



# 2011 Scorecard

The Private  
Equity and  
Venture Capital  
Environment  
in Latin America



FINANCING DEVELOPMENT • LATIN AMERICA

In Cooperation with:

**Economist Intelligence Unit**

The  
Economist

## Table Of Contents

Executive Summary .....	1
Scoring Criteria .....	2
2011 Scorecard and Overall Score Against PE/VC Investments.....	4
Overall Score and Evolution of Select PE/VC Markets: 2006-2011 .....	5
Argentina .....	6
Brazil.....	8
Chile.....	10
Colombia.....	12
Costa Rica.....	14
Dominican Republic .....	16
El Salvador.....	18
Mexico .....	20
Panama.....	22
Peru.....	24
Trinidad and Tobago.....	26
Uruguay.....	28
Israel.....	30
Spain.....	32
Taiwan.....	34
UK .....	36
Appendices.....	38
Contributors .....	39
About LAVCA.....	41

## 2011 Scorecard on the Private Equity and Venture Capital Environment in Latin America

### Executive Summary

The private equity and venture capital industry in Latin America gained momentum in 2010, with fundraising for the region reaching a record US\$8.1bn. The 2011 edition of the Scorecard on the Private Equity and Venture Capital Environment in Latin America reflects a stable regulatory environment in which the top ranking countries maintain high scores, with Chile (75), Brazil (72) and Mexico (63) repeating in the top three positions. However, both Chile and Brazil saw slight decreases in their overall scores due to adjustments to perfect scores for laws on fund formation and restrictions on local institutional investors, respectively.

As overall macro environments improve and global investors expand their presence in major Latin American economies, there is an increasing awareness of the importance of private equity and venture capital in local markets. At the same time, fund managers have actively engaged regulators on industry-specific rules and regulations.

Chile continues to lead the regional rankings for the sixth year. The government is proactively promoting the development of an entrepreneurial community with ambitious programs launched by the new administration, and the impact of these programs will be monitored carefully.

While Brazil remains in second place behind Chile in terms of its overall environment for PE/VC, the country is setting the pace for the industry in the region, including proactive efforts to establish best practices and strengthen the regulatory environment. Industry groups ABVCAP and ANBIMA have established a new mandatory governance code, which went into effect on March 1, in an effort to increase transparency and accountability. The impact of the regulation will be watched throughout 2011. And the government's decision to reduce a financial transactions tax (IOF) specifically for private equity investors sent a clear signal on the growing importance of the industry in Brazil.

## SCORING CRITERIA

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

*For this sixth Scorecard, the EIU conducted 19 additional interviews in January and February 2011 with LAVCA members who are fund managers or regulators based in the Latin American region. The primary object of the interviews was to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. In addition, the EIU received replies from another 11 individuals to a set of written survey questions that were circulated in December 2010 and January 2011.*

*Five of the thirteen criteria – tax treatment, minority shareholder rights, restrictions on institutional investors, capital market development and corporate governance requirements – once again this year received double weighting within the 100 point score to reflect their central prominence in investment decisions made by PE/VC funds.*

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

*See Appendix A for a listing of the sources used by EIU researchers for the 2011 Scorecard.*

Regulators in Mexico also showed increased awareness of the asset class, as they continue to modify the regulation established in 2009 allowing Mexican pension funds to invest in private equity through Development Capital Certificates (CKDs). While CKDs must still be publicly traded and there is room for further modifications, fund managers remark that the ease of raising a CKD has improved. The structure has served as a catalyst for the formation of new PE/VC funds in Mexico.

The consolidation of industry regulation has also been a priority in Colombia, which remains in fourth place in the region in this year's Scorecard. A decree passed in 2010 compiled all financial and insurance regulations and clarified tax and other issues for private equity investors. However, fund managers expressed concern over a slowdown in the approval process for new funds. The country's pension funds are investors in both local and international PE/VC funds and have a sophisticated understanding of the asset class and their role as limited partners .

Peru's overall score dropped four points this year due to a decline in its score for fund formation and restrictions on local institutional investors. Regulators have taken a more conservative approach to approving funds since late 2009 and pension funds are slow to invest in alternative assets. However, there are expectations that an impasse might be broken depending on the outcome of the presidential election. Both local and international groups are pushing for changes that are needed in order to advance the industry.

The region's other large economy, Argentina, continues to struggle to develop a viable PE/VC industry despite its strong entrepreneurial community and increased interest from global VC and IT investors. With a score of 43, it ranks 10<sup>th</sup> in the region, tied with El Salvador, and ranking above only the Dominican Republic (38).

The 2011 Scorecard continues to benchmark Latin American and Caribbean countries by comparing them with four markets outside of the region – UK, Israel, Spain and Taiwan. While the UK has a deep, mature PE/VC industry, the others have emerged more recently as developed private capital markets. While none of the Latin American and Caribbean countries top the UK (93), Israel (81) or Spain (76) in this year's Scorecard, Chile (75) and Brazil (72) remain above Taiwan (63) and Mexico (63) ties its score.

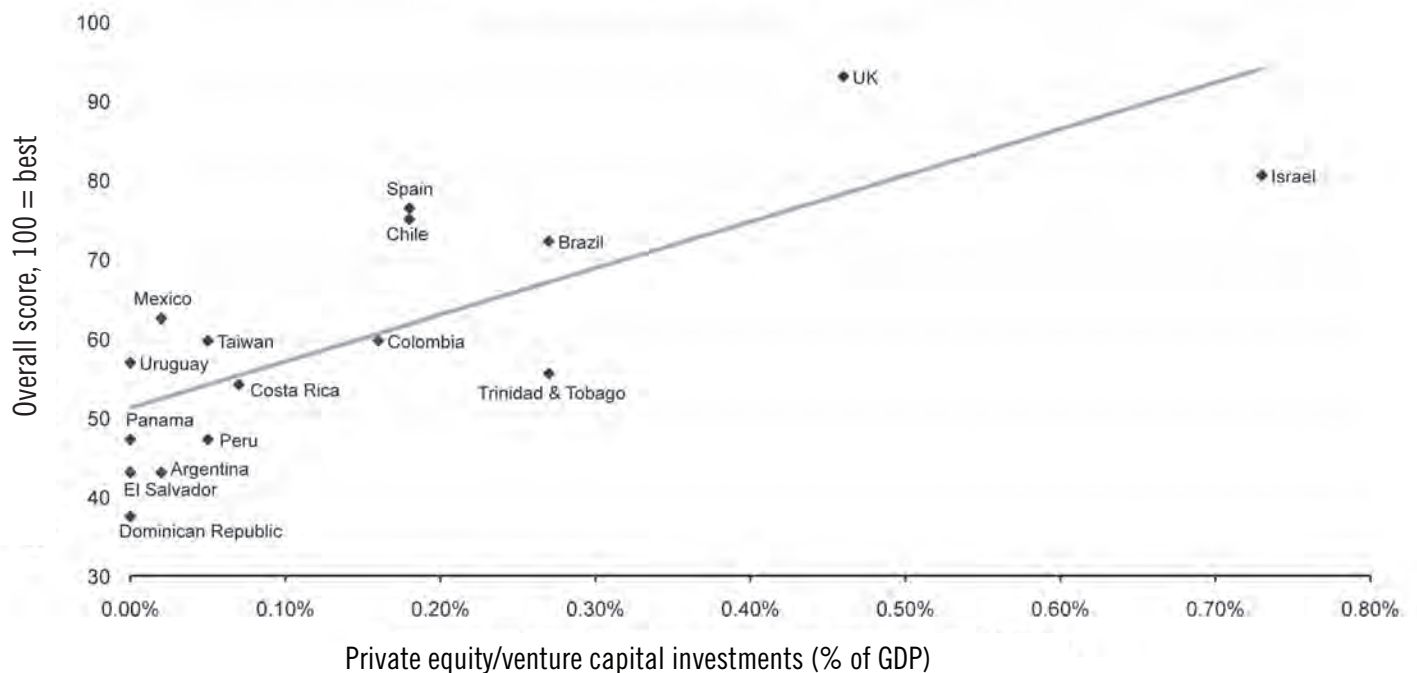
The full list of scoring criteria is:

- 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

2011 Scorecard

	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	El Salvador	Mexico	Panama	Peru	Trinidad & Tobago	Uruguay	Israel	Spain	Taiwan	UK
<b>Overall score</b>	<b>43</b>	<b>72</b>	<b>75</b>	<b>60</b>	<b>54</b>	<b>38</b>	<b>43</b>	<b>63</b>	<b>47</b>	<b>47</b>	<b>56</b>	<b>57</b>	<b>81</b>	<b>76</b>	<b>63</b>	<b>93</b>
Laws on PE/VC fund formation and operation	1	4	3	3	1	1	0	2	2	1	2	2	4	3	4	4
Tax treatment of PE/VC funds & investments	1	3	3	2	3	1	3	3	2	1	3	3	3	4	3	4
Protection of minority shareholder rights	2	3	3	3	1	2	1	3	2	1	2	2	4	3	1	4
Restrictions on local institutional investors investing in PE/VC	0	3	3	3	1	1	1	3	2	2	2	2	3	3	2	4
Protection of intellectual property rights	2	2	3	2	3	1	2	2	2	2	2	2	2	3	3	4
Bankruptcy procedures/creditors' rights/partner liability	2	3	3	2	2	1	2	2	2	2	2	3	2	3	3	3
Capital markets development and feasibility of exits	2	3	3	2	2	1	2	2	2	2	2	1	3	3	3	4
Registration/reserve requirements on inward investments	2	3	3	3	3	3	3	3	3	3	4	3	3	3	3	3
Corporate governance requirements	2	3	3	3	2	3	1	3	2	3	2	2	4	3	2	3
Strength of the judicial system	2	2	3	2	3	1	1	2	2	1	2	3	3	2	3	4
Perceived corruption	1	1	3	1	3	0	1	1	1	1	1	3	3	3	2	3
Quality of local accounting/use of international standards	4	4	3	2	4	3	4	3	2	4	3	3	4	4	2	4
Entrepreneurship	3	3	3	2	2	1	2	2	0	2	2	2	3	2	3	4

Overall Score Against PE / VC Investments



Source: 2011 LAVCA Industry Data

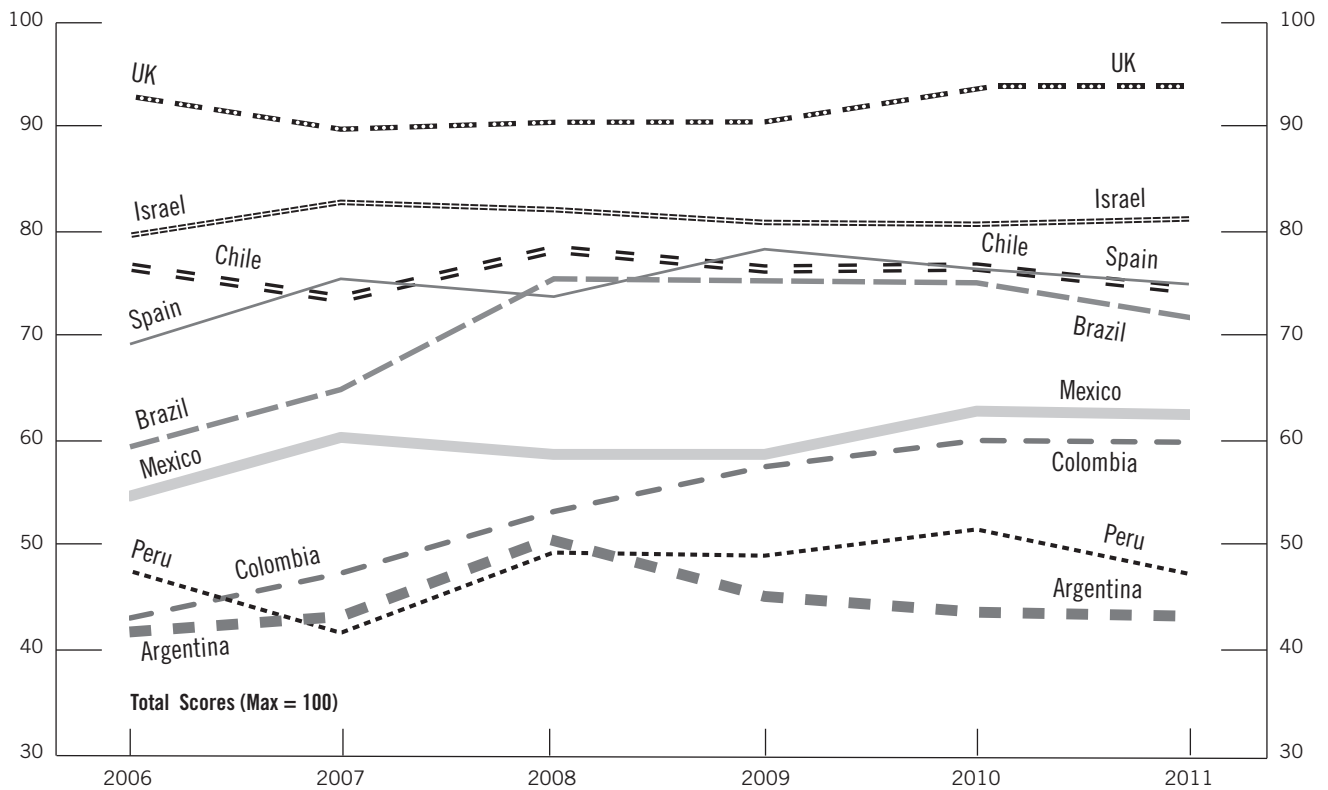
# Overall Score

Ranked by 2011 scores

Regional Rank	Country	Score <i>(1-100 where 100 = best)</i>	Change from 2010 (▲▼)	PE/VC % GDP
	UK	93		0.46%
	Israel	81		0.73%
	Spain	76		0.18%
1	Chile	75	▼ 1	0.18%
2	Brazil	72	▼ 3	0.27%
3	Mexico	63		0.02%
	Taiwan	63	▲ 2	0.05%
4	Colombia	60		0.16%
5	Uruguay	57		0.00%
6	Trinidad & Tobago	56		0.27%
7	Costa Rica	54		0.07%
8	Panama	47	▼ 2	0.00%
8	Peru	47	▼ 4	0.05%
10	Argentina	43		0.02%
10	El Salvador	43		0.00%
12	Dominican Republic	38		0.00%

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

## Evolution of Select PE/VC Markets: 2006-2011



Country Profile

ARGENTINA

	2011	2010
Overall Score	43	43
Regional Ranking	10th (tied)	10th (tied)

Argentina's overall score does not change year on year. The country continues to underperform relative to its size and level of development. The PE/VC industry has been slow to develop due to the lack of a legal framework for fund formation and limited options for local institutional investors to participate. However, the country's bankruptcy procedures are improving and global investors continue to take stakes in Argentina's IT and online gaming sectors.

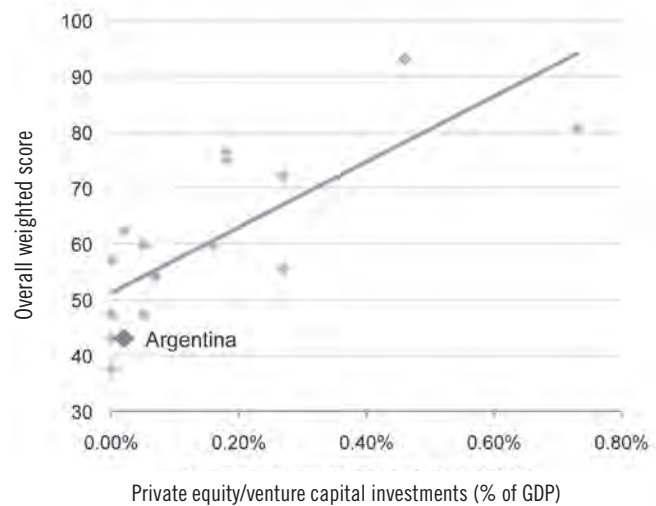
**Strengths:** The country has limited strengths, but a dynamic entrepreneurial community continues to generate investment opportunities. The quality of accounting standards is also among the best in the region.

**Challenges:** The PE/VC industry in Argentina continues to be constrained due to the perception of high political risk, legal uncertainty and a complex, high tax environment. The lack of a specific regulatory framework for PE/VC and underdeveloped capital markets are also significant hurdles.

	score	change
<b>Overall score</b>	<b>43</b>	
Laws on PE/VC fund formation and operation	1	
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	0	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	2	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	4	
Entrepreneurship	3	

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

Overall score against PE / VC investments



Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	The lack of a specific regulatory framework for PE/VC is still a major constraint in Argentina. The Funds Law makes general provisions for funds of various types, some of which can be used to operate PE/VC funds. However, most funds, including those managed by Argentine firms, continue to be incorporated abroad, or take the form of <i>sociedades anonimas</i> . It is still difficult to demonstrate to authorities, particularly the Justice Inspector, that a fund is a non-Argentine entity. This requires documentation establishing that shareholders are foreign nationals and participating entities are registered abroad. An offshore fund wishing to register as a limited partnership must identify its partners. (Interviews, January 2011, January 2010; EIU Country Commerce, July 2010)
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%. Other taxes include a financial transactions tax (0.6% on all current-account transactions, set to expire on December 31, 2011); taxes on management companies services (3% local tax on gross income and 21% value-added tax on fees); and stamp tax in the city of Buenos Aires (0.8%). Capital gains are subject to normal tax rates of 35%, but locally domiciled funds investing in Argentine companies can deduct 50% of capital gains. The transfer of shares by a foreign, non-resident company or fund is not subject to income tax. Most types of funds are not automatically pass-through. (EIU Country Commerce, July 2009, July 2010; Interviews January 2011, January 2010; EIU/LAVCA2009 Survey; hg.org)



## Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Protection is weak and encourages PE funds to invest in Argentine businesses incorporated abroad. Relevant regulations such as the capital market reform of 2001 are applicable only to publicly traded firms. The 2008 corporate governance code issued by the securities commission is entirely voluntary. The shareholder law does allow for shareholder agreements and domestic and international arbitration clauses, which can be set up by offshore funds so as to use foreign legal jurisdictions for disputes. Enforceability is uneven. (EIU Country Finance, October 2010; interviews January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	0	The December 2008 re-nationalisation of social security closed the door to the meagre participation of pension funds as institutional investors. While nationalised pension funds can allocate up to 50% of assets in local private companies' shares, there is no provision for investing in PE/VC funds. However, recently the state pension body has begun to increase the pension system's role in productive projects, and there are some prospects of a return to PE/VC investment in the long term. Insurance companies are allowed to invest only in liquid instruments that are externally rated. (EIU Country Finance, October, 2010, October 2009; Interviews, January 2011, January 2010)
Protection of intellectual property rights	2	The Office of the US Trade Representative included Argentina on its Priority Watch List in 2010. Argentina does not effectively enforce criminal penalties and fails to provide adequate protection against unfair commercial use of data and tests to gain pharmaceutical marketing approval. While Argentina has one of the largest markets for pirated goods in the world, the country has reduced the backlog of patent applications through more effective processes. (EIU Country Commerce, July 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy procedures continue to improve. The 2002 <i>Ley de Quiebras</i> allows firms to restructure debts through an extra-judicial procedure ( <i>concurso de acreedores</i> ) without the unanimous shareholder approval previously required (and with approval of only 2/3 of creditors – a simple board majority suffices). However, employees and tax authorities receive priority over creditors. Recently, the government has promoted work-outs outside the court system ( <i>acuerdos preventivos extrajudiciales</i> ). World Bank Doing Business 2011 finds bankruptcy is quicker, less costly, and yields the same recovery rate for creditors, as compared to the regional average. Bankruptcy liability concerns are not a major obstacle to PE/VC investing if provisions are stated. (Interviews, January 2011, January 2010)
Capital markets development and feasibility of exits	2	Argentina's thin capital markets deteriorated in 2008 after the government nationalised the private pension-fund system. They remain underdeveloped since that time. The country's stock exchange is fairly small and dominated by listings by large foreign companies. Foreign firms account for the majority of the market capitalisation. Most trades are made in government issued debt instruments. (EIU Risk Briefing, Country Finance October 2010)
Registration/reserve requirements on inward investments	2	Exchange controls and reporting requirements remain onerous, and anti-laundering controls were strengthened in late 2010. Inflows of foreign portfolio funds must remain in the country for a minimum of 365 days, and 30% of the investment amount must be deposited in an interest-free US-dollar account with the central bank for one year. Foreign currency transactions between residents and non-residents must be registered by the central bank, and capital repatriation exceeding US\$5M needs authorisation from the central bank. Since October 31st 2008 the sale of foreign exchange to residents is prohibited unless such funds are destined to foreign portfolio investments. (EIU Country Finance, October 2010; EIU Country Commerce, July 2010; Interviews, January 2011, January 2010)
Corporate governance requirements	2	Standards exist under the 2001 capital markets reforms, but only for publicly traded firms, and enforcement through the judicial system is lengthy and cumbersome. Shareholder agreements and arbitration clauses are used, though enforceability is uneven. World Bank Doing Business 2011 rates Argentina as average in regional terms on ability of shareholders to sue, above average on disclosure, and below average on director liability. (EIU Country Finance, October 2010; Interviews January 2011, January 2010; EIU/LAVCA 2009 Survey)
Strength of the judicial system	2	The Argentine justice system is slow, though commercial arbitration exists. The current government's commitment to an independent judiciary has become increasingly uncertain. Government influence over private enterprise continues, and, in any dispute with the government, the judiciary can be subject to political pressure. (EIU Risk Briefing)
Perceived corruption	1	General distrust of the government and a lack of transparency foster a sense of corruption. This perceived political corruption continues to be a hurdle for attracting PE/VC funding. (EIU Country Report, Jan 2011, EIU Country Finance 2010)
Quality of local accounting industry/use of international standards	4	Local accounting norms are generally in line with international standards. Argentine GAAP is used by SMEs as a whole, though full international standards are followed by those that also do business abroad. International auditors are present and reliable. Listed companies will be required to use IFRS starting in 2012; they remain prohibited for private companies. (Interviews January 2011, January 2010; Deloitte IASPLUS 2011)
Entrepreneurship	3	According to data compiled by the World Bank Group Entrepreneurship Survey (WBGES), entrepreneurial activity declined through the global financial crisis with new business entry dropping by slightly less than 20%. However, the cost of starting a business is below the regional average. The economic crisis earlier this decade promoted a burst of entrepreneurial activity as well as greater public, media, and governmental support for start-ups and small business. (WBGES database, World Bank Doing Business 2010, Interviews, January 2010)

Country Profile

BRAZIL

	2011	2010
Overall Score:	72	75
Regional Ranking:	2nd	2nd

Brazil's overall score falls due to a decrease in a previously perfect score on restrictions on local institutional investors. While Brazil's local pension funds have been instrumental to the growth of the local industry, their requirement to sit on investment committees represents a significant governance conflict. A number of recent initiatives signal the industry's continued development. The government defined PE/VC as a separate asset class and reduced the IOF tax to 2% from 6% on related transactions. A new self-regulation code to encourage greater transparency and disclosure requirements went into effect in March 2011, and its effects will be monitored throughout 2011.

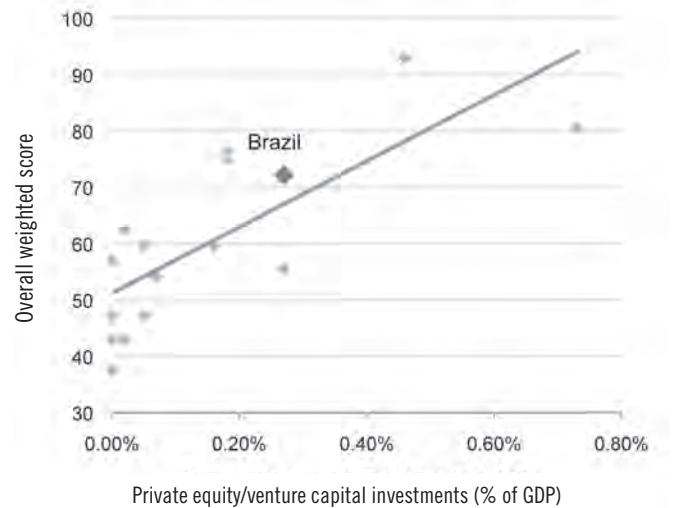
**Strengths:** Favorable laws on fund formation and operation and quality of accounting standards rank as the country's major strengths, though it scores strongly on the majority of indicators.

**Challenges:** Despite reforms, the country is still plagued by the perception of corruption and prevalence of piracy. A slow-moving judicial system also hinders the enforcement of intellectual property rights.

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

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

Overall score against PE / VC investments



Brazil ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	Brazil has two main fund frameworks: <i>fundos mutuos de investimento em empresas emergentes</i> (FIEEs), created for VC activity and <i>fundos de investimento em participacoes</i> (FIPs), created for PE funds. A new "self-regulation" code for both FIEEs and FIPs established by the Brazilian Association of Private Equity and Venture Capital (ABVCAP) and Brazilian Financial and Capital Markets Association (ANBIMA) went into effect in March 2011. Compliance with the code is obligatory for members of both groups. Norms address issues such as transparency, conflicts of interest, and related party transactions. ANBIMA is responsible for supervision and punishment of non-compliance. (ABVCAP website 2011, 2008, 2007; Interviews, January 2011, January 2010, EIU/LAVCA 2011 Survey; Valor Economico, December 20, 2010)
Tax treatment of PE/VC funds & investments	3	Brazil has a complex and multi-layered tax system with a corporate tax rate of 34% (slightly less for smaller companies). Since November 2009, all foreign-exchange transactions for portfolio investments are subject to a 2% financial transactions tax ( <i>Imposto sobre operações financeiras</i> —IOF). In October 2010, the government raised the IOF to 4% and then again to 6%, but lowered it back to 2% in December 2010. Since 2006, foreign investment in regulated PE/VC funds is exempt from income and capital gains tax provided it does not come from entities registered in tax haven countries. Domestic investors are taxed at 15%. Dividends paid to residents and non-residents are not subject to withholding. Investment funds set up as FIPs are pass-through. (Interviews January 2011, January 2010; EIU Country Commerce, September 2010; Reuters.com, January 3, 2011)

## Brazil ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	The current corporate law framework was designed to extend greater protections to minority shareholders, and introduced shareholder controls, tag along rights and the mandatory distribution of dividends. Preferred, non-voting shareholders must receive dividends at least equal to common, voting shareholders, and preferred, non-voting shares may not exceed 50% of all shares. Shareholders representing 10% of the capital have the right to elect one member of the audit committee. Minority rights are more limited under a limited liability company or a closed SA. (EIU Country Commerce, September 2010; EIU Country Finance, April 2010; ibgc.org.br; Interviews, January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	3	Brazilian pension funds have been active investors in PE/VC for a decade. However, this score has been downgraded from a previous perfect score (4) because governance practices by institutional investors do not comply with global standards. Specifically, pension funds demand a seat on the investment committees of funds they invest in, compromising their role as limited partners. This has created a practical impediment for Brazilian fund managers who are not able to secure capital commitments from international investors due to the governance conflict. The new self-regulation code for PE/VC funds (see Laws on PE/VC fund formation and operation) seems directed, in part, at rolling back the participation by institutional investors in investment committees, but its impact will have to be gauged in coming years. "Open" pension funds (those not limited to employees and retirees from specific companies) may invest 60% of AUM in variable income instruments including funds. Since September 2009 "closed" pension funds may invest 10% of reserves in PE/VC and 10% in offshore funds, although in practice they have not committed funds outside of Brazil to date. Insurance companies may invest up to 50% of reserves in variable-income instruments, such as shares. (EIU Country Finance, April 2010; Interviews, January 2011, January 2010; ABVCAP website; Valor Economico, December 20, 2010)
Protection of intellectual property rights	2	Brazil has overhauled its intellectual property legislation in recent years, significantly improving IPR protection and enforcement compared to the 1990s. Despite the progress, piracy is still common in the software and music industries. However, the process of registering patents and trademarks has been improved within the National Institute of Industrial Property. In recognition of its efforts to improve the IPR, the Office of the US Trade Representative upgraded Brazil from its IPR watch list to its priority watch list in 2007. (EIU Country Commerce, September 2010, US Country Commercial Guide 2010)
Bankruptcy procedures/creditors' rights/partner liability	3	Bankruptcy procedures enacted in February 2005 have brought modestly positive results. Brazil's law creates a 180-day window to negotiate restructuring deals with creditors inside or outside the court system and gives creditors 30 days to respond to restructuring plans. Where bankruptcy is inevitable, the law allows for more rapid proceedings and includes creditors. Ease of tax evasion by insolvent firms remains an obstacle. Partner liability beyond capital shares is not a problem. The World Bank's Doing Business 2011 finds that closing a bankrupt firm is more time-consuming, less costly, and yields a much lower recovery rate than regional averages. (Interviews, January 2011, January 2010; US Country Commercial Guide, 2010, EIU Country Finance, April 2010)
Capital markets development and feasibility of exits	3	Overall, the strength of Brazil's stock market and its relatively high turnover rate offers investors exit options not afforded in other regional markets. In 2008, Brazil's stock exchange, Bovespa, merged with the Brazilian Mercantile and Futures Exchange. The new entity, BM&FBovespa, became the largest stock exchange in Latin America in terms of market capitalisation and one of the largest in the world. BM&FBovespa represents an important source of financing for firms in Brazil. As of end-2010, BM&FBovespa had 381 listed firms and a market capitalisation of US\$1.55b, an increase of 15.6% compared to end-2009. (EIU Country Finance, April 2010; World Federation of Exchanges)
Registration/reserve requirements on inward investments	3	Simple on-line registration of forex transactions exists for record-keeping. The central bank requires registration of all investments so that foreign parties can secure their right to acquire foreign currency directly from authorized institutions. There are no reserve requirements. (EIU Country Commerce, September 2010)
Corporate governance requirements	3	Public companies are required to use external auditors and publish annual financial reports. In 2001, the Bovespa created three new segments, each with progressively higher governance requirements. As of March 2010, 160 listed companies had voluntarily adhered to these more stringent corporate-governance standards. The Securities Commission (CVM) published voluntary, non-binding governance standards in 2002 and firms are requested, but not required, to report on their non-compliance. While there is no penalty for non-compliance, firms that are at least six months late in filing their annual reports are placed on a list published on the CVM's website. Shareholder agreements are a common and legally enforceable means of dealing with these issues in non-listed invested firms. The World Bank's Doing Business 2011 continues to rate Brazil's shareholder ability to bring suits as well below the regional average, but director liability and disclosure requirements well above. (Interviews, January 2011, January 2010; EIU Country Commerce, September 2010)
Strength of the judicial system	2	Generally, contracts in Brazil are upheld. When cases do enter the judicial system, they move quite slowly. Alternative dispute settlement mechanisms via private arbitration, including recourse to international arbitration where specified in shareholder agreements, are available and function well, despite the slow-moving court system. Brazil's judiciary system is perceived as generally fair. (EIU Country Commerce 2010; US Country Commercial Guide 2010; Interviews, January 2010)
Perceived corruption	1	Businesses report that corruption is an obstacle to investing and operating in Brazil, despite recent reforms. Enforcement of corruption laws varies by state in Brazil, and corruption is reported to be problematic in business dealings with some divisions of the government. Scandals in recent years have stemmed from accusations of illegal rebates on government contracts. Brazil's tax and social security systems have also been the source of incidents of corruption in recent years. (EIU Country Commerce 2010; US Country Commercial Guide 2010)
Quality of local accounting industry (international standards)	4	Movement toward IAS has been rapid in recent years. Companies listed on the Novo Mercado section of the stock exchange must use US GAAP. All listed corporations as well as financial companies were required to transition to IFRS by 2010, though they are not permitted for non-listed entities. Amendments in 2007 to the Corporate Law bring Brazilian GAAP in line with IAS for both listed and non-listed firms. International auditors are present. (EIU Country Commerce September 2010; Interviews January 2011, January 2010; Deloitte IAS Plus 2011)
Entrepreneurship	3	While the time and procedures required to start a business in Brazil are above the regional average, the start-up costs remain low. Moreover, new business entry rate is stable. The government provides support for the development of small and medium enterprises through subsidized loans and simplified tax procedures. (WBGES database; World Bank Doing Business 2010; EIU/LAVCA 2011 Survey)

Country Profile

CHILE

	2011	2010
Overall Score:	75	76
Regional Ranking:	1st	1st

Chile continues to lead the regional ranking. The country's perfect score for laws on fund formation was decreased due to comments from industry participants indicating that the process of opening a PE/VC fund is slow and the lack of pass-through provisions make it unattractive to invest in other countries from funds domiciled in Chile.

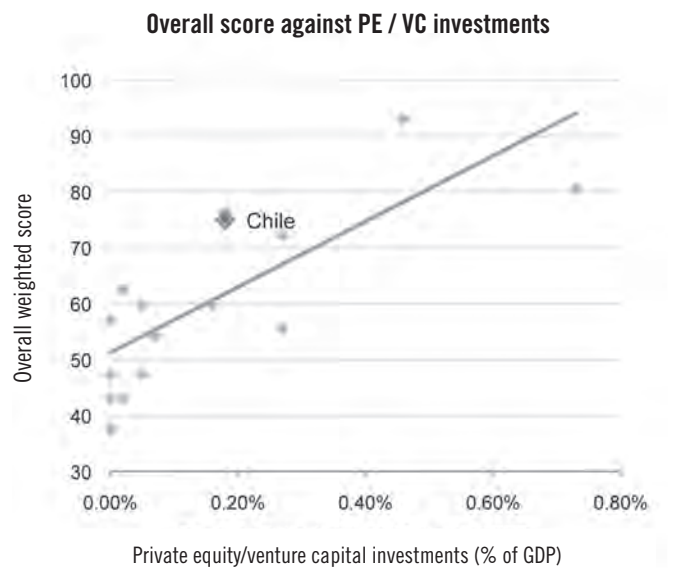
However, the new administration continues to expand and fund programs that encourage the development of an innovation economy and entrepreneurial community. In addition, the government is exploring options to boost liquidity and trading activity through the integration of stock exchanges with Colombia and Peru.

**Strengths:** Chile continues to perform well in all categories. Compared to regional counterparts, the country is particularly strong in intellectual property protection, judicial transparency and perceived corruption.

**Challenges:** The country would benefit from the easing of certain restrictions on local institutional investors, as well as improved accounting standards for non-listed firms.

	score	change
<b>Overall score</b>	<b>75</b>	<b>▼ 1</b>
Laws on PE/VC fund formation and operation	3	▼ 1
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	3	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	3	
Perceived corruption	3	
Quality of local accounting/use of international standards	3	
Entrepreneurship	3	

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



Chile ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	3	This score has been downgraded from a previous perfect score (4) based on accumulated evidence that there is still room for improvement in the regulation of fund formation. The process of opening a <i>fondo público</i> with the <i>Superintendencia de Valores y Seguros</i> (SVS) remains slow and costly. <i>Fondos privados</i> are more flexible and have less oversight. Few private equity funds are set up onshore because of the lack of pass-through provisions. Law 18,815 of 1989 allowed the first risk-capital funds ( <i>fondos de inversión de desarrollo de empresas</i> —FIDEs). (EIU Country Finance, May 2010; Interviews, February 2011; EIU/LAVCA 2011 Survey)
Tax treatment of PE/VC funds & investments	3	Corporate tax rates are straightforward and generally low (ranging from 17-35%, depending on the reinvestment and distribution of profit), but foreign investors still face some obstacles including lack of pass-through provisions. The corporate rate increased temporarily for 2011 and 2012 to help the government finance earthquake reconstruction (20% for income accrued in 2011, falling to 18.5% for 2012 and 17% for 2013). A value-added tax of 19% on fund administrator commissions for foreign participants makes Chile less attractive for hosting regional funds. A capital markets reform package (Law 20,190 or MK2), implemented in June 2007, in principle created a series of exemptions from capital gains taxes intended to stimulate venture capital investment, but they have remained difficult to access in practice. (Interviews, January-February 2011, January 2010; EIU Country Commerce, January 2011)

## Chile ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	The 2000 <i>Ley de OPAS</i> law first established minority rights for public firms. Minorities of less than 10% can request outside inspection of transactions. A new corporate governance law effective January 1st, 2010 goes further in regulating issues for public firms with minority investors. For private firms (limited liability companies and closed SAs), there are fewer requirements. Shareholder agreements are a frequent recourse, but their enforcement can be slow. The <i>sociedad por acciones</i> (a share-issuing limited-liability company) allows for additional flexibility in the transfer of shares and the agreement and exercise of corporate control, but is not subject to specific government regulation. (EIU Country Briefing, January 28, 2008; Interviews January 2011, January 2010; EIU Country Finance, May 2009; EIU/LAVCA 2010 Survey)
Restrictions on local institutional investors investing in PE/VC funds	3	Pension funds and insurance companies still face some restrictions in PE/VC investing. They may only invest in funds that are registered in Chile, which as a result requires international firms to establish local 'feeder funds.' Pension funds can commit up to 0.5% of AUM in any given foreign investment vehicle. The overall limit of asset allocation to PE/VC is not subject to straight forward regulation but fixed according to a flexible rate determined periodically by the Central Bank. Reporting requirements are onerous. Since June 2007, two other major types of new institutional investor have been able to enter the PE/VC markets, banks (authorized to invest through their affiliates up to 1% of their assets in PE/VC funds as well as to set up their own funds) and CORFO, the major state development agency (which can invest up to 40% of a fund's shares, in addition to a wide range of credit lines destined for PE/VC). (Interviews, January 2011, January 2010; EIU Country Finance, May 2010)
Protection of intellectual property rights	3	Chile is a member of the WTO and WIPO. The country ratified WIPO's Patent Cooperation Treaty in 2008 and created a specialised brigade within the police force to handle IPR crimes. In late 2009, Chile passed a major upgrade to its domestic copyright legislation, albeit without provisions targeting copyright infringement on the Internet. Despite Chile's commitment to international and domestic IPR frameworks, IPR can still be improved. Piracy of software and media remains common, while protection of pharmaceutical patents is weak. (EIU Country Commerce, January 2010; US Country Commercial Guide 2010)
Bankruptcy procedures/creditors' rights/partner liability	3	The bankruptcy law of 2005 facilitates extra-judicial accords with creditors. Firms may ask courts to call creditors' meetings and name an expert facilitator to help negotiate debt restructuring, but the process can be slow. It remains almost impossible for restructuring firms to obtain fresh injections of capital given the lack of priority in repayment accorded to lenders or investors. Partner liability is limited to capital share. The World Bank's Doing Business 2011 report notes that bankruptcy is slower, slightly less costly, and has a lower recovery rate in Chile compared to LAC averages. (Interviews, January 2011, January 2010; EIU Country Report 2009)
Capital markets development and feasibility of exits	3	While the development of capital markets overall in Chile is solid, low levels of market capitalisation and high costs of meeting listing requirements have traditionally meant that IPO exits are not accessible to the vast majority of SMEs. Fund managers indicate that companies with annual sales of less than US\$100M would have difficulty executing an IPO. The Chilean government is considering a package of reforms intended to boost liquidity and trading activity in capital markets. As part of this reform process, stock exchanges in Chile, Colombia, and Peru began a trial of cross-border trading in certain stocks in 2010. This could lead to a second phase of a common exchange between the three countries. (EIU Country Finance 2010; Interviews, January 2011)
Registration/reserve requirements on inward investments	3	A simplified procedure, created in 2000, enables foreign portfolio investors to obtain a Chilean tax ID number from their locally-registered custodial bank or broker. There are no reserve requirement or exchange controls, though a financial analysis unit continues to monitor suspicious financial transactions under money-laundering and terrorist-financing legal restrictions. (EIU Country Commerce, January 2011)
Corporate governance requirements	3	A new corporate governance law effective January 1st, 2010 further strengthens legal provisions for publicly traded companies regarding board composition and procedures, independent board members, shareholder meetings, and disclosure policies. In April 2010, the SVS announced that all publicly listed firms must publish their financial accounts and any relevant information on their websites. The 2000 <i>Ley de OPAS</i> initially set up governance norms for public corporations, regulating audit committees, fair market prices for transactions, and limits for stock options. For privately held companies, there are fewer legal requirements. The World Bank's Doing Business 2011 continues to score Chile above the OECD and regional averages on disclosure requirements and director liability, though below both on the ability of shareholders to file suit. In practice, investors rely a great deal on shareholder agreements to establish workable corporate governance practices. (EIU Country Commerce, January 2011; Biblioteca del Congreso Nacional de Chile, January 8, 2010; Interviews, January 2011, January 2010)
Strength of the judicial system	3	In general, Chile's judicial system is transparent and independent, though it operates slowly and the government is known to influence the system by dictating who is promoted to the Supreme Court. The law permits the use of private, alternative dispute resolution mechanisms, such as arbitration centres. (US Country Commercial Guide 2010; EIU Country Commerce 2010; Interviews January 2010)
Perceived corruption	3	Chile stands out among Latin American countries for its relatively low level of perceived corruption. Transparency International ranks Chile as the least corrupt country in Latin America. The quality of the bureaucracy is high and the implementation capacity is good. The country has strong institutional traditions that form a solid framework for public officials. (EIU Country Commerce 2010; Transparency International)
Quality of local accounting industry (international standards)	3	As of 2009, IFRS are required of all firms, and by 2013, all non-listed firms are required to have them in place, with implementation dates varying by firm size. International accounting firms are present in Chile. There are often two sets of standards in Chilean corporate accounting. Listed firms use IFRS, while non-traded firms often use multiple or parallel systems of accounting standards. As a result, investors must review financials carefully before entering deals. (Deloitte IAS PLUS 2011, EIU Country Commerce, January 2011, January 2009; Interviews January 2010, February 2009)
Entrepreneurship	3	Chile continues to foster a considerable entrepreneurial environment. Government support for SMEs and start-ups is growing through the creation of a national competitiveness council and the activities of the development agency, CORFO. The cost of starting a business is also one of the lowest in the region. The government has improved the business registration process through an online system in the past year. (WBGES data, World Bank Doing Business 2011, Interviews January 2010)

Country Profile

COLOMBIA

	2011	2010
Overall Score:	60	60
Regional Ranking:	4th	4th

After score increases in each Scorecard from 2007-2010, Colombia's overall score and ranking did not change this year. Decree 2555, passed in 2010, consolidates earlier industry regulation. The Colombian pension funds are evolving into sophisticated investors in PE/VC, both locally and internationally. Regulatory changes in 2010 could further increase their commitments to the industry.

While the country has strong laws on fund formation when compared to other markets in the region, the process remains slow. Several managers indicated a large pipeline of funds waiting approval.

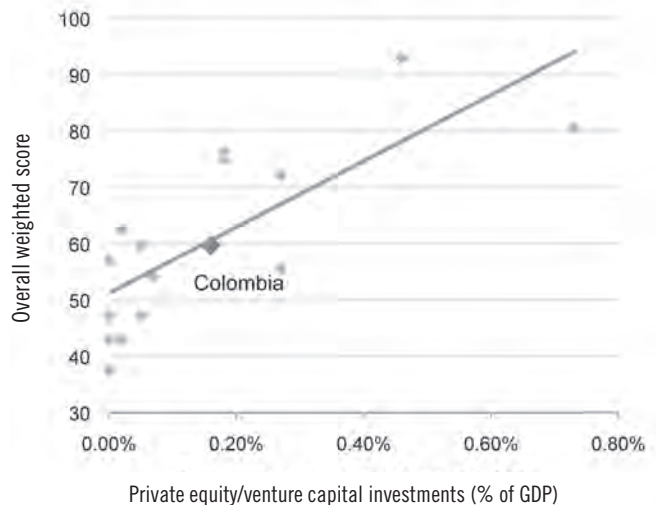
**Strengths:** Laws on PE/VC fund formation and operation and the participation of local institutional investors continue to be Colombia's greatest strength when compared to the region. It also performs relatively well in minority shareholder rights and corporate governance requirements.

**Challenges:** The perception of corruption continues to be an obstacle for the country. In addition, it remains a somewhat difficult and complex tax environment for PE/VC activity and lags behind other countries in the region in the implementation of international accounting standards.

	score	change
<b>Overall score</b>	<b>60</b>	
Laws on PE/VC fund formation and operation	3	
Tax treatment of PE/VC funds & investments	2	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	2	
Entrepreneurship	2	

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

Overall score against PE / VC investments



Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Laws on PE/VC fund formation and operation	3	There have been ongoing improvements in the regulatory structure since the framework for PE/VC was established between 2005 and 2007. Decree 2555 of 2010 compiled all financial and insurance regulations, including Decree 2175 of 2007, which regulates the formation and management of <i>fondos de capital privado</i> (FCP). Officially, FCP do not require prior approval from the Superintendent of Finance in order to initiate operations. However in practice, the process in which the Superintendent reviews methods of asset valuation appears to be slowing new fund formation, with a wait time of three or four months reported. (Interviews, January 2011, January 2010; EIU/LAVCA 2011 Survey; EIU Country Finance, May 2010; Website, Superintendencia Financiera)
Tax treatment of PE/VC funds & investments	2	A wealth tax of 1.0 - 4.8% for individuals and companies chartered before January 2011 remains in effect. In principle PE/VC funds are not subject to income tax, but dividends and gains distributed to shareholders may be taxable. Foreign investment funds, as a general rule, are not considered independent taxpayers and are seen as pass-through entities. In September 2010, a ruling by the Colombian Tax Authority clarified that withholding tax must be realized pursuant to the fund's closing or early redemptions (i.e. at the time of distribution), modifying the prior interpretation by which withholding taxes were levied based on periodic valuations of the fund's assets. Capital gains are subject to the general corporate income tax rate of 33%, if the assets will be transferred after less than 2 years. Otherwise, the capital gain is subject to a 33% income tax, though certain capital gains exemptions apply to institutional investors. Pass-through for Colombian investors in foreign-domiciled funds is guaranteed, but in general, deals must be structured carefully to guarantee avoidance of double taxation. However Colombia provides a unilateral relief for double taxation. A tax on financial transactions of 0.4% applies through 2013, decreasing to 0.2% in 2014, 0.1% in 2016 and terminating at end-2017. (Interviews January 2011, January 2010; EIU/LAVCA 2011 Survey; EIU Country Commerce, January 2010; EIU Country Finance, May 2010)

## Colombia ScoreNotes

Aspects	Score	Notes (4-0)
Protection of minority shareholder rights	3	No single shareholder may vote more than 25% of the total shares represented at a meeting, except as otherwise provided in corporate bylaws. For most decisions, a 51% majority suffices. Bylaw changes require a 75% majority. Law 964 of 2005 permits shareholder agreements, which may be used to establish such provisions as special minority rights. The voluntary national corporate governance standards established in 2007 address general aspects of corporate governance such as audit committees and disclosure requirements, with some positive implications for minority rights. Awareness of minority rights continues to grow considerably in the investor and business communities. There are also new voluntary efforts based on self-reporting among closely held and family companies. (Interviews, January 2011, January 2010, EIU/LAVCA 2010 Survey)
Restrictions on local institutional investors investing in PE/VC	3	In August 2010, Decree 2955 altered rules for mandatory pension funds and insurers. Changes may lead to increased institutional investment in local and offshore funds. The new rules address limits on related party transactions, eligibility requirements for foreign investment funds (5 years experience of general partner, minimum AUM of US\$1 billion, and registration in an investment-grade jurisdiction), and limits on life insurance companies' and pension funds' holdings within any given PE/VC fund (40%). Pension funds and life insurers may invest up to 5% of overall assets in PE/VC funds, with sub-limits of 5% for local funds and locally registered offshore funds. Also, since August 2010, mandatory pension funds may offer individual retirees a "multi-fund" system of options that are conservative (no PE investments), moderate risk (up to 5% in PE), and high risk (up to 7%), with each of the latter containing equal sub-limits for foreign and local funds. Pension funds have been permitted to invest in funds of funds since 2009. (Interviews January 2010, January 2009; EIU/LAVCA 2011 Survey; EIU Country Finance, May 2010)
Protection of intellectual property rights	2	While Colombia has made a concerted effort to improve IPR, there is further room for improvement in enforcement and prosecution of IPR infringement. Inadequate enforcement is attributed to inefficiencies in the judiciary and limited budgets of enforcement authorities. The software and apparel industries are significant targets of piracy and counterfeiting. In 2010, Colombia was again listed on the US Trade Representative's lower level Watch List for inadequacies in IPR protection, along with 29 other countries. (EIU Country Commerce, January 2010; USTR Watch List 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	A new bankruptcy law was created in December 2006 (Law 2116) to shore up existing restructuring mechanisms that seek to make liquidation a last resort. However, it remains fairly untested, as six decrees regarding crucial implementing procedures were adopted over 2007-09, and there have been relatively few cases. According to the World Bank's Doing Business 2011, compared to regional averages, resolving a bankruptcy in Colombia takes slightly less time, costs slightly less, and yields a much higher recovery rate for creditors. Limited liability is established under corporations and limited liability companies, the two most common corporate forms in Colombia. (Interviews, January 2011, January 2010; EIU/LAVCA 2009 Survey)
Capital markets development and feasibility of exits	2	While the stock market declined during the global downturn in 2009, it rose steadily in 2010. However, fairly low levels of market capitalization and high costs of meeting listing requirements still hinder stock market access. Firms continue to fear enhanced tax scrutiny after a listing. The local currency bond market is dominated by public sector debt, which leaves little opportunity for corporate issues. On the other hand, local capital markets are still developing. The <i>Bolsa de Valores de Colombia</i> attracted its first foreign listing in December 2009, and in 2010 stock exchanges in Peru, Colombia, and Chile began cross-border trading in certain stocks, which could lead to a second phase of a common exchange between the three countries. A merger of the exchanges could advance the market for IPOs in the medium-term (Interviews 2011; Country Finance, May 2010; EIU Risk Briefing)
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. Once registered, investors can remit their capital and profit as soon as they liquidate their investment and repatriate invested capital and dividends under the foreign investment regime. Local fund managers are no longer required to register flows by filing fund-transfer forms with the central bank and to submit registration forms to the <i>Superintendencia Financiera</i> , per Decree 4800 of 2010. There are no reserve requirements. (EIU Country Commerce, January 2010; EIU Country Finance, May 2010; Interviews, January 2011, January 2010)
Corporate governance requirements	3	Efforts made since 2005 have yielded some improvements in corporate governance. Law 964 of 2005 required listed companies to have 25% independent directors by mid-2006; implementing regulations in 2006 subsequently required firms to reach the 20% threshold by 2007. The law also created a broad set of corporate governance standards. In 2007, a voluntary code was adopted with 41 provisions on subjects such as tender offers, related party transactions and audit committees. A decree in May 2009 increases director and board liability and provides for sanctions against offending parties of listed companies. Since February 2011, under Circular 007, a "comply or explain" regulation has been instituted whereby issuers not complying with specific provision must explain why. Director liability remains above regional averages, according to World Bank Doing Business 2011, while disclosure requirements and ability of shareholders to bring suits are also significantly above both the regional and OECD averages. (Interviews, January 2011, January 2010; EIU/LAVCA 2011 Survey 2011; Website: <a href="http://superfinanciera.gov.co">superfinanciera.gov.co</a> ; EIU Country Finance, May 2010)
Strength of the judicial system	2	While the Supreme Court is impartial and respected, some lower levels of the judiciary are susceptible to corruption. Domestic arbitration of investment disputes in PE/VC contracts is most commonly conducted through the chambers of commerce and is viewed as effective. International arbitration of investment disputes is also available and valid, and reference to it is typically included in shareholders' agreement at the request of foreign investors. (EIU Country Commerce, January 2011, Risk Briefing, Interviews, January 2011)
Perceived corruption	1	While political institutions are stable, the illegal drug trade and weak accountability continue to contribute to corruption. Corruption tends to be a greater problem in regions that receive oil royalty transfers from the central government. (EIU Risk Briefing)
Quality of local accounting industry (international standards)	2	Colombia lags on this indicator because national standards diverge significantly from IAS. IFRS are still not permitted for either listed or non-listed firms. International accounting firms are present, but efforts to transition to international standards have been delayed. The country is still adjusting the structure of accounting bodies in order to undertake convergence toward IAS, under Law 1314 of July 2009; in principle, it should occur for at least larger firms by 2012, though this deadline may be ambitious. (Deloitte IAS PLUS 2011, EIU/LAVCA 2011 Survey; Interviews January 2011, January 2010)
Entrepreneurship	2	Colombia's new business entry rate remains stable, and the cost of starting a new business is less than half of the regional average. In addition, government initiatives to encourage entrepreneurship are strong. Colombia's Stock Exchange program, "Colombia Capital," encourages the formation of venture capital and small enterprises. The government offers tax deductions on R&D investment and is undertaking various incentive programs for the development and promotion of small and medium enterprises. (WBGES database; WB Doing Business 2010; EIU/LAVCA 2011 Survey)

Country Profile

COSTA RICA

	2011	2010
Overall Score:	54	54
Regional Ranking:	7th	7th

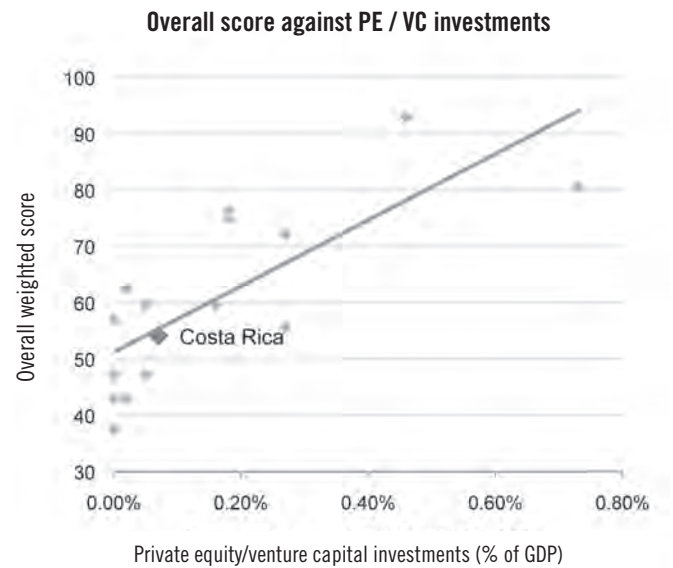
Costa Rica's ranking and scores remain the same this year, signaling few to no changes in the PE/VC industry. Efforts to establish a specific regulatory framework for the creation of private equity and venture capital funds are slow moving. Industry participants engaged in conversations with authorities in 2010, but no outcomes have been announced.

**Strengths:** The country's main strength is the quality of accounting standards, as well as its ability to avoid corruption among its institutions. Indicators for tax treatment, protection of intellectual property and openness to foreign portfolio investment continue to score favorably.

**Challenges:** Costa Rica is hindered by poor protection of minority shareholder rights, its restrictions on institutional investors and the absence of laws permitting fund formation. The country also lacks a strong entrepreneurial community, with a lengthy start-up process acting as a deterrent.

	score	change
<b>Overall score</b>	<b>54</b>	
Laws on PE/VC fund formation and operation	1	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	1	
Restrictions on local institutional investors investing in PE/VC	1	
Protection of intellectual property rights	3	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	3	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	

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



Costa Rica ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	There are no specific legal vehicles designed for fund formation and operation, so funds operate in Costa Rica through offshore, usually regionally oriented, vehicles. In 2010, conversations regarding new regulations for private equity funds ( <i>fondos de capital privado</i> ) took place between fund managers and authorities. However, as of February 2011, no formal announcement had been made or details divulged. In June 2007 the stock exchange launched the Alternative Stock Market (MAPA), a junior market which is not regulated by the securities commission, for the sale of shares by registered firms who wish to attract capital from institutional investors. However, the experience of the MAPA remains frustrating, as only a handful of firms have received MAPA-sponsored assistance. The "sponsors" helping firms through private placements sometimes lack expertise or have conflicts of interests. (Superintendencia General de Valores website; Interviews, January 2011, January 2010; EIU/LAVCA 2011 Survey; EIU Country Finance, February 2010)



## Costa Rica ScoreNotes

Aspects	Score (4-0)	Notes
Tax treatment of PE/VC funds & investments	3	There is no capital gains tax except where the purchase and sale of shares is the shareholder's habitual activity, in which case a 5% tax applies to the sale of investment-fund assets. Enforcement of these norms is uneven. Interest payments and financial commissions taking the form of foreign remittances are subject to a 15% withholding tax at the source. Dividends paid to non-resident shareholders are subject to a 15% withholding tax; however, no withholding is assessed if dividends are paid to another Costa Rican company or if the home country of the firm does not allow credits for taxes paid in Costa Rica. According to the World Bank Doing Business 2011, the total annual tax payable by a medium-sized company in Costa Rica averaged 55% of gross profit, above the regional average of 48%. As part of a comprehensive tax reform package proposed by the incoming government in January 2011, the stock dividend tax would be raised from 5% to 15% and a 15% across-the-board tax on capital gains would be introduced. Prospects for passage were unclear as of February 2011. (EIU Country Commerce, November 2010; ticotimes.net, February 1, 2011; Interviews, January 2011, January 2010)
Protection of minority shareholder rights	1	In general, the concept of minority rights remains poorly understood with little established jurisprudence or judicial training in the area in Costa Rica. No legal requirements exist on the percentage of shares that constitute effective control. Applicable rules must be written into the corporation's own statutes or bylaws. Any shareholder or group of shareholders representing at least 25% of the capital stock may convene a shareholders' meeting. According to the World Bank's Doing Business 2011, Costa Rica has weak disclosure requirements and shareholder rights to take legal action against the board by regional standards, but only slightly below average director liability. Issues thus must be dealt with in shareholders' agreements, and--given slowness of judicial system--through arbitration clauses. In some cases, funds seek alternative firm structures such as trusts where minority rights are better established. (Interviews January 2011, January 2010; EIU Country Commerce, November 2010)
Restrictions on local institutional investors investing in PE/VC	1	The pension system is partially privatized. The eight registered <i>operadoras de pension complementarias</i> (OPCs) cannot invest more than 5% of assets in a single company. In practice, purchases are still restricted to commercial paper bought through the stock exchange. The National Insurance Service (INS) plays a minor role as an investor in the stock exchange, mainly in the markets for bonds and commercial paper. Both insurers and pension funds are restricted from making overseas investments (except for the state insurance company). (Interviews, January 2011, January 2010; EIU Country Finance, February 2010)
Protection of intellectual property rights	3	While the legal framework for IPR protection is in place, the country does not adequately enforce these laws due to lack of resources, training and inadequacies in the criminal justice system. In 2008, Costa Rica improved its IPR legislation during the implementation process of CAFTA-DR, but the country remains on the USTR watch list due to shortcomings in IPR enforcement. (US Country Commercial Guide 2010; USTR Watch List notes, 2010; Country Commerce, November 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy laws are clear and transparent, though enforceability is uneven. In general, regulations tend to promote liquidation rather than restructuring. Moderate creditor rights were noted in a 2005 IDB international study. The World Bank's Doing Business 2011 reports that bankruptcies are resolved somewhat more slowly, at somewhat less cost, and with a lower recovery rate than the regional average. It also shows that Costa Rica scores somewhat below the regional average for legal rights of borrowers and lenders. Equity investors are generally not liable beyond the amount invested, but managers and board members are. (Interviews, January 2010, January 2009)
Capital markets development and feasibility of exits	2	The local equity markets are thin, and IPO exits are difficult but not impossible. Foreign access to local markets is good. With the acquisition of listed domestic firms by international concerns, de-listings have become common. The creation of the Alternative Market for Shares (MAPA) in 2007 created a possible new opening for private placements of shares, though so far it remains limited in practice. (Interviews, January 2011, January 2010; EIU Country Finance, February 2010)
Registration/reserve requirements on inward investments	3	All foreign-exchange transactions take place through the Banco Central de Costa Rica (BCCR), the national banking system and private banks. But there are no requirements on where proceeds can be deposited. Export and other sources of foreign income are recorded by the BCCR. Registration of capital is not mandatory, but the central bank does not guarantee availability of foreign exchange for repatriation for non-registered investments. The country requires substantial documentation before approving interest remittances abroad. (EIU Country Commerce, November 2010; Interviews, January 2011, January 2010)
Corporate governance requirements	2	Legal norms, training and jurisprudence are weak in this area. A system of supervision is optional. No legal requirements exist on the percentage of shares that constitute effective control. Shareholder agreements and arbitration clauses are often deemed necessary to shore up deficiencies in invested firms, but enforceability is sometimes an issue. (Interviews January 2011, January 2011, EIU Country Commerce, November 2010)
Strength of the judicial system	3	The judicial system is independent and retains high legitimacy, but the legal process remains complex and slow-moving. Frequent recourse by opposition legislators to consultative rulings from the court has frustrated or delayed numerous government initiatives. 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. (EIU Risk Briefing, Business Environment Rankings, USTR Watch List Notes, 2010)
Perceived corruption	3	Costa Rica is recognized for its long-standing democratic tradition. Its state institutions have avoided infiltration by interests allied to illegal drug trade, and corruption is lower here than elsewhere in the region. (EIU Risk Briefing)
Quality of local accounting industry (international standards)	4	International norms are used and international firms are present and competent. IFRS remain required for both listed and unlisted companies. (Interviews, January 2010, January 2009, Deloitte IAS PLUS 2010)
Entrepreneurship	2	While Costa Rica's new business entry rate has dropped in the past year, the new business entry density rate remains among the highest in the region. There have been some recent government initiatives organized to promote small SMEs, such as incubators. But while the cost of starting a new business remains relatively low, the time and number of procedures required to start a business are still above regional averages and act as deterrents to new entrepreneurs. (WBGES database, WB Doing Business 2011, EIU/LAVCA 2011 Survey, Interviews January 2010)

Country Profile

DOMINICAN REPUBLIC

	2011	2010
Overall Score:	38	38
Regional Ranking:	12th	12th

The Dominican Republic continues to rank at the bottom of the Scorecard with no significant changes in its scores from 2010. It continues to improve its accounting standards and corporate governance requirements through strengthened rules and regulations in both areas.

However, problems with corruption persist and a recent increase in the minimum capital requirement for limited liability companies is likely to impede new business development, further weakening an already thin entrepreneurial community.

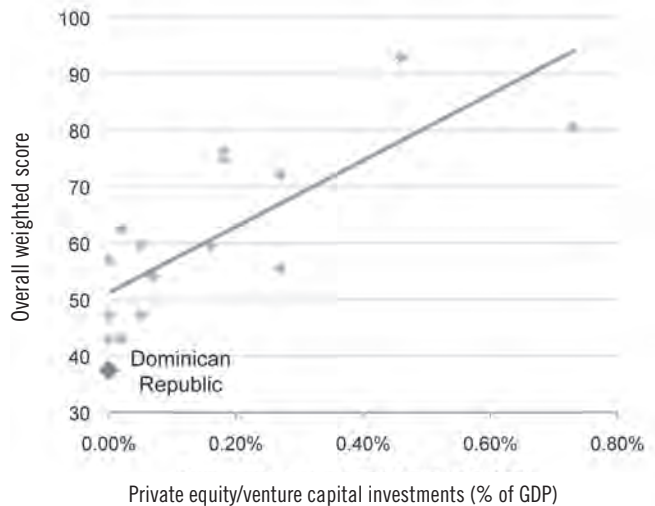
**Strengths:** The Dominican Republic is open to inward portfolio investment, and scores favorably on international accounting standards and corporate governance requirements.

**Challenges:** The country faces many obstacles, including a need to strengthen its legal framework for fund formation, lower its restrictions on institutional investors and decrease the tax burden. In addition, corruption is a significant impediment and also permeates the judicial system.

	score	change
<b>Overall score</b>	<b>38</b>	
Laws on PE/VC fund formation and operation	1	
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	1	
Protection of intellectual property rights	1	
Bankruptcy procedures/creditors' rights/partner liability	1	
Capital markets development and feasibility of exits	1	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	1	
Perceived corruption	0	
Quality of local accounting/use of international standards	3	
Entrepreneurship	1	

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

Overall score against PE / VC investments



Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	Under the 2000 Securities Market Law, closed <i>fondos de inversion</i> (and from December 2006 a specific subtype called <i>fondos de capital de riesgo</i> ) may be set up and can invest in fixed and variable income securities, publicly trade equities, real estate, and "other securities or goods which the Securities Commission authorises." However, fund managers are restricted from playing any role "in the advising, administration or management" other than passive shareholder in the invested companies, and from simultaneously administering both closed funds and either open or mutual funds. Under a resolution adopted in January 2007, these restrictions are repeated, and a limit of a 5% stake in any invested company is set. All PE/VC funds active in the country continue to operate from offshore. PE/VC activity that is domestically based continues to be mostly limited to individual angel investors, though the government has made efforts to form networks of angel investors. (Superintendencia de Valores website; Interviews, January 2011, January 2010)

## Dominican Republic ScoreNotes

Aspects	Score (4-0)	Notes
Tax treatment of PE/VC funds & investments	1	The country remains a high-tax environment in relevant areas. Both individuals and corporations must pay 25% tax on capital gains, and the flat income tax rate for corporations is also 25%. Businesses and corporations must pay a 1% annual tax on assets in two installments. Payments abroad to non-domiciled persons or entities are subject to 25% retention on the amount paid, except interest payments to financial institutions abroad, which are instead subject to 10% retention. Corporations must retain 25% of the dividends paid to shareholders as a credit against the corporate income tax. Pass-through is not automatic and must be structured carefully through shareholder agreements and arbitration clauses. (Interviews, January 2011, January 2010; EIU Country Forecast, July 2009; www.dr1.com; HG.ORG Worldwide Legal Directories)
Protection of minority shareholder rights	2	Minority rights have been weakly protected and understood under the most common SA ( <i>sociedad anonima</i> ) form. However, with expanded auditing and reporting requirements under the new corporate law that went into effect in June 2009 (see corporate governance), minority board members potentially gain access to more timely and transparent financial information in SAs. Minority rights are weaker in the limited liability company form, though there a one-tenth minority can vote to appoint an independent accountant to conduct audits. (Interviews, January-February 2011, January 2010; Superintendencia de Valores website, Ley General 479-08; Headrick, Rizick, Alvarez & Fernandez, Boletin Informativo, December 2008)
Restrictions on local institutional investors investing in PE/VC	1	Pensions funds can only invest in BBB-rated (investment grade) securities. While under the Insurance Law, companies are restricted from engaging in most equity investing, under the terms of the CAFTA-DR, up to 100% foreign-owned insurance firms are permitted and not governed by such restrictions. However, they remain slow to establish a presence in the country. (Interviews, January 2011, January 2010; www.dr1.com)
Protection of intellectual property rights	1	The country has made minor advances over the past couple of years, including government use of licensed software and television broadcast piracy. However, the country remains on the USTR 2010 Watch List. While the CAFTA-DR accords strengthen intellectual property rights protection, there is still concern about pirated goods and delays in issuing patents. (US Country Commercial Guide 2010)
Bankruptcy procedures/creditors' rights/partner liability	1	Compared to the regional average, resolving bankruptcies remains a slower and much more costly process, and the recovery rate is low for claimants. A bankruptcy bill that would simplify restructuring remains stalled in Congress since 2007. Partner liability is a grey area that needs to be defined carefully in company statutes and shareholder agreements. (World Bank Doing Business 2011; Interviews January 2011, January 2010)
Capital markets development and feasibility of exits	1	The country lacks a viable stock market and local IPOs are not an exit option. The financial system is inefficient relative to its CAFTA-DR partners. The country's stock market is 100% fixed income and has grown rapidly in recent years; however, it does not provide a significant channel for equity finance. (Interviews January 2010; EIU Risk Briefing)
Registration/reserve requirements on inward investments	3	There are no reserve requirements or exchange controls, and registration is simplified under CAFTA- DR. (EIU Viewswire; Interviews, January 2011, January 2010)
Corporate governance requirements	3	A new Corporate Law came into effect on June 19, 2009 that created limited liability companies and divided corporations ( <i>sociedades anonimas</i> or SAs) into public and private. The law established important governance standards, annual auditing requirements, obligations to inform shareholders of transactions representing more than 15% of the firm's assets and restrictions on related party transactions. Recent interviews and the World Bank Doing Business report suggest the law has had positive consequences. The 2010 score increased on this indicator. The legal oversight figure of accounting commissars ( <i>comisarios de cuentas</i> ) seems to have been strengthened – with requirements they be certified public accountants and separated from the board. With respect to the newly created category of limited liability companies ( <i>sociedades de responsabilidad limitada</i> ), under the law, it remains unclear if the benefits of flexibility come at the expense of less rigorous corporate governance. According to World Bank Doing Business 2011, the country continues to have higher disclosure requirements and shareholder ability to sue than the regional average, and below average director liability. The country's overall world ranking on strength of investor protections has improved, from 59 <sup>th</sup> in 2010 to 57 <sup>th</sup> in 2011. Sanctions and policing of financial reporting remain problematic. (Interviews January 2011, January 2010; Superintendencia de Valores website, Ley General 479-08)
Strength of the judicial system	1	Implementing new constitutional regulations remains a slow process. However, there is an alternative system of dispute resolution via the arbitration mechanisms in the chambers of commerce. While the Supreme Court is viewed as being fairly independent, the judiciary is relatively weak and prone to corruption. The risk that a contract will not be enforced remains moderate. (EIU Risk Briefing; Interviews January 2011)
Perceived corruption	0	Corruption is fostered by a lack of accountability within all government levels, which creates an uneven playing field in the business community. While the current and previous administrations have investigated some cases of corruption, there have been few prosecutions. Moreover, the majority of the citizens doubt the government's commitment to transparency. Accusations of government spending irregularities are common. Transparency International ranks the Dominican Republic at 101 in the Corruption Perceptions Index 2010, where 1= best and 180= worst. (EIU Country Report, February 2011; EIU Risk Briefing; Transparency International)
Quality of local accounting industry (international standards)	3	A February 2010 resolution of the Institute of CPAs of the Dominican Republic set a clear timeline for implementation of IFRS by public companies after delays in implementing previous targets. Some standards were mandatory starting in 2010, while others will be phased in by 2014. IFRS are permitted but not obligatory for non-listed firms, and since 2007 standards adapted to smaller firms have been in place for small and medium-sized businesses. International auditors are present and reliable. (Deloitte IAS PLUS 2011; Interviews January 2011, February 2008)
Entrepreneurship	1	While the beginnings of an entrepreneurial culture can be detected, costs of starting a business are high and the new business density rate is low. The government is slowly beginning to show support for entrepreneurship centers within the educational system. However, public finance is still unavailable for early stage companies, and the country lacks fiscal incentives for research and development. The country also recently increased the minimum capital requirement for limited liability companies, which acts a deterrent for new business. (EIU/LAVCA 2011 Survey; Interviews, January 2011, WBGES database, World Bank Doing Business 2010)

Country Profile

EL SALVADOR

Overall Score: 2011 43 2010 43  
 Regional Ranking: 10th (tied) 10th (tied)

El Salvador increases scores in perceived corruption and entrepreneurship, both returning to their 2009 levels after decreases in 2010. However, due to a downgrade in the score for the protection of minority shareholder rights, a double weighted indicator, the country did not experience an increase in its overall score or ranking among the other regional markets.

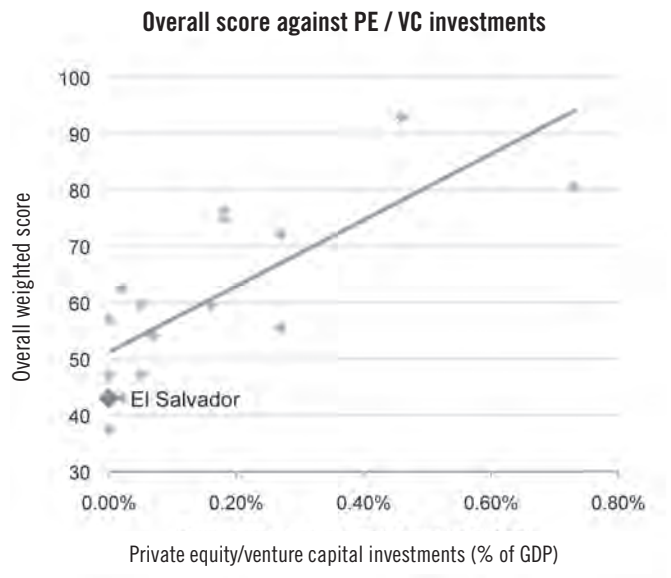
All PE/VC activity continues to occur offshore due to a lack of regulations that allow funds to form and operate in the country.

**Strengths:** The country continues to have a high use of international accounting standards and a relatively favorable tax treatment, but otherwise strengths remain very limited.

**Challenges:** El Salvador's PE/VC industry faces many difficulties. Scores on indicators including laws on PE/VC fund formation, restrictions on local institutional investors, corporate governance and strength of the judicial system remain well below the regional average.

	score	change
<b>Overall score</b>	<b>43</b>	
Laws on PE/VC fund formation and operation	0	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	1	▼ 1
Restrictions on local institutional investors investing in PE/VC	1	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	1	
Strength of the judicial system	1	
Perceived corruption	1	▲ 1
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	▲ 1

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



El Salvador ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	0	There are no specific regulations allowing for funds to form and operate. At present, all PE/VC activity in El Salvador is limited to offshore funds or networks of angel investors. (Interviews, January 2011, January 2010).
Tax treatment of PE/VC funds & investments	3	Under a new fiscal reform package effective in January 2010, a 10% withholding tax is now assessed on interest income for non-resident individuals or entities, which were previously exempt provided that permission was secured by the respective fund. There continues to be a reduced tax regime for capital gains. The net gain is divided by the years that the assets were held. The amount corresponding to the current year is added to the taxpayer's ordinary earnings and taxed at the ordinary rate (25% for legal entities). The amount corresponding to the previous years of possession is taxed at 50% of the effective tax rate (12.5% for legal entities). Dividends are not taxed in El Salvador if the remitting corporation has met all of its tax obligations. Pass-through is not automatic, and must be structured carefully. Corporate taxation remains low, with a maximum rate of 25%. El Salvador has no tax treaties with other countries. (EIU Country Commerce, June 2010, Interviews January 2011, January 2010)

## El Salvador ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	This score has been downgraded based on more complete information. Family-owned businesses dominate and minority rights are not well understood according to fund managers. Minority shareholders can convene a board meeting, but have few other statutory rights, such as audit committees, access to information, or requirements on timely board disclosure of "material events" affecting a company's situation or stock value. No legal requirements exist on the percentage of shares that constitute effective control, the required number of directors, or precise roles of board members, so applicable rules must be written into each company's statutes or bylaws. Minority rights must be addressed in shareholders' agreements and arbitration clauses, though enforceability is uneven. In some cases funds prefer that invested firms incorporate offshore where better protections exist. (EIU Country Finance, December 2010; EIU Country Commerce, June 2010; Interviews, January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	1	There are no formal restrictions on insurance, but in practice, funds under management are limited by size of market, which remains small and largely centered on property and casualty coverage. December 2005 changes to pension fund laws increased the share of capital they may invest in foreign shares listed on the Salvadoran exchange to 30%. Nearly all of the pension funds' assets under management take the form of fixed-return instruments, of which the vast majority are held in public-sector instruments. While pension funds may invest in listed stocks, they must have two risk classifications. Since September 2006, pension funds are allowed to invest a maximum of 10% of their total portfolio abroad. Yet at end-June 2010, less than one half of 1% of the total investments was in foreign instruments. (Interviews, January 2011, January 2010; EIU Country Finance, December 2010)
Protection of intellectual property rights	2	CAFTA-DR provisions require the country to strengthen legal protections, but there has been no major crackdown on pirated goods. Judicial and regulatory enforcement are still the weakest parts of IPR protection. The national courts continue to deal with IPR disputes, and despite its overall competence, the court system is extremely slow. (EIU Country Commerce, June 2010; US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	The Commercial Code, Code of Mercantile Processes, and Banking Law contain sections on bankruptcy, but there is no separate bankruptcy law or court. According to World Bank Doing Business 2011, bankruptcy is slower but considerably less costly than the regional averages, and the recovery rate for creditors is higher. Legal rights of creditors and borrowers continue to be rated below the regional average. Commercial arbitration is relatively new, and has been resisted by the judiciary. A proposed bankruptcy law has not advanced. There is no partner liability in legal actions against the firm beyond its capital share (though managers and board members are liable), except in cases of fraud. (US Country Commercial Guide 2009; Interviews, January 2010, January 2009)
Capital markets development and feasibility of exits	2	VC and PE are still limited to offshore funds as of November 2010. Despite the fact that foreign investors may invest directly in El Salvador's stock exchange and that no restrictions apply to foreign purchase on any type of portfolio investment, the stock market is not well capitalized. Underdevelopment of capital markets remains a key constraint to El Salvador's long-term growth. At present, the equity market is not a viable option for PE/VC exits from the country. (EIU Country Finance, December 2010)
Registration/reserve requirements on inward investments	3	The Central Reserve Bank ( <i>Banco Central de Reserva</i> ) oversees persons and institutions that carry out foreign-exchange (forex) transactions, which remain unrestricted. The origin and destination of any transaction exceeding US\$10,000 must be reported to central bank officials. The destination of all transactions involving the purchase of forex must be reported to the Ministry of Finance ( <i>Ministerio de Hacienda</i> ) for tax purposes. There are no reserve requirements or exchange controls in this dollarised economy (EIU Country Commerce, June 2010; Interviews January 2011, January 2010)
Corporate governance requirements	1	Only minimal corporate governance requirements are in place, such as holding annual meetings, annual publication of financial reports, the ability of minority shareholders to call a meeting, and registering companies in the commercial registry. By regional standards, above average disclosure requirements, very weak director liability, and average ability of shareholders to sue are observed in El Salvador, according to World Bank Doing Business 2011. Shareholder agreements and arbitration clauses may be used, but enforceability is questionable. Some funds prefer that invested Salvadoran firms incorporate offshore to avoid these problems. (EIU Country Finance, December 2010; EIU Country Commerce, June 2009; Interviews, January 2011, January 2010)
Strength of the judicial system	1	The judicial system is characterized by its inefficiency and weak enforceability. Proceedings can be costly and some cases have been tainted by manipulation of the legal system by private interests. A judicial modernization project undertaken by the government with the World Bank, due to close in June, was extended to November 2010. Consequently, judicial improvements may be forthcoming, but no closing or evaluation information is yet available. (Interviews, January 2011; EIU Country Commerce, June 2010; US Investment Climate Statement 2010)
Perceived corruption	1	El Salvador improved its Transparency International rank from 84 to 73 in the Corruption Perceptions Index 2010, where 1= best and 178= worst. Corruption remains a problem, particularly in lower levels of government, but CAFTA-DR has forced El Salvador to tighten and improve its regulatory framework for investment in several areas. The Attorney General now has a special office, the Anticorruption and Complex Crimes Unit, to handle cases of public corruption. (Transparency International; EIU Risk Briefing; US Investment Climate Statement 2010)
Quality of local accounting industry (international standards)	4	Norms in line with international standards are used in El Salvador's fully dollarised economy. IFRS are permitted but not required for listed companies; they are not permitted for unlisted companies. Double-bookkeeping remains common, though criminal penalties for such tax evasion practices have increased substantially in recent years. Outside audits by registered auditors are required of all firms. Funds investing in Salvadoran firms find it important to conduct both financial as well as fiscal audits (given high rates of tax evasion). (Deloitte IAS PLUS 2011; EIU Country Finance, December 2010; Interviews January 2011, January 2010)
Entrepreneurship	2	While El Salvador had significant growth in new business registrations in the past year, the cost to starting a business remains one of the highest in the region. These start-up costs are discouraging to entrepreneurs. In addition, there are large gaps in business training in terms of investor outreach and internet usage, which constrains the entrepreneurial environment. (WBGES database, WB Doing Business 2010, Interviews, January 2011)

Country Profile

MEXICO

	2011	2010
Overall Score:	63	63
Regional Ranking:	3rd	3rd

Mexico's scores remain unchanged after an increase in the 2010 Scorecard. Overall, the regulatory environment continues to improve and the industry is now seeing the impact of the 2009 CKD regulation, which allowed the state pension funds to gain access to local private equity funds. While the FICAP fund structure is still sub-par, more of these structures have been established as fund managers seek to raise capital from local pension funds. Efforts at the Mexican Stock Exchange (BMV), along with broader base market recovery, resulted in an increased number of IPOs in 2010.

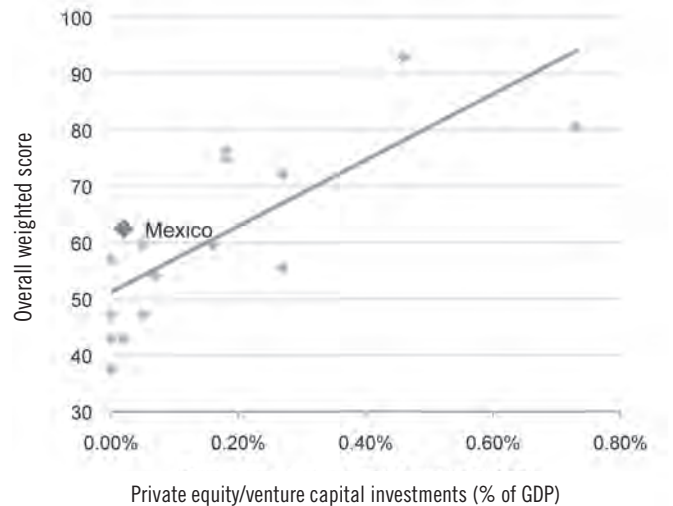
**Strengths:** Mexico is on par with regional leaders in its tax treatment, corporate governance requirements, protection of minority shareholder rights and restrictions on local institutional investors.

**Challenges:** The industry faces obstacles including a weak framework for fund activity, with larger funds setting up offshore. In addition, bankruptcy procedures and the judicial system remain inefficient. The country also continues to struggle with perceptions of corruption and concerns about ongoing drug trade.

	score	change
<b>Overall score</b>	<b>63</b>	
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	3	
Restrictions on local institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	3	
Entrepreneurship	2	

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

Overall score against PE / VC investments



Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Most of the larger funds remain offshore as limited partnerships in Canada. The specialised trust vehicle created in 2006 ( <i>fideicomisos de inversion de capital privado</i> , or FICAPs) was initially unattractive due to impractical requirements: 80% of the fund must be invested within a year and the remainder within ten; the immediate distribution of gains from selling companies in the fund's portfolio; legal responsibility is shared by general and limited partners; and the technical committee of a FICAP does not in principle enjoy a "corporate veil". But in the last two years fund managers have indicated that they can structure around some of these difficulties in order to establish a vehicle which will allow them to raise capital from domestic pension funds under the new CKD scheme. Fund managers also indicated that the FICAP offers limited disclosure for invested firms and ease of fiscal transparency for national investors; this is true even as foreign investors continue to prefer the lower costs and lesser legal exposure of limited liability offshore vehicles. This means that in some cases parallel funds are now being set up by the same fund manager, one for foreign investors and another for Mexican pension funds. (Interviews, January 2011, January 2010; Expansion 2006; El Economista 2006)
Tax treatment of PE/VC funds & investments	3	While Mexico's tax system offers some advantages for certain aspects of PE/VC investing, a 2007 tax reform raises the tax burden more generally with some impacts on the industry. Investments in PE/VC funds remain ineligible for tax incentives and exemptions available for investments in listed firms. Corporate capital gains are considered a part of regular taxable income, with proceeds inflation-indexed. Dividends paid to a company's own shareholders are not taxable if paid out of net after-tax profits and if the company has insufficient funds in its "net tax profit" account to cover the dividend. Under a 2007 tax reform which sought to simplify taxation and cut down on loopholes, companies must calculate their tax obligations under both the flat-tax (IETU, applied at 17.5% in 2010) and standard corporate tax (ISR, set at 28% after eligible deductions) schemes and pay whichever is higher. The flat tax eliminates significant deductions and has met considerable business opposition. (EIU Country Commerce, August 2010, August 2009; EIU Country Finance, March 2010; Interviews, January 2011, January 2010; bakermckenzie.com)

## Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	3	Minority shareholders with 25% or more of shares (or 10% for public companies) have the right to appoint directors and can name board members with only 10% of the votes. Companies are required to form independent audit and corporate-governance committees. A special corporate category, the <i>Sociedad Anónima Promotora de Inversión</i> , or SAPI, is increasingly used by PE funds. It provides greater legal protection for minority shareholders by allowing special bylaw provisions, such as “drag-along” and “tag-along” rights, which facilitate exit strategies. Lingering concerns for all governance protections continue to be enforceability and prevalence of family and personal ties that dilute minority shareholder voice. (EIU Country Commerce, August 2010; EIU Country Finance, March 2010; Interviews January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	3	Reforms adopted in 2009 allow privatized pension funds (AFORES) to invest in PE/VC funds under a <i>certificado bursatil de capital de desarrollo</i> or CKD. CKDs must be traded on the Mexican exchange (BMV). There is no guarantee of payment of principal, interest or yields, and the certificates are tied to the issuing funds’ longer term success. Thus far 14 CKDs have been issued, demonstrating the AFORES’ appetite for diversification and the initial workability of the scheme. As of January 2010, AFORES can invest up to 10% of their assets in infrastructure, real estate, and other types of PE/VC funds. Insurance companies’ portfolio investments in corporations are limited to registered securities, or to those funds which the National Insurance Commission has individually approved for receipt of investment. (EIU Country Finance, March 2010; Interviews, January 2011, January 2010; AMEXCAP; bakermckenzie.com)
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. Pirated goods exist throughout Mexico. Mexican President Felipe Calderón and US President Barack Obama announced their intention in May 2010 to create a simplified IPR framework together. As of mid-2010, Mexico was also in the process of signing on to the Anti-Counterfeiting Trade Agreement. (EIU Country Commerce, August 2010)
Bankruptcy procedures/creditors’ rights/partner liability	2	Bankruptcy reforms of 2000 (amended in 2003, 2005, and 2007) in principle established clearer criteria, shorter time limits, greater ability to use and take collateral, and greater judicial power for restructuring or liquidating firms. In the view of Mexican fund managers, however, legal delays and lack of transparency in inter-firm transactions remain. According to the World Bank Doing Business 2011, bankruptcies are resolved much faster and with a considerably higher recovery rate compared to the regional average, albeit at higher cost. FICAPs have shared legal responsibility between general partners and investors, unlike offshore vehicles typically set up under limited liability rules. Partner liability must be addressed clearly in shareholder agreements, though legal enforceability is sometimes an issue. (EIU Country Commerce, August 2010, August 2009; Interviews, January 2011, January 2010; estandardsforum.org)
Capital markets development and feasibility of exits	2	Mexico’s capital markets continue to diversify their presence in the global market. In March 2010, Mexico’s stock exchange partnered with the US-based CME Group to facilitate derivative order routing with the Chicago Mercantile Exchange. IPOs resumed in 2010, with 6 new listings, including a private equity-backed firm. Legislation, which required small and medium-sized companies (SMEs) to enter the market as a SAPI, has been eased. SMEs no longer have to undertake the long three-year transition to another corporate form, the variable-capital stock-traded corporation. IPOs are being stimulated in part by added liquidity from the pension funds presence in the market. Funds can also directly buy stocks through a type of stock certificate. IPO exits are still not viable for smaller firms but there are prospects for medium-sized firms. (Interviews January 2011; EIU Country Finance, March 2010)
Registration/reserve requirements on inward investments	3	Under money laundering regulations, registration is easy and straightforward, and there are no reserve requirements or other exchange controls. (EIU Country Finance, March 2010; EIU Country Commerce, August 2010; Interviews, January 2011, January 2010)
Corporate governance requirements	3	Governance rules for listed corporations ( <i>sociedades anonimas</i> ) reflect global standards and provide protections for minority shareholders. Listed Mexican firms must comply with reporting requirements set out by the NYSE Exchange or NASDAQ. Practices among non-listed firms are improving. The SAPI corporate category created in 2004 allows firms to avoid some requirements established for conventional corporations for three years, in return for adopting the voluntary Code of Improved Corporate Practices. This has led to improvements, and fund managers report increased use and comfort with this corporate form in their investments. Overall, there remain concerns about corporate governance more broadly in Mexico in terms of weak oversight and reporting requirements, prevalence of tight family and interpersonal networks, and full enforceability of shareholder agreements. The World Bank’s Doing Business 2011 continued to rate disclosure requirements in Mexico well above the regional average, director liability on par with the regional average, and shareholder ability to file suit below average. (Interviews January 2010, January-February 2009; EIU Country Finance, March 2010; EIU Country Commerce, August 2010).
Strength of the judicial system	2	Investors and invested companies avoid using the courts due to delays. Delays are especially lengthy in real estate transactions. International commercial arbitration has grown in importance, though enforceability of such arbitration settlements can be problematic and expensive. Investors should also be aware that certain commercial cases that are classified as civil cases in the US could be treated as criminal in Mexico. (Interviews January 2010, US Investment Climate Statement 2010)
Perceived corruption	1	Government transparency has been improved through contracts and involvement of the private sector, though corruption still impedes private sector development. There are signs that the government is making efforts to reduce red tape and expand SARE, a fast-track scheme for opening businesses. Government transparency is still limited at the state and local levels, however. In 2010, Transparency International ranked Mexico 98 out of 178 countries for perceived transparency. Concerns remain about the ability of Mexican authorities to control the drug trade and about corruption in Mexican law-enforcement and judiciary agencies. (EIU World Investment Data and Forecasts 2010; EIU Country Commerce, August, 2010; US Investment Climate Statement 2010)
Quality of local accounting industry	3	Mexico is converging toward international standards. On November 11th, 2008, the securities regulator CNBV announced that all listed companies will be required to use IFRS starting in 2012. IFRS are still not permitted for unlisted firms. Mexican accounting principles (applicable to private firms), as well as those applicable to listed firms, require versions of inflation-adjusted accounting, but only when three-year inflation cumulatively totals 26% or more. International auditors are present and competent. (EIU Country Commerce, August 2010; Deloitte-IAS PLUS 2011; Interviews January 2011, January 2010)
Entrepreneurship	2	Interviews with fund managers confirm a generally upbeat view on the entrepreneurial climate. New business entry rates are stable, and the cost of starting a business is less than half the regional average. In the past year, the government has improved the entrepreneurial environment by launching an online business registration site. (WBGES database, World Bank Doing Business 2010, Interviews January 2011 and January-February 2009)

Country Profile

PANAMA

	2011	2010
Overall Score:	47	49
Regional Ranking:	8th (tied)	9th

Panama's overall score falls as a result of a decrease in the entrepreneurship indicator due to a significant drop in new business creation. However, this may be a cyclical trend which will reverse in coming years.

The country's overall economy continues to improve, receiving an investment-grade rating on its debt from Fitch Ratings in 2010. This places the country alongside larger regional economies, Brazil, Mexico and Chile. Justification for the upgrade included years of rapid economic growth, smart budgets and an overhauled tax system.

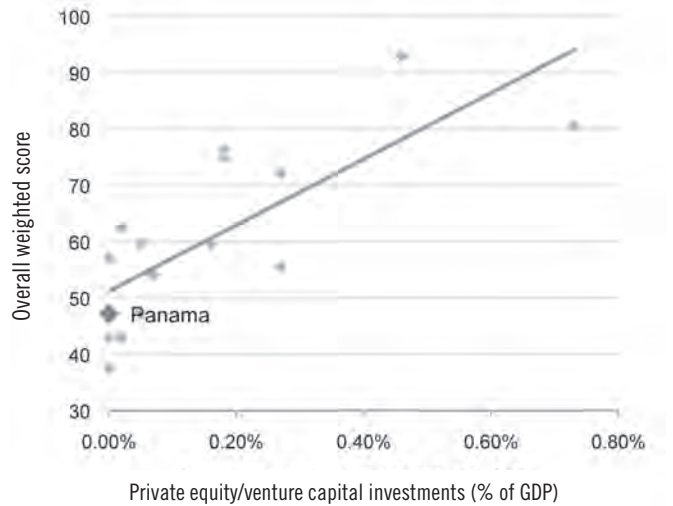
**Strengths:** Panama's principle strengths remain its dollarized economy and openness to inward portfolio investment.

**Challenges:** The country needs to improve on most key indicators for the PE/VC industry such as tax treatment, restrictions on institutional investors and minority shareholder rights. In addition, laws for fund formation and corporate governance standards are lacking.

	score	change
<b>Overall score</b>	<b>47</b>	<b>▼ 2</b>
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	2	
Protection of minority shareholder rights	2	
Restrictions on local institutional investors investing in PE/VC	2	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	2	
Entrepreneurship	0	▼ 1

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

Overall score against PE / VC investments



Panama ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	PE/VC activity is scarce and incipient in Panama, but there are a few funds operating across the entire Central American region that operate from and/or in the country. Since specifically designed PE/VC legal vehicles are lacking, other fund instruments (e.g., those intended for mutual funds) can be adapted in principle, but most operate from offshore. (EIU Country Finance, February 2009; Interviews, February 2010, January 2009)
Tax treatment of PE/VC funds & investments	2	A 10% withholding tax applies on dividends to investors from operations in Panama on nominal shares, though some funds use offshore vehicles to avoid this. A withholding tax rate of 6% (increased from 5% by the March 2010 fiscal reform) applies on dividends derived from operations outside of Panama as well as from the export of goods from Panama. The rate is 20% for bearer shares. All payments remitted abroad to beneficiaries not resident in Panama are subject to income tax withholdings if (1) the payments relate to the generation of income within Panama or conservation of a source of income within Panama and (2) the payments are considered deductible expenses for a payer operating from Panama. Law 8, the fiscal reform of March 2010, lowered the corporate income tax rate (retroactive to January 1st, 2010) from 30% to 27.5% of net income for fiscal year 2010, and to 25% for subsequent years. Panama only taxes domestically sourced and export income. No tax is imposed on capital gains from sales of shares registered with the National Securities Commission, if the sale is transacted by an authorised broker, results from a public offer, or from a merger or corporate reorganisation involving the exchange of shares. Other forms of capital gains, including the sale of real estate, are taxed as normal income. (Interviews January 2011, February 2010, January 2009; EIU Country Commerce, November 2010)



## Panama ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	No specific laws govern such matters as who can convene a shareholders' meeting or what constitutes effective control. However, in order for decisions made at a shareholders meeting to be valid, all shareholders must 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. The concept of minority rights is well understood, and legally enforceable, in this context. (EIU Country Commerce, November 2010; Interviews, January 2011, February 2010)
Restrictions on local institutional investors investing in PE/VC	2	Insurance companies are allowed to invest only in public-sector debt securities, mortgages, mortgage-backed securities and securities issued through the local stock market or duly approved by the National Securities Commission. The securities-issuing companies must have been operating for at least three years and be proven solvent. 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. For pension funds, 45% of assets may be invested in stocks, 40% in bonds and 15% in bank deposits. Pension funds remain an attractive, but only potential, investor for the PE/VC industry. (EIU Country Finance, February 2009; Interview, January 2011)
Protection of intellectual property rights	2	Licensing of products in Panama poses no significant challenges, and franchising of recreation, tourism, and restaurants is common. Enforcement of intellectual property rights has improved significantly in the past decade through the creation of a special prosecutor's office and a commercial court that hears IPR cases involving infringements of consumer-protection law. However, carrying out such cases is a slow process. (EIU Country Commerce, November 2010; US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	According to the World Bank's Doing Business 2011, liquidating a bankrupt business is a slightly quicker, but slightly more costly process in Panama than in Latin America as a whole, yielding a higher recovery rate in Panama compared to the regional rate. Legal rights of borrowers and creditors in Panama are rated somewhat above the regional average. Recent high-profile cases of insolvent firms have been handled in an orderly fashion. Liability beyond capital share is not a concern. (Interviews, January 2011, February 2010)
Capital markets development and feasibility of exits	2	The Panama Stock Exchange is well managed but used predominantly as a market for debt securities. The market for equities is small. As of January 2010, there were 22 listed shares and 25 quoted mutual funds on the exchange. Panama achieved investment grade status in March 2010, a significant step forward for its capital markets. This upgrade has the potential to attract new players to Panama, add to capitalization, and eventually make exits possible for PE investments in larger firms. (Interviews, January 2011; EIU Country Finance, February 2010; US Investment Climate Statement 2010)
Registration/reserve requirements on inward investments	3	Panama has no exchange controls, and repatriation of capital is unrestricted. But it does have reporting requirements designed to prevent money-laundering and terrorist financing. No reporting restrictions apply to companies or private individuals remitting royalties or fees, dividends, profits, interest, or principal on foreign loans. The remittance process already requires disclosure of the beneficiary and its representative, along with the physical destination of funds. There are no reserve requirements or restrictions on portfolio investment. (EIU Country Commerce, November 2010)
Corporate governance requirements	2	Corporate governance standards under the commercial code are fairly minimal. The specific laws of incorporation of each corporation ( <i>sociedad anonima</i> ) determine who can convene a shareholders meeting. For decisions made at a shareholders meeting to be valid, all shareholders must be present, or there must be a quorum and all absent shareholders must have communicated their wish to abstain. No legal requirements exist on the percentage of shares that constitute effective control. Typically, funds establish clear terms on these issues in shareholder agreements, and when registered with authorities, such agreements are well understood and enforceable. Within the regional context, World Bank Doing Business 2011 scores Panama very low on disclosure requirements, low on director liability, and high on shareholder ability to sue. (EIU Country Commerce, November 2010; Interviews, January 2011, February 2010)
Strength of the judicial system	2	Courts in Panama generally uphold contracts, although the system is slow and tends to be vulnerable to backlogs and corruption. While commercial law is comprehensive, the system has weak capacity to resolve contractual and property disputes. In December 2010, the acting attorney-general resigned after allegations that suspected drug-traffickers received preferential treatment from some prosecutors. A new attorney general was confirmed in January 2011 and was welcomed by civic groups and lawyers due to his experience prosecuting organized crime and intellectual property cases. (EIU Country Report 2011, US Investment Climate Statement 2010)
Perceived corruption	1	Panama's legal system and civil service suffer from corruption and a lack of independence, which can put foreign investors at a disadvantage. In late 2010, Transparency International stated that Panama had failed in a number of ways to fight corruption, including nepotism, conflicts of interest, lack of international anti-corruption compliance, and pressure on media and anti-corruption activists. There have also been instances of private sector contracts awarded without a bidding process and lack of pre-auditing of several government department projects. (EIU Country Report 2011, US Investment Climate Statement 2010)
Quality of local accounting industry (international standards)	2	As of tax year 2009, IFRS are required for firms with earnings over US\$250,000. However, there has been some legal challenge and resistance to implementation of these standards. New requirements in 2010 oblige smaller firms to operate based on a modified version of IFRS, but implementation isn't expected until 2011. SMEs, traditionally family-owned, have had poor accounting standards. Big international accounting firms are present. Panamanian law and practice in areas such as accounting make it advisable to retain local counsel, according to the US Country Commercial Guide 2010. (Deloitte IAS PLUS 2011; EIU Country Commerce, November 2010; Interviews, January 2011, February 2010)
Entrepreneurship	0	Panama saw a significant decrease in the new business entry rate year on year, which resulted in a decrease in the country's score on this indicator. However this is the result of a cyclical downturn resulting from the crisis in the US and developed markets, and may recover in subsequent years. At the same time, government policy has improved the entrepreneurial climate in the past year. Corporate taxes have decreased, and business registration processes have been improved. (Interviews, January 2011, February 2010; WB Doing Business 2011)

Country Profile

PERU

	2011	2010
Overall Score:	47	51
Regional Ranking:	8th (tied)	8th

Peru's score drops this year due to a decrease in scores for laws on fund formation and restrictions on local institutional investors. The changes reflect slow movement in the formation of new funds and the effects of 2009 regulatory changes that capped local pension funds commitments to private equity at 3%. In general, there seems to be a conservative attitude towards alternative investment, with local institutional investors slow to commit capital to local and international funds. There is an expectation that a change could occur following the outcome of the 2011 presidential elections.

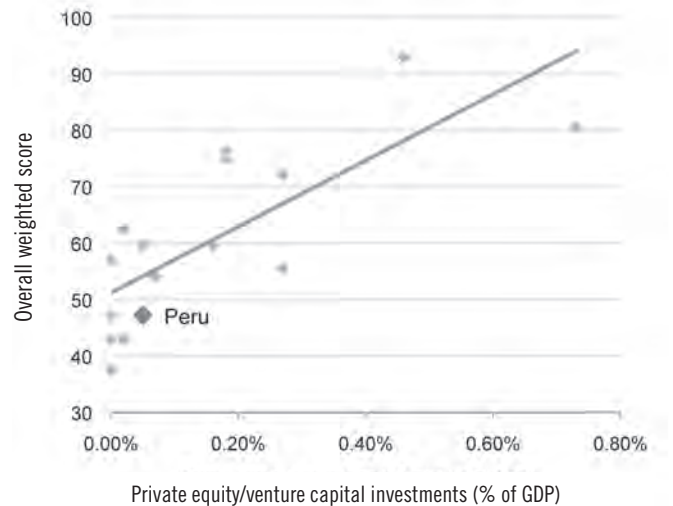
**Strengths:** The use of international accounting standards continues to be a key strength for Peru. In addition, the country fares well in openness to inward portfolio investment and corporate governance when compared with regional leaders.

**Challenges:** Peru now ranks among the bottom of the region in regards to laws on fund formation due to inefficiencies that slow the approval of new funds. Other priorities remain minority shareholder rights and tax laws. Corruption and a weak judicial system also remain problematic.

	score	change
<b>Overall score</b>	<b>47</b>	<b>▼ 4</b>
Laws on PE/VC fund formation and operation	1	▼ 1
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	1	
Restrictions on local institutional investors investing in PE/VC	2	▼ 1
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	1	
Perceived corruption	1	
Quality of local accounting/use of international standards	4	
Entrepreneurship	2	

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

Overall score against PE / VC investments



Peru ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	1	This score has been downgraded because the securities commission (CONASEV) and the banking superintendency have overlapping jurisdiction for the regulation of funds, causing important delays in the approval of new funds. Regulations have not changed in recent years; current incumbents of both regulators have displayed a conservative attitude toward the opening of new funds and the entry of new actors into the PE/VC market. <i>Fondos de inversion</i> continue to be the only legally established framework and are more suited to PE than VC. Since foreign investors face steep tax rates, offshore co-inversion funds typically have to be set up. (Interviews, January 2011, January 2010; EIU/LAVCA 2011 Survey)
Tax treatment of PE/VC funds & investments	1	Although funds are "pass-through" for income tax purposes since 2004, in general the tax environment in Peru is complex and expensive with a corporate rate of 30%. Each investor is required to take into account its distributive share of all items of the fund's income, gain, loss, deduction and credit. Capital gains are taxed at the normal corporate rate. Individuals face a capital gains tax of 5% on the sale of securities of Peruvian companies. A 4.1% withholding tax is levied on resident shareholders for dividend distributions, and non-resident shareholders have the 30% corporate tax withheld at the source. As of March 1, 2011, the general sales tax rate, assessed on management fees charged by VC funds, has been reduced to 18%. (EIU Country Commerce, June 2010; Interviews, January 2011, January 2010; Procapitales)

## Peru ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	Minority rights are weakly protected in privately held firms. In general, the minimum quorum for a general meeting is 50% of subscribed voting shares on the first call, and most decisions are taken by a simple majority of shares present. For major decisions the minimum quorum is two-thirds on the first call and 60% on the second, and the decision requires an absolute majority of the total number of voting shares issued by the corporation. Joint stock corporations ( <i>Sociedades Anónimas Abiertas</i> "SAAs"), must disclose non-confidential information at the request of shareholders representing at least 5% of capital. Shareholder agreements and private arbitration are the main recourse to strengthen minorities, though their legal enforceability is sometimes limited. Except at SAAs, bylaw restrictions on share transfer are permitted. (EIU Country Commerce, June 2010; Interviews, January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	2	This score is downgraded because regulatory authorities have stiffened enforcement of due diligence requirements for PE firms raising capital from the country's pension funds (AFPs). As a result, getting approval for new funds has become extremely difficult. AFPs may invest up to 3% of AUM in alternative assets (including PE/VC funds). The 3% limit may be invested in both domestic and international funds. There is no specific category for PE/VC investments, but rather a broad "variable income" category for AFP's domestic portfolios. There was a spike of pension fund investment in PE in 2007-08. Investments in this asset class have to be valued at book rather than fair market ("mark to market") value. Insurance firms face more restrictions and are not active investors in PE/VC. (Interviews, January 2011, January 2010; EIU/LAVCA 2011 Survey)
Protection of intellectual property rights	2	The legal framework for IPR has improved, but enforcement remains weak. Peru remains on USTR's Watch List, due to rampant piracy, low enforcement, and generally weak penalties for violators. Laws remain robust and recognize patents, trademarks, copyrights, and industrial designs and models. Despite the criminalization of intellectual property rights violation, 98% of music and 71% of software is still pirated. (EIU Country Commerce, June 2010; US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy procedures set up under the National Institute for the Defense of Free Competition and Intellectual Property (INDECOP) remain subject to delays and judicial intervention, but there has been some progress in the ability to restructure or liquidate troubled firms. The creditor hierarchy is similar to that of US bankruptcy law. Compared to regional averages, the World Bank's Doing Business 2011 finds that bankruptcy settlements take a little less time, cost much less, and award a little less to plaintiffs. In general, under Peruvian Business Law, shareholder liability is limited to capital share. (US Country Commercial Guide 2010; Interviews, January 2011, January 2010)
Capital markets development and feasibility of exits	2	Stock exchanges in Peru, Colombia, and Chile began a trial of cross-border trading in certain stocks, which could lead to a second phase of a common exchange between the three countries. A merger of the exchanges would increase exchange market capacity and could improve the market for IPOs in the medium-term. Larger private firms sometimes try to restrict outsider interest in their companies (both domestic and foreign) through "cross-shareholding" or "stable shareholder" arrangements. (Interviews, January 2011; Bloomberg; US Investment Climate Statement 2010)
Registration/reserve requirements on inward investments	3	Overall registration requirements are simple and straightforward. Foreigners can participate directly in the capital markets, and there are no reserve requirements. Foreign exchange from equity investments can be either converted to local currency or maintained in foreign-currency-denominated deposits in the financial system. A tax on all financial transactions was implemented in March 2004, with rates lowered most recently to 0.005% from April 1st, 2011. (EIU Country Commerce, June 2010)
Corporate governance requirements	3	Peruvian companies face strong financial disclosure requirements. The World Bank's Doing Business 2011 reports that the country is slightly below the regional average in terms of director liability. Board composition and decision-making are only partially regulated and are often addressed through shareholder agreements. Closed Stock Corporations ( <i>sociedades anónimas cerradas</i> ) have from two to 20 shareholders, and have fewer restrictions. CONASEV set up a voluntary corporate governance code in 2002 under which open joint stock corporations ( <i>Sociedades Anónimas Abiertas</i> ) could become signatories to a public registry and agree to submit annual reports on governance compliance. Annual data on compliance are published with a one-year lag. In December 2010 CONASEV released 2009 data, which indicated that 199 of the 223 corporations subject to the norms showed a "slight" improvement in practices from 2008, based on a review of a sample. (Interviews, January 2011, January 2010; EIU Country Commerce, June 2010; CONASEV website)
Strength of the judicial system	1	Lima's commercial courts have reduced the timeframe for business cases from an average of two years to two months. Foreign companies have found contracts difficult to enforce, and there are ongoing allegations of corruption and interference within the judicial system. There are, however, several bilateral agreements that Peru has signed, which offer foreigners alternative dispute settlement procedures. (EIU Risk Briefing; US Investment Climate Statement 2010)
Perceived corruption	1	Corruption and a large informal economy continue to damage efficiency and state functioning in Peru. Alan García of the <i>Partido Aprista Peruano</i> will end his term in July 2011 with reduced political capital and a severely weakened party after numerous corruption scandals involving the party's leaders. (EIU Country Risk Service 2011, Transparency International)
Quality of local accounting industry (international standards)	4	IFRS are required for listed and non-listed firms. International standards are in use, although inflation adjustment is required. International firms are present in Peru. Standards tend to be more uniformly followed by listed firms. (Deloitte/IAS PLUS 2011; Interviews, January 2011, January 2010)
Entrepreneurship	2	The business entry rate remained stable and costs of starting a business are relatively low by regional standards. In the past year, the government has facilitated the ease of starting new businesses. In particular, Peru has simplified requirements for operating licenses and has also improved efficacy in registering property. (WBGES database, World Business Doing Business 2010)

Country Profile

TRINIDAD AND TOBAGO

	2011	2010
Overall Score:	56	56
Regional Ranking:	6th	6th

Trinidad and Tobago's score remains unchanged this year after a significant drop in its overall score in 2010. Overall the country continues to rank in the middle of the region for its business environment, but this is likely a result of its oil and gas wealth, not PE/VC investment. However, the country does have a favorable tax environment for PE/VC and relatively strong use of international accounting standards.

The country elected a new prime minister in 2010, which may create an opportunity for political renewal in a country where two opposition leaders have alternated power for nearly two decades.

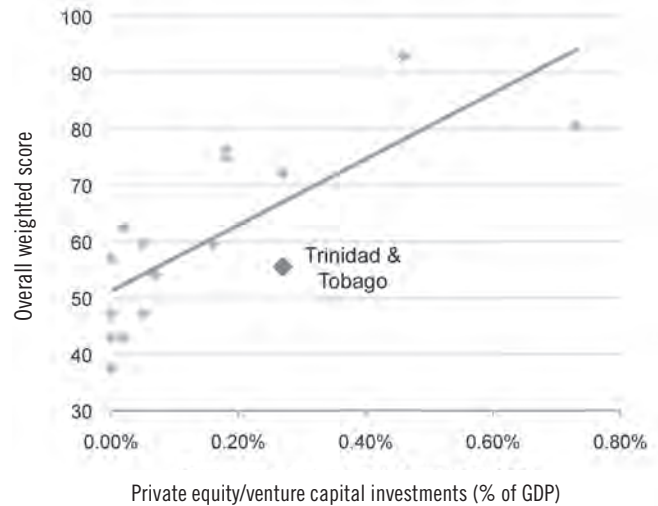
**Strengths:** Openness to inward investments and favorable tax treatment remain the country's main strengths, along with the use of international accounting standards.

**Challenges:** Most of the areas important to PE/VC development need improvements, including local fund formation, bankruptcy procedures, corporate governance and enforcement of intellectual property rights.

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

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

Overall score against PE / VC investments



Trinidad and Tobago ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	The basic framework created by the Venture Capital Act of 1994, with amendments in 2004, still remains in place and is less than ideal. It serves primarily as a vehicle for one-off tax incentives and is seldom used. The act requires pre-approval by a government agency, which remains understaffed. It does not allow for closed-end funds, and instead assumes that all investments are "evergreen." It also does not make provision for dividends, and exit strategies are unclear. However, it is possible and customary to register closed-end funds as "reporting issuers" under the Securities Industry Act; the Inspector of Financial Institutions at the Central Bank of Trinidad and Tobago then must grant approval for investment of Statutory Funds under section 1(i) in the Second Schedule to the Insurance Act. Such closed-end funds, intended for institutional investors, are restricted to "sophisticated purchasers" as defined in the Securities Industry Act of Trinidad and Tobago. (Interviews, January 2011, February 2010; www.dynamic-equity.com; Inter-American Development Bank, internal document, November 2010)
Tax treatment of PE/VC funds & investments	3	There remains a fairly light tax environment for PE/VC investments, and no concerns about pass-through. Tax incentives are available for funds registered under the VC Act. Funds not registered under the VC Act are taxed at the standard corporate rate of 25%, fairly low by regional standards. Dividends are tax exempt for local investors after one year, and there is no capital gains tax; this obviates concerns about pass-through laws. An issue for foreign investors remains the withholding tax of 10% on dividend remittances, but Trinidad has double tax treaties which would negate that for recipients in most relevant countries. (Interviews January 2011, February 2010; EIU Country Report, January 2011)

## Trinidad and Tobago ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Confidence in existing practices and protections remains weak. Investors in a large, failed financial services firm, which has been propped up by the government since 2009, are threatening legal action. The Companies Act of 1995 provides some rights, such as disclosure of directors and substantial shareholders, the right to attend meetings and vote, and right to fair notice, including about votes to sell, lease or transfer substantial company assets, and right to equitable buy-out in latter circumstances. The law is based on Canadian regulations, and jurisprudence is similar to that in Commonwealth countries. However, given delays and expense, enforceability of rights and lack of accessible remedies are an issue for minority investors. With weak fiduciary responsibility of management, strong potential for conflicts of interest, and poor checks and balances, minority investors are often in a weak position. (Interviews February 2010, January 2009; EIU Country Report, January 2011)
Restrictions on local institutional investors investing in PE/VC	2	As of mid-2008, the Central Bank loosened the cap of 50% that may be invested by pension funds and insurance companies in variable-rate instruments. The firms and funds in question must still be registered with the local securities commission, and must be solvent. However, thus far institutional investors have still not demonstrated an appetite for investing in this risky, unknown asset class due to the corporate governance and minority rights concerns noted above. Also, regulation of the insurance and pension funds is generally weak and outdated. (Interviews January 2011, February 2010; IDB internal document, November 2010)
Protection of intellectual property rights	2	IPR legislation is consistent with WTO standards and is rated "Trips-plus" by US Department of Commerce. However, enforcement issues remain in some copyright areas, especially in music and video industries. Piracy prosecutions have been rare, but the country recognizes these challenges and has taken steps to address concerns. (Interview, January 2011; EIU Risk Briefing 2011; US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	2	The law is a hybrid of Canadian and U.K. norms. Firms can be liquidated but not reorganized with debt protection, yet liquidations tend to be lengthy and costly. According to a 2005 IDB study, creditors' rights are well protected, with no automatic stay on assets, secured creditors paid first, and restrictions on reorganization. Partner liability is limited to capital share. (Interviews February 2010, February 2008)
Capital markets development and feasibility of exits	2	Capital markets remain fairly well developed by modest Caribbean standards, with a full range of financing options open to firms. The stock market is small but well-functioning, with no restrictions on foreign investor borrowing. The government has its own security and exchange commission for market regulation, and the stock exchange has a takeover and merger code for its listed companies. However, the SEC regulation of the market is perceived to be poor, and though the stock market is generally more robust than others in the region, stockholding is concentrated in the hands of institutional investors. The combination of improvements in regulation, along with inflation easing, should increase the contractual savings sector and potentially improve capital market depth. (Interviews January 2011; US Investment Climate Statement 2010; EIU Risk Briefing)
Registration/reserve requirements on inward investments	4	There continue to be no reserve requirements or exchange controls. Remittances are unlimited. Public companies have to report foreign ownership in excess of a certain percentage to the Central Bank, but this is a simple procedure and there is no restriction. (Interviews, January 2011, February 2010; US Country Commercial Guide 2009)
Corporate governance requirements	2	The Companies Act of 1995 continues to be recognized as incomplete by authorities. Proposals to adopt more stringent standards and a formalized set of codes to improve monitoring and enforcement have not been acted upon. Investors in PE/VC funds report difficulties in areas such as fiduciary responsibility, conflicts of interest, and absence of checks and balances, even when these issues are spelled out in shareholder agreements (whose legal enforceability and lack of actionable remedies remain a concern). The securities and exchange commission continues to periodically issue stricter guidelines for publicly traded companies based on consultations with the industry. World Bank Doing Business 2011 scores Trinidad right at the regional average for disclosure requirements but significantly above average on the ability of shareholders to file suit and above average on director liability. (Interviews, January 2011, February 2010, Eastern Caribbean Securities Exchange)
Strength of the judicial system	2	The judicial system in Trinidad and Tobago upholds the sanctity of contracts and appears to treat domestic and foreign investors equally. However, a backlog of cases can cause long delays in the process. The length of litigation also increases expense, and interviews indicate that shareholder agreements are virtually unenforceable, complicating arbitration procedures. Still, the Bilateral Investment Treaty with the US allows for alternative dispute resolution procedures for US investors, such as binding arbitration. (Interviews, January 2011; US Investment Climate Statement 2010)
Perceived corruption	1	Trinidad and Tobago continues to struggle with corruption. Although it does not appear to seriously damage business or government operations, public perceptions of corruption are strong and hinder investments in and by PE/VC funds. However, a new coalition government was elected in mid-2010 on an anti-crime, anti-corruption platform, and is under pressure to deliver rapid improvements. (EIU Risk Briefing; US Investment Climate Statement 2010)
Quality of local accounting industry (international standards)	3	While IFRS are required for all listed and unlisted firms, in the view of fund investors, there are frequent problems in terms of the transparency of finances. Moreover, private closed companies can elect not to be audited in practice, though those receiving external equity typically will do so under shareholder agreements establishing this obligation. International accounting firms are present, but find that they can not reliably evaluate the finances of invested companies. In the wake of the high-profile post-2009 bailout of financial services firm CL Financial, auditors are reluctant to give independent asset valuations. There are restrictions on the ability to rectify impaired asset values in such audits. (Deloitte IASPLUS 2010; Interviews January 2011, February 2010; US Country Commercial Guide 2009)
Entrepreneurship	2	The entrepreneurial climate and public support for entrepreneurship are fairly strong. Costs of starting businesses remain among the lowest in the region, but lack of access to capital and reliable credit information is an issue. The time and procedures required to start a business are largely in line with regional averages. (WB Doing Business 2010; Interviews, January 2011, 2009)

Country Profile

URUGUAY

	2011	2010
Overall Score:	57	57
Regional Ranking:	5th	5th

Uruguay remains in the top five in the regional rankings, with little to no significant changes in its PE/VC industry in 2010. While industry specific regulation is lacking, the country's macro environment remains favorable. It is open to foreign investment and is second only to Chile in the region in regards to perceived corruption. While the local market is small, the country is starting to see entrepreneurial activity, especially in the technology sector, which may be a result of the tax incentives for start-ups established in 2009.

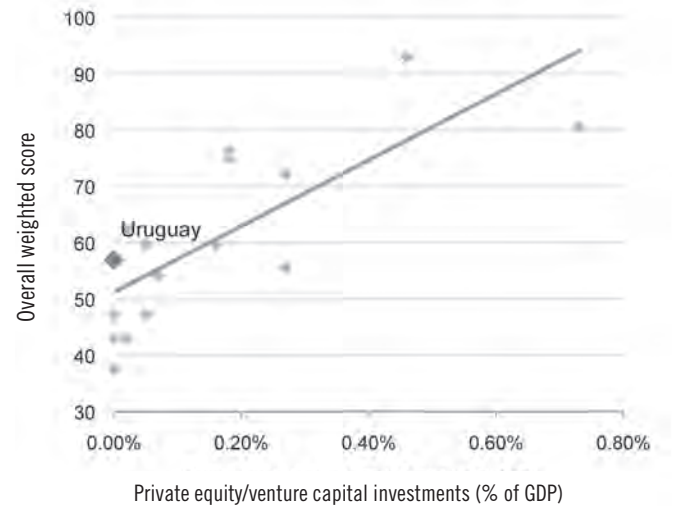
**Strengths:** Uruguay ranks favorably in its tax treatment, openness to inward investment, accounting standards and bankruptcy procedures. It also ranks above the regional average in perceived corruption.

**Challenges:** The country needs to strengthen its legal framework for local fund formation and operation, as well as reduce restrictions on institutional investors and improve corporate governance standards. Its capital markets remain underdeveloped.

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

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

Overall score against PE / VC investments



Uruguay ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	A trust ( <i>fideicomiso</i> ) legal figure exists and can be adapted for PE/VC funds, but is cumbersome for foreign investors. Offshore vehicles can be set up with participation by Uruguayan investors, and are generally more attractive and common. (Interviews January 2010, February 2009)
Tax treatment of PE/VC funds & investments	3	Since July 2007 corporate income tax ( <i>impuesto a la renta de la actividad empresarial</i> —IRAE), has stood at 25%. Individuals and entities also pay a net worth tax ( <i>impuesto al patrimonio</i> ) on assets held in country, at a rate of 1.5% generally and of 2.8% for financial institutions. Stocks issued on the exchange are not counted against the issuer's net worth. Capital gains are taxed only as part of normal corporate income under requirements to adjust for (though capital gains are subject to personal income tax). Dividends paid to resident individual shareholders and non-resident shareholders are subject to a 7% tax while those received by resident corporations are exempt. An act passed on January 1, 2011 assessed personal income tax on returns from investments abroad that are directly or indirectly paid to resident individuals, at a rate of 12%, granting a tax credit for tax paid abroad. Double taxation is generally not an issue. (Interviews, January 2011, January 2010; EIU Country Commerce, April 2010)

## Uruguay ScoreNotes

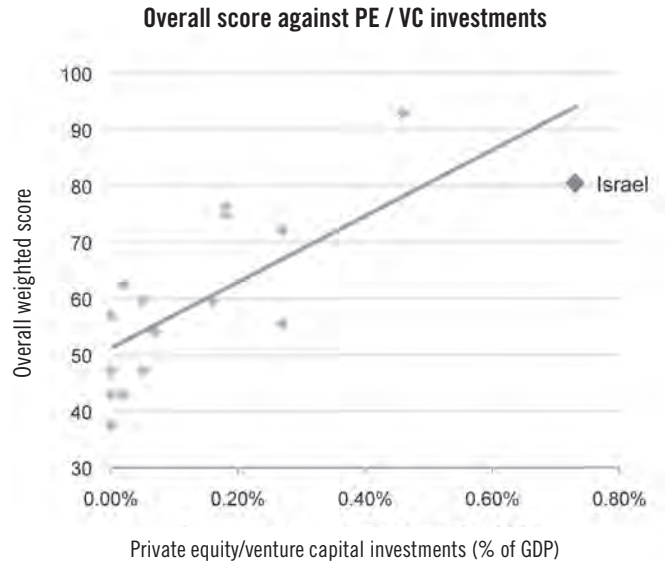
Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Minority rights are moderately protected, though the lack of transparency hinders, for instance, the successful issuance of securities. Shareholder agreements are a common and generally effective response for PE/VC investments. (EIU Country Commerce, April 2010; Interviews January 2011, January 2010)
Restrictions on local institutional investors investing in PE/VC	2	Pension funds are able to invest only in locally domiciled companies, trusts or publicly traded investment funds, which has effectively barred their participation as LPs in PE/VC funds. Private insurance companies mobilise fewer assets and are virtually absent. (Interviews January 2011, January 2010)
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 improved both its copyright and trademark enforcement in recent years. (EIU Country Commerce 2010, US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	3	Act 18,387 of October 23 2008, known as the Bankruptcy and Business Reorganisation Act (BBRA), improves creditors' alternatives for action against a defaulting debtor, and provides for more expeditious collection proceedings. The bankruptcy law creates a uniform procedure for all types of debtors, makes it easier for creditors to demand a reorganisation before a judge, introduces speedier statutes of limitation not subject to modification by the parties, and reduces the number of privileged creditors who may collect before other creditors. There have been some cases of successful restructurings or liquidations under the law, though the procedure can be slow and is more advantageous to company personnel in terms of repayment. The law allows the trustee, with the permission of the judge, to pay labor creditors upfront without going through a long legal procedure, as long as the debtor's funds are liquid or easily attainable and their use will not obstruct the debtor's business. World Bank Doing Business 2011 reports that the resolution of bankruptcies is faster, less than half as costly, and with a higher recovery rate than the respective regional LAC averages. Partner liability is limited to subscribed capital shares. (Interviews January 2011, January 2010; EIU Country Commerce, April 2009; iflr1000.com)
Capital markets development and feasibility of exits	1	The capital markets in Uruguay remain underdeveloped, and the country relies heavily on the banking sector for capital sources, though institutional investors, through the issues of bonds and trust interests, are gaining more space. The Montevideo exchange is only comprised of a few firms with little trading. Most operations are in the public sector, and the country has plans for a domestic debt clearinghouse to lure international capital. Uruguay remains open to foreign investment, and the government does not require screening mechanisms or government authorization to access capital markets. (EIU Country Commerce, April 2010; Bloomberg, US Investment Climate Statement 2010)
Registration/reserve requirements on inward investments	3	Uruguay has simple registration rules with no reserve requirements or exchange controls. The purchase and sale of foreign currency is unregulated, as are payments abroad in foreign currency. However, all foreign-exchange transactions must be made through the banking system or through currency-exchange houses authorised by the central bank ( <i>Banco Central del Uruguay</i> ). There are no legal restrictions on remittances, except that the remitter must register and state the purpose of the remittance. Commercial or financial agreements may be drawn up in foreign currency. Legal remittance may be either in the local currency or in the foreign currency originally agreed, and must be registered with the Central Bank for statistical purposes. (Interviews, January 2011, January 2010; EIU Country Commerce, April 2010)
Corporate governance requirements	2	The system has weak transparency of finances and decision-making, particularly for closed SAs. At the end of each fiscal year, open SAs must publish general balance sheets and profit-and-loss statements, including allocation of earnings, in the official gazette ( <i>Boletín Oficial</i> ). Closed SAs need not publish their financial statements unless they invoice 100,000 re-adjustable (about US\$2.5M in March 2011) or have total assets exceeding 30,000 indexed units (an inflation-indexed unit of account equivalent to about US\$740,000 in March 2011). Disclosure requirements and director liability remain weak by regional standards, though shareholder ability to bring suits is still strong, compared to regional averages published by World Bank Doing Business 2011. Funds deal with these issues effectively through shareholder agreements. Internal auditing is compulsory for open SAs and optional for closed SAs, and is conducted by a fiscal commission appointed by the shareholders' meeting. If there is suspicion of serious mismanagement, disclosure of company books may be required in response to a formal request by shareholders representing at least 10% of capital. (EIU Country Commerce, April 2010; Interviews January 2011, January 2010)
Strength of the judicial system	3	An improved arbitration process has advanced the strength of the judicial system in previous years. Investors are able to choose between the judiciary system or arbitration for dispute settlement. Moreover, the judicial system is highly independent and free from government interference. However, the judicial process still continues to function slowly. Bankruptcy cases are particularly prone to delays and often take over two years to close a business with around a 40% recovery rate. These judicial delays result in increased expenses and often render trials uneconomical. (EIU Risk Briefing; US Investment Climate 2010)
Perceived corruption	3	There are strong laws to prevent bribery and corruption in Uruguay. The country's rank in Transparency International's 2010 Corruption Perceptions Index improved one rank and is only second in the region to Chile. Some perceptions of public sector corruption remain, but they are not seen as an obstacle to investment. (US Investment Climate Statement 2010; Transparency International)
Quality of local accounting industry (international standards)	3	By law, all Uruguayan companies must follow IFRSs existing as of July 31st 2007. There are also a few additional local standards, which must be met for compliance. 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 in bringing the accounts of invested firms up to standards. (Interviews, January 2011, January 2010; Deloitte IAS PLUS 2011)
Entrepreneurship	2	The creation of new start-up businesses is constrained by a culture of small family businesses. The costs of starting a new business in Uruguay are high. On the other hand, the country is encouraging entrepreneurship, and in recent years, new processes for speeding up incorporation have been approved. (Interviews January 2011; WBGES database; WB Doing Business 2010)

Country Profile

ISRAEL

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

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



Israel ScoreNotes

Aspects	Score Notes (4-0)
Laws on PE/VC fund formation and operation	4 Clear, favourable laws have permitted a large-scale VC industry to develop since the early 1990s, with a smaller PE industry. The scope of VC activity remains high relative to the size of the economy, and there is a mix of domestic and foreign fund managers with a heavy reliance on foreign fundraising. Investment declined sharply in 2009 with the global economic recession, but began to recover in 2010. In an effort to decrease Israel's reliance on VC raised abroad, the Cabinet voted in mid-July 2010 to allocate government funds during 2011-12 to hedge risks for local institutions investing in VC. The program will cover up to 20% of any future losses by institutions investing between US\$7M and US\$36M in a VC fund. (EIU Country Finance, December 2010)
Tax treatment of PE/VC funds & investments	3 Companies are generally subject to tax on their corporate income, and dividends paid to shareholders are usually subject to dividend tax where income is distributed. Dividends and interest are subject to a withholding tax, but the terms of double taxation treaties with specific countries may affect this. A "significant shareholder" in a company (defined as holding 10% or more) pays tax on dividends received from the company at 25%. Dividends received from a non-resident company are taxed at a maximum rate of 25%, unless this is reduced through a direct foreign tax credit. A withholding tax of 20%, considered final, applies to dividends remitted by an Israeli company to individuals, whether non-residents or resident, except "significant shareholders", but this rate is generally reduced for individuals overseas, thanks to tax treaties. Since January 1st, 2009, foreign investors are exempt from tax on all equity investments made from that date. In May 2009, the Ministry of Finance exempted foreign investors from tax on profits derived from PE funds, aligning tax benefits on these funds to those of Israeli VC funds. Rates of capital gains tax on Israeli individuals and institutions are 15% (on inflation-adjusted gains) and 20% (on nominal profits on unlinked instruments). In July 2009, Israel implemented a multi-year tax reduction program, which lowered the corporate income tax rate to 25% for 2010, dropping a percentage point a year to 20% in 2015. A final 2% reduction is planned for 2016, reducing the tax rate to 18% in 2016. (EIU Country Commerce, August 2010; Israel Venture Association www.iva.com)
Protection of minority shareholder rights	4 For all limited liability companies (publicly traded or not) a minority exceeding 25% may block most decisions. Election of board members is determined by simple majority of those attending the annual meeting. Institutional investors with more than 5% share must attend and vote. (EIU Country Commerce, August 2010)
Restrictions on local institutional investors investing in PE/VC	3 Since 2002, all restrictions have been lifted for insurance companies, subject only to prudential oversight by regulators. Insurers play the central role in the management of financial assets in Israel. Despite the insurance industry's recovery from the global crisis, it has undergone considerable consolidation. The government has tightened regulations on risk management and capital adequacy and instituted stress tests, though no specific limits have been established on investment categories. Israel is in the process of adopting the European Union's Solvency II requirements for insurance companies, which impose economic-based solvency standards. While pension funds have enjoyed a similar freedom to invest in alternative assets such as securities and have played an important role in infrastructure, they too have come under tighter financial supervision and regulation. Precise impacts on PE/VC going forward remain unclear, and recent changes to underwrite losses in VC could cushion some of these impacts. (See Laws on fund formation). (EIU Country Finance, December 2010, December 2009)



## Israel ScoreNotes

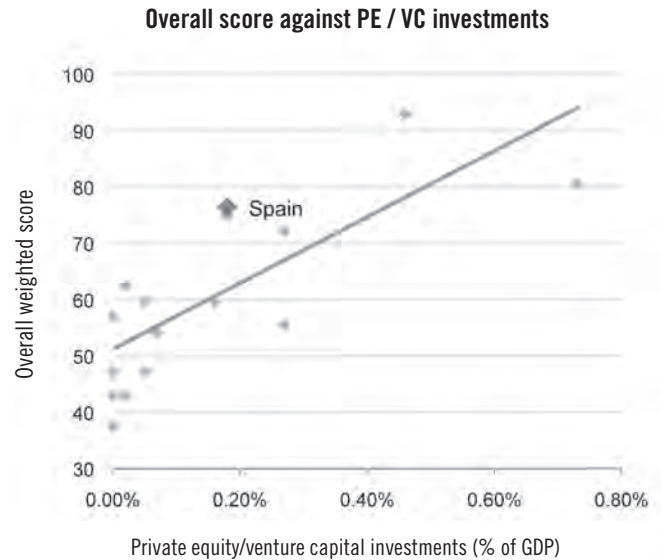
Aspects	Score Notes (4-0)
Protection of intellectual property rights	2 In February 2010, Israel and the US reached an agreement to upgrade Israel from the US Trade Representative's Priority Watch List to simply the Watch List. This agreement was met after Israel agreed to improve data protection, the term of pharmaceutical patents, and the provisions on publication of patent applications. 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. Infringement of patents, trademarks and designs is usually met with civil remedies, including an injunction and damages in Israel. For flagrant infringement, a company may sue for double damages. (EIU Country Commerce, August 2010; US Trade Representative)
Bankruptcy procedures/creditors' rights/partner liability	2 Settling a bankruptcy continues to be a very lengthy and costly process as measured against OECD standards, with claimants averaging a lower recovery rate, according to World Bank Doing Business 2011. The Companies Act provides general guarantees of limited liability similar to most Western countries, though courts may lift in cases of criminal abuse or malfeasance. (EIU Country Commerce, August 2010, August 2007)
Capital markets development and feasibility of exits (ie, local IPOs)	3 The Tel Aviv Stock Exchange (TASE) delivered strong performance in 2010. Much of the growth resulted from the strong rebound of the Israeli economy from the 2008-09 global recession, in addition to oil discoveries off the coast of Israel. The economic recovery in 2010 also led to an increase in IPOs on the TASE. However, this activity was still far below levels preceding the 2008-09 global financial crisis. According to TASE figures, there were 17 IPOs in the January-September 2010 period. These figures compare with 56 IPOs in 2007. (EIU Country Finance, December 2010)
Registration/reserve requirements on inward investments	3 There is registration for monitoring purposes by Bank of Israel, but there are no reserve requirements or exchange controls. (EIU Country Commerce, August 2010)
Corporate governance requirements	4 In 2007 the Israel Securities Authority (ISA) adopted the recommendations of a 2006 government committee, and has been formulating corporate governance regulations for public companies according to its principles. Some of the regulations were approved by the parliament in December 2009 and will be applied to the full year financial reports of 2010 for the first time, including declarations of accuracy of financial statements by senior executives and an appendix by the board and management regarding effectiveness of the internal auditing and principles of disclosure. In addition, a statement by an outside auditor regarding the effectiveness of internal auditing process must appear. Other recommendations have been phased in gradually while others have not yet been approved by the parliament. There are fewer formal requirements for privately held companies. Election of board members usually requires a simple majority (more than 50%) of voters in attendance. Israel continues to score well above OECD averages on disclosure requirements, director liability, and power of shareholders to file suit. (World Bank Doing Business 2011; EIU Country Finance, December 2010)
Strength of the judicial system	3 Despite the absence of a written constitution, Israel has a system of basic laws which lay out civil and political rights. The Supreme Court has also become particularly active in strengthening the constitutional protection of basic laws. The country has a strong and independent judiciary, and a solid framework covering issues such as monopoly power and competitive practices. Contractual arrangements in Israel are generally secure. In addition, laws governing commercial activity and the status of foreign firms in the country are clear. (EIU Risk Briefing; EIU Country Commerce, August 2010)
Perceived corruption	3 Transparency International's Corruption Perceptions Index raised Israel's ranking to 30th in 2010 from 32nd place in 2009, out of 180 countries surveyed for public-sector corruption. Israel ranked third for the Middle East region, behind Qatar and the United Arab Emirates for 2010. While political corruption remains an issue, it is not severe. Israel signed the OECD Bribery convention in 2008, and has criminalized bribery. (Transparency International; EIU Country Commerce, August 2010; EIU Risk Briefing)
Quality of local accounting industry (international standards)	4 IFRS continue to be required for listed companies (except banks), and permitted for non-listed firms (but not banks). The process of adjustment of Israeli standards to IAS was completed in the first quarter of 2008. The largest international accounting firms maintain offices in Israel. (Deloitte IASPLUS 2011; EIU Country Commerce, August 2010, August 2009)
Entrepreneurship	3 New business registrations remain stable, and costs of starting a business are relatively low. While the cost and number of procedures required to start a business is on par with OECD countries, the time to start a business is twice as long relative to the OECD average. (WBGES database; WB Doing Business 2011)

Country Profile

SPAIN

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

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



Spain ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	3	<i>Sociedades de Inversión</i> (SICAVs) are the main juridical form. <i>Ley 25/2005</i> simplified the regulatory burden to establish SICAVs, allowed acquisition of non-financial firms in order to de-list them, and permitted the creation of private funds of VC funds aimed at institutional investors. SICAVs may not invest more than 25% of their assets in a single company or more than 35% in companies belonging to the same group. Companies that manage collective investment institutions are allowed to manage VC funds or the assets of VC corporations. Minimum capital of €1.2M is required for stand-alone firms and €1.5M for funds. SICAVs may invest up to 20% of their assets within the mandatory investment co-efficient in other VC firms, so long as the latter do not hold more than 10% of their assets in other VC firms. A total of 185 fund managers were operating in Spain and were managing funds amounting to €22.7bn at end-2009, the most recent annual figures from the Spanish Venture Capital Association (ASCRI). The annual amount of PE/VC investments dropped off by 46% year on year in 2009, but picked up again in the first half of 2010. (EIU Country Finance, September 2010; Interview February 2008; www.ascrri.org)
Tax treatment of PE/VC funds & investments	4	Capital gains obtained from sales of portfolio companies between the second and 15th year of the investment are tax-exempt for up to three years from listing, provided the VC funds are listed with the <i>Comisión Nacional del Mercado de Valores</i> . The period may be extended up to 20 years with prior CNMV authorisation. Dividends are not taxed as long as the fund owns at least 5% of a company and has held that stake continuously for a year before dividends are distributed. The law also provides a 100% deduction for double taxation of dividends for companies and shareholders, and it exempts fund managers from value-added tax. Pass-through provisions are absolute for non-resident entities and individuals, while for resident investors and entities an exemption of €1,500 applies. Spain's withholding tax on dividends, which rose 18% to 19% as of January 2010, is generally applicable to both dividends paid by a Spanish company to a foreign parent company and dividends paid to a resident individual or corporation. The basic corporate tax rate has remained at 30% since the 2008 tax year. Newly issued shares, dissolutions, and capital reductions and increases are subject to a 1% transfer tax. (EIU Country Commerce, March 2010; Interview, February 2008; EVCA Tax and Legal Committee/Baker & McKenzie, 2010)
Protection of minority shareholder rights	3	The Company Law allows for registration of companies with strong protections of minority rights established in their charters. A 5% minority can call an extraordinary meeting or demand an outside audit in a <i>sociedad anonima</i> (corporation) or in a <i>sociedad de responsabilidad</i> limited (SRL, or limited liability company). In SRLs, shares are transferable only with the consent of other controlling shareholders. But the lack of board votes on executive appointments and compensation or detailed information on compensation raises some concerns. (EIU Country Commerce, March 2010; Interview, February 2008)
Restrictions on local institutional investors investing in PE/VC	3	Regulations on insurance companies and pension funds, which took effect in February 2007, made shares in VC entities' assets suitable for investment by insurance companies, and opened the way for them to invest in VC funds. There continue to be limits on concentration: insurance companies may not invest more than 10% of their assets in securities issued by a single company and no more than 20% may be in a single investment fund. For pension funds, 90% of a fund's assets must be invested in four categories: mortgage loans, bank deposits, property assets and financial assets that are traded on organised markets. No more than 5% of financial assets of a single pension fund may be invested in securities issued by the same institution, and no single pension fund can make an investment in a security that exceeds 25% of the investor's equity. (EIU Country Finance, September 2010; Interview, February 2008)

## Spain ScoreNotes

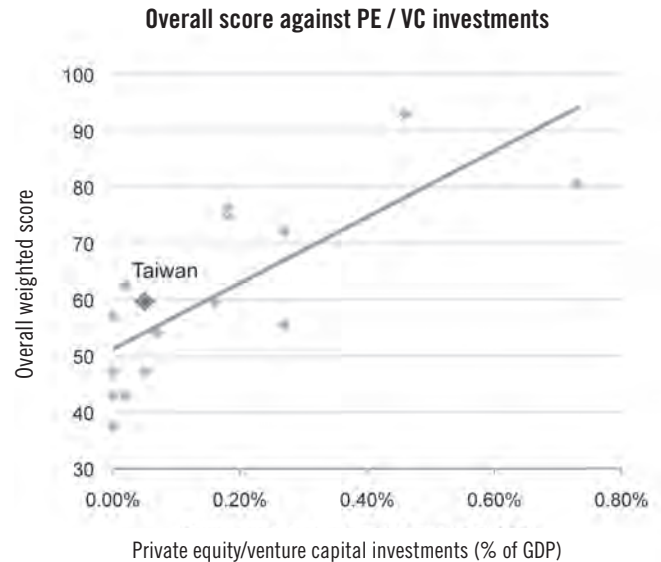
Aspects	Score (4-0)	Notes
Protection of intellectual property rights	3	Spanish laws are consistent with European Union intellectual property legislation, either approximating or surpassing EU standards. Spain has ratified all the main international conventions that allow non-Spanish nationals to protect their local rights. In fact, Spain has a dedicated Centre for the Technological Development of Industry, which encourages and financially supports technology exchange agreements between Spanish and multinational companies. Patents, industrial designs, trademarks and copyrights are all recognised in Spain. (EIU Country Commerce 2010; US Investment Climate Statement 2010)
Bankruptcy procedures/creditors' rights/partner liability	3	A 2004 law increases the penalties for firms that do not undertake a reorganization negotiation ( <i>concurso voluntario</i> ) with creditors when they face insolvency, by enabling creditors to hold owners materially and personally responsible for debts in the last instance. It has made bankruptcy reorganizations more common. In the most widespread corporate form ( <i>sociedad anonima</i> ), liability of shareholders is limited to the amount of capital contributed as long as there is no proof of malfeasance or fraud; limited liability companies also exist. World Bank Doing Business 2011 continues to show that resolving bankruptcies is a shorter but more costly process and yields a higher recovery rate for creditors compared to OECD averages. (EIU Country Commerce, March 2010, March 2009; Interview, February 2008; El País, 2005)
Capital markets development and feasibility of exits	3	In November 2010, the European Parliament adopted the Alternative Investment Fund Managers Directive (AIFMD), which is expected to come into effect in 2011. The AIFMD creates a regulatory framework for greater risk management, investor protection, and transparency in alternative investment funds. It applies to alternative investment funds (including hedge funds, private equity, and venture capital) that manage more than €100m, granting greater third-country fund access to the European market, including Spain. The PE/VC industry in Spain has also had greater transparency since the Alternative Stockmarket ( <i>Mercado Alternativo Bursátil</i> ) opened to PE/VC firms in April 2007. Only one IPO occurred in Spain through 2008-9, and one IPO was issued during the first half of 2010 on the Spanish Bourses and Markets ( <i>Bolsas y Mercados Españoles</i> ). (EIU Country Finance, September 2010, EVCA website: www.evca.eu)
Registration/reserve requirements on inward investments	3	There is simple reporting of transactions by the resident party to the Ministry of Industry or the Bank of Spain for statistical purposes and to avoid money laundering, with provisions varying slightly depending on nature and size. There are no exchange regulations as Spain is part of the Euro zone, and has no reserve requirements. (EIU, Country Commerce, March 2010; Interview, February 2008)
Corporate governance requirements	3	In 2006-07, a somewhat strengthened code, called <i>Código Conthe</i> , was adopted for listed firms, with 58 specific recommendations dealing with issues relating to bylaws, general meetings, board operations, and remunerations for directors and senior management. Listed firms are required to report annually on their compliance, which is evaluated by the National Securities Markets Commission (CNMV). All <i>sociedades anonimas</i> (SAs) are required to undergo external audits by a registered auditor, but companies with smaller assets, turnover, or workforces may submit abbreviated annual accounts not reviewed by an auditor. Yet concerns remain, particularly about privately held companies. Spain continues to rank below OECD average in World Bank Doing Business 2011 scores of disclosure and investor protection but above average on director liability. (Interview, February 2008; EIU Country Commerce, March 2010; EIU Country Finance, September 2010)
Strength of the judicial system	2	The Spanish judicial system is slow, but largely transparent. The judicial branch is independent of the executive branch, and judges are in charge of both prosecution and criminal investigation. Reforms are planned to improve speed and efficiency, but the authority of the judiciary will continue to be compromised by the extent to which it is politicised. Firms that frequently deal with the legal system should plan for costs and delays involved in litigation. (EIU Risk Briefing; US Investment Climate Statement 2010)
Perceived corruption	3	Spain maintains a score of 6.1 out of 10 in Transparency International's 2010 Corruption Perceptions Index (10 = "Very Clean"). Spain has a wide variety of corruption laws, penalties, and regulations that are generally enforced on a uniform basis, with no obvious bias against foreign investors. (EIU Country Report, February 2011; US Investment Climate Statement 2010; Transparency International)
Quality of local accounting industry (international standards)	4	Spain completed its gradual transition to the EU version of IAS in 2007 and has followed subsequent modifications of EU accounting guidelines. Since end-2005, IFRS have been legally mandated for listed companies. As of 2007, unlisted companies may use IFRS in consolidated statements but may not use it in separate statements. International auditors have a strong presence. (Deloitte/IAS PLUS 2011; EIU Country Finance, September 2010; Interview, February 2008)
Entrepreneurship	2	There remains a fairly weak culture of entrepreneurship, and large multinational firms tend to prevail as opposed to SMEs. The cost, number of procedures and time required to start a business are all above the average of OECD countries. (WBGES database, WB Doing Business 2011)

Country Profile

TAIWAN

	score	change	
<b>Overall score</b>	<b>63</b>	<b>▲</b>	<b>2</b>
Laws on PE/VC fund formation and operation	4		
Tax treatment of PE/VC funds & investments	3		
Protection of minority shareholder rights	1		
Restrictions on local institutional investors investing in PE/VC	2		
Protection of intellectual property rights	3		
Bankruptcy procedures/creditors' rights/partner liability	3		
Capital markets development and feasibility of exits	3		
Registration/reserve requirements on inward investments	3	▲	1
Corporate governance requirements	2		
Strength of the judicial system	3		
Perceived corruption	2		
Quality of local accounting/use of international standards	2		
Entrepreneurship	3		

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



Taiwan ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	Transparent laws permit widespread fund activity, though with some restrictions (minimum capital of NT\$200M to start a fund; banks with a limit of 5% ownership in any one fund; and qualified securities houses limited to a 10% stake in any one firm and their investments must not exceed 5% of their net worth). Taiwan had 173 venture capital companies at the end-November 2009, down from 176 at the end-December 2008, according to the most recent annual figures from the Ministry of Economic Affairs. Their aggregate investments at the end of 2009 were NT\$158.5bn, down 1.5% from the end of 2008. (EIU Country Finance September 2010, September 2009)
Tax treatment of PE/VC funds & investments	3	Taiwan has a complex, multi-level tax structure, which has been somewhat simplified due to amendments that took effect in January 2010. Under the new regime, a single flat-tax rate of 17% (lowered from 20% in a May 2010 amendment to the Income Tax Act) occurs on all corporate income exceeding NT\$120,000. Capital gains are taxable as normal income. A 0.3% financial transaction tax is levied against the seller on all securities sold, and there is a 2% levy on all financial institutions. From 1998, income from business operations is taxed only once, as part of personal income. Withholding tax on dividends paid to registered non-resident companies is 20% (25% for registered companies and 30% for non-resident individuals), though a 10% surtax on undistributed earnings can offset the 20% withholding tax. Resident enterprises are taxed at 15%. Dividends received by a resident company from portfolio investments are fully exempt. Those received by shareholders as a result of an expansion are not taxable until transferred, and those derived from securities-exchange transactions by a VC fund are tax-exempt during a limited period. Dividends of foreign institutional investors subject to home country taxation are 100% tax exempt. (EIU Country Commerce, November 2010)
Protection of minority shareholder rights	1	Minority rights remain weak. For both limited companies and companies limited by shares, most resolutions require a simple majority shareholder vote, with more than one-half of votes represented. If a quorum is not reached after two meetings within one month, a majority of shareholders who represent one-third or more of total issued shares may carry a vote. For special resolutions, a majority is required from at least two-thirds or three-fourths of shareholders present. Regarding mergers and acquisitions, companies can use a compulsory share exchange during a transaction, and approach the management of target companies and request a shareholders' meeting, at which a two-thirds majority could force minority shareholders to sell. (EIU Country Commerce, November 2010; EIU Country Finance, September 2010).
Restrictions on local institutional investors investing in PE/VC	2	For insurance companies, stakes in an individual company's stocks or bonds must not exceed 10% of its capital, and its stakes in all stocks and bonds cannot exceed 35% of capital. From June 2007, insurers are allowed to engage in the discretionary investment business, and their limit for overseas investments increased from 35% to 45% of enterprise funds. Pension funds remain few and government-run, and invest very conservatively. (EIU Country Finance, September 2010, September 2009)
Protection of intellectual property rights	3	The US Trade Representative (USTR) removed Taiwan from its Watch List in January 2009, signalling improvements in its intellectual property (IP) environment. However, in their April 2010 annual report, the USTR highlighted continuing IP problems in Taiwan, including availability of counterfeit pharmaceuticals, illegal textbook copying, online infringement of copyrighted material, and inadequate protection for the packaging, configuration, and outward appearance of products. Furthermore, the report stated that Taiwan had become a trans-shipment point and market for counterfeit clothing and luxury goods smuggled in from China. Nevertheless, Taiwan has undertaken actions to continue to improve its intellectual property protection, including the 2008 creation of an Intellectual Property Court for all new civil and administrative IP litigation, as well as criminal case appeals. (EIU Country Commerce, November 2010; US Investment Climate Statement 2010)

## Taiwan ScoreNotes

Aspects	Score	Notes
Bankruptcy procedures/creditors' rights/partner liability	3 (4-0)	Corporate reorganisation, which is part of Company Law, applies only to public companies or those issuing bonds, and can be time-consuming. Firms often use recourse to it as a bargaining chip to extract better terms from creditors. The law seems to favour creditors: according to the World Bank's Doing Business 2011, the cost of resolving bankruptcy is lower than the OECD average, time period is shorter, and creditor recovery rates much higher. Reorganisation allows creditors to share in bankrupt firm's assets on a proportional basis. (EIU Country Finance, September 2010, September 2009; EIU Country Commerce, November 2010; World Bank Doing Business 2011)
Capital markets development and feasibility of exits	3	Taiwan's capital market is mature and active; both domestic- and foreign-invested firms can access an array of credit instruments, which are allocated on market terms. In May 2010, Integrated Memory Logic, a US-based chip designer, raised NT\$1.4bn in an IPO and made history as the first foreign company to list on the Taiwan Stock Exchange. There have been at least seven other IPOs over the last year. Recently, to broaden the range of options for traders, Taiwan amended its regulations and allows domestic issuers to issue warrants linked to foreign securities and indices of foreign securities exchanges. (EIU Country Finance, September 2010; US Investment Climate Statement 2010)
Registration/reserve requirements on inward investments	3	Exchange controls have been largely relaxed in recent years (pursuant to Taiwan's accession to the WTO), leading to an increase in this score. Reporting requirements remain, though there are no reserve requirements. In response to the global financial crisis since late 2008, the Central Bank of China (CBC) stepped up its monitoring of the exchange-rate system and reinforced its system of real-time reporting of foreign exchange transactions. There remain regulations governing the terms of capital repatriation, though none on profit remittances for registered firms. (EIU Country Commerce, November 2010)
Corporate governance requirements	2	Transparency of governance remains a problem in privately held firms since small groups or families tend to run Taiwan's numerous SMEs with little input from "outsiders." Distinctions among owners, managers, directors and supervisors are often blurry. Since 2002, listed companies must include independent directors. The exchange introduced a voluntary code of governance in 2002. Minimal requirements exist for privately held firms: quorum with one-half of votes present, most resolutions passed by simple majority, and if no quorum after two meetings within a month a one-third presence of votes suffices for quorum. For special resolutions, a majority is required from at least two-thirds or three-fourths of shareholders present. For both limited and share-holding companies, companies with capital of NT\$30M or more must have their accounts audited. As compared to OECD average, World Bank Doing Business 2011 continues to rate the country below average in director liability and shareholder ability to sue and above average in disclosure requirements. (EIU Country Commerce, November 2010; EIU Country Finance, September 2010)
Strength of the judicial system	3	Taiwan's judicial system consists of a lower court, a court of appeals and a supreme court. The courts are free and independent from the executive branch influence, but the influence of organized crime is a threat. Other problems include slow decision-making, lack of judicial training for complicated commercial or technological cases, and over-worked judges. Taiwan has comprehensive commercial laws including the Company Law, Commercial Registration Law, Business Registration Law, and Commercial Accounting Law. Investment disputes, while rare, are settled according to domestic laws and regulations because Taiwan is not a member of the major international arbitration conventions. (EIU Country Commerce, November 2010; US Investment Climate Statement 2010)
Perceived corruption	2	While corruption cases are still filed against Taiwan civil servants, the number has been dropping each year, and perceived favouritism against foreign investors is more common than actual criminal corruption, such as bribery. Laws, regulations, and penalties against corruption are strengthening. For example, the Legislative Yuan amended the Act for the Punishment of Corruption in April 2009 to levy criminal charges against civil servants who cannot account for abnormal personal asset increases. Taiwan improved its score slightly in Transparency International's 2010 Corruption Perceptions Index with its overall country ranking jumping from 37 to 33. (EIU Country Commerce, November 2010; US Investment Climate Statement 2010; Transparency International)
Quality of local accounting industry (international standards)	2	Many firms maintain subpar accounting practices. Multiple sets of accounts are common, and often not all of a company's borrowings are recorded, or are spread across multiple corporate entities to lower tax obligations. In May 2009, Taiwan enacted a plan to adopt IFRSs in two phases—listed companies and supervised financial institutions starting 2013 (with early adoption in 2012 optional for certain larger companies or firms traded abroad) and for all other firms starting 2015 (with early adoption available starting 2013). (Deloitte IASPLUS 2011; EIU Country Commerce November 2010, December 2009; EIU Country Finance, September 2010)
Entrepreneurship	3	The number of procedures, time, and cost required to open a business in Taiwan is far lower than the regional average in East Asia and is on par with OECD countries. In 2010, Taiwan also reduced the corporate tax rate. (WBGES database; WB Doing Business 2011)

Country Profile

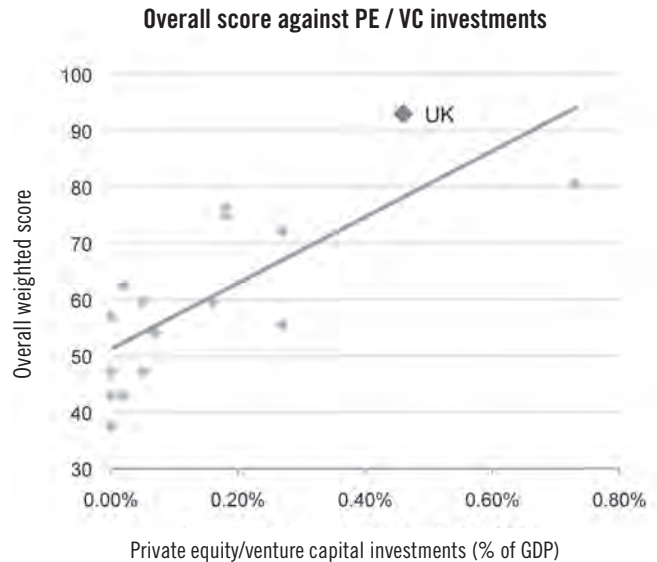
UK

	score	change
<b>Overall score</b>	<b>93</b>	
Laws on PE/VC fund formation and operation	4	
Tax treatment of PE/VC funds & investments	4	
Protection of minority shareholder rights	4	
Restrictions on local institutional investors investing in PE/VC	4	
Protection of intellectual property rights	4	
Bankruptcy procedures/creditors' rights/partner liability	3	
Capital markets development and feasibility of exits	4	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	4	
Perceived corruption	3	
Quality of local accounting/use of international standards	4	
Entrepreneurship	4	

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

UK ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	The UK has by far the largest venture capital sector in Europe and clear laws facilitate the formation of PE/VC funds. Many different forms exist: stand-alone funds, funds established as subsidiaries of large financial institutions, venture capital trusts, closed-end investment funds, funds set up by "qualified investors" with high net worth, and Enterprise Investment Schemes. The scope of venture-capital activity remains high relative to the size of the economy, though the financial crisis caused a decrease in 2009-2010. According to the most recent annual figures released by the British Venture Capital Association (BVCA), 987 companies received backing from PE/VC funds in 2009, down from 1,672 in 2008. (EIU Country Finance, June 2010; BVCA website)
Tax treatment of PE/VC funds & investments	4	Incentives are generous, and tax rates are low and advantageous. Under the Enterprise Investment Scheme (EIS) type of fund, for instance, private individuals obtain tax relief on investments in unquoted companies and offset losses against income tax if there are no capital gains against which to offset them. Shareholders in venture capital trusts enjoy tax incentives and capital gains are not taxed. Corporate taxes are on a progressive scale from 19% to 28% that benefits smaller enterprises. Corporate capital gains on portfolio investments are taxable in the country of residence of the investor unless they make the investment via a subsidiary. In that case, corporate capital gains are taxed at the same rate as income, but in many cases, inflation indexation provisions may turn a nominal gain into a deductible loss. The UK has no withholding tax on dividends, though interest has a withholding of 20%. A dividend paid by a UK company to a resident individual carries a tax credit of 10% of the value of the dividend plus the credit. UK-resident individual portfolio shareholders in foreign companies are also eligible for the 1/9th tax credit under domestic law from April 6th, 2008, and this was extended to non-portfolio (greater than or equal to 10%) holdings from April 22nd 2009. (EIU Country Commerce, October 2010)
Protection of minority shareholder rights	4	Formal governance requirements are less stringent for private limited than public limited companies, and are more relaxed for small and medium-sized private companies. PE/VC funds generally seek to bolster their voice through minority rights provisions in shareholder agreements and through dispute settlement provisions involving commercial arbitration. For private limited companies, there needs to be at least one director. Private companies defined as "small" (based on turnover, balance sheet, and workforce criteria) may submit a shortened balance sheet and notes, and a special auditor's report (unless claiming audit exemption). Medium-sized companies must submit as a minimum an abbreviated profit-and-loss account, a full balance sheet, special auditor's report, directors' report and notes to the accounts. (EIU Country Commerce, October 2010)
Restrictions on local institutional investors investing in PE/VC	4	Insurance companies may invest where they choose, provided they take a responsible attitude to investing. Investment must be within the bounds of solvency requirements for insurers set since January 1st, 2005, introducing a more risk-based approach to calculating capital. Firms possessing with-profits liabilities of more than £500M must hold capital equivalent to the greater of their statutory requirements and make a new, more realistic calculation of expected liabilities. Other insurance companies only have to meet the statutory solvency requirements, but must provide the Financial Service Authority (FSA) with risk-based calculations. Since 2003, the same basic freedom is granted to pension funds established since 1995. There has, however, continued to be a flight to quality and low risk investments, driven by the requirements of the Accounting Standards Board's Financial Reporting Standard (FRS) 17 and the ensuing need to fully fund liabilities, combined with poor stock market performances and the mature age profiles of many funds. (EIU Country Finance, June 2010, June 2009)



## UK ScoreNotes

Aspects	Score (4-0)	Notes
Protection of intellectual property rights	4	Intellectual property rights are fundamentally secure in the UK, although as in other European countries, pirated software and fraudulent trademarked goods are widely available. The courts are reliable in enforcing licensors' rights, except in the case where IPR interferes with free trade within the European Union. The UK has also launched independent reviews of its IPR framework, which last occurred in 2006. Companies are usually able to obtain legal judgments against systematic and large-scale violations of their patents, trademarks, registered designs and copyrights. (EIU Country Commerce, October 2010; EIU Risk Briefing)
Bankruptcy procedures/creditors' rights/partner liability	3	Regulations adopted in 1999 govern insolvency procedures for liquidating distressed firms in expedited fashion. There is no precise analogy to US-style Chapter 11 in which a firm can be restructured while enjoying considerable short-term relief from its debts. A 2005 IDB study rates UK creditor rights as among strongest in world. World Bank Doing Business 2011 produces scores that suggest how the system is weighted toward creditors. Resolving a bankruptcy is significantly quicker and less costly and yields a significantly higher recovery rate as compared to OECD averages. (EIU Country Finance, June 2010; EIU Country Commerce, October 2009; Financial Times, 31 August 2010)
Capital markets development and feasibility of exits	4	The UK's financial markets are among the most sophisticated in the world, and London is one of the world's leading financial centres. The London Stock Exchange has strengthened its position after a merger with the Italian exchange in 2007. However, 2010 saw a decrease in the amount raised through initial public offerings. This reflects a range of factors, which include the fragility of stock markets worldwide, a scarcity of funds as a result of the global financial crisis, and concerns about European sovereign debt. (EIU Country Finance, June 2010; EIU Risk Briefing)
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. No currency considerations affect the remittance of profits, dividends, interest, royalties, or fees. Nevertheless, tax authorities may challenge the level of transfers if they suspect corporate tax avoidance or evasion. In addition, banks monitor transactions for suspected money-laundering, and the law requires them to have a Money-Laundering Reporting Officer. Registration exists for monitoring purposes but there are no reserve requirements. (EIU Country Commerce, October 2010)
Corporate governance requirements	3	All UK-incorporated companies, which are listed on the Main Market of the London Stock Exchange, are required to report on how they have applied the UK Corporate Governance Code issued by the UK Financial Reporting Council. From April 2010, all companies with a premium listing, regardless of their country of incorporation, are required to report on how they have applied the code. Changes in the most recent edition of the code, published on May 28th 2010, include recommending that directors of FTSE 350 companies face re-election every year (rather than every three years); a clearer statement of a board's responsibilities relating to risk; and measures to encourage boards to appoint more female directors. Questionable remuneration practices were the subject of an August 2009 code issued by the Financial Services Authority, which was given legal backing with the April 2010 passage of the Financial Services Act. The code calls on compensation procedures and practices that are consistent with effective risk management. Outside auditing and annual financial reporting are looser for small and medium-sized private firms. Such firms are subject, however, to the Companies Act 2006, which requires all firms upon registration to submit articles of association, which detail the rights of the shareholders, borrowing powers and the duties of directors, but also removes the previous requirement of an annual general meeting. (EIU Country Finance, June 2010; EIU Country Commerce, October 2010; Financial Reporting Council, 2010)
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. EIU Business Environment Rankings score the country's fairness and transparency of legal system favourably. (EIU Risk Briefing; EIU Business Environment Rankings)
Perceived corruption	3	The UK retains a fairly stable position in the Transparency International's Corruption Perceptions Index and ranked 20th out of 180 countries in 2010. In relation to the European Union and Western European countries, the UK country ranks 12th out of 30 countries in 2010. The UK introduced the Bribery Act of 2010 which covers the criminal law in relation to bribery. This legislation imposes increased regulation. (EIU Risk Briefing)
Quality of local accounting industry (international standards)	4	International financial reporting standards, as adopted by the European Union, continue to be required for listed companies. In order to be listed on the Main Market of the London Stock Exchange, companies must prepare their accounts following IAS. IFRS are permitted in both consolidated and separate company statements for non-listed firms. IFRS, as adopted by the EU, are permitted for non-listed firms. Inflation-adjusted accounting is still in use for tax purposes although not for financial reporting. (Deloitte/IAS PLUS 2011; EIU Country Finance, June 2010)
Entrepreneurship	4	The business entry rate ranks among the highest internationally, while the cost of starting a business ranks as one of the lowest in the world. According to the World Bank Doing Business 2011, the UK also passed reforms in 2010 to enhance the entrepreneurial climate, including improved efficiency of contract enforcement and added amendments to streamline bankruptcy procedures. (WBGES database; WB Doing Business 2011)

## APPENDICES

### Appendix A: Select Bibliography

The following cross-national data and information sources were used in the preparation of the 2011 Scorecard:

Conferencia Interamericana de Contabilidad, “Boletín Electrónico AIC al Día”, various issues

Economist Intelligence Unit, Country Finance and Country Commerce series (by country), Business Environment Rankings and Market Indicators and Forecasts series, 2010

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)

Arturo Galindo and Alejandro Micco, “Creditor Protection and Credit Volatility,” Inter-American Development Bank, Latin American Research Network Working Paper #528, December 2005

Organisation for Economic Co-operation and Development, “White Paper on Corporate Governance in Latin America,” 2003

The World Bank, World Bank Group Entrepreneurship Database, 2010, Ease of Doing Business index, 2010, and “Doing Business In” series, various countries, 2010

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

Transparency International, Corruption Index 2010

### Appendix B: Interviews

For this sixth Scorecard, the EIU conducted new interviews in January and February 2011 with LAVCA members who are fund managers based in the Latin American region. These aimed primarily to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. We promised these individuals anonymity.

As in 2010, the interviews for the 2011 Scorecard were designed, first, to hear from fund managers working in all the focus countries about their experience in making investments. Second, the interviews sought to gauge the extent to which recent legislative change--or accumulated experience with existing legal frameworks--had affected the business environment for fund managers.

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



## CONTRIBUTORS

The 2011 Scorecard on the Private Equity and Venture Capital Environment in Latin American and the Caribbean is prepared annually by the Economist Intelligence Unit on behalf of the Latin American Venture Capital Association (LAVCA). LAVCA provides additional analysis for the report.

### Economist Intelligence Unit

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The Latin American Venture Capital Association is a not-for-profit membership organization dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 100 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of US\$35 billion, directed at capitalizing and growing Latin American businesses.

### *Additional Contributors*

The 2011 Scorecard was made possible by generous contributions from the Multilateral Investment Fund (FOMIN) and the Corporación Andina de Fomento (CAF).





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- LAVCA Yearbook – The only comprehensive directory of Latin American private equity and venture capital fund managers.
- LP Opinion Survey – A yearly survey that provides tangible and up-to-date information on the interests of global institutional investors active in Latin America.
- Latin America PE/VC Report – LAVCA's bimonthly newsletter includes feature articles and information on the latest industry news and events. LAVCA also produces the Latin America PE/VC Update, a biweekly email with up-to-date information from the private equity and venture capital industry in Latin America and the Caribbean.

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#### **Annual Summit and Investor Roundtable**

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