	3
10) Strength of the judicial system	2	2
11) Perceived corruption	1	1
12) Quality of local accounting/use of international standards	4	4
13) Entrepreneurship	3	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 mútuos de investimento em empresas emergentes</i> (FIEEs), for VC, and <i>fundos de investimento em participações</i> (FIPs) for PE funds. Many fund managers also utilize offshore limited partnerships to structure funds. In 2013, the Brazilian securities regulator (CVM) published Ruling 540/13, which created an exception in the rule that required PE/VC funds to participate in the portfolios companies' management and/or strategic decisions. FIPs may now hold up to 35% of their portfolios in companies in which the general partner is not directly involved in the management and/or strategic decisions, provided that such companies are listed in access market segments such as Bovespa Mais or Bovespa Mais Nível 2 segments of the BM&FBovespa exchange. These have higher governance and transparency requirements. In relation to funds raised in Brazil (FIEEs and FIPs), only qualified investors may participate. In December 2014 the Brazilian securities regulator (CVM) revised the concept of qualified investor to increase the threshold from R\$300,000 to R\$1m in assets under management. In addition the CVM approved new rules applicable to portfolio managers that will come into effect in 2016, separating the activities of portfolio manager from those of fund administrator, creating different requirements for each, and with stricter requirements for registration of portfolio managers, higher levels of compliance and segregation of activities and additional disclosure requirements related to registered entities and individuals. At the same time, the new rule will allow the portfolio managers to be directly involved in the placement of their own products. (Interviews, February-March 2015, January 2013; ABVCAP website; International Financial Law Review, May 29, 2014)
Tax treatment of PE/VC funds & investments	3	Brazil has a complex, multi-layered tax system with an overall effective corporate tax rate of 34%. Smaller companies may have a slightly lower taxation under special regimes, but financial institutions face a higher effective rate, thanks to a higher rate of social contribution on net profits (15% versus 9%). Currently, foreign-exchange transactions carried out to invest in the Brazilian financial and capital markets are exempt from the tax ( <i>Imposto sobre Operações Financeiras</i> —IOF), including in portfolio investments. Since 2006, foreign investment in regulated PE/VC funds (known as FIPs) is exempt from income and capital gains tax provided certain requirements are met: the investment does not come from entities registered in tax haven countries, the investor's stake in the fund does not exceed 40% and the regulatory requirements applicable to the FIP portfolio are met, including that the fund's non-Brazilian debt bond holdings don't exceed 5%. Domestic individual investing in such funds is taxed at 15%. Dividends are not subject to withholding. Investment funds set up as FIPs are non-taxable entities. The major shift in tax regulations represented by the adoption of IFRS as a basis for calculating corporate income taxes has affected corporate reorganizations and potential tax deductions formerly derived from mergers and acquisitions. (Interviews February-March 2015, January 2013; EIU Country Commerce, September 2014; KPMG, May 29, 2014)

**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, tag-along rights and mandatory distribution of dividends. Preferred, non-voting shareholders must have at least one of the priorities accorded by 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. Special minority protections, including voting rights and board composition apply to certain special segments of the São Paulo stock exchange. World Bank Doing Business 2015 ranks the strength of minority rights protection on par with the OECD average and well above the regional average. (EIU Country Commerce, September 2014; ibgc.org.br; Interviews, February-March 2015; January 2013; BOVESPA website, Comparativo dos segmentos de listagem)
Restrictions on local institutional investors investing in PE/VC	3	Brazilian pension funds have been active investors in PE/VC for many years, with recent growing participation. There is a continuing concern that some pension funds demand a seat on fund investment committees, as it can create governance conflicts; but some have moved away from the practice with existing fund manager relationships, and participation is now less likely to raise disputes (in 2014, state development bank BNDES invested in five funds without requesting a seat on the investment committees). Up to 20% of pension plan portfolio may be invested in PE/VC funds, with no more than 10% invested in the same PE/VC fund. In addition, investments cannot exceed 25% of a PE/VC fund's net worth. Foreign investments, including in PE/VC funds, must not exceed 10% of pension plan assets. BPFs are allowed to invest in foreign PE/VC funds only indirectly, though other Brazilian investment funds (such as <i>FIAs-Fundos de Investimento em Ações</i> ) may be set up for this purpose. (Interviews, February-March 2014, January 2013; Lobo & Ibeas Advogados, ABVCAP site, 2014)
Protection of intellectual property rights	2	Brazil has overhauled its intellectual property legislation but despite progress, piracy is still common in software and music. Fund managers note that firms should register IP domestically to secure enforceability. Although the patent and trademark registration process has been improved, INPI's backlog remains. Office of the US Trade Representative noted that clarification should be provided, particularly in the pharmaceutical area. In 2013, the INPI launched e-Patentes, an online patent registration system, which reduces processing time. While Brazil remained on the Watch List in 2014, measures introduced in 2013 simplified the process for acquiring well-known trademarks, and new internet laws (such as Law No. 12,965/2014) addressing data protection and net neutrality ensure a developing IPR framework. (EIU Country Commerce, September 2014; USTR 2014 Special 301 Report)
Bankruptcy procedures/creditors' rights/partner liability	3	Bankruptcy procedures from 2005 are similar to US Chapter 11 and have some positive aspects, including closing loopholes that disadvantage minority shareholders, but difficulties remain. Brazil's law grants a 180-day window to negotiate restructuring deals and gives creditors 30 days to respond. Where bankruptcy is inevitable, the law allows for more rapid proceedings. Yet a 2013 study found that of 4,000 firms requesting restructuring, only 45 emerged from bankruptcy, 398 failed, and the majority were still in court proceedings. The World Bank's Doing Business 2015 finds that resolving insolvency in São Paulo is more time-consuming, less costly, yields a lower recovery rate, and has greater creditor participation than regional averages. There is normally no partner liability beyond equity share though normal prudent investor provisions apply regarding fund formation. (Interviews, February-March 2015, 2013; World Bank Doing Business, 2015; O Estado de São Paulo, October 14, 2013; Latin Lawyer, 2014)
Capital markets development and feasibility of exits	3	Overall, the strength of the Brazilian stock market creates better exit options relative to other regional markets. BM&FBovespa is one of the largest stock exchanges in the world. After 17 offerings in 2013, there were only two offerings in 2014, and no listings are expected for the near future. Recently announced government initiatives could reduce the time and cost for accessing capital markets, facilitating PE exits, corporate restructurings, and IPOs of smaller companies (Ruling 476/14). To attract SMEs, the government eliminated the 15% capital gains tax on trading of shares of smaller companies. The authorities have been focused on changes, including measures to protect minority shareholders, tax reforms and looser listing requirements for SMEs. In addition, BM&FBovespa created Bovespa Mais Nível 2, its second special segment aimed at SMEs in October 2014. Domestic insurance companies and pension funds are the largest local investors. Despite its size, local currency and derivative markets are relatively underdeveloped. (EIU Financial Services Report, February 2015; EIU Risk Briefing; BM&FBovespa; Wall Street Journal, 2015; New York Times; Interviews, March 2015.; Mondaq, 2014; Mayer Brown 2014, Medida Provisoria 651, July 10, 2014, from Capital Aberto, 2014)
Registration/reserve requirements on inward investments	3	Simple online registration of forex transactions exists for record-keeping. The central bank requires registration of all portfolio investments so that foreign parties can secure their right to acquire foreign currency directly from authorized institutions. This is necessary each time the investor decides to remit dividends, pay interest, or repatriate capital. There are no reserve requirements. (EIU Country Commerce, September 2014)
Corporate governance requirements	3	Public companies are required to use external auditors and publish annual financial reports. BM&FBovespa has three segments, each with progressively higher governance requirements. The CVM published voluntary, non-binding governance standards in 2002, and firms are requested, but not required, to report non-compliance. In the 2015 edition of its yearly guidelines to listed companies, CVM included suggested best practices related to improved corporate governance standards. Shareholder agreements commonly enforce corporate governance standards in non-listed firms. The World Bank's Doing Business 2015 rates Brazil above regional averages on disclosure requirements, director liability, conflict of interest regulation, shareholder rights and governance, strength of governance structure, and extent of corporate transparency; though below the regional average on shareholder ability to file suit. (Interviews, February-March 2015, January 2013; EIU Country Commerce, September 2014; World Bank Doing Business, 2015)
Strength of the judicial system	2	Generally, contracts in Brazil are upheld. However, cases move slowly through the judicial system. Recent scandals (including Petrobras) have heightened scrutiny of the judicial system. World Bank's Doing Business 2015 reports it takes an average of 731 days to enforce a contract, slightly lower than the regional average of 736. Alternative dispute resolution mechanisms, including private arbitration (and international arbitration where specified in shareholder agreements), are available and function well. Congress recently approved a new civil procedure code in 2015 (effective March 2016), expected to improve the Brazilian judicial process. (EIU Country Commerce, September 2014; US Investment Climate Guide 2014; Financial Times; World Bank Doing Business report, 2015)
Perceived corruption	1	Despite recent reforms, 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, creating inefficiency, lack of trust and an uneven playing field for business (eg the recent scandal involving state-owned Petrobras). As companies in the infrastructure and energy services sectors face investigations, sources of capital may close off which could lead to funding through PE/VC. Brazil implemented guidelines from the OECD Anti-Bribery Convention by introducing a new anti-corruption law (effective Jan. 2014) to tackle enforcement and weak adherence. Both Transparency International's and the World Bank's corruption measures rank Brazil slightly below the global average in 2014. (EIU Country Report March 2015; EIU Risk Briefing; US Country Commercial Guide 2014; Transparency International, 2014; World Bank Governance Indicators, 2014)
Quality of local accounting industry	4	Brazilian GAAP transitioned toward conformity with IFRS by 2010 (except for real estate firms), though it is not formally required for non-listed entities. Companies listed on the Novo Mercado section of the exchange must use US GAAP. Requirements that PE/VC fund managers follow IFRS are currently under discussion by the securities regulator CVM. International auditors are present. (EIU Country Commerce, September 2014; Interviews February-March 2015, January 2013; Deloitte IAS Plus 2015)
Entrepreneurship	3	Though the time and procedures to start a business in Brazil are above regional averages, startup costs remain low. The government provides support through subsidized loans and simplified tax procedures. In January 2015 the government-funded FIP Inova Empresa, a R\$500 million fund for investment in innovative companies, was established. This follows two policy initiatives aimed at improving the workforce skills, including the second-stage launch of the National Program for Access to Technical Education and Employment, providing vocational training opportunities to 20 million secondary students. In 2014, the Global Entrepreneurship Monitor estimated Brazil had the highest rate of new business ownership in the region (14%), complemented by a relatively low rate of business discontinuation (4%). (World Bank Doing Business Report, 2015; FINEP; LAVCA (www.lavca.org); GEM Global Report, 2014; Mondaq; EIU/LAVCA 2015 Survey; EIU Country Report, April 2015)

## Country Profile

# CHILE

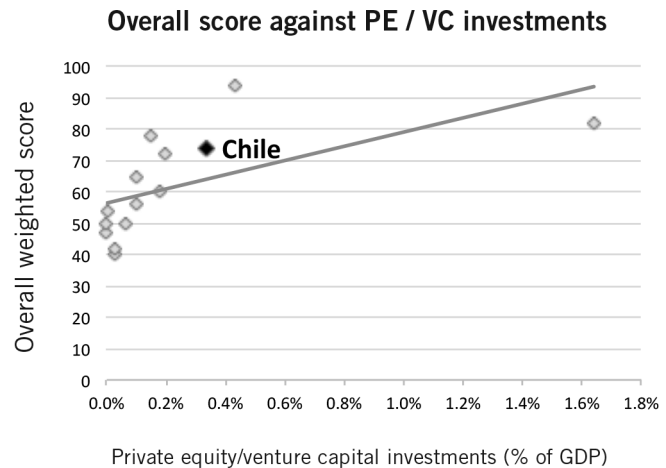
	2015	2013
<b>OVERALL SCORE:</b>	<b>74</b>	<b>76</b>
<b>REGIONAL RANKING:</b>	<b>1ST</b>	<b>1ST</b>

A tax overhaul passed in 2014 by a new administration resulted in a downgrade of Chile's score on tax treatment of PE/VC funds and investments. Recent reforms and policies are reflective of an environment that is perceived to be less favorable to business and investors. Still, Chile scored well on perceived corruption, restrictions on institutional investors and protection of minority shareholder rights. In addition, government support of entrepreneurship and startups remains strong.

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

**Challenges:** The complex tax burden faced by PE/VC may affect investment activity going forward. Restrictions that require foreign funds to set up local Chilean structures in order to secure commitments from Chilean investors create inefficiency.

	2013	2015	
<b>OVERALL SCORE</b>	<b>76</b>	<b>74</b>	<b>-2</b>
1) Laws on VC/PE fund formation and operation	3	3	0
2) Tax treatment of VC/PE funds & investments	3	2	-1
3) Protection of minority shareholder rights	3	3	0
4) Restrictions on institutional investors investing in VC/PE	3	3	0
5) Protection of intellectual property rights	3	3	0
6) Bankruptcy procedures/creditors' rights/partner liability	3	3	0
7) Capital markets development and feasibility of exits	3	3	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	3	3	0
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	3	3	0



## Chile ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	3	A new Unified Funds Law enacted in January 2014 consolidates regulation of the funds industry (including PE/VC funds) in Chile. While supervision and safeguards have improved, so have compliance costs and other disadvantages. Companies managing private investment funds, FIPs, have to register with the securities regulator and provide information, a requirement that existed in the past only for public investment funds which increases oversight and is slow and costly. Under the new law, one year after becoming incorporated FIPs must have four unrelated investors, none of which holds less than 10% of the fund though a single institutional investor may own 50% of the fund. Local fund managers cite negative impacts of the new funds regime in terms of transition and entry costs. Simultaneously, the law empowers asset managers to develop innovative products tailored to specific investors. Few internationally managed or regionally oriented PE funds are currently set up onshore because of the lack of pass-through provisions. The additional time and expense of a feeder fund is still necessary in order to attract investment in such offshore funds by Chilean pension funds. (Interviews, April 2015; EIU Financial Services Report, January 2015; PricewaterhouseCoopers, 2014; latinlawyer.com, May 13, 2014)
Tax treatment of PE/VC funds & investments	2	Given the increased and more complex tax burden that some types of PE/VC funds and investors will face under the tax reform of September 2014 (Law 20,780), this score has been downgraded. The base or first-level corporate tax (also applicable to FIPs, now considered corporations for tax purposes in the event an FIP does not fulfil the new requirements set forth the Unified Funds Law) rises gradually from 20% in 2013 to either 25% or 27% by 2017, depending on the tax regime chosen by the entity, either attribution-based (additional income tax levy) or distribution-based (firms pay higher corporate first-category tax rate and deferred shareholder-level tax). The September 2014 reform sets a uniform 35% rate on foreign shareholder capital gains from the sale of Chilean shares on or after January 1, 2017. Investment-protection clauses that guarantee tax stability for foreign investors for 10 years (20 years for larger investments) will no longer be entered into from January 1, 2016. Law 20,190 of 2007 continues to exempt profits of angel investors, seed-capital firms, and VC fund investors from capital-gains tax. In principle, closed-end funds remain pass-through entities, whereby quota holders pay these two level taxes and will pay the increased rates under the new tax regime. FIPs that do not conform to the new rules of the funds law appear to have to pay the first-level taxes as they will be treated as corporations for tax purposes. Any investments that funds make abroad are taxed on net earnings. In contrast, public investment funds do not pay corporate income tax if certain requirements are met. A value-added tax of 19% on fund administrator commissions for foreign participants makes Chile less attractive for hosting regional funds. (Interviews, April 2015; EIU Country Commerce, January 2015, January 2013; Carey Abogados, 2014)



## Chile ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	The 2000 Ley de OPAS law first established minority rights for public firms. A corporate governance law effective January 2010 goes further in regulating issues for public firms with minority investors. World Bank Doing Business 2015 rates the strength of the protection of minority investors in public companies at below the average for the OECD. For private firms (limited liability companies and non-listed SAs), there are no major requirements regarding such issues. The only requirements address the minimum percentage of shares it takes to call a meeting or voting majorities or supermajorities for particular decisions. Shareholder agreements are a frequent recourse, with a good degree of enforceability. The sociedad por acciones (a share-issuing limited-liability company) allows for additional flexibility compared to other company forms in the transfer of shares and the agreement and exercise of corporate control, and is now frequently used as corporate vehicle. (Interviews, April 2015, February 2013; EIU Country Commerce, January 2015, January 2013)
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 that invest in both Chile and abroad. Pension fund may not hold more than 35% of the shares of any given locally domiciled investment fund. Reporting requirements are onerous. 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. CORFO-supported fund vehicles must be locally domiciled. Insurance companies may invest in either public or private funds, on and offshore, within the range set by law and the securities regulator. (Interviews, April 2015; OECD Annual Survey of Investment Regulation of Pension Funds, 2014; EIU Financial Services Report, January 2015)
Protection of intellectual property rights	3	Intellectual property rights are guaranteed and protected by law, though enforcement can be slow and expensive. Chile remains on the USTR's Priority Watch List due to issues with pharmaceutical patents and a lack of protection mechanisms for new technology. 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. Chile passed a regulatory decree (277) to the Intellectual Property Law in April 2013, improving and standardising the process for securing patents and trademarks. The country was a founding member of the proposed TPP agreement still under discussion, which aligns with stringent IP protection globally. (EIU Risk Briefing; EIU Country Commerce, January 2015; Investment Climate Statement, 2014; USTR 301 Report, 2014)
Bankruptcy procedures/creditors' rights/partner liability	3	In January 2014, a new insolvency law was approved, and is seen as a clear improvement. Among the many changes designed to speed up procedures is the training of the tribunals in insolvency matters that will report rulings on a dedicated online system (Boletín Concursal). A provision equalizes the rights of foreign creditors with those of domestic ones in cases of insolvencies with cross-border dimensions. Limited partnership liability is limited to capital share. The World Bank's Doing Business 2015 gives Chile a 73/100 on the strength of its insolvency framework, a 3 point increase from 2014. Still capturing the old law, the process of resolving an insolvency process is estimated at nearly double the OECD average in length and cost and with less than half the recovery rate (Interviews, April 2015, February 2013; Carey Abogados, June 2014; latinlawyer.com, May 13, 2014)
Capital markets development and feasibility of exits	3	Chile continues to have 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. IPO activity has decreased since 2012 (five IPOs) to only one IPO recorded in 2013. BCS, Chile's main stock market, had a market capitalisation of US\$233bn at end-2014; the combined MILA market was the second biggest market in the region with a market capitalisation of US\$562bn. There is a small but growing venture-capital industry, with US\$6.6bn in assets in December 2013. It is largely composed of the same bank and non-bank institutions involved in fund management. 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. (EIU Financial Services Report January 2015; MILA website - mercadomila.com; Interviews, April 2015, February, 2013, January 2011)
Registration/reserve requirements on inward investments	3	There are no reserve or requirements or other exchange controls and only simple registration/reporting requirements, though a financial analysis unit continues to monitor suspicious financial transactions under money-laundering and terrorist-financing legal restrictions. Capital inflows with foreign-exchange guarantees under the formal investment regime of Decree Law 600 are required to stay for at least 12 months. However, Law 20,780 of September 29th 2014 eliminates this foreign-investment regime as of January 1st 2016. The only remaining regime is less formal and it is referred to reporting obligations before the Chilean Central Bank (EIU Country Commerce, January 2015)
Corporate governance requirements	3	Fund managers report recent high-profile scandals of corporate corruption and that there is a need for more independent directors. The general legal framework centers on the 2000 Ley de OPAS and a 2009 law (effective 2010) which strengthened legal provisions for publicly traded companies regarding board composition and standard procedures/policies. Also General Ruling No. 341 of the SVS (in force since 2013) requires that all listed stock corporations shall report annually to the SVS, and make available on their websites, whether they have adopted certain listed standards of corporate governance from a designated protocol, an explanation for why not if that is the case, and any additional standards in place. Compared to averages of fellow OECD members, the World Bank's Doing Business 2015 scores Chile stronger on disclosure, director liability, and conflict of interest regulation and much weaker on corporate transparency. In terms of non-public companies, requirements and standards are weaker. Limited-liability companies (SRLs) do not have a board of directors. There must be at least three directors in non-listed corporations (SAs). There are no restrictions on the nationality of directors. Limited-liability companies must keep accounting books, but need not present financial statements and the information they have to provide for tax purposes is minimal. All SAs must issue financial statements annually, while those issued by non-listed SAs must be audited by two accountant inspectors or by independent auditors. In practice, investors rely a great deal on shareholder agreements to establish workable corporate governance practices in investee firms. (EIU Country Commerce, January 2015; Interviews, April 2015, February 2013; Superintendencia de Valores Y Seguros, Norma de Caracter Regular, November 29, 2012)
Strength of the judicial system	3	There is little risk of interference in Chile's judicial process, whether from government or private interest groups. Contract rights are generally upheld and recognised, and the judicial process is usually efficient. The judiciary is widely considered to be high quality, with rule of law 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 2015; US Country Commercial Guide 2014; Interviews April 2015)
Perceived corruption	3	Regionally, Chile has one of the lowest levels of perceived corruption among all Latin American countries. Both the World Bank and Transparency International indicate Chile, tied for first in the region with Uruguay. The quality of the bureaucracy is high and implementation capacity is strong. A civil-service reform still being implemented will increase accountability and transparency. PE managers cite the illegal flow of private sector money into politics as being an issue, most recently involving the first family and illegal real estate transactions. (EIU Risk Briefing; Transparency International, 2014; World Governance Indicators, 2014; Interviews April 2015, February 2013)
Quality of local accounting industry (international standards)	4	IFRS are followed by all Chilean firms by law. As of 2009, IFRS are required of all listed firms, and by end-2013, all non-listed firms had completed the transition. Fund managers confirm that accounting standards, including at SMEs, have come into compliance with IFRS norms. International accounting firms are present in Chile. (Deloitte IAS PLUS 2015, Interviews April 2015, February 2013)
Entrepreneurship	3	Chile continues to foster a strong entrepreneurial environment. The Global Entrepreneurship Monitor estimates relatively high new business ownership rate of 11%, above the regional average of 7%. Interviewees laud the significant role of CORFO in VC, a development agency and Start-Up Chile has backed over 1,000 companies thus far, offering US\$33,000 in seed capital for each firm. The cost and time to start a business in Chile is significantly lower than OECD averages. The World Bank Doing Business 2015 ranks Chile on ease of starting a business 59th out of 189 countries. The government has also improved the business registration process through an online system. (World Bank Doing Business Report, 2015; Interviews, April 2015, February 2013, January 2012; Wall Street Journal, January 2015, GEM Global Report 2014)

## Country Profile

# COLOMBIA

	2015	2013
<b>OVERALL SCORE:</b>	<b>60</b>	<b>61</b>
<b>REGIONAL RANKING:</b>	<b>4TH</b>	<b>4TH</b>

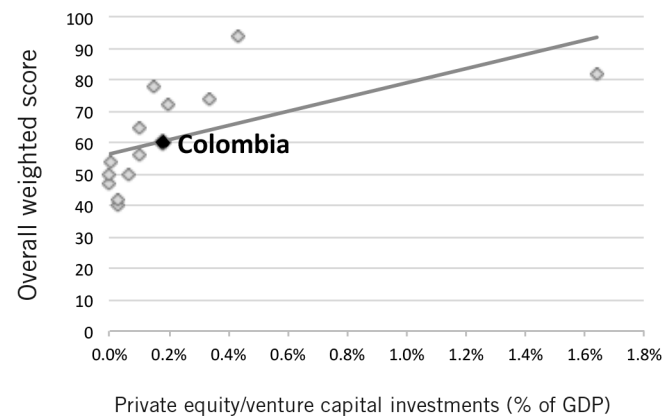
Commitment to the development of a domestic private equity and venture capital industry remains strong, with policymakers and industry practitioners collaborating to form and revise regulations on an ongoing basis. As the industry in Colombia matures, however, regulation on PE/VC has become increasingly more detailed and complex. The country was downgraded on laws governing PE/VC fund formation and operations due to new and cumbersome requirements such as mandatory third party valuation of portfolios by designated external consultants.

**Strengths:** The country's strengths are its entrepreneurial ecosystem and flourishing business environment, reinforced by government support of high growth start-ups and funding programs for projects and SMEs.

**Challenges:** The perception of corruption and complex rules for PE/VC fund operation remain an obstacle for the growth of a local PE/VC industry.

	2013	2015	
<b>OVERALL SCORE</b>	<b>61</b>	<b>60</b>	<b>-1</b>
1) Laws on VC/PE fund formation and operation	3	2	-1
2) Tax treatment of VC/PE funds & investments	2	2	0
3) Protection of minority shareholder rights	3	3	0
4) Restrictions on institutional investors investing in VC/PE	3	3	0
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	2	2	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	2	2	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	2	2	0
13) Entrepreneurship	3	3	0

### Overall score against PE / VC investments



### Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Laws on PE/VC fund formation and operation	2	On net, regulatory structure and environment has become more burdensome, meriting a score downgrade. Decree 2555 of 2010, reformed by Decree 1242 of 2013, regulates formation and management of fondos de capital privado (FCP) as a portfolio with assets separate from those of its manager, with minimum two-thirds invested in unlisted firms. Decree 2555 of 2010 and its modifications sought to ease the fund formation process, including establishing automatic authorization for different types of FCPs and creating different kinds of participation for each type of investor. However, Decree 1242 of 2013 removed real estate investment funds (fondo de inversión colectiva inmobiliarios or REIFs) as a type of PE fund. Professional managers and corporate entities will no longer manage REIF investment activities, unless supervised by the Financial Superintendency (SFC) (eg broker-dealers, trusts and investment management companies) or a financial regulator in a different jurisdiction. Officially, FCPs do not require SFC approval in order to initiate operations under a 2011 regulation (Circular Externa 029 of 2014) that establishes automatic registration. Yet local fund managers persistently complain that in practice they cannot begin operating a fund without explicit SFC approval, which routinely takes three months. Fund managers fear further complications and costs from a December 2014 measure (Circular Externa 034), which requires regular external valuation of assets by one of two official consultants (proveedores de precios). The consultants' fees are high and unregulated, their expertise is uncertain, and there are fears about confidentiality (Interviews, February 2015, January 2013; Superintendencia Financiera website; www.latinlawyer.com).
Tax treatment of PE/VC funds & investments	2	Colombia remains a complex and shifting tax environment for PE/VC investing. PE/VC funds are pass-through entities, and investors' tax liabilities depend on their residence and the type of income that is generated through the PE/VC fund. Investors' tax liabilities are normally paid to the tax authorities through withholding tax applied by the PE/VC fund (at a rate of 30% when investors are non-resident and 25% for residents). In terms of the tax treatment applicable to income, dividends paid by a Colombian company to foreign investors investing through a PE/VC fund are not subject to income tax provided they are paid out of profits taxed at the Colombian company level. Capital gains generated by foreign investors investing through a PE/VC are taxed in Colombia at a rate of 10% if the assets that are being sold have been held for two years or more. The foreign investor may be required to file an income tax return in Colombia. In such return the foreign investor may be entitled to credit the withholding amounts. In terms of the tax treatment that is applicable to the Colombian companies in which a PE/VC could invest, the latest tax reform of December 2014 increased the Tax on Profits for Fairness (Impuesto Sobre la Renta para la Equidad, or CREE) from 8% to 9%. Additionally, a surtax for companies with profits in excess of COP\$800m is applicable. The surtax rate is 5% in 2015, 6% in 2016, 8% in 2017 and 9% in 2018. Financial transactions remain subject to a 0.4% tax. ( EIU Country Commerce, January 2015, January 2013; EIU Financial Services Report, November 2014; Interviews February 2015, January 2013)

## Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Protection of minority shareholder rights	3	The standard corporate form (sociedad anónima) requires supermajorities of 70-80% for certain major decisions, and 25% of shareholders are required to call an extraordinary shareholders' meeting. Shareholder agreements are permitted and are commonly used to establish voting and special minority rights. Offshore funds sometimes prefer to use foreign jurisdictions for provisions in shareholder agreements for recourse to dispute arbitration. The Colombian Confederation of Chambers of Commerce adopted a voluntary self-regulation code for family-owned and closely held firms (2009), with no provisions for adherence or reporting. Colombia's voluntary corporate governance code for public companies contains best practices for shareholders' meetings, boards of directors, disclosure of financial and non-financial information, and dispute resolution. All companies submit an annual implementation report. World Bank Doing Business 2015 ranks the strength of protection for minority rights in Colombia as well as above the regional average. (Interviews, February 2015; EIU Country Commerce, January 2013; European Corporate Governance Institute website; Confecámaras website)
Restrictions on local institutional investors investing in PE/VC	3	The presence of pension funds has grown in PE investing and in 2014 a separate limit for infrastructure fund investment was created, outside of the 5% asset limit on investment in PE/VC funds. Only PE funds that are exclusively available to professional investors are available for pension fund investment. Pension funds do not pay taxes on PE/VC investment returns. Insurers remain minor small players. (Interviews February 2015, January 2013; EIU/LAVCA 2013 Survey; EIU Country Finance, May 2011; latinlawyer.com, June 21, 2012)
Protection of intellectual property rights	2	While Colombia has made a concerted effort to increase institutional capacity for more effective regulation, supervision and protection of intellectual property rights (IPR), there is room for improvement in enforcement and prosecution. The legal code gives adequate coverage of IPR but the courts frequently neglect its provisions. The software and apparel industries are significant targets for piracy and counterfeiting. In 2014, Colombia remained on the US Trade Representative's Watch List for IPR protection inadequacies. The USTR also noted limits on patenting certain pharmaceuticals and the 2013 decision by the Constitutional Court to invalidate a law under the US-Colombia Trade Promotion Agreement which enacted many IPR-related matters. (EIU Country Commerce, January 2015; USTR Special 301 Report 2014; Intellectual Property Rights Toolkit Colombia, export.gov, June 2011)
Bankruptcy procedures/creditors' rights/partner liability	2	A 2006 bankruptcy law created mechanisms for creditors to request judicial liquidation but also sought to make reorganization proceedings more agile. While there are some examples of successful reorganizations, the norm remains liquidation. Equity shareholders are among those recognized during the proceeding. Established creditors are guaranteed a vote in the final decision. Shareholders are last in the repayment hierarchy of distressed firms. Compared to regional averages, resolving a bankruptcy in Colombia takes much less time and expense, and yields a much higher recovery rate for creditors. Liability is limited to capital share for corporations and limited liability companies. (Interviews, February 2015, January 2013; US Country Commercial Guide: Colombia, 2014)
Capital markets development and feasibility of exits	2	The Colombian stock market has recovered since its decline during the global downturn. The MILA stock market, consisting of Colombia, Chile, Peru, and Mexico, is continuing to rival the Brazilian BM&FBovespa market in market capitalization and trading turnover, but has not improved Colombia's limited market liquidity. There have been only a limited number of IPOs in the past few years. Interviewees do not see any short-term likelihood of IPO exits. Despite this relatively low activity, appetite for Colombian stocks is still strong, as evidenced by new offerings placed by listed firms and by easier foreign listing requirements. The Ministry of Finance has made regulatory efforts to improve access to capital markets, including Decree 1019 of 2014 which facilitates access of small and medium-sized enterprises to Colombian capital markets and simplifies IPO requirements targeted by institutional investors. Two real estate FCPs have been listed in the Colombian Stock Exchange, which will render this possibility easier to other investment vehicles. However, fairly low market capitalization and high listing compliance costs still hinder 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. Short-term investment instruments are more widely available than long-term ones in the local market. PE fund managers cite a weak market for equity investments and in investing in smaller firms. (EIU Financial Services Report, November 2014; EIU Risk Briefing; Interviews, March 2015, January 2013; Decree 1019 of 2014, Decree 2510 of 2014)
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 2015; Interviews, February and April 2015)
Corporate governance requirements	3	Efforts have yielded some improvements in corporate governance. Law 964 of 2005 created a broad set of corporate governance standards including requiring listed companies to have 25% independent directors. In 2007, a Code of Best Corporate Practices ("Código Pais") was adopted for public companies with provisions on subjects like tender offers, related party transactions and audit committees. An update to the code was issued in 2014 (External Circular 028). A new version of the Code was issued through the External Circular 028 of 2014. As of April 2015, 137 companies had adopted the code and report on compliance (a slight increase since 2012). According to the World Bank's Doing Business 2015, Colombia is rated above regional average on all governance indicators for publicly traded companies, including disclosure requirements, shareholder ability to sue, director liability, corporate transparency, and shareholder rights. A separate voluntary code providing for self-regulation of closely-held and family-owned companies has raised awareness but contains no clear reporting or enforcement mechanism. (Interviews, February 2015, January 2013; Superintendencia Financiera website)
Strength of the judicial system	2	Although the Supreme Court is impartial and well-respected, lower levels of the judiciary and civil service are susceptible to corruption and have been involved in a series of scandals in recent years. Judicial processes are described as slow and cumbersome. Colombia delayed enactment of the new Code of General Proceedings, now slated to become effective in December 2015. World Bank's Doing Business estimates enforcement of contracts in Colombia takes almost twice as long as the regional average. Domestic arbitration of disputes in PE/VC contracts is commonly conducted through the chambers of commerce and is viewed as effective. However, fund managers indicate that foreign venues are preferred. International arbitration of investment disputes is also available and valid, and foreign investors typically request this in shareholders' agreements. International arbitration awards issued in Colombia are not subject to recognition proceedings since 2012 (Law 1563). (EIU Risk Briefing; EIU Country Commerce, January 2015; World Bank Doing Business Report 2015; Interviews, March 2015, January 2013)
Perceived corruption	1	While political institutions are stable, illegal drug trade and weak accountability continue to contribute to corruption. Colombia performs below average in both Transparency International's and the World Bank's corruption measures: 94-175 on perceived transparency and in the 43rd percentile for control of corruption. Corruption remains the greatest challenge for doing business in Colombia, despite a number of recent cases which suggest that enforcement may be improving. Due to complications in dealing with the government in infrastructure and energy, funds often choose to avoid these sectors. In 2013, Colombia entered into the OECD Convention on Combating Bribery of Foreign Public Officials. (EIU Risk Briefing; EIU Country Commerce, January 2015; US Investment Climate Statement 2014; US Country Commercial Guide 2014; Transparency International, 2014; World Governance Indicators, 2014; Interviews, March 2015)
Quality of local accounting industry (international standards)	2	Convergence to international standards has continued to hit regulatory snags. Transition to IFRS was supposed to be finalized in 2014 for publicly traded entities, large companies and investment collective schemes such as FCPs ("Group 1"). However a Decree issued in December 2014 delayed implementation of the key IFRS norm mandating asset valuation based on market prices until January 1, 2019, meaning existing Colombian GAAP asset valuation norms will continue to be used for external financial statements and assessing tax liabilities. Similarly, instead of implementing full IFRS in January 2016 as planned, the decree provides that SMEs ("Group 3") will not apply the IFRS asset valuation norms and will only move to full IFRS in 2020. The last-minute measure complicates efforts by fund managers (and firms) which had already taken steps to become IFRS-compliant and creates confusion about standards going forward. (Ministerio de Hacienda y Crédito Público, Decreto 2548, December 12, 2014; Deloitte IAS PLUS Colombia 2015; Interviews February 2015)
Entrepreneurship	3	In addition to tax deductions on R&D investment, the government has undertaken various incentive programs for the development of high growth start-ups, including the creation of Innpulsa. As of March 2015, state-owned Bancoldex took in house Innpulsa to help support and construct its new entrepreneurial hyper growth platform. Fondo Emprender from SENA (a government's official training institution) supplied funding for 455 projects in 2014, worth more than US\$14.6m. World Bank Doing Business rates Colombia above the regional average for 'Starting a Business', and the Global Entrepreneurship Monitor estimates Colombia's new business ownership rate to be 6.7%, above the regional average. (World Bank Doing Business Report 2015; GEM Global Report, 2014; EIU/LAVCA 2015 Survey; Bancoldex website (www.bancoldex.com); SENA website (www.sena.edu.co))



## Country Profile

# COSTA RICA

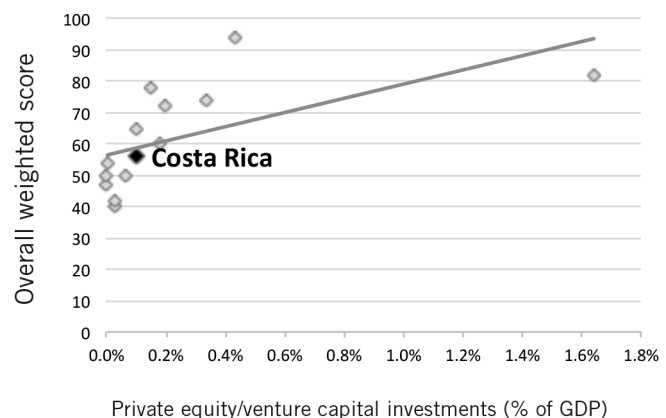
	2015	2013
<b>OVERALL SCORE:</b>	<b>56</b>	<b>56</b>
<b>REGIONAL RANKING:</b>	<b>5TH</b>	<b>7TH</b>

There have been few changes in PE/VC in the past year in Costa Rica. The country still enjoys a favorable tax environment for PE investing, yet efforts to foster a domestically-rooted PE industry have not been effective. The country is one of the few with a specific legal vehicle for the creation of funds that can invest in privately-held domestic companies, but most activity remains in the form of regional funds set up through offshore vehicles.

**Strengths:** The country's strengths are the quality of accounting standards and a low level of perceived corruption. It also scored well on tax treatment, protection of intellectual property rights, and boasts a strong judicial system.

**Challenges:** Costa Rica continues to be deficient in its protection of minority shareholder rights. The country also lacks a strong entrepreneurial community, despite government support to promote small business and lower the costs for creating startups.

	2013	2015	
<b>OVERALL SCORE</b>	<b>56</b>	<b>56</b>	<b>0</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	3	3	0
3) Protection of minority shareholder rights	1	1	0
4) Restrictions on institutional investors investing in VC/PE	1	1	0
5) Protection of intellectual property rights	3	3	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	2	2	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	2	2	0
10) Strength of the judicial system	3	3	0
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	2	2	0

**Overall score against PE / VC investments**

**Costa Rica ScoreNotes**

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Initiatives designed to foster a domestically-rooted PE industry have failed to bear fruit. Most activity remains in the form of regional funds set up through offshore vehicles, and no funds have been established under the figure of 'fondos de capital de riesgo' (risk capital investment funds or PE/VC funds), the vehicle created by the National Financial System Supervisory Council (CONASSIF) in 2011. The law provides detailed requirements and procedures for the registration of funds of all kinds including PE/VC funds (which should be created as closed funds) authorized by the 'sociedades administradoras de fondos de inversion' (fund management companies) and for the establishment of both closed and open funds. Fund managers find the regulations cumbersome, in particular liquidity requirements for open funds as well as restrictions on the types of investors. The Alternative Stock Market (MAPA) has proved slow to generate results. Only three firms have listed and a fourth is awaiting share sales, while others are in earlier steps in the process. (Superintendencia General de Valores website; Consejo Nacional de Supervisión del Sistema Financiero website; Mercado Alternativo para Acciones, website; Interviews, March 2015, February 2013; BID/FOMIN/Bolsa Nacional de Valores, Mercado Alternativo para Acciones (MAPA): Hoja de Proyecto, <a href="http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39229675">http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39229675</a> , n.d., accessed March 26, 2015)
Tax treatment of PE/VC funds & investments	3	The generally favourable tax environment for PE investing continued in 2013-14. Only Costa Rica-sourced income is taxable under the tax system's territorial principles. There is no capital gains tax except where the purchase and sale of shares is the shareholder's habitual activity, in which case capital gains are treated as ordinary taxable income. Local investment funds benefit from a reduced 5% tax applied to the sale of investment assets. Interest payments and financial commissions in the form of foreign remittances are subject to a 15% withholding tax. 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 firm's home country does not allow credits for taxes paid in Costa Rica. (EIU Country Commerce, November 2014, November 2012; EIU Country Finance, February 2012; Interviews, March 2015, February 2013)

## Costa Rica ScoreNotes

Aspects	Score	Notes (4-0)
Protection of minority shareholder rights	1	In general, minority rights remains a poorly understood concept with little established jurisprudence or judicial training. No legal requirements exist on the percentage of shares that constitute effective control. Any shareholder or group of shareholders representing at least 25% of stock may require management to call a shareholders' meeting. In the event of inaction by management, these shareholders may recur to local courts. Protections must be incorporated by investors through shareholders' agreements and arbitration clauses, which are generally enforceable, as well as through amendments to the company's organizational documents. In some cases, funds seek alternative firm structures such as trusts where minority rights can be better enforced. World Banking Doing Business 2015 rates minority investor protection well below the regional average. (Interviews, March 2015, February 2013, EIU Country Commerce, November 2014, November 2012; World Banking Doing Business, 2015)
Restrictions on local institutional investors investing in PE/VC	1	The pension system is partially privatized, though the five state-owned funds that dominate the market have relative operational autonomy and compete with the privately-managed funds. "Financed investments" in funds are still not permitted under the latest revisions of the investment guidelines of regulated operatoras de pensión complementarias (OPCs), as of October 2014. Guidelines generally restrict them to small holdings in public companies at home or abroad, or holding of low-risk government bonds or commercial paper. OPCs have not demonstrated interest in the PE asset class. Fund managers continue to hope for regulations that might change this situation though none were imminent as of March 2015. The National Insurance Service (INS) continues to play a minor role as an investor in the exchange. (Interviews, March 2015, February 2013; EIU Country Finance, February 2012; Superintendencia de Pensiones, Reglamento de Inversiones de las Entidades Regladas, October 15, 2014)
Protection of intellectual property rights	3	Concern relating to the enforcement of intellectual property rights (IPR) has lessened following the passage of a reform in 2008 connected to the Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA). In 2011, Costa Rica accounted for nearly 40% of total exports to the U.S. under the DR-CAFTA agreement. As of 2013, Costa Rica remains on the USTR Watch List due to lack of resources applied to copyright piracy and trademark counterfeiting. The rate of software piracy has declined steadily, but remains high. (US Country Commercial Guide 2014; USTR Special 301, 2014; Country Commerce, October 2014, EIU Risk Briefing, 2015; Congressional Research Service, 2012)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy provisions, spelled out in both civil procedures and commercial codes, are clear and similar to U.S. law, though enforceability is uneven. In general, it is difficult for creditors to take possession of assets of distressed companies, and banks enter into investments in companies on a collateralized basis as a result. World Bank Doing Business 2015 reports that bankruptcies are resolved more slowly, at slightly lower cost, and with a lower recovery rate than the regional average. Equity investors are generally not liable beyond the amount invested, but managers and board members are. (Interviews, March 2015, February 2013, U.S. Country Commercial Guide 2014)
Capital markets development and feasibility of exits	2	Local exits remain "unviable" in words of a stakeholder and there are few firms listed on the stock exchange, most of which are large banks. Securitization is one possible new exit option for infrastructure and power generation, as new rules were published in October 2014 by CONASSIF that allow for investment vehicles to be created to finance public works that will be publicly traded as securities on the exchange. The main exchange, Bolsa Nacional de Valores, experienced a decline in the volume traded which drop down to US\$50.4bn in 2014 from US\$58.3bn in 2013. Most of the volume traded corresponded to public debt. Foreign access to local markets is good. With the acquisition of listed domestic firms by international concerns, de-listings have become common. (Interviews, March 2015, February 2013; January 2011; EIU Country Finance, February 2011; Bolsa Nacional de Valores website)
Registration/reserve requirements on inward investments	3	All foreign-exchange transactions exceeding US\$10 million must take place through the Banco Central de Costa Rica (BCCR), while others may take place through the national banking system and private banks. There are no requirements on where proceeds can be deposited, though stringent "know your client" regulations require banks to keep a register of all depositors and other parties transacting there, particularly those operating on behalf of companies with operations outside of Costa Rica. 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 2014, November 2012; EIU Country Finance, February 2012)
Corporate governance requirements	2	A Corporate Governance Regulation (passed in 2009 and revised in 2010) exists, but legal norms, training and jurisprudence remain weak in basic areas such as conflict of interest and related-party transactions. 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. Bearer shares are forbidden. According to the World Bank's Doing Business 2015, Costa Rica has weak disclosure requirements, average director liability, and overall weak shareholder governance, compared to regional standards. (Interviews, March 2015, February 2013; EIU Country Commerce, November 2014, November 2012; World Bank Doing Business, 2015)
Strength of the judicial system	3	The judicial system is independent and retains high legitimacy, but the legal process remains slow-moving. U.S. investors report several cases of judicial insecurity due to challengers attempting to undermine their investments. While the law does allow for and facilitate commercial arbitration, specialized commercial courts do not exist. 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, Business Environment Rankings, USTR Watch List Notes, 2013)
Perceived corruption	3	Costa Rica is widely recognized for its long-standing democratic tradition. Its state institutions have avoided infiltration by interests allied to the illegal drug trade, and there is less corruption than elsewhere in the region. The independence of the country's judiciary system helped it have one of the lower rankings in the region in Transparency International's 2014 Corruption Perception Index. Similarly, the World Bank's 2014 Control of Corruption indicator ranks Costa Rica in the 72nd percentile, significantly higher than the regional average. (EIU Risk Briefing, 2015; Transparency International, 2014; World Bank World Governance Indicators, 2014)
Quality of local accounting industry (international standards)	4	With the exception of 'public entities' and some smaller firms, all business entities in Costa Rica follow IFRS in their audit reports. Listed companies are required to prepare their financial statements under IFRS, while regulated financial entities follow the accounting guidelines of their respective regulatory agencies, which are loosely based on IFRS. IFRS for SMEs apply to those SMEs (as defined by the Ministry of Economy) that publish financial statements for general information of external entities like credit ratings agencies or creditors. The junior stock market for private share placement (MAPA) requires use of IAS. (Interviews, March 2015, February 2013; Deloitte IAS PLUS 2015; Colegio de Contadores Públicos de Costa Rica, Acuerdo 504-2010, September 28, 2010)
Entrepreneurship	2	There have been increased government initiatives organized to promote SMEs, such as incubators and lower costs and fewer bureaucratic steps for start-ups. PE fund managers cite a plethora of dynamic mid-cap companies with large holdings of Costa Rican investments. Informants believe that government support remains weak for the PE/VC environment. The number of procedures required to start a business is still above the regional average and acts as a deterrent to new entrepreneurs. This is reflected in Costa Rica's low rate of new business ownership (4% versus the regional average of 8%) as estimated by GEM, though the country also has a relatively low rate of business discontinuation. (World Bank Doing Business 2015; GEM Global Report 2014; EIU/LAVCA 2015 Survey; Interviews, March 2015, January 2012)

# Country Profile DOMINICAN REPUBLIC

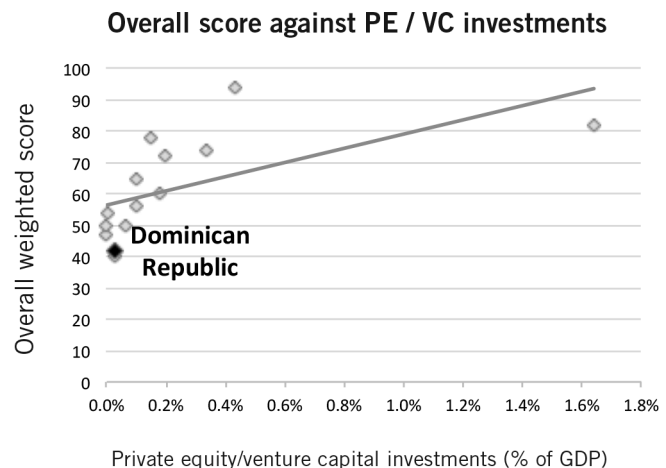
	<b>2015</b>	<b>2013</b>
<b>OVERALL SCORE:</b>	<b>42</b>	<b>42</b>
<b>REGIONAL RANKING:</b>	<b>10TH</b>	<b>11TH(TIED)</b>

Following an upgrade in regional ranking last year, the Dominican Republic saw strong GDP growth and new investment in 2014, though positive macroeconomic developments did not result in indicator score changes. Despite significant efforts on the part of the new presidential administration to increase transparency and ensure the responsible management of public resources, corruption still permeates the judicial system and the country's institutions overall. Also, efforts to create a local PE vehicle have so far proven ineffective as offshore entities remain the structure of choice for international fund managers.

**Strengths:** The country maintains high scores on requirements for inward investment, international accounting standards, and corporate governance requirements.

**Challenges:** The PE/VC industry remains largely underdeveloped and continues to score poorly on the majority of indicators including restrictions on institutional investors, tax treatment, and the strength of the judicial system.

	2013	2015	0
<b>OVERALL SCORE</b>	<b>42</b>	<b>42</b>	<b>0</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	1	1	0
3) Protection of minority shareholder rights	2	2	0
4) Restrictions on institutional investors investing in VC/PE	1	1	0
5) Protection of intellectual property rights	1	1	0
6) Bankruptcy procedures/creditors' rights/partner liability	1	1	0
7) Capital markets development and feasibility of exits	1	1	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	1	1	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	3	3	0
13) Entrepreneurship	2	2	0



## Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Only very incipient activity has followed from the 2011 Trust Law, which was seen as a promising step toward creation of a viable locally-domiciled PE vehicle. The law allows for the formation of investment trusts (fideicomisos de inversión) under the fiduciary responsibility of fund managers, as well as public offering trusts (fideicomisos de oferta pública); fund managers (administradoras de fondos de inversión) may administer either open or closed-end funds but not both, and to operate investment trusts the fund managers must be registered as 'sociedades administradoras de fondos de inversión' with the Securities Superintendency (Superintendencia de Valores). In principle, the trusts enjoy certain tax exemptions and are eligible for pension fund investments. Data from the Superintendencia as of February 2015 indicates there are nine registered investment fund managers, a category that also includes non-PE funds. The first public offering trust, focussed on real estate, was approved by National Securities Council in March 2015. Data on the total number are not published, but reportedly there are around seven investment trusts, most created (or under creation) by banks or insurance companies. Offshore entities have remained the structure of choice for international fund managers operating in the Dominican Republic, many of which invest there as part of regional funds. Dominican investors have moved toward operating PE funds set up as local companies, not subject to express regulation except under general company law. Angel investing involving private share placements through several angel networks continues to expand. (Interviews, April 2015, January 2013; hoy.com.do, March 13, 2015; latinlawyer.com, May 13, 2014; Pellerano and Herrera Abogados website, February 2012; Banco Central website February 2012).
Tax treatment of PE/VC funds & investments	1	The tax regime has evolved unevenly in its impacts on PE/VC investing but remains difficult. The flat income tax rate for corporations (applicable at the same rate to capital gains) was reduced under a 2012 reform to 28% for 2014 and stands at 27% from tax year 2015. It also applies to Dominican-sourced income of non-resident individuals and corporations not domiciled in the country. For sales of shares in Dominican companies, in addition to capital gains paid by sellers, purchasers must withhold 1% of the purchase price. Withholding tax on dividends paid to a resident or non-resident was instituted at a 10% rate from January 2013. Pass-through has not been automatic and must be structured carefully through shareholder agreements. The September 2011 Trust Law establishes certain tax exemptions for investments in investment trusts and public offering trusts, the newly-created vehicles that have begun to emerge on an incipient basis as of April 2015. Tax incentives and exemptions for investments in the Dominican exchange were eliminated from January 2013. (Interviews, April 2015, January 2013; latinlawyer.com, May 13, 2014)

## Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	General company law protects some basic minority rights including pre-emptive rights in the event of new shares subscription, information rights, and the right to file derivative lawsuits against directors. Under the most common corporate form sociedad anónima (SA), auditing and reporting requirements facilitate minority board member access to financial information. Minority rights are weaker in the limited liability company form (sociedades de responsabilidad limitada), although a one-tenth minority can vote to appoint an independent accountant to conduct audits. Stronger protections may be incorporated into revised company statutes or changes in bylaws, and investors often prefer that companies set up under offshore jurisdictions to strengthen protections. Shareholders agreements are generally valid and enforceable if established for a determined period of time. World Bank Doing Business 2015 rates the DR slightly above the regional average on strength of minority investor protection. (Interviews, April 2015, January 2013; Ley General 479-08; latinlawyer.com, May 13, 2014)
Restrictions on local institutional investors investing in PE/VC	1	Pension funds have not become active players in the industry, despite the 2011 Trust Law which facilitates participation in both investment trusts and public offering trusts. Under regulations issued at the time by the Risk Standards and Investment Limits Commission (CCLR), investments by pension funds are subject to prior authorization and approval including quarterly risk classifications; fund managers for such investments must have at least US\$10m under management and two years' experience; furthermore, the fund instrument must have been created at least six months prior and have three separate, unrelated investors committed. While pension fund investment limits in other types of instruments (e.g. 30% for equity investments) have been specified and modified since this law, no specific limits have been set for investment trusts and public offering trusts. Under the Insurance Law, companies remain restricted from engaging in most equity investing. (Interview, April 2015; OECD, Annual Survey of Investment Regulation of Pension Funds, 2014; Superintendencia de Pensions website)
Protection of intellectual property rights	1	The Dominican Republic has made minor advances in its IPR framework including increased regulatory protection of pharmaceutical patents and the creation of an online trademark database. However, enforcement of IPR laws and backlogs in pending patent applications remain major concerns for businesses. Experts note the importance of registering IP both locally and abroad for ensured protection which can be costly and time-consuming. The country remains on the USTR 2014 Watch List. Judges and prosecutors lack technical expertise in adjudicating IPR cases. Widespread availability of pirated and counterfeit goods remains a big issue. (US Investment Climate Statement 2014; USTR Special 301 Report 2014)
Bankruptcy procedures/creditors' rights/partner liability	1	World Bank Doing Business rates the insolvency framework strength at 23.75/100, ranking it 158th in the world. Compared to the regional average, resolving bankruptcies remains a slower and much more costly process, and the recovery rate is much lower. A bankruptcy bill that would simplify restructuring is awaiting consideration by the Senate. In principle, under current corporate law, liability of shareholders of Dominican corporations and limited liability companies is limited to the investment amount. However, the corporate veil may be pierced by courts under certain circumstances. (Interviews April 2015, January 2013; latinlawyer.com, January 15, 2005 and May 13, 2014)
Capital markets development and feasibility of exits	1	The availability of finance from the local banking system is limited, and foreign firms, as well as large domestic companies, rely on external financing through correspondent banks. The country lacks a viable stock market for local IPOs. In late 2014, the first-ever IPO in the Bolsa de Valores was approved, a positive step, while it remains to be seen whether this will have a transformative impact on the market. Private investors typically exit by selling to strategic investors or other PE funds. The financial system is inefficient relative to its CAFTA-DR trade agreement partners. The country's domestic exchange is focused on fixed-income and commercial paper, and while it has grown rapidly in recent years, it remains small and does not provide a significant channel for equity finance. (Interviews January 2010, March 2015; EIU Risk Briefing; US Investment Climate Statement, 2014; Bolsa de Valores de la República Dominicana; latinlawyer.com, April 2015)
Registration/reserve requirements on inward investments	3	There are no reserve requirements or exchange controls. Companies are able to freely repatriate capital and pay dividends after payment of corresponding taxes. Some reporting for money-laundering control purposes applies. (Country Commercial Guide, 2014; latinlawyer.com, May 14, 2015)
Corporate governance requirements	3	Limited liability companies and corporations have annual auditing requirements, obligations to inform shareholders of transactions representing more than 15% of assets and restrictions on related-party transactions. Both must have vigilance officers (comisarios de cuentas) who are certified public accountants and separate from the board. Under LLCs, transfers of ownership stakes to outside parties require three-quarters board approval. World Bank Doing Business 2015 rates the DR above regional averages on disclosure requirements, shareholder suits and rights, corporate transparency, and shareholder governance; average for conflict of interest and governance structure; and below average for director liability. Policing of financial reporting remains uneven. (Interviews April 2015, January 2013; Superintendencia de Valores website; latinlawyer.com, May 13, 2014)
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. Political interference in regulatory bodies prevails and the judiciary tends to be slow and ineffective. Investors typically avoid resolving disputes in Dominican courts. There is an alternative system of dispute resolution via the arbitration mechanisms in the chambers of commerce. Despite that, the risk that a contract will not be enforced remains moderate. In general contractual rights are enforced but there have been cases where the government has reopened negotiations to alter contract terms, particularly in the natural resources sector. The DR ranks near the bottom of the rankings compared to the regional average for enforcing contracts. (EIU Risk Briefing; US Investment Climate Statement 2014; World Bank Doing Business Report, 2015; latinlawyer.com, April 2015)
Perceived corruption	1	Corruption is fostered by a lack of accountability within all government levels, which creates an uneven playing field in the business community. Enforcement mechanisms are weak and there is a lack of political will to prosecute offenders. Foreign firms have indicated that they face systematic corruption, limiting their ability to defend their interests. President Medina has eliminated many government privileges and forced administration officials to declare all personal property upon being sworn in, increasing overall transparency. The DR scores poorly in both the World Bank's and Transparency International's 2014 corruption measures, ranking 115 out of 175 countries in perceived transparency and in the 21st percentile for control of corruption. (EIU Country Report, March 2015; EIU Risk Briefing; Transparency International, 2014; World Governance Indicators, 2014)
Quality of local accounting industry (international standards)	3	A transition to full compliance with IFRS was completed for public companies as of January 1, 2014. IFRS are permitted but not obligatory for non-listed firms, and since 2007 standards adapted to smaller firms have been in place for SMEs. International auditors are present and reliable. The practice of dual accounting practices in firms for tax evasion purposes is commonplace. (Deloitte IAS PLUS 2015; Interview April 2015; latinlawyer.com, May 13, 2014)
Entrepreneurship	2	The country's first seed capital fund was created in mid-2012, by two regional development banks (EMPRENDE and CAF) to support early stage companies. This was considered an important step to continue developing an entrepreneurial culture in the DR, but the costs to embark on entrepreneurial activities remain relatively high: the country ranks 113th out of 189 countries according to the World Bank on ease of starting a business. In its most recent year, the Global Entrepreneurship Monitor estimates the country to have new business ownership well above the regional average, though this is counterbalanced by an above-average rate of business discontinuation. The country continues to rank poorly in indicators of entrepreneurial activity. Proindustria, a regulator and representative body for industrial sector innovation, is also engaged in efforts to promote SMEs in the manufacturing sector. 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, January 2013, March 2015; World Bank Doing Business Report, 2015; GEM Global Report 2009; Estrategia Nacional de Emprendimiento de República Dominicana, 2014

## Country Profile

# JAMAICA

	2015	2013
<b>OVERALL SCORE:</b>	<b>46</b>	<b>N/A</b>
<b>REGIONAL RANKING:</b>	<b>9TH</b>	<b>N/A</b>

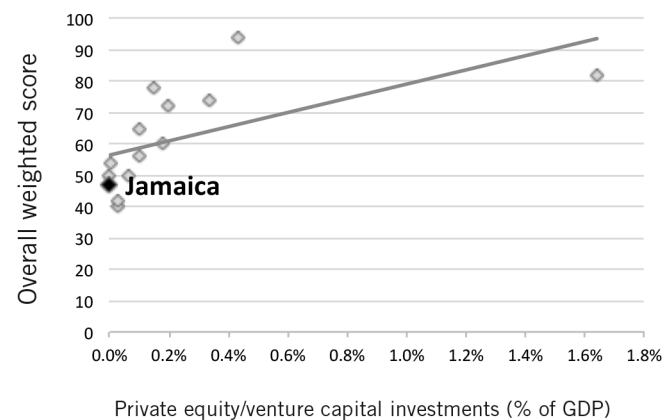
Jamaica joins the scorecard this year as a result of noteworthy efforts to develop the country's investment and entrepreneurial ecosystem. The Development Bank of Jamaica has teamed up with FOMIN to launch new programs targeting entrepreneurs and investors. While no legal framework around PE/VC fund formation exists currently, the country is on the watch for the creation of guidelines around fund formation and the easing of conditions for setting up limited partnerships.

**Strengths:** Jamaica's strengths are straightforward registration and reserve requirements on inward investments and new efforts around entrepreneurship.

**Challenges:** The country scores low in several areas, particularly in the areas of capital markets development, laws on fund formation, and restrictions on institutional investors. Corporate governance requirements, protection of intellectual property rights, and high levels of perceived corruption should also be improved.

	2013	2015	
<b>OVERALL SCORE</b>	<b>n/a</b>	<b>46</b>	<b>n/a</b>
1) Laws on VC/PE fund formation and operation	n/a	1	n/a
2) Tax treatment of VC/PE funds & investments	n/a	2	n/a
3) Protection of minority shareholder rights	n/a	2	n/a
4) Restrictions on institutional investors investing in VC/PE	n/a	1	n/a
5) Protection of intellectual property rights	n/a	2	n/a
6) Bankruptcy procedures/creditors' rights/partner liability	n/a	1	n/a
7) Capital markets development and feasibility of exits	n/a	2	n/a
8) Registration/reserve requirements on inward investments	n/a	3	n/a
9) Corporate governance requirements	n/a	2	n/a
10) Strength of the judicial system	n/a	2	n/a
11) Perceived corruption	n/a	1	n/a
12) Quality of local accounting/use of international standards	n/a	3	n/a
13) Entrepreneurship	n/a	2	n/a

Overall score against PE / VC investments



## Jamaica ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	There is currently no special-purpose legal framework for PE/VC fund formation; although provision for VC funding exists under the income tax regulation. Many funds currently investing in Jamaica are domiciled offshore. To fundraise in Jamaica, simple registration with the regulator, the Financial Services Commission, is necessary. Legislation to ease the conditions for setting up limited partnerships might provide a more attractive local framework for fund formation, and was close to passage by Parliament as of March 2015. In December 2014, a set of standardized documents, templates, and guidelines was issued by a law firm for the PE/VC industry with the joint support of the Development Bank of Jamaica (DBJ)/Venture Capital and MIF/IDB. Two newly formed angel networks are now actively investing in private placements. (Interviews, March 2015; EIU/LAVCA survey, February 2015; venturecapitaljamaica.com)
Tax treatment of PE/VC funds & investments	2	Tax credits for investing in venture capital in Jamaica have had limited application in practice as they are currently limited to locally-domiciled investment vehicles. Reforms that would allow offshore investors to benefit from such provisions were being considered as of March 2015. Tax incentives that formerly existed for SME IPOs on the junior exchange are being phased out over five years (since end-2013). Dividends paid by unlisted Jamaican companies to corporations are taxed at the corporate rate of 33 1/3% (25% for individuals). For dividend payment to a foreign investor in a country with a double-tax treaty (eg the United States and 11 other countries), the lower treaty rates may apply. Non-resident corporations are subject to income tax if they trade in Jamaica or have an office or place of business in Jamaica, or derive income from any source in Jamaica, offset by the relevant provisions of double-tax treaties where applicable. A minimum business tax of 60,000 Jamaican dollars was instituted effective April 1, 2014, applicable once a firm is registered and whether it is dormant, active, or loss-making. (Personal interviews, March 2015; pwc.com; KPMG Bulletin, April 17, 2014)
Protection of minority shareholder rights	2	World Banking Doing Business 2015 rates minority investor protections above the regional average but below the OECD average. Company law does not grant shareholders of privately held companies rights to amend bylaws or statutes with a simple majority and companies need not automatically obtain shareholder approval every time they issue new shares (though either such provision may be written into bylaws). Shareholders must be granted subscription rights on new shares. For all types of companies, there are no statutory requirements that shareholders approve external auditors, be allowed to freely trade shares prior to shareholder meetings or major corporate actions, or be empowered to call for an extraordinary meeting with 10% of shares (though such provisions are not banned). Industry stakeholders report positive experiences with incorporation of minority rights (eg drag along/tag along rights) into company statutes and bylaws. (Interviews, March 2015; World Bank Doing Business, 2015)



## Jamaica ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on local institutional investors investing in PE/VC	1	There is currently no pension fund investment in PE/VC funds. A practical difficulty is that the Pensions Act of 2004 (amended in 2006) sets a 5% asset limit on investments in vaguely defined "other" asset classes; PE/VC is not expressly listed as an asset class, and only "open" collective investment funds are expressly recognized as a legitimate investment target. A few pension funds have potential interest in entering PE/VC, and as of March 2015 a regulatory reform is being considered that might open doors to such investment in the medium term. The Development Bank of Jamaica is about to embark on a new role as co-investor (of up to US\$450,000 per fund) in 3-4 funds among five fund proposal finalists it chose among eight applicants in a 2014 open call; as of March 2015 it has been conducting due diligence, soon to announce commitments. (Financial Services Commission, website; interviews, March 2015; EIU/LAVCA Survey, February 2015)
Protection of intellectual property rights	2	While there has been some increase in protections in recent years, Jamaica's intellectual property rights legislation and enforcement has room for improvement. Copyright protection and enforcement in particular is cited as a significant barrier to a robust IPR framework. Since 2004, Jamaica has been on the US's Special 301 Watch List for its patent legislation which is not compliant with the Agreement on Trade-Related Aspects of IPR. A new bankruptcy law approved in October 2014 will ease procedures by allowing insolvent businesses to preserve intellectual property and ensure protection. The Chief Parliamentary Council is reviewing a new Patent & Designs bill with added rules and fee tiers. Jamaica's patent office (JIPO) is a member of the World Intellectual Property Organization (WIPO) and a co-signer of the Berne Convention for the Protection Of Literary and Artistic Works. (EIU Risk Briefing; US Investment Climate Statement, 2014; USTR Special 301 report, 2014; US Patent & Trademark Office, 2014)
Bankruptcy procedures/creditors' rights/partner liability	1	Until recently, the insolvency framework was heavily weighted toward creditors and did not give distressed firms opportunity to restructure prior to entering bankruptcy. In October 2014, Parliament passed the Bankruptcy and Insolvency Act effective January 1, 2015, which repeals the former Bankruptcy Act. Not yet reflecting the new legislation, World Bank Doing Business 2015 rates the time to resolve insolvency and management of debtor assets at well below the regional average, the costs and recovery rate and level of creditor participation above the average, reorganization proceedings at zero (non-existent), and overall strength of insolvency framework at well below the regional average. Fund managers and government officials believe the new framework will enable insolvent companies to restructure their assets, with due regard to the rights of creditors and other stakeholders including shareholders. If this meets expectations, a score upgrade might be merited in the next Scorecard. Partner liability beyond capital share is not a concern in the absence of demonstrable malfeasance. (Interviews, March 2015; Jamaica Information Service, October 9, 2014; World Bank Doing Business, 2015)
Capital markets development and feasibility of exits	2	Private-sector reforms introduced over the past few decades have spurred liberalization in domestic markets, where foreign and domestic investors alike have relatively equal access to credit. The Jamaica Stock Exchange (JSE) is the main exchange for the country with a market capitalisation of more than US\$490m. The JSE also created the Junior Market for SMEs (companies with less than US\$5m market capitalization), which listed 21 companies as of September 2013. Tax incentives for companies listed on this exchange have been in place since 2009, and in 2014 were revised such that companies that list on the Junior Market through 2016 will receive a 5-year corporate tax holiday. The Junior Market offered SMEs tax incentives and a platform to help raise equity funding through IPOs; nonetheless, few firms have engaged since the phasing out of former tax incentives at the end of 2013 which will take five years to expire. There is ample room for deepening of the shallow capital market, which does not provide much scope for project financing by large foreign investors. (EIU Risk Briefing; US Investment Climate Statement, 2014; Jamaican Stock Exchange, Pocket Book 2013; Interviews, March 2015)
Registration/reserve requirements on inward investments	3	Jamaica has no exchange controls such as reserve requirements, tiered exchange rates, or limits or delays on remittances and repatriations. Foreign exchange transactions must be conducted through authorized foreign exchange dealers at market determined rates. (U.S. Country Commercial Guide: Jamaica, 2014; Investment Climate Statement: Jamaica, 2014)
Corporate governance requirements	2	World Bank Doing Business 2015 rates Jamaica as ahead of regional averages for director liability, regulation of conflict of interest, strength of governance structures, extent of corporate transparency, and extent of shareholder governance. It scores average on extent of disclosure and below average on shareholder ability to file suit and shareholder rights. Governance standards at non-listed firms are more uneven. Shareholder agreements are enforceable, and recourse to arbitration is frequently incorporated in such agreements. Some investors prefer that investee firms (re)incorporate under offshore jurisdictions to facilitate governance and dispute settlement. (Interviews, March 2015; World Bank Doing Business, 2015)
Strength of the judicial system	2	The judicial process is slow, with commercial dispute resolution delays commonplace due to criminal trials clogging the system. The judiciary system is based on English Common Law principles. While contracts are enforceable, more needs to be done to speed the processing of cases and to facilitate specialisation in commercial and financial law fields. Foreign investors, which generally are on an equal footing with domestic firms, can refer disputes with local partners for international arbitration, but generally are handled in the local courts. Several disputes between foreign investors and government / local associations, erupted in the early 2000s and are still ongoing in the court system. The cost of enforcing contracts in Jamaica is very high, at 45% of the cost of the claim amount. (EIU Risk Briefing; World Bank Doing Business Report, 2015; US Country Commercial Guide, 2014)
Perceived corruption	1	Public confidence in official anti-corruption efforts remains low despite the mid-2014 creation of a new organized crime and anti-corruption agency. Scandals involving politicians, public-private partnerships, and police officers have caused ongoing distrust in the country's ability and willingness to eradicate corruption. While the Corruption Prevention Act (CPA) is in place, enforcement is weak due to lack of capacity and resources. Reports suggest that the non-compliance rate runs upwards of 30% in these cases. Jamaica performed below average in both Transparency International's and World Bank's 2014 corruption measures, ranking 85 out of 175 countries for perceived transparency and in the 45th percentile in World Bank's control of corruption indicator. (EIU Risk Briefing; World Governance Indicators, 2014; Transparency International, 2014; US Investment Climate Statement, 2014; Interviews, March 2015)
Quality of local accounting industry (international standards)	3	IFRS are required for both listed and privately held firms. Firms operating in Jamaica but incorporated in the U.S. follow US GAAP. Investors find some unevenness in the quality of investee firms' accounting though standards are improving. International auditors are present. (Interviews, March 2015; Deloitte IASPLUS, 2015; US Country Commercial Guide, 2014)
Entrepreneurship	2	The entrepreneurial climate in Jamaica is strengthening. Funds such as the Self-Start Fund created by the Ministry of Industry Investment and Commerce (MIC) invest in and provide financial services to SMEs. Several angel networks now operate in Jamaica, which launched its first angel investor fund in 2014, FirstAngelsJA. The Development Bank of Jamaica (DBJ) is responsible for initiatives such as the Jamaica Venture Capital Programme, a PPP with the MSTEM ministry known as Start-Up Jamaica, and the National Business Model Competition (along with the IDB and MIF). However, a high unemployment rate and lack of technical skills in the workforce hampers increased entrepreneurial activity and the growth of existing SMEs. Jamaica ranks very highly in the 'Starting a Business' indicator in the 2015 World Bank Doing Business Report, ranking 20th out of 175 countries. A high rate of new business ownership (11%, second in the region behind Brazil) reflects this positive enabling environment (Interviews March 2015; FirstAngelsJA website (www.firstangelsja.com); Development Bank of Jamaica website (www.venturecapitaljamaica.com); Ministry of Industry Investment and Commerce website (www.miic.gov.jm); World Bank Doing Business Report, 2015; GEM Policy Brief: Jamaica, 2014; Interviews, March 2015)

## Country Profile

## MEXICO

	2015	2013
<b>OVERALL SCORE:</b>	<b>65</b>	<b>67</b>
<b>REGIONAL RANKING:</b>	<b>3RD</b>	<b>3RD</b>

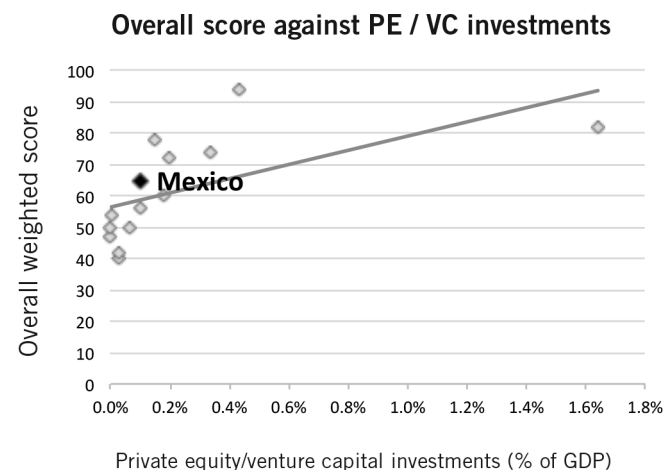
Reforms have advanced, including significant changes in the energy, financial, telecommunications, and education sectors, as well as reforms to the tax and political systems. While changes have attracted new investors, the investment environment remains complex. The tax reform implemented in 2014 has a largely negative impact on PE/VC, resulting in a downgrade on this indicator. Mexico's score in bankruptcy procedures, on the other hand, was upgraded as a result of financial sector reform.

**Strengths:** Mexico's strengths are its bankruptcy procedures and protection of creditor's rights. Compared to regional averages, it scored well on corporate governance, capital markets development, protection of minority shareholder rights and restrictions on local institutional investors.

**Challenges:** The framework for fund formation and investing through Development Capital Certificates (CKDs) is still complex and the tax burden on PE/VC funds high. Weaknesses in the protection of intellectual property rights, the strength of its judicial system, and a high perception of corruption have not improved.

	2013	2015	
<b>OVERALL SCORE</b>	<b>67</b>	<b>65</b>	<b>-2</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	3	2	-1
3) Protection of minority shareholder rights	3	3	0
4) Restrictions on institutional investors investing in VC/PE	3	3	0
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	3	+1
7) Capital markets development and feasibility of exits	3	3	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	2	2	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	3	3	0
13) Entrepreneurship	3	3	0

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



## Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	While it has become easier in regulatory terms to attract pension fund and other types of investment to PE/VC funds operating in Mexico, the process is still complex. Many fund managers continue to set up parallel vehicles to attract different types of investors. CKDs (Certificados Bursátiles de Capital de Desarrollo) often use the specialised trust vehicle created in 2006 (fideicomisos de inversión de capital privado, FICAPs), which offers limited disclosure for invested firms, ease of fiscal transparency for national investors. FICAPs as stand-alone vehicles for fund-raising have remained limited. Real estate and infrastructure funds called Fibras (fideicomisos de infraestructura y bienes raíces) have been buoyed by the 2013 lifting of restrictions on investment by pension funds in such instruments. Separate "funds of funds" have been increasingly active of late. A potential development anxiously sought by fund managers would be allowing pension funds (AFORES) to invest directly in private placements. (Interviews, February-March 2015, January 2013; EIU, Financial Services Report, February 2015; AMEXCAP, Mexico PE/VC Environment: 2013 Update, 2014)
Tax treatment of PE/VC funds & investments	2	With the impact of the 2013 reforms in tax law being felt in a mostly negative way, Mexico has been downgraded on this indicator. Overall, the tax burden and rates have increased, deductions have decreased, and initial enforcement is perceived as somewhat discretionary. The reform, effective January 1st 2014, eliminated the flat-rate corporate tax (impuesto empresarial de tasa única, or IETU) instituted in 2008 as well as maintained the standard corporate tax rate (impuesto empresarial sobre la renta, or ISR) at 30% on an accrual-accounting basis, thus eliminating previously scheduled reductions of rates to 29% in 2014 and 28% in 2015. A new 10% withholding tax applies, from January 2014, to dividends paid by privately held Mexican companies to some resident and non-resident shareholders, though a company's net tax profit account balance as of end-2013 is grandfathered and gains can be offset by losses. Also new from 2014, is a 10% tax on the sale by individuals of stocks traded on the Mexican exchange (Bolsa Mexicana de Valores) based on net, inflation-adjusted gains. Other similar tax-like burdens includes legal entities' obligation to share 10% of profits of pre-tax employees with their employees (PTU). CKD trusts (fideicomisos emisores) continue to be eligible to receive pass-through tax treatment if certain requirements are met; pension funds (AFORES) do not face income tax. Corporate capital gains on the sale of equity shares are taxed at the regular corporate rate. (Interviews, February-March 2015, January 2013; EIU Country Commerce, July 2014; Deloitte, Taxation and Investment in Mexico: 2014)



## 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 a director and can name board members with only 10% of the shares. Companies are required to form independent audit and corporate governance committees. A special corporate category created in 2006, the Sociedad Anónima Promotora de Inversión (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. World Bank Doing Business 2015 rates minority investor protections above the regional average, though below the OECD average. (Interviews, February–March 2015, January 2013; EIU Country Commerce, July 2014, July 2012; World Bank Doing Business, 2015)
Restrictions on local institutional investors investing in PE/VC	3	Indirect investments in PE/VC funds are permitted since 2010 through CKDs (Certificados Bursátiles de Capital de Desarrollo), which must be traded on the Mexican exchange (BMV). Privatized pension funds (AFORES) can invest, depending on risk orientation of the four basic types of pension fund, up to 10%, 15%, 20%, and 30%, respectively, in exchange-traded instruments (instrumentos bursatilizados) and up to 5%, 15%, 20% or, again, 20%, respectively, in structured investments (instrumentos estructurados). Sublimits of 0, 10, 13% and 13%, respectively, apply to structured investments in infrastructure and real estate funds (reits known in Mexico as fibras) and CKDs. At present, AFORES are not spending their full allocation. 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. Increased flexibility for pension funds to invest in international PE funds is seen as possible in the coming years. Insurance companies mobilize relatively few assets given Mexico’s size and sophistication, and their portfolio investments in corporations are mostly limited to registered securities, or to those funds which the National Insurance Commission has individually approved. (Interviews, January–February 2015, January 2013; EIU Financial Services Report: Mexico, February 2015; OECD, Annual Survey of Investment Regulation Of Pension Funds; CONSAR website)
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. Significant resources are still needed for more IPR prosecutions. Mexico made progress by ratifying the Anti-Counterfeiting Trade Agreement and by joining the Madrid Protocol in 2012, providing a system for streamlining the application process for trademark protection. However, while noting the country’s progress, Mexico remains on US’s Watch List for high levels of piracy. (EIU Country Commerce, July 2014; US Investment Climate Statement, 2014; USTR Special 301 report 2014)
Bankruptcy procedures/creditors’ rights/partner liability	3	This area has seen tangible progress in 2013–14 in the view of Mexico-based fund managers, meriting a score upgrade. The Financial Sector Reform of late 2013, effective 2015, strengthens the bankruptcy framework in several ways. It strengthens protections for creditors, reinforces judicial leadership of bankruptcy proceedings while removing judges’ discretion to grant delays, and alters the creditor hierarchy placing common creditors above obligations to other firms or subordinate creditors. According to the World Bank’s Doing Business 2015, and reflecting year on year improvements, the strength of the insolvency framework is well above the regional average, with bankruptcies resolved much faster albeit at higher cost. (Interviews, February–March 2015, January 2013; World Bank Doing Business, 2015; latinlawyer.com, May 13, 2014; AMEXCAP, Mexico PE/VC Environment: 2013 Update, 2014)
Capital markets development and feasibility of exits	3	With a market capitalisation of US\$460.1bn as of January 2015, the Bolsa Mexicana de Valores is Latin America’s second-largest stock exchange after Brazil’s BM&FBovespa. But the stock exchange remains fairly small and underdeveloped relative to the size of the economy. There were ten IPOs in 2014, more than any other country in the region, although fewer than the ones that took place in 2013. This decline in the number of IPOs was due to overall world market factors and slowing Mexican growth. However, according to PE managers, while IPOs of SMEs remain challenging, they are viable for larger firms. 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. (Interviews, January 2015, 2013; EIU Financial Services Report, January 2015)
Registration/reserve requirements on inward investments	3	Under tightened money laundering regulations, registration remains straightforward. Repatriations of capital exceeding US\$10,000 must be reported to financial authorities. There are no reserve requirements or other exchange controls. (EIU Country Commerce, July 2014)
Corporate governance requirements	3	Governance practices continue to improve in the view of interviewed fund managers. Governance rules for listed corporations (sociedades anónimas bursátiles) reflect global standards. 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. The World Bank’s Doing Business 2015 rates disclosure requirements and conflict of interest regulation in Mexico well above the regional average, director liability on par with the regional average, and shareholder ability to file suit slightly below average; overall shareholder rights, governance structures and corporate transparency are all rated above regional averages. (Interviews, February–March 2013, January 2013; World Bank Doing Business, 2015).
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 can be problematic and expensive. (Interviews February–March 2015; US Investment Climate Statement 2014; EIU Country Commerce Report, July 2014)
Perceived corruption	1	Despite some efforts, the influence of organised crime remains a serious problem. In 2013, the country introduced the Anti-Corruption Commission and a law outlining reporting standards for exposed non-financial institutions. The government is making efforts to foster transparency through online tools but corruption still impedes private sector development. In 2014, Mexico performed below average in both Transparency International’s and World Bank’s corruption measures: Mexico ranked 103 out of 175 countries for perceived transparency and in the 39th percentile for control of corruption. Concerns remain about the ability of Mexican authorities to control the drug trade and about corruption in Mexican law-enforcement and judiciary agencies. Recent investigations into the President’s finances have prompted further scepticism over corruption. (EIU Country Commerce Report, July 2014; EIU Risk Briefing; US Investment Climate Statement 2014; Transparency International, 2014; World Governance Indicators, 2014; Wall Street Journal, 2015)
Quality of local accounting industry	3	Mexico has mostly converged on 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, and it no longer allows for inflation-adjusted accounting. International auditors are present and competent. Businesses face heightened scrutiny by tax authorities under the new tax reform and evasion avoidance scheme, which includes requirements for electronic invoicing. (EIU Country Commerce, July 2014, July 2012; Deloitte-IAS PLUS 2015; Interviews, February–March 2015, January 2013)
Entrepreneurship	3	Perceptions of Mexico’s entrepreneurial climate are improving. According to the World Bank, Mexico ranks 67th in the ‘Starting a Business’ indicator, out of 175 countries. Time and number of procedures to start a business are below regional averages and cost of starting a business is low. Global Entrepreneurship Monitor estimates Mexico to have a new business ownership rate of 6.4%, slightly lower than the regional average. A number of new government-sponsored initiatives have injected US\$600m into startups and VC funds in the country. However, slowing growth rates and negative impacts from tax reforms are hindering small business growth. (World Bank Doing Business 2015; GEM Global Report 2014, Interviews, March 2015, January 2013; Inc. website (www.inc.com))

## Country Profile

# PANAMA

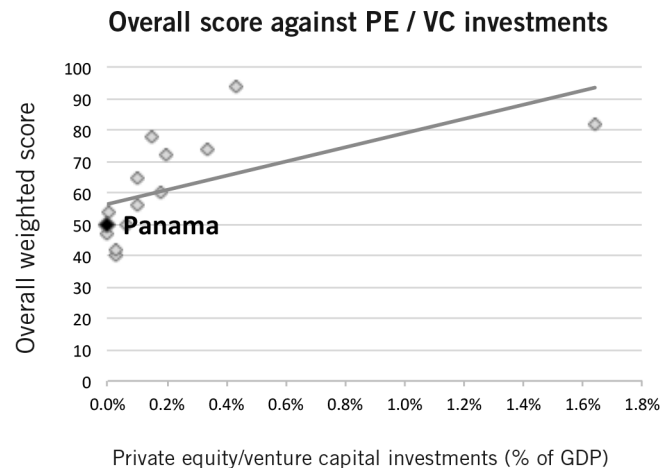
	2015	2013
<b>OVERALL SCORE:</b>	<b>50</b>	<b>49</b>
<b>REGIONAL RANKING:</b>	<b>7TH</b>	<b>8TH (TIED)</b>

Panama's economy is the fastest growing in the region, and foreign investment remains strong. Nevertheless, the country's PE/VC industry has yet to surpass the early stages of development and most funds in the country still operate through offshore vehicles. In terms of entrepreneurship, Panama was upgraded on this indicator in response to an increase in the rate of new business ownership and effective government efforts to decrease taxes and improve business registration processes.

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

**Challenges:** The country ranks below regional averages on several indicators including tax treatment, and minority shareholder rights, laws for fund formation, corporate governance, and quality of accounting standards.

	2013	2015	
<b>OVERALL SCORE</b>	<b>49</b>	<b>50</b>	<b>+1</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	2	2	0
3) Protection of minority shareholder rights	2	2	0
4) Restrictions on institutional investors investing in VC/PE	2	2	0
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	2	2	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	2	2	0
10) Strength of the judicial system	2	2	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	2	2	0
13) Entrepreneurship	1	2	+1



## Panama ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	PE/VC activity remains 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 funds operate through offshore vehicles even if administered by local offices of 'sociedades administradoras de fondos de inversion' (fund managers). Some international funds investing in Central and South America find Panama a useful regional base of operations for investing in a variety of countries, given its open, dollarized economy and status as a financial services center. (Interviews, April 2015, February 2013; latinlawyer.com, March 3, 2015)
Tax treatment of PE/VC funds & investments	2	The tax burden facing PE/VC investing in Panama is moderate. A 10% withholding tax applies to investors on share dividends from operations in Panama, 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 and on businesses operating within the free zones. If dividends are not declared, a retained earnings tax of 10% is due on 40% of net income. The rate is 20% for bearer shares. Most payments remitted abroad to beneficiaries not resident in Panama are subject to income tax withholding. Since 2011, corporate income tax has been assessed at a 25% rate. Companies with annual gross income exceeding US\$1.5m must pay the higher of the two amounts resulting from either the flat rate of 25% of net income or the alternative minimum tax of 4.67% on gross taxable income. No tax is imposed on capital gains from sales of shares registered with the National Securities Commission. Otherwise, the sale of securities is taxable at either 5% of the buyer's price or 10% of the seller's profit, whichever is lower. (Interviews April 2015, February 2013, EIU Country Commerce, November 2014)
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. 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. Sometimes investee firms incorporate under the laws of foreign jurisdictions. World Bank Doing Business 2015 rates minority investor protection as above the regional average. (EIU Country Commerce, November 2014, November 2012; Interviews, April 2015, February 2013)

## Panama ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on local institutional investors investing in PE/VC	2	Restrictions continue to impede institutional investing in Panama. 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 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, including 15% in foreign equities. There are no express provisions for investment in PE/VC funds, though a 10% catch-all category exists for "other types of instruments" that may be approved by the securities regulator. (Guide to Latin American Pensions Investment Context and Regulations--The Minor Markets, 2013; Interviews, April 2015, February 2013; EIU Country Finance, March 2012)
Protection of intellectual property rights	2	Losses resulting from software piracy continue to grow in Panama. According to the most recent study on global software piracy, losses were estimated at US\$120m in 2013, up from US\$74m in 2011. Over the past few years, Panama has strengthened its IPR legislation by passing FTAs with several European countries as well as one with the US, the latter of which adopts full US standards for patents, trade secrets, and IPR measures specific to the pharmaceutical industry. The rate of business-software piracy in Panama was estimated at 72% in 2013. Disputes around IPR have been very slow and prolonged. (EIU Country Commerce, November 2014; US Investment Climate Statement 2014; BSA Global Software Survey 2013)
Bankruptcy procedures/creditors' rights/partner liability	2	A mechanism exists for firms to be liquidated, usually piecemeal, through bankruptcy judges, but it does not allow for Chapter 11-style protected reorganizations. According to the World Bank's Doing Business 2015, Panama's framework for resolving insolvencies is rated at 33.66 out of a possible 100; liquidating a bankrupt business is quicker, but more costly process in Panama than in Latin America as a whole, yielding a lower recovery rate. The country rates zero on the reorganization proceedings index. Liability beyond capital share is generally not a concern in the absence of demonstrable malfeasance. (Interviews, April 2015, February 2013; latinlawyer.com, March 3, 2015)
Capital markets development and feasibility of exits	2	The Securities Market Superintendency (Superintendencia del Mercado de Valores -SMV) replaced the former National Securities Commission (Comisión Nacional de Valores-CNV) in September 2011 as the main regulator for capital markets. Even though the Panamanian Stock Exchange (Bolsa de Valores de Panama, BVP) is well managed, it is used predominantly as a market for debt securities and is relatively underdeveloped. The market for equities is small. International and local development banks still provide the majority of equity financing. IPOs are not seen as an exit option. Panama achieved investment grade status in 2010, a significant step forward for its capital markets. (Interviews, April 2015; January 2011; EIU Country Finance, February 2012; US Investment Climate Statement 2014)
Registration/reserve requirements on inward investments	3	Panama has no exchange controls, and repatriation of capital and transfer of profits and dividends is unrestricted. It does, however, have reporting requirements designed to prevent money-laundering and terrorist financing. There are no reserve requirements or restrictions on portfolio investment. (EIU Country Commerce, April 2015)
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 2/2011 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. As compared to the region as a whole, World Bank Doing Business 2015 scores Panama low on liability and governance structure; average on disclosure, director liability and conflict of interest regulation; and above average on shareholder suits, shareholder rights, corporate transparency, and shareholder governance. (EIU Country Commerce, November 2014, November 2012; Interviews, April 2015, February 2013; World Bank Doing Business 2015)
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. The authorities recognise the importance of foreign investment for the development of the country's service sector, and try to ensure even-handed treatment of foreign and domestic investors. 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. The new majority-led Partido Panameñista (PP) government has helped bolster judicial independence after the previous presidency eroded the system. The cost to enforce a contract in Panama is significantly higher than the regional average for Latin America. (Interviews, April 2015; EIU Risk Briefing; US Investment Climate Statement 2014; World Bank Doing Business Report, 2015)
Perceived corruption	1	President Varela drove his 2014 campaign based on a stand against corruption and has followed through with the removal of the head of the Supreme Court and other officials. However, the legal system and civil service still suffer from corruption. There have been instances of private sector contracts awarded without a bidding process and a lack of pre-auditing of several government department projects. Prosecution against corruption is rare, especially in high profile cases. Panama ranks poorly in the World Bank's and Transparency International's 2014 corruption measures – ranking 94th out of 175 countries in perceived transparency and in the 47th percentile for control of corruption. (Interviews, April 2015; EIU Country Commerce, November 2014; US Investment Climate Statement 2014, Transparency International, 2014; World Governance Indicators, 2014)
Quality of local accounting industry (international standards)	2	A gradual transition to IFRS for larger firms was completed, depending on firm size, by 2007, 2008, or 2009. IFRS are required for all listed firms. A separate set of IFRS for SMEs exists and is, in principle, mandatory. Yet there has been resistance to implementation of these standards and legal challenges continue to persist. SMEs, traditionally family-owned, continue to have uneven accounting standards. Large international accounting firms are present. (Deloitte IAS PLUS 2015; EIU Country Commerce, November 2014, November 2012; Interviews, April 2015, February 2013; KPMG, 2013)
Entrepreneurship	2	Government policy has made important efforts to improve the entrepreneurial climate. Government initiatives/departments such as the SME agency (AMPYME) and Ministry of Science, Technology, and Innovation (SENACYT) run several programs. Corporate taxes have decreased, and business registration processes have been improved, and Panama has seen a substantial increase in the rate of new business ownership as estimated by the Global Entrepreneurship Monitor from 2012 to 2014. These efforts account for an upgrade in the score. Panama ranks 38th in the world for 'Ease of starting a business', scoring above the regional average as well as the OECD high-income average. (Interviews, April 2015, January 2011; World Bank Doing Business Report 2015; GEM Global Report, 2014)

## Country Profile

# PERU

	2015	2013
<b>OVERALL SCORE:</b>	<b>49</b>	<b>51</b>
<b>REGIONAL RANKING:</b>	<b>8TH</b>	<b>8TH (TIED)</b>

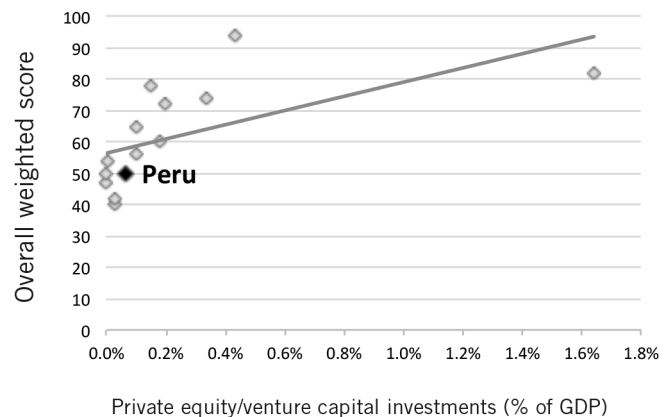
Peru's macroeconomic outlook is positive, but the overall PE/VC ecosystem continues to be comparatively undeveloped. High turnover in key ministries has created significant institutional challenges and a regulatory agenda focused on protection against political downside risk rather than on the optimization of the investment environment as evidenced by the increased complexity around fund formation and fundraising. This dynamic is reflected specifically in a downgrade on the indicator on restrictions on local institutional investors.

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

**Challenges:** Rules for raising capital from local pension funds are increasingly complex. Peru is still positioned at the bottom of the region in many key areas for the PE/VC industry, including tax treatment of PE/VC funds and the protection of minority shareholder rights.

	2013	2015	
<b>OVERALL SCORE</b>	<b>51</b>	<b>49</b>	<b>-2</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	1	1	0
3) Protection of minority shareholder rights	1	1	0
4) Restrictions on institutional investors investing in VC/PE	3	2	-1
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	2	2	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	1	1	0
11) Perceived corruption	1	1	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	2	2	0

Overall score against PE / VC investments


**Peru ScoreNotes**

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Closed-end funds called fondos de inversión continue to be the only legally established framework and are more suited to PE than VC. The main regulator is the securities superintendency, SMV, and the process of registration of funds and information reporting has tended to be burdensome. It is not necessary to be registered as a fund manager (sociedad administradora de fondos de inversión) in order to gain SMV approval to launch a fund such as a private offering. However, most local fund managers have registered private funds with the regulator (SBS) as public instruments under a simplified registration regime (régimen simplificado), which is applicable for funds seeking institutional capital in part in order to maintain their regulatory license to manage public funds. It is also possible to launch a fund through a public offering, where diversification requirements and maximum investment limits apply. Offshore funds find it relatively easy to operate. (Interviews, April 2015, February 2013; latinlawyer.com, May 13, 2014).
Tax treatment of PE/VC funds & investments	1	Although funds are pass-through for income tax purposes, in general the tax environment in Peru remains complex and burdensome, with the most recent changes introduced as of January 1 2015 under a December 31st 2014 tax reform passed by congress that has mixed impacts. The corporate rate was 30% for tax year 2014-15, but under the reform it decreased to 28% for tax year 2015-16 and will fall to 27% for tax year 2017-18 and to 26% from tax year 2009-10. Both local and foreign investors face a 5% capital gains tax on transfers of shares in Peruvian companies via the Lima Stock Exchange (LSE). The general capital gains rate for transfers outside the LSE is 30% for resident entities (whether shares are of Peruvian or foreign companies); 30% for shares in Peruvian companies in the case of non-resident legal entities and individuals; and 5% for resident individuals in the case of shares in Peruvian companies and 30% for their shares in foreign companies. A 4.1% withholding tax is levied on dividend distributions to resident individual shareholders and non-resident shareholders entities or individuals. Under the tax reform effective January 1st, 2015, withholding rates increased to 6.8% from tax year 2015-16, and will rise to 8.0% from tax year 2017-18 and 9.3% from tax year 2019-20. Transactions conducted via the financial system (included dividends) are subject to 0.005% financial transactions tax. The general value-added tax rate on goods and services, also assessed on management fees charged by PE/VC funds, is 18%. (EIU Country Commerce, July 2014; latinlawyer.com, May 13, 2014; Interviews, April 2015; Pricewaterhousecoopers, Tax insights, January 19th, 2015)

## Peru ScoreNotes

Aspects	Score	Notes
Protection of minority shareholder rights	1	Minority shareholders enjoy limited protection in Peru, including subscription rights, the right to participate and be informed of meetings, pre-emptive rights, and dissenter rights. 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, though the former's legal enforceability remains uneven. For closely-held corporations and regular corporations, company law provides that the shares of the dissenting shareholder are reimbursed only at net worth (or accounting) value, making it important to incorporate a more favorable valuation formula in bylaws. For public companies, the World Bank Doing Business scores Peru above the regional average on the strength of minority investor protection. (EIU Country Commerce, July 2014, June 2012; latinlawyer.com, May 13, 2014; Interviews, April 2014)
Restrictions on local institutional investors investing in PE/VC	2*	Despite efforts to loosen restrictions on pension funds' investments in PE/VC in recent years, new regulations are causing delays to issue authorizations and made it difficult for pension fund managers (AFPs) to invest in funds. Under the former limit of 3% of AUM in "variable income" instruments (a broad category including "alternative assets" such as VC/PE), Peru's then four pension fund administrators (AFPs)--five as of 2014 -- quickly exhausted their annual limits. From 2013, under the country's multifund structure with its three basic risk profile options, assets held by AFPs under "mixed funds" (type 2) are able to invest up to 15% of these funds in alternative assets and those held under "growth funds" (type 3) are able to invest up to 20%. There is no separate limit for alternative assets for the most conservative type of fund (type 1), which have a 10% limit on all variable income instruments. Alternative assets include both domestic and overseas investments. Regulations issued in September 2014, give AFPs greater potential freedom to invest in alternative assets funds in terms of currently existing pre-approval requirements by choosing either (a) to register a particular fund instrument and then request that the regulator (SBS) confirm such registration and authorize the investment until the AFP reaches 20% of its respective alternative asset quota or (b) to file for a generic authorization to invest in alternative funds, up to either 100% or 50% of quota. However, the SBS recently announced that it would not be issuing authorizations described in a). All the investments in PE/VC should be done under the general authorization, which managers believe will take all year to obtain preventing AFPs to commit any capital in 2015 to be invested in these assets. This has merited a score downgrade. Insurance firms face a limit of 10% of investments in all "other assets" (activos diversos) and are less active investors in PE/VC. (Interviews, April 2015; Superintendencia de Banca, Seguros y AFPs website; EIU LAVCA Survey, March 2015; OECD Survey of Investment Regulation of Pension Funds, 2014)
Protection of intellectual property rights	2	In recent years, Peru has improved its IPR protections, in many cases bringing them up to US and international standards. Laws remain robust and recognize patents, trademarks, copyrights, and industrial designs and models. Law 30018 (May 2013) promotes the use of patent information as a way of stimulating innovation and technology transfer. INDECOPI, Peru's IP regulatory body, is set to create an online patent database to increase transparency and public access. . Despite solid legislation, IPR are still violated due to under-policing. Problems with software piracy, counterfeit goods (pharmaceutical products primarily), and weak enforcement continue to keep Peru on the USTR's 2014 Watch List. (EIU Risk Briefing, EIU Country Commerce, July 2014; US Investment Climate Statement 2014; USTR Special 301 Report 2014)
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. The creditor hierarchy is similar to that of US bankruptcy law. Compared to regional averages, the World Bank's Doing Business 2015 scores Peru's insolvency framework at 46.57/100, with insolvency settlements taking slightly more time, costing much less, and awarding less to creditors. In general, shareholder liability is limited to capital share. (US Country Commercial Guide 2014; Interviews, April 2015)
Capital markets development and feasibility of exits	2	Peru's BVL market continues to integrate into the merged MILA exchange with Colombia, Chile and Mexico. The market capitalisation of the BVL was US\$120.7bn in December 2013, with 284 companies listed; a subset of MILA's market capitalisation of US\$562bn with 572 listed companies (October 2014).Interviewees indicate that IPO exits are possible (one or two per year), fairly inexpensive and also serve as a mechanism for private placement. The Peruvian government increased transparency by reforming the securities regulator, creating the Securities Market Superintendence (SMV). Larger private firms sometimes try to restrict outsider interest (both domestic and foreign) through "cross-shareholding" or "stable shareholder" arrangements. (EIU Financial Services Report, November 2014; US Investment Climate Statement, 2014; Bolsa de Valores de Lima; Interviews April 2015.).
Registration/reserve requirements on inward investments	3	Registration is voluntary, as capital need not be registered to be repatriated. There are no reserve requirements, minimum-stay requirements or other exchange controls. (EIU Country Commerce, July 2014; Country Commercial Guide 2014)
Corporate governance requirements	3	CONASEV (now SMV) set up a voluntary corporate governance code in 2002 under that open joint stock corporations (sociedades anónimas abiertas) could sign onto and submit annual reports on governance compliance. Though adherence has been good among privately held companies, transparency is sometimes problematic in the view of fund managers. Board composition and decision-making are only partially regulated and are often addressed through shareholder agreements, whose enforceability is still uneven. Closed stock corporations (sociedades anónimas cerradas) have fewer restrictions. Peruvian public companies face stronger than regional average corporate governance requirements by nearly all measures, according to World Bank's Doing Business 2015. (Interviews, April 2015, February 2013; EIU Country Commerce, July 2014)
Strength of the judicial system	1	Domestic courts are easily swayed by political influence, causing the judiciary to be the least trusted of all public institutions. Although some progress has been made in transparency, poor training and low pay have engendered a culture of bribery. Despite improved efficiencies achieved in Lima's commercial courts, foreign companies have often found contracts difficult to enforce. In 2015, Peru ranked 100th out of 189 countries in terms of enforcing contracts, with costs of claim being higher than regional averages. Peru has signed several bilateral agreements, which offer foreigners alternative dispute settlement procedures that are intensively used to avoid involvement in judicial processes. Arbitration is often the preferred method of dispute settlement for private investors. (EIU Risk Briefing; US Investment Climate Statement 2014; World Bank Doing Business Report 2015; Interviews, April 2015, January 2012)
Perceived corruption	1	While anti-corruption efforts have been implemented, enforcement is weak and investigations, if any, are conducted against former officials rather than current. Foreign firms regularly complain about corruption related to public procurement and the judicial system. Persistent corruption in public projects has undermined some of President Humala's support. In both the World Bank's and Transparency International's corruption measures, Peru ranks similarly to the regional average: 85th out of 175 countries in perceived transparency and in the 42nd percentile for control of corruption. Lower levels of government continue to be plagued by corruption due to radical local leaders and lack of accountability. (EIU Country Report, March 2015; US Investment Climate Statement 2014; Transparency International, 2014; World Governance Indicators, 2014).
Quality of local accounting industry (international standards)	4	A transition to IFRS for firms was completed in stages based on firm size, with all firms with more than 3,000 unidades impositivas tributarios (UIT, equivalent to about 11,550,00 soles, as of January 1, 2015) required to adopt them as of 2015. International standards are widely in use among firms of all sizes according to fund managers. International firms are present in Peru. (Deloitte/IAS PLUS 2015; Interviews, April 2015; Gestión, January 27, 2014; mef.gov.pe).
Entrepreneurship	2	World Bank Doing Business ranks Peru fifth-best in the region for starting a business, with costs and time low by regional standards. New business ownership is estimated at 7.3% by the Global Entrepreneurship Monitor, above the regional average of 6.7% and an improvement since 2012. Peru has the fewest requirements and takes the least amount of time to register property in the region. Several government-backed initiatives have been created over the years including two innovation funds, Start-Up Peru and FIDECOM, as well as a science and technology program (FINCyT). (World Bank Doing Business Report 2015; GEM Global Report, 2014; Centre for International Private Enterprise; Interviews April 2015, February 2013; PulsoSocial, February 2014 (www.pulsosocial.com).

\*This assessment includes a significant development that took place in the first semester of 2015.



## Country Profile

# URUGUAY

	2015	2013
<b>OVERALL SCORE:</b>	<b>54</b>	<b>57</b>
<b>REGIONAL RANKING:</b>	<b>6TH</b>	<b>5TH (TIED)</b>

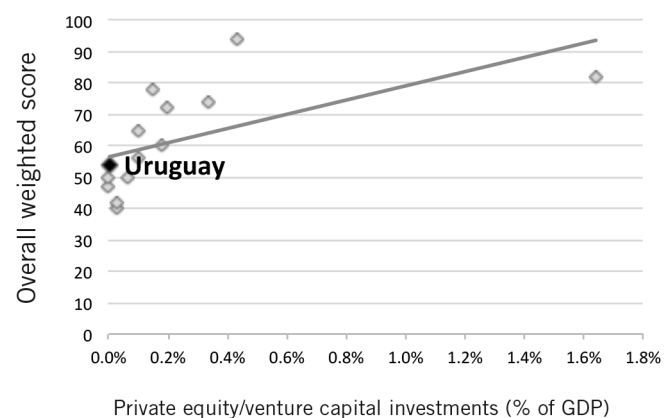
Uruguay's lack of a legal framework for PE/VC funds and restrictions on local institutional investors hinder the development of domestic PE/VC funds. Following recent judicial proceedings that have generated distrust between private investors and policy makers, the country was downgraded on the strength of its judicial system. Uruguay also saw a downgrade on registration requirements on inward investments as reserve requirements were tightened.

**Strengths:** Uruguay's strengths remain its favorable tax treatment, bankruptcy procedures, and level of perceived corruption.

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

	2013	2015	
<b>OVERALL SCORE</b>	<b>57</b>	<b>54</b>	<b>-3</b>
1) Laws on VC/PE fund formation and operation	2	2	0
2) Tax treatment of VC/PE funds & investments	3	3	0
3) Protection of minority shareholder rights	2	2	0
4) Restrictions on institutional investors investing in VC/PE	2	2	0
5) Protection of intellectual property rights	2	2	0
6) Bankruptcy procedures/creditors' rights/partner liability	3	3	0
7) Capital markets development and feasibility of exits	1	1	0
8) Registration/reserve requirements on inward investments	3	2	-1
9) Corporate governance requirements	2	2	0
10) Strength of the judicial system	3	2	-1
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	3	3	0
13) Entrepreneurship	2	2	0

Overall score against PE / VC investments



### Uruguay ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	A trust (fideicomiso) legal figure exists and can be adapted for PE/VC funds. Yet trusts can be cumbersome, as they prevent a general partner from also being an investor, and tend to be unattractive for foreign investors. Offshore vehicles can be set up by Uruguayan-domiciled funds or by offshore funds seeking co-investment by Uruguayan investors, and are generally more common. Most PE investment in Uruguayan firms comes in the form of international funds, often with a regional focus, while VC investment is the focus of networks of angel investors, some domestic VC funds, and some government co-investment (Interviews, April 2015, January 2013; latinlawyer.com, May 13, 2014)
Tax treatment of PE/VC funds & investments	3	The tax environment has remained stable and moderately favorable for PE/VC investing. As of April 2015, the corporate income tax (impuesto a la renta de la actividad empresarial or IRAE) was 25%. Uruguayan companies paying interest to non-residents must withhold the non-resident income tax (IRNR) at a 12% rate, though deductions may apply and there are credits for taxes paid abroad. Local corporations, branches of foreign companies and non-resident companies that pay the non-residents' income tax also pay a net worth tax (impuesto al patrimonio) on assets held in country, at a rate of 1.5% for corporations and 2.8% for financial institutions. Capital gains, including from mergers, are taxed as normal corporate income at inflation-adjusted rates (capital gains are also subject to personal income tax). Dividends paid to resident individual shareholders and non-resident shareholders, both individual and corporate, coming from countries with no double taxation convention with Uruguay, are subject to 7% withholding tax, while those received by resident corporations are exempt. (Interviews April 2015, January 2013; EIU Country Commerce, March 2014; latinlawyer.com, May 13, 2014)
Protection of minority shareholder rights	2	Minority rights remain moderately well-protected in the view of fund managers and international ratings. Disclosure requirements and corporate transparency are still weaker than ideal. Closed corporations (SAs) need not publish their balances unless they invoice 100,000 re-adjustable units, fixed by the state-owned Uruguayan Mortgage Bank, or have total assets exceeding 30,000 inflation-adjusted units (UI; 1 UI was equivalent to Ps3.0505 as of April 20, 2014). Closed SAs need not be internally audited. Limited liability companies (sociedades de responsabilidad limitada) must disclose annual balance sheets and profit and loss statements to partners. Under a 2012 information reporting regime, corporations and trusts whose equity is represented in bearer shares or certificates must now declare all equity holders to the Central Bank of Uruguay or face severe monetary sanctions both to the entity and the equity holder. This reporting requirement has spurred the increased use of corporations with registered shares in lieu of bearer shares. Shareholder agreements are a common and generally effective strategy for PE/VC investments. World Bank Doing Business 2015 rates minority investor protections slightly above the regional average but well below the OECD average. (EIU Country Commerce, March 2014, April 2012; Interviews April 2015, January 2013; Institucional Nacional de Estadística, April 12, 2015)

## Uruguay ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on local institutional investors investing in PE/VC	2	Pension funds only invest in equity issued by locally domiciled companies, trusts such as those for public-private infrastructure partnerships, or publicly-traded investment funds. Conservative risk profiles act as regulatory barriers to invest in PE/VC funds, although doing so is not expressly forbidden. There are seven pension fund administrators (AFPs). Private insurance companies mobilize fewer assets, are subject to similar restrictions, and are absent from PE/VC investing. The government's National Research and Innovation Institute (ANII) currently provides resources to underwrite the costs of fund administrators in early-stage capital, which currently takes the form of support for two funds and one club of angel investors. (Interviews March 2015, January 2013; Superintendencia de Pensions website; Agencias Nacional de Investigación e Innovación, website)
Protection of intellectual property rights	2	Uruguay has tough penalties for intellectual property infringement, but enforcement is weak, especially within the software industry. Uruguay was taken off USTR's Watch List in 2006 and has further 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. Fund managers suggest registering patents abroad, either directly or in addition to local registration, to ensure protection. After several years of debate, a bill that gives preference to open-source software licences for public procurement was finally approved in December 2013. Overall, intellectual property protection is improving. (Interviews, April 2015, EIU Risk Briefing; EIU Country Commerce, March 2014; US Investment Climate Statement 2014)
Bankruptcy procedures/creditors' rights/partner liability	3	The 2008 Bankruptcy and Business Reorganisation Act (BBRA) (slightly modified in 2009 and 2012) improves creditors' alternatives for action against a defaulting debtor, and provides for more expeditious collection proceedings and for expedited creditor payments ordered by trustees if approved by judges. Some successful restructurings or liquidations have occurred under the law, though authorities have sought to avoid misuse of protected reorganizations for tax sheltering or evasion and the statute has not been broadly tested. The World Bank's Doing Business 2015 rates the strength of the insolvency framework at 53.47/100; bankruptcy resolution 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 bankruptcy, though under tightened tax regulations directors may be declared personally liable for certain unpaid taxes. (EIU Country Commerce, March 2014; Interviews April 2015, January 2013; latinlawyer.com, May 13, 2014)
Capital markets development and feasibility of exits	1	Capital markets in Uruguay remain underdeveloped with poor liquidity and an extreme scarcity of start-up capital. The economy relies heavily on bank funding, though institutional investors are gaining space through the issue of bonds and trust interests. A second domestic infrastructure PPP was underway as of February 2014, expected to encourage domestic bond issuances and spur capital market development in the short to medium term. The Montevideo exchange comprises only a few firms and little trading, most of which is focused on sovereign bonds and public securities. As of January 2015, the primary market had a market capitalisation of US\$663m. While there are eight investment firms in Uruguay, most are inactive. 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, March 2014; US Investment Climate Statement 2014; Bolsa de Valores de Montevideo; Interviews April 2015, January 2013)
Registration/reserve requirements on inward investments	2	Reserve requirements were tightened in mid-2013. In July 2013 the Banco Central del Uruguay increased the reserve requirement on foreign purchases of Central Bank notes from 40% to 50%, to discourage investment in short-term debt. All foreign-exchange transactions must be made through the banking system or through currency-exchange houses authorised by the Central Bank. Legal remittances must be registered with the Central Bank for statistical purposes. (EIU Country Commerce, March 2014; Interviews April 2015, January 2013)
Corporate governance requirements	2	There are weak transparency standards for finances and decision-making, particularly for closed SAs and limited liability companies (SRLs). Open SAs must publish annual general balance sheets and profit-and-loss statements, including allocation of earnings. 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. According to World Bank Doing Business 2015, disclosure, director liability, shareholder rights, and corporate transparency are rated weaker; conflict of interest regulation average; and ease of shareholder suits, governance structures, and shareholder governance stronger, compared to regional averages. Funds deal with limitations effectively through shareholder agreements and in some cases by encouraging investee companies to incorporate under foreign jurisdictions. (EIU Country Commerce, March 2014, April 2012; Interviews April 2015, January 2013; World Bank Doing Business 2015)
Strength of the judicial system	2	Uruguay's judiciary is independent, but the trial process is slow and decisions can be opaque. Political influence in the judiciary has become more acute with the imprisonment without charges of the investors of a private equity fund that had a stake in a formerly state-owned airline. This has merited a score downgrade. 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. Uruguay made enforcing contracts more efficient by simplifying and speeding up proceedings for commercial disputes in 2014. 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. The parties' ability to appeal or to seek the nullification of arbitration awards adopted in Uruguay is still a challenge (EIU Risk Briefing; Interviews April 2015, January 2013; US Investment Climate Statement 2014; World Bank Doing Business Report, 2015; New York Times, "An Airline Investment in Uruguay Becomes a Catch-22" May 2015)
Perceived corruption	3	Uruguay has strong laws in place to prevent bribery and corruption. Although corruption among public officials is limited, civil servant appointment and career structure is a generally opaque process. However, this is not seen as an obstacle to investment. The country ranks well in two different corruption measures from the World Bank and Transparency International, ranking 21st in the world for perceived transparency and in the 89th percentile for control of corruption. (EIU Risk Briefing, US Investment Climate Statement 2014; Transparency International, 2014; World Governance Indicators, 2014; Interviews, April 2015)
Quality of local accounting industry (international standards)	3	By law, all Uruguayan companies, public and private, must follow IFRS as at July 31, 2007, thus not reflecting subsequent updates to IFRS. There are also a few additional local standards that 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, April 2015, January 2013; Deloitte IAS PLUS 2015)
Entrepreneurship	2	The country is encouraging entrepreneurship, and in recent years, new processes facilitating new business incorporation have been approved, such as the "do it yourself" proposition. World Bank Doing Business ranks Uruguay 60th out of 189 countries on ease of starting a business, requiring lower procedures, time, and costs than the regional averages, though costs of starting a business remain above OECD averages. The Global Entrepreneurship Monitor estimates new business ownership at 5.7%, below the regional average, though the business discontinuation rate is also relatively low. The National Agency for Research and Innovation (ANII) has reportedly played an increasing role in supporting early-stage companies and young entrepreneurs. In 2014, ANII supported the creation of 'Sinergia Cowork', an incubation program that provides US\$25,000 of seed capital towards selected companies. The government is providing increasing support in continuing to build a national innovation program. (Interviews, January 2013; April 2015; World Bank Doing Business 2015, GEM Global Report 2015)

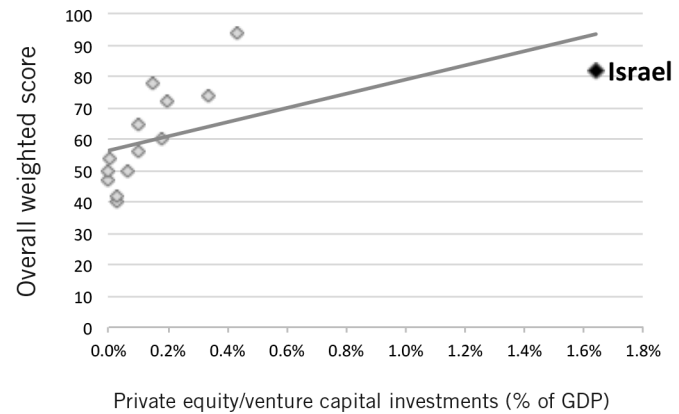


## Country Profile

# ISRAEL

	2013	2015	
<b>OVERALL SCORE</b>	<b>81</b>	<b>82</b>	<b>+1</b>
1) Laws on VC/PE fund formation and operation	4	4	0
2) Tax treatment of VC/PE funds & investments	2	2	0
3) Protection of minority shareholder rights	4	4	0
4) Restrictions on institutional investors investing in VC/PE	4	4	0
5) Protection of intellectual property rights	2	3	+1
6) Bankruptcy procedures/creditors' rights/partner liability	2	2	0
7) Capital markets development and feasibility of exits	3	3	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	4	4	0
10) Strength of the judicial system	3	3	0
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	3	3	0

Overall score against PE / VC investments



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

## 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. VC fundraising levels reported by the Israeli Venture Capital Research Center have experienced an erratic if generally upwards path following the depths of the global recession; fundraising levels were down from US\$780m in 2012 to \$540m in 2013, but then rebounded in 2014 to US\$910m, the highest annual figure since 2008. Average fund size in 2014 reached \$76m, reflecting the raising of more medium sized funds and fewer micro VC funds than in 2012-13. (IVC Research Center/KPMG, January 14, 2015; EIU Financial Service Report, August 2014)
Tax treatment of PE/VC funds & investments	2	The tax burden is fairly heavy in Israel. In December 2011 a tax reform passed by the Knesset instituted a series of increases, taking effect in fiscal years 2012-14. Corporate tax stood at 26.5% in 2014, having risen from 24% in 2011 and 25% in 2012-13. Rates of capital gains taxes (inflation adjusted) were raised to 25-30%. Corporate taxation applies to both the total undistributed profit and the dividends when distributed, though double-tax treaties may affect this for foreign shareholders. Since January 2012 withholding on dividend income is generally assessed at 25%. An Israeli company that receives dividends from another Israeli company is exempt from tax on dividends if the paying company has already paid income tax. A 20% tax applies on dividends received from a company that has approved-enterprise status, as awarded under the Approved Enterprise System. An Israeli company paying a dividend to foreign shareholders (whether a company or individual) must deduct 25% withholding tax (30% for "significant investors" with more than a 10% stake). Since January 2009, foreign investors are exempt from tax on all equity investments (listed or not) made from that date, except in real estate and real estate investment trust. In 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 2014)
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. World Bank Doing Business 2015 scores Israel's strength of minority investor protection in public firms above the OECD average. (EIU Country Commerce, July 2014)
Restrictions on local institutional investors investing in PE/VC	4	Institutional investors play a significant and unrestricted role in PE/VC fundraising. Since 2002, all restrictions have been lifted for insurance companies, subject only to prudential oversight. Insurers continue to play the central role in the management of financial assets in Israel, representing around 7% of financial assets held by the public as of end-2013. There are no specific limits on investment categories. Pension funds enjoy a similar freedom to invest in alternative assets such as PE/VC funds, with no defined limits on the share of assets they may invest in such assets; they have played an important role in infrastructure funds in particular. (OECD Survey of Investment Regulation of Pension Funds, 2014; EIU Financial Services Report, August 2014, August 2012)
Protection of intellectual property rights	3	In January 2014, Israel satisfied its remaining commitments from a 2010 memorandum of understanding with the US concerning patent legislation. The passing of the legislation along with an improved patent system allowed for Israel to be removed from the USTR Watch list in 2014, which has led to an upgrade in the score. 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. Piracy continues to be problematic for Israel, although its estimated piracy rate has decreased over the years to 30% owing to pressure from the US on protection of IP rights. (EIU Country Commerce, August 2014; USTR Special 301 Report 2014)

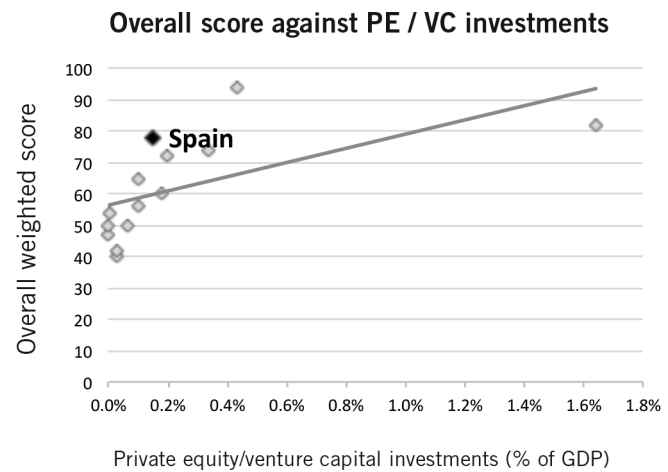
## Israel ScoreNotes

Aspects	Score (4-0)	Notes
Bankruptcy procedures/creditors' rights/partner liability	2	The overall insolvency framework is scored 75.21/100, ranking Israel 24th in the world. Settling a bankruptcy continues to be a lengthy and costly process as measured against OECD standards, with claimants averaging a lower recovery rate. It usually results in restructuring of the distressed firm as a going concern. The Companies Act provides general guarantees of limited liability similar to most Western countries, though courts may lift the corporate veil 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, July 2014)
Capital markets development and feasibility of exits (ie, local IPOs)	3	The Tel Aviv Stock Exchange (TASE) is Israel's only securities exchange. In 2014, the TASE had a market capitalisation of US\$200.6bn and listed 473 companies, both a loss from 2013 figures. IPO activity remains far below levels preceding the 2008-09 global financial crisis; however, the level increased from four IPOs in 2013 to five IPOs in 2014. The TASE is keen to encourage local firms to list domestically, but many still prefer the US NASDAQ (especially technology companies) or London (especially property firms) as they believe they will be better able to attract foreign investment on these well-established exchanges. (EIU Financial Services Report, August 2014; EIU Country Finance, June 2011; TASE website, BlueStar Indexes, 2014)
Registration/reserve requirements on inward investments	3	There is registration of foreign-currency transactions by individuals and financial intermediaries for monitoring and money laundering prevention purposes by the Bank of Israel. There are no reserve requirements or other exchange controls. (EIU Country Commerce, August 2014)
Corporate governance requirements	4	The financial services regulator formulates corporate governance regulations for public companies, which 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. Since March 2011 regulations, audit committees are more independent and the power of independent and minority directors are strengthened. Israel continues to score above OECD averages on most governance indicators for public companies according to World Bank Doing Business 2015. There are fewer formal requirements for privately held companies in areas such as disclosure and voting rights. Election of board members usually requires a simple majority of voters in attendance. (EIU Country Commerce, July 2014)
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. While the judicial system is strong against political influence, businesses complain about the length of time to obtain adjudications. 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 2014; US Investment Climate Statement 2014; World Bank Doing Business Report 2015)
Perceived corruption	3	Despite several high-profile political corruption scandals, overall corruption is not a major issue. According to Transparency International, Israel ranks 37th out of 175 countries in perceived corruption, a minor decrease from its 2013 rank of 36th out of 177 countries. In a similar vein, the World Governance Indicators rank Israel in the 78th percentile, slightly below the High-income OECD average. The end of 2014 marked one of the most important anti-corruption operations in Israel's history, with the arrest of more than two dozen members of the majority party, Yisrael Beitenu. Israel signed the OECD Bribery convention in 2008 and has criminalized bribery. (EIU Country Commerce, August 2014; EIU Risk Briefing, 2015; Transparency International, 2014; World Governance Indicators, 2014; Al Jazeera News, 2014)
Quality of local accounting industry (international standards)	4	IFRS continue to be required for both listed and private firms. The largest international accounting firms maintain offices in Israel and are widely used. (Deloitte IASPLUS 2015; EIU Country Commerce, July 2014)
Entrepreneurship	3	The Global Entrepreneurship Monitor estimates new business ownership rate at 4.8%, up from 3% in 2012, though the rate of business discontinuation also rose slightly. In 2012, the SME department of the Ministry of Industry, Trade, and Labour, introduced the Small and Medium Business fund to provide funding for SMEs and exporters. Additionally, the country is a hub for technology and biotech companies, offering and estimated 19 incubator programs at the end of 2013. According to the World Bank, Israel's time required to start a business is relatively high when compared to its OECD regional partners. Overall, Israel ranks 53rd in the world for ease of starting a business. (EIU Country Commerce, August 2014; World Bank Doing Business 2015; GEM National Report for Israel, 2013)

## Country Profile

# SPAIN

	2013	2015	
<b>OVERALL SCORE</b>	<b>76</b>	<b>78</b>	<b>+2</b>
1) Laws on VC/PE fund formation and operation	3	4	+1
2) Tax treatment of VC/PE funds & investments	4	4	0
3) Protection of minority shareholder rights	3	3	0
4) Restrictions on institutional investors investing in VC/PE	3	3	0
5) Protection of intellectual property rights	3	3	0
6) Bankruptcy procedures/creditors' rights/partner liability	3	3	0
7) Capital markets development and feasibility of exits	3	3	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	3	3	0
10) Strength of the judicial system	2	2	0
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	2	2	0



## Spain ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	The regulatory framework has been overhauled and made compliant with EU-wide regulation in a way that should strengthen the PE/VC industry's recovery from Spain's financial crisis, and merits a score upgrade. In November 2014 the Spanish Parliament enacted Law 22/2014, regulating VC and PE entities, other closed-ended investment entities and investment managers for closed-ended investment entities, and harmonizing regulations with Directive 2011/61/EU on alternative investments fund managers (AIFMD). VC/PE entities may now either be incorporated as companies (sociedades de capital riesgo) or funds (fondos de capital riesgo). The incorporation process has been simplified and no longer requires prior authorization of the securities regulator. It has put an end to limits on investments in "funds of funds" (20% of net AUM) and provides for the allowance of formerly prohibited in-kind contributions upon incorporation with respect to VC/PE funds (though not for VC/PE companies). In addition, the loosening of restrictions has allowed for new fiduciary regimes for fund managers, a relaxation of investment restriction ratios for funds and companies under certain conditions, and the creation of a new category of SME VC/PE entity (entidades de capital riesgo-Pyme) for early-stage investing. The AIFMD, effective in EU member states July 22 2013, introduces a harmonized regulatory framework covering areas like capital requirements, disclosure and marketing, compliance, remuneration and the use of depositaries or custodians. The AIFMD enables fund managers to manage and market their funds through a single market passport. The European Venture Capital Regulation (implemented on July 22, 2013) is available, on a voluntary basis, to managers below the AIFMD threshold. It provides a lighter-touch regulatory regime that includes marketing passport benefit under designation of "European Venture Capital Fund" (EuVECA). PE/VC activity has not recovered from the depths of the Spanish financial crisis. Fund-raising was down in 2013 (from €582 to €543m) from 2012 (for comparison, fund-raising was €2,357 in 2011) based on the most recent comprehensive annual figures available from the Spanish Venture Capital Association (ASCRI), as of April 2015. (ASCRI Yearbook 2014; British Venture Capital Association website; Latham & Watkins, November 24, 2014)
Tax treatment of PE/VC funds & investments	4	Spain maintains a favorable tax environment with some rate decreases on relevant taxes. Capital gains from sales of portfolio companies between the second and 15th year of the investment are 99% tax-exempt for up to three years from listing (extendable for up to 20 years with prior authorization), provided the PE/VC funds are listed with the securities regulator (CNMV). Dividends and capital gains realized by Spanish corporate investors and non-resident investors in the VC/PE entity are exempt. Legislation takes a neutral stance on corporate combinations by excluding from the tax base capital gains and losses that result from mergers and takeovers, while taking as taxable the value of the acquiring company before takeover. Dividend payments to EU residents are exempt if the foreign parent has held at least 5% of the share capital of a Spanish company continuously for one year. Funds are not taxed on dividend distribution 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 the 20% withholding tax applies, 100% deduction for double taxation of dividends for companies and shareholders, and exemption from VAT for fund managers from value-added tax. The basic corporate tax rate (which applies to the global profits of resident corporations) was cut under a November 2014 tax reform to 28% as of January 1, 2015 (formerly 30%), and will fall to 25% from January 1, 2016. Lower rates apply to SMEs of various sizes from January 1st, 2015 for the first €300,000 of taxable income (20-25%), and a "super-reduced" corporate rate for small start-ups instituted in September 2013 was maintained for 2015 and 2016 (15% on the first €300,000 of taxable income and 20% above this threshold for the first two taxable years of operation). (EIU Country Commerce, February 2015)
Protection of minority shareholder rights	3	Minority rights have continued to improve in recent years based on international rankings. 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 sociedad anonima (corporation or SA) or in a sociedad de responsabilidad limitada (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 (sociedad comanditaria por acciones) for the SRL-issued shares. In SAs, any shareholder may challenge a decision in court within 40 days, but the court may issue a restraining injunction only if plaintiffs represent at least 20% of capital. World Bank Doing Business 2015 rates the strength of minority investor protection at the OECD average. (EIU Country Commerce, February 2015, World Bank Doing Business 2015)

## Spain ScoreNotes

Aspects	Score (4-0)	Notes
Restrictions on institutional investors investing in PE/VC funds	3	Pension funds may invest up to 30% of AUM in private investment funds (3% in individual funds). They may not invest in funds of funds, except where these are operated by Spanish private investment funds. They may also invest 3% of AUM on the Alternative Stock Exchange Market. The number of pension funds has more than doubled in the past two decades-plus, though they are still under-represented in the financial system compared with some other EU countries. Shares in VC funds' assets are available for investment by insurance companies and pension funds. 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. (EIU Financial Services Report, September 2014; OECD, Annual Survey of Investment Regulation of Pension Funds, 2014)
Protection of intellectual property rights	3	Intellectual property falls under EU jurisdiction in Spain. Spain has ratified all the main international conventions that allow non-Spanish nationals to protect their local rights and encourages exchange agreements between Spanish and multinational companies. Patents, industrial designs, trademarks and copyrights are all recognized in Spain. Despite strong enforcement practices, internet piracy continues to permeate music, movies, and entertainment software industries in Spain, one of the worst perpetrators in the world. In November 2014 the government passed a new Intellectual Property Law further aligning Spanish legislation with EU norms. A requirement from this regulation that has online news-aggregation services pay a fee for using borrowed content, forced Google to shut down its Google News service in Spain in December 2014. (EIU Country Commerce, February 2015; US Investment Climate Statement 2014)
Bankruptcy procedures/creditors' rights/partner liability	3	Spain's bankruptcy system is considered fair and transparent. A 2004 law increases penalties for firms that do not undertake a reorganization negotiation (concurso voluntario) 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 (sociedad anonima), 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 2015 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 2015; U.S. Country Commercial Guide, 2011; Interview, February 2008; World Bank Doing Business 2015)
Capital markets development and feasibility of exits	3	Reforms implemented by the government, namely the restructuring of financial institutions, seem to have set Spanish capital markets in the right direction since 2013, The Spanish Bourses and Markets (Bolsas y Mercados Españoles 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, the number of IPOs decreased from two IPOs in 2012 to only one IPO in 2013. (EIU Country Finance December 2011; EIU Financial Services Report, September 2014, EVCA website: <a href="http://www.evca.eu">www.evca.eu</a> ; World Federation of Exchanges: <a href="http://www.world-exchanges.org">www.world-exchanges.org</a> )
Registration/reserve requirements on inward investments	3	Spain does not restrict foreign-currency operations. The government does require notification of certain capital movements for statistical purposes and to prevent money-laundering and tax fraud. (EIU, Country Commerce, February 2015)
Corporate governance requirements	3	Spain does not restrict foreign-currency operations. The government does require notification of certain capital movements for statistical purposes and to prevent money-laundering and tax fraud. (EIU, Country Commerce, February 2015)
Strength of the judicial system	2	The Spanish judicial system is largely open and transparent but can be sometimes sluggish. Politicisation continues to hamper the efficiency and authority of the judicial system in Spain. Disputes over authority between the governing body of the judicial system and the Constitutional Court slow the proper functioning of the country's judicial institutions and hinder public confidence. Bankruptcy procedures are considered fair-In March 2014, a reform of the bankruptcy law was passed to promote economic recovery in Spain and to avoid the bankruptcy of viable companies. The judicial branch is independent of the executive branch, and judges are in charge of both prosecution and criminal investigation. 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 2015; US Investment Climate Statement 2014)
Perceived corruption	3	Spain has a wide variety of corruption laws, penalties, and regulations that are generally enforced on a uniform basis, with no apparent bias against foreign investors. Despite the passage of a transparency law in December 2013 aimed at reducing corruption among public officials, PM Rajoy's Popular Party continues to face corruption allegations involving senior party figures. Spain scores relatively well in the World Bank's and Transparency International's 2014 corruption measures, ranking 37th out of 175 countries and in the 75th percentile for control of corruption. (EIU Country Commerce, February 2015; US Investment Climate Statement 2014; Transparency International, 2014; World Governance Indicators, 2014)
Quality of local accounting industry (international standards)	4	IFRS, as applied in the European Union, has been legally mandated for listed companies since 2005. As of 2007, unlisted companies may use IFRS in consolidated statements but may not use them in separate statements. International auditors have a strong presence. (Deloitte/IAS PLUS 2015; EIU Country Finance, September 2011)
Entrepreneurship	2	In 2015, the World Bank ranked Spain 74th out of 189 countries in 'Ease of starting a business', an improvement from its 2014 rank of 115th. However, Spain falls behind OECD averages in terms of time, cost, and number of procedures. The country continues to introduce reforms to encourage SMEs, such as reductions in taxes on profits. In 2015 the government is continuing with a sustainable-growth model based on R&D, innovation, new technologies and high-value-added sectors as a means to promote investment in Spain. The Global Entrepreneurship Monitor estimates that Spain has a low rate of new business ownership (2.2%). (EIU Country Commerce, February 2015; World Bank Doing Business Report, 2015; GEM Global Report 2014)

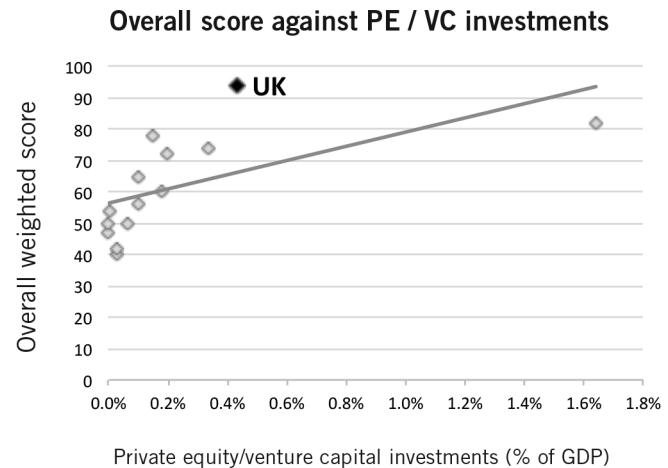
## Country Profile

## UK

	2013	2015	
<b>OVERALL SCORE</b>	<b>96</b>	<b>94</b>	<b>-2</b>
1) Laws on VC/PE fund formation and operation	4	4	0
2) Tax treatment of VC/PE funds & investments	4	4	0
3) Protection of minority shareholder rights	4	4	0
4) Restrictions on institutional investors investing in VC/PE	4	4	0
5) Protection of intellectual property rights	4	4	0
6) Bankruptcy procedures/creditors' rights/partner liability	3	3	0
7) Capital markets development and feasibility of exits	4	4	0
8) Registration/reserve requirements on inward investments	3	3	0
9) Corporate governance requirements	4	4	0
10) Strength of the judicial system	4	4	0
11) Perceived corruption	3	3	0
12) Quality of local accounting/use of international standards	4	4	0
13) Entrepreneurship	4	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)



## 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. Clear laws facilitate the formation of PE/VC funds, which are not distinguished from each other for regulatory purposes. 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. All PE/VC firms in the UK are regulated by the Financial Conduct Authority-FCA (formerly the Financial Services Authority), and comply with Remuneration Codes and standards on remuneration disclosure. Data from the European Venture Capital Association showed that after a dip in relative position during the 2009-11 period, by 2013 the UK regained and reinforced its status as the central regional hub for fund management. It accounted for 64.2% of total PE fundraising (including VC) in Europe in 2013 (in terms of the domicile of fund managers) even though the country's relative position as the source of funds raised declined somewhat. The Alternative Investment Fund Managers Directive (AIFMD), effective in EU member states July 22 2013, introduces a harmonized regulatory framework covering areas like capital requirements, disclosure and marketing, compliance, remuneration and the use of depositaries or custodians. (National Association of Pension Funds/BVCA, "Private Equity Made Simple," October 2104; BVCA website; Financial Conduct Authority website)
Tax treatment of PE/VC funds & investments	4	Incentives are generous, and tax rates are low and have fallen recently. Under the Enterprise Investment Scheme (EIS) directed at SME investments and applicable to funds that invest exclusively in them, private individuals obtain tax relief of up to 30% on investments in unquoted companies if held for at least three years and can offset losses against income tax if there are no capital gains. Shareholders in venture capital trusts enjoy 30% tax relief in subscriptions to new fund raisings, tax-free dividends, and pay no capital gains. Corporate taxes are on a progressive scale, with the highest rate at 20% from April 1, 2015; down from 21% for fiscal year 2014/15 and 23% in the previous year. Companies with taxable profits of less than £1.5m pay lower rates. 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. The UK has no corporate withholding tax on dividends, while interest is taxed as normal income. A dividend paid by a UK company to a resident individual carries a tax credit, whose amount varies by tax bracket. Under limited circumstances, non-resident taxpayers, including the foreign parents of UK subsidiaries, might be able to claim a tax credit refund, in whole or part, under the terms of double-tax agreements. UK resident individual portfolio shareholders in foreign companies are also eligible for a tax credit. (EIU Country Commerce, October 2014, October 2012; Enterprise Investment Scheme Association website; Hargreaves Lansdown website)
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 strengthen minority rights provisions in shareholder agreements (which are readily enforceable) including dispute settlement provisions involving commercial arbitration. World Bank Doing Business 2015 rates the strength of minority investor protection considerably above the OECD average. (EIU Country Commerce, October 2014, October 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 and remain within solvency requirements. The Prudential Regulation Authority of the Bank of England is currently preparing the insurance industry for gradual implementation of the EU Solvency II Directive, which alters capital and governance requirements, and including own risk and solvency assessments, and regulatory reporting. The same basic freedom to invest responsibly within risk-based guidelines for capital and solvency is granted to pension funds set up since 1995. In 2013, the most recent year for which the British Private Equity and Venture Capital Association (BVCA) reports comprehensive data, the total funds raised in the UK from insurers and pensions funds, respectively, declined compared to 2011-12 levels, though investment in UK-based funds by overseas insurers and pension funds increased substantially and surpassed domestic levels. Greenwich Associates estimates that UK corporate pension funds had £10.6bn invested into PE/VC as of 2014, with local authority pension funds investing £4.7bn. Other institutional investors are foundations, endowments, banks, funds of funds, and sovereign wealth funds. (BVCA website April 2015 ; National Association of Pension Funds/BVCA, "Private Equity Made Simple," 2014; Bank of England website)



## UK ScoreNotes

Aspects	Score (4-0)	Notes
Protection of intellectual property rights	4	Intellectual property rights are fundamentally secure in the UK. The hiring of Patent and trademark agents is common due to regulatory complexity around registration and protection. Enforcement mechanisms are comparable to those 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 where IPR interferes with free trade within the European Union. A Patent Box was implemented in 2013 which reduces the corporate tax rate on profits derived from patents to 10%. The UK's Intellectual Property Act (which received final approval in 2014) simplifies design protection and allows the UK to implement the Unified Patent Court Agreement – part of the initiative to create a single EU patent. 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 2014; EIU Risk Briefing; US Investment Climate Statement 2014)
Bankruptcy procedures/creditors' rights/partner liability	3	Regulations govern insolvency procedures for liquidating distressed firms in an expedited fashion. A company can be placed into a formal insolvency procedure by its directors, shareholders, creditors or the court. UK corporate insolvency procedures are under the control of an appointed insolvency practitioner, who is professionally qualified and licensed. The limited other options are a collective corporate rescue effort for the benefit of all creditors with temporary protection of assets ("administration"); administrative receivership; a binding restructuring agreement with creditors ("company voluntary agreement"); a court-approved agreement with creditors and/or shareholders ("scheme of arrangement"); or liquidation. According to World Bank Doing Business 2015, the UK scores 82.05 out of a possible 100 in the strength of its framework for resolving insolvencies, ranking it 13th globally. (EIU Country Commerce, October 2014, October 2012; Pinsent Masons website)
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. Sentiment has strengthened in the UK since 2013, as lending conditions across financial markets improved in response to central bank intervention. The London Stock Exchange (LSE) acquired a majority stake (58%) in LCH.Clearnet, Europe's largest clearinghouse, in 2013, as well as acquiring Frank Russell Company, an index compiler, in 2014. IPOs increased to 137 IPOs in 2014 from 103 in the previous year, and the LSE remains a sought-after destination for stock offerings. London is the largest European centre for private-equity investment management, with UK-based funds accounting for about 40% of global investments. Data released by the European Private Equity and Venture Capital Association (EVCA) estimates that the UK was responsible for more than 60% of total capital raised by European private-equity houses in 2013, close to 30bn. (EIU Country Finance, June 2012; EIU Financial Services Report, 2015; EIU Risk Briefing; London Stock Exchange; EVCA website)
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 to adequately identify customers when opening accounts and for transactions exceeding £10,000. Registration exists for monitoring purposes but there are no reserve requirements. (EIU Country Commerce, October 2014)
Corporate governance requirements	4	All UK-incorporated companies, listed on the Main Market of the London Stock Exchange, are required to report on how they have applied the Corporate Governance Code issued by the UK Financial Reporting Council, and to provide specific explanations for deviations. Outside auditing and annual financial reporting are looser for private SMEs. Such firms are subject, however, to the Companies Act 2006, which requires all firms upon registration to detail shareholder rights and directors' borrowing powers and duties; annual general meetings are not required. The UK ranked 5th highest in the World Bank's Doing Business 2015 on strength of minority investor protection; rating at or above the OECD average on all component measures, such as disclosure, conflict of interest regulation, and corporate transparency. (EIU Country Commerce, October 2014; Financial Reporting Council website)
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 other alternative dispute resolutions such as arbitration, with no discrimination against foreign companies. 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 2014)
Perceived corruption	3	Foreign investors generally do not perceive corruption of public officials to be a problem for doing business in the UK. In both Transparency International's and World Bank 2014 corruption measures, the UK maintained a high ranking: 14 out of 175 countries in perceived transparency and in the 93rd percentile for control of corruption. The UK's Bribery Act of 2010 has been successful in its first case thus far, involving the prosecution of an administrative clerk. 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 2014, Transparency International, 2014; World Governance Indicators, 2014)
Quality of local accounting industry (international standards)	4	International financial reporting standards, as adopted by the European Union, are required for listed companies; companies must prepare their accounts and be audited according to these standards to be listed on the LSE's main market. IFRS are permitted (but not required) in both consolidated and separate company statements for non-listed firms. 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 2015; EIU Country Commerce October 2014, October 2012)
Entrepreneurship	3	One problem facing the entrepreneurial climate is a labour force skills gap, with given the increasingly high-tech economy. The UK government has been working on initiatives to promote education in STEM fields and entrepreneurial skills. The cost of starting a business ranks as one of the lowest in the world. World Bank ranks the UK 8th in the world on the ease of starting a business, well above the OECD average. The UK has been downgraded a score due to its relatively low rate of new business ownership (4.5% as estimated by the Global Entrepreneurship Monitor), though this is balanced with a relatively low rate of business discontinuation. (US Investment Climate Statement 2014; World Bank Doing Business Report, 2015; GEM Global Report 2014)

## APPENDICES

### Appendix A: Country Coverage

The 2015/2016 Scorecard has a different country coverage than past years. Jamaica was added to the study, while El Salvador, Trinidad & Tobago and Taiwan were excluded.

### Appendix B: Interviews

LAVCA collaborated with law firms, GPs, associations, and individuals in the production of the 2015/2016 Scorecard, including:

**Argentina:** Marval O'Farrel & Mairal (Diego Krischcautzky)

**Brazil:** Mattos Filho (Daniel Miranda, Guilherme Bouzan), ABVCAP

**Chile:** Philippi Prietocarrizosa & Uría (Constanza Rodriguez)

**Colombia:** Brigard & Urrutia Abogados (Carlos Fradique, Luis Gabriel Morcillo), HarborVest (Francisco Arboleda), ColCapital

**Costa Rica:** Batalla Abogados (Rodrigo Zelaya, Alejandro Batalla)

**Mexico:** KPMG (Victor Esquivel), AMEXCAP

**Peru:** Alterra (Ricardo Postigo)

**Regionally:** Brown Rudnick (Alejandro Fiuza)

For the 2015/2016 Scorecard, the EIU conducted new interviews from February to March 2015 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.

The interviews 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 in 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 PE/VC business environment.



## APPENDICES

### Appendix C: Select Bibliography

The following cross-national data and information sources were used in the preparation of the 2015/2016 Scorecard:

Economist Intelligence Unit, Country Finance, Country Financial Services and Country Commerce series (by country), Business Environment Rankings and Market Indicators and Forecasts series, 2014

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, 2015

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

U.S. Department of State, Investment Climate Statement, 2014

U.S. Trade Representative, Special Report, 2014

Global Entrepreneurship Monitor, Global Report, 2014

Transparency International, Corruption Perceptions Index, 2014

Emerging Markets Private Equity Association Industry Statistics, 2015

European Private Equity and Venture Capital Association Yearbook, 2015

## CONTRIBUTORS

The 2015/2016 Scorecard on the Private Equity and Venture Capital Environment in Latin America is prepared by the Economist Intelligence Unit on behalf of the Latin American Private Equity & Venture Capital Association (LAVCA). LAVCA provided additional analysis for the report.



The Economist Intelligence Unit (EIU) is the research arm of The Economist Group, publisher of The Economist. As the world's leading provider of country intelligence, it helps governments, institutions and businesses by providing timely, reliable and impartial analysis of economic and development strategies. Through its public policy practice, the EIU provides evidence-based research for policymakers and stakeholders seeking measurable outcomes, in fields ranging from gender and finance to energy and technology. [www.eiu.com](http://www.eiu.com).

## SPECIAL CONTRIBUTORS

The 2015/2016 Scorecard was made possible by generous contributions from the Multilateral Investment Fund (FOMIN) and EY.



The Multilateral Investment Fund (MIF), member of the Inter-American Development Group, supports economic growth and poverty reduction in Latin America and the Caribbean through encouraging increased private investment and advancing private sector development. A central point of MIF's mission is to serve as a laboratory for development, experimenting, innovating, and assuming risks to construct and support successful business models for microenterprise, small and medium businesses. The MIF has been a pioneer in venture capital (VC) in Latin America, launching its investments in 1999 when the industry was practically nonexistent. MIF's support has been instrumental in developing this industry in the region. Over the course of its 16-year history, the MIF has approved more than 73 VC & seed funds for more than USD \$276 million, *of which over USD \$200 million has been disbursed to funds investing in over 600 companies in 21 countries.*

The MIF has also made an important contribution to developing local human capital in the industry, supporting more than 58 new VC and seed fund managers. MIF's role as key investor in a numerous funds has helped attract significant volumes of investment into the region (in the current portfolio, MIF investments have mobilized four times the capital invested). MIF's work has helped develop high potential companies that stand out in their respective countries in terms of economic, social and environmental impact.



Value creation goes beyond the private equity investment cycle to portfolio company and fund advice. EY's Global Private Equity Sector offers a tailored approach to the unique needs of private equity funds, their transaction processes, investment stewardship and portfolio companies' performance. We focus on the market, sector and regulatory issues. If you lead a private equity business, we can help you meet your evolving requirements and those of your portfolio companies, from acquisition to exit, through a Global Private Equity network of 5,000 professionals around the world. Working together, we can help you meet your goals and compete more effectively.

Additional contributions and support came from the **LAVCA Public Policy and Global Standards Council**, whose mission is to establish a collaborative working environment with Latin American regulators and policymakers and work in partnership on pertinent issues and policies that positively affect the development of the private equity and venture capital industries. Council participants include:

- Chair: Martin Diaz Plata, Capital Group
- Álvaro Gonçalves, Stratus Group
- Eduardo Elejalde, LAEFM Colombia
- Jaime Salinas, Darby Overseas Investments
- Phillip Von Mehren, Venable
- Carlos Ascutti, EY
- Jose Sosa del Valle, Lexington Partners
- Marco Peschiera, The Carlyle Group



*The Latin American Private Equity & Venture Capital Association (LAVCA) 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 170 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 \$US60b, directed at capitalizing and growing Latin American businesses.*

## **LAVCA Membership**

LAVCA Members are some of the most active players in Latin American PE/VC. They join LAVCA to stay informed of the latest activity in the region and to connect with a network of global and regional peers.

LAVCA Members gain a competitive edge through:

- An unparalleled platform linking managers, institutional investors, and other industry players
- Access to proprietary industry data, information, and analysis
- Opportunities to raise their profile among local, regional, and global audiences
- Representation and participation in LAVCA's regional, agenda for advocacy of sound public policy
- Privileged knowledge through access to LAVCA's board, membership, and staff

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

## **Stay Connected**

In addition to membership, LAVCA offers the following ways to stay up-to-date on developments in Latin American PE/VC:

**Latin America PE/VC Report** – Each issue of LAVCA's bimonthly newsletter includes profiles on LAVCA member firms, institutional investors, and entrepreneurs from the region, as well as feature articles from reputable third parties and information on the latest news and events. **The Latin America PE/VC Update**, a biweekly email with announcements from the industry, is delivered to your inbox every other Tuesday. **Sign up at [www.lavca.org](http://www.lavca.org)**

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