

Latin American
LACA
Venture Capital Association

2010 Scorecard

The Private
Equity and
Venture Capital
Environment
in Latin America



In Cooperation with:

Economist Intelligence Unit

The
Economist

Table Of Contents

Executive Summary	1
Scoring Criteria	2
2010 Scorecard and Overall Score Against PE/VC Investments.....	4
Overall Score and Evolution of Select PE/VC Markets: 2006-2010	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

Scorecard on the Private Equity and Venture Capital Environment in Latin America 2010

Executive Summary

The key takeaway for the 2010 edition of the Annual Scorecard on the Private Equity and Venture Capital Environment in Latin America and the Caribbean is that of ongoing progress in the operating environments for private equity and venture capital (PE/VC) in the twelve countries in the study. This trend is reflected over a five-year horizon (see page 5) since the first Scorecard was published in 2006.

Overall, score improvements overshadowed any individual downward adjustments. Nine of the twelve countries had changes in overall scores, with six positive changes indicating more receptive business environments. This represents a reversal of the trend from the 2009 edition, when seven countries in the region exhibited declines in their scores.

This positive evolution in the PE/VC environment mirrors the economic recovery underway in the region in 2009, and related improvements in capital markets and business operating environments. GDP for Latin America and the Caribbean (LAC) is forecast to grow by 3.9% in 2010, compared to negative growth in 2009 (-2.5%). Growth in the region's transition economies is forecast to be 2.4% in 2010.

In 2009, score revisions related mainly to the broader operating environment, in areas such as capital market development, intellectual property protection, strength of the judicial system, and perception of corruption. For 2010, changes were manifest in both these general areas as well as in those pertaining more directly to the PE/VC environment, such as restrictions on institutional investors, respect for minority investor rights, corporate governance, bankruptcy procedures, and accounting standards.

There was considerable stability in regional rankings at both the very top and the bottom half. Chile and Brazil, respectively, remained well above the rest of the region in this year's rankings, and the scores for both countries remained constant.

The most important shifts were evident in the upper-middle rankings in the 2010 Scorecard. Mexico vaulted from fourth to third place, on the strength of a new measure that will enable pension fund investors to invest in PE/VC funds for the first time and cumulative evidence of improvements in bankruptcy proceedings.

SCORING CRITERIA

The criteria used in this study were chosen in close consultation between LAVCA and the Economist Intelligence Unit 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 fifth Scorecard, the Economist Intelligence Unit conducted 15 additional interviews in January and February 2010 with LAVCA members who are fund managers, service providers, or regulators based in the LAC region. These aimed primarily to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. In addition, EIU received replies from another eight individuals to a set of written survey questions that were circulated in December 2009 through February 2010.

Based on the views of these respondents and senior LAVCA staff, five of the 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.

The EIU researchers gathered data for the scorecard from the following types of sources (see Appendix A for a more complete listing):

- Personal interviews*
- EIU proprietary country rankings and reports*
- Websites of government authorities and international organizations*
- Websites of industry associations and funds*
- Local and international news media reports*

Peru registered a modest improvement, thanks to gains in intellectual property protection. Going forward it will be important to monitor developments around restrictions on Peruvian pension fund allocations to alternative investments, as a new 2.5% cap was approved by the country's banking superintendent in early 2010.

While remaining at the bottom of the ranking, the Dominican Republic exhibited the biggest year-on-year gains in this year's Scorecard (together with Mexico), thanks to corporate governance enhancements contained in a new company law and steps taken toward implementation of international accounting standards.

Declines were present in both Argentina and El Salvador, due to a deteriorating tax environment and perception of corruption, respectively.

Trinidad exhibited a significant decline from third to sixth, due to more complete evidence coming from our expert interviews of shortcomings in protection of minority rights, restriction on institutional investors, and quality of local accounting standards. Meanwhile, Colombia moved from fifth to fourth position, as its capital market score improved its overall score.

Business environments for PE/VC activity continue to vary considerably across Latin America and the Caribbean. At the business friendly end of the spectrum, Chile ranks 76 on a scale of 1-100 (with 100 being the most investment friendly) and surpasses the next four most highly rated countries—Brazil at 75, Mexico at 63, Colombia at 60, and Uruguay at 56.

Rounding out the top seven countries were Trinidad and Tobago at 56 and Costa Rica (54), followed by Peru (51), Panama (49), Argentina and El Salvador (tied at 43), and the Dominican Republic (38). Of the 12 countries, eight continued to score a 50 or above, the same as in 2009.

The Scorecard continues to benchmark the LAC countries by comparing them with four countries outside the region. These

“comparator” countries—such as the UK—are known for their more robust PE/VC industries but some also for their relatively recent emergence as developed countries—Israel, Spain and Taiwan. All of the LAC countries lag behind the highly favorable PE/VC business climate of the UK (93), but Chile is now tied with Spain (76), and just behind Israel, at 81. Brazil follows at 75, while Mexico at 63 surpassed Taiwan at 61, with Colombia closely following at 60.

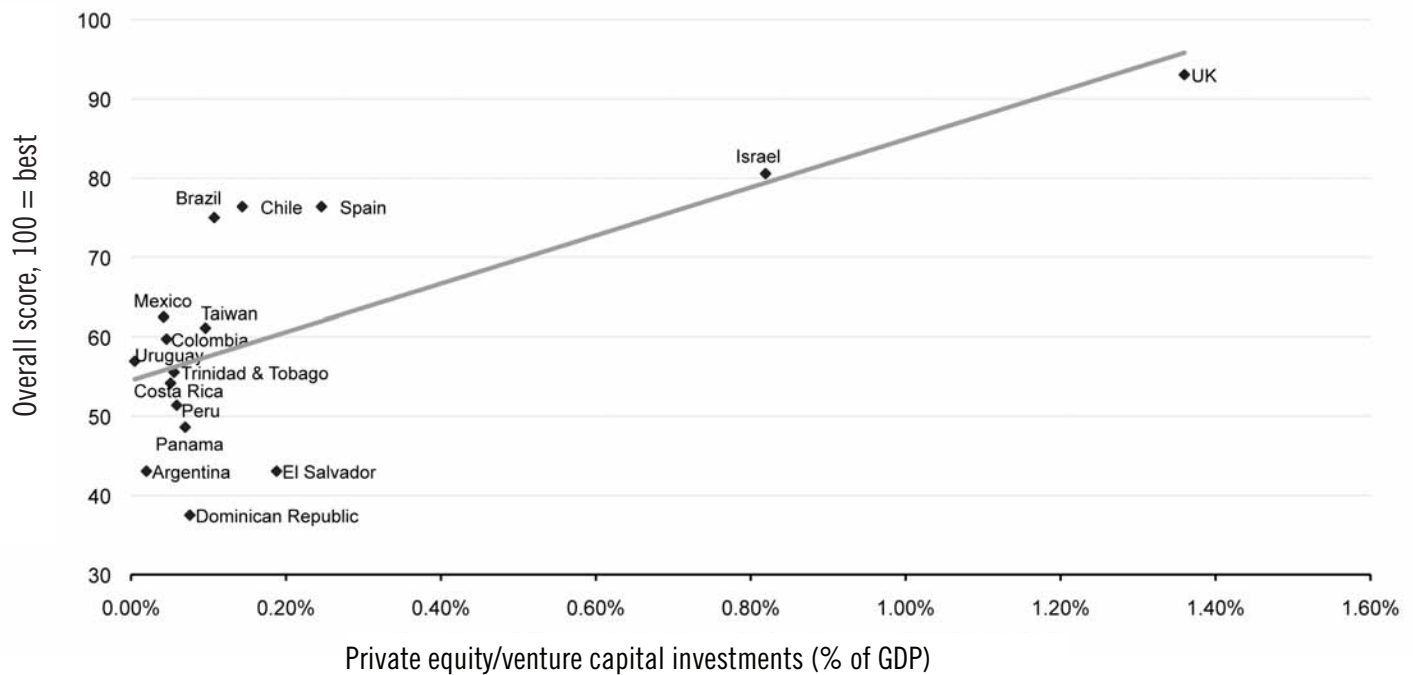
The full list of scoring criteria is:

- Laws on PE/VC fund formation and operation
- Tax treatment of PE/VC funds and investments
- Protection of minority shareholder rights
- Restrictions on institutional investors in making PE/VC investments
- 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 (ie, initial public offerings)
- 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

2010 Scorecard

	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	El Salvador	Mexico	Panama	Peru	Trinidad & Tobago	Uruguay	Israel	Spain	Taiwan	UK
Overall score	43	75	76	60	54	38	43	63	49	51	56	57	81	76	61	93
Laws on VC/PE fund formation and operation	1	4	4	3	1	1	0	2	2	2	2	2	4	3	4	4
Tax treatment of VC/PE 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	2	3	2	1	2	2	4	3	1	4
Restrictions on institutional investors investing in VC/PE	0	4	3	3	1	1	1	3	2	3	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	2	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	0	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	1	2	1	2	2	2	3	2	3	4

Overall Score Against PE / VC Investments



Overall Score

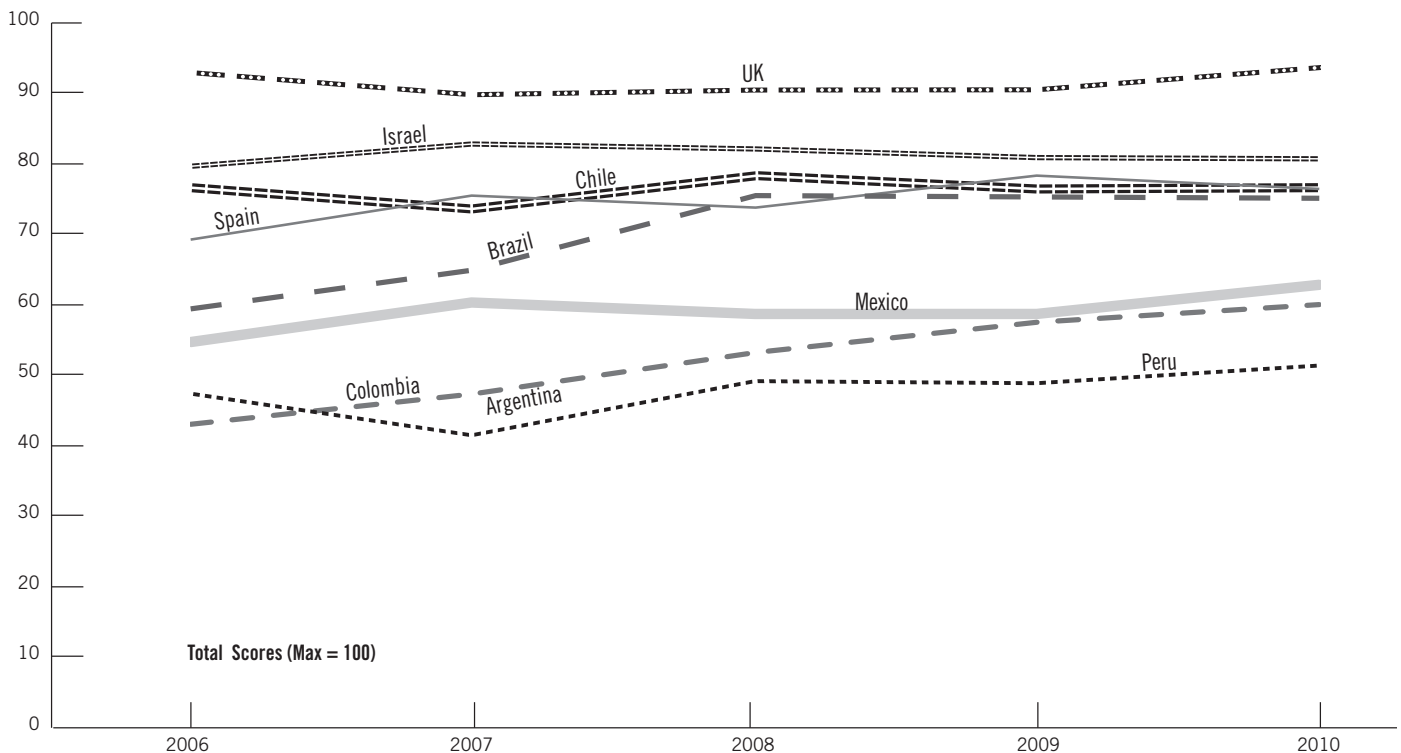
Ranked by 2010 scores

Regional Rank	Country	Score <i>(1-100 where 100 = best)</i>	Change from 2009 (▲▼)	PE/VC % GDP
1	UK	93	▲ 3	1.36%
2	Israel	81		0.82%
=3	Chile	76		0.14%
=3	Spain	76	▼ 1	0.25%
5	Brazil	75		0.11%
6	Mexico	63	▲ 5	0.04%
7	Taiwan	61	▼ 1	0.10%
8	Colombia	60	▲ 3	0.05%
9	Uruguay	57	▲ 3	0.00%
10	Trinidad & Tobago	56	▼ 7	0.06%
11	Costa Rica	54	▲ 1	0.05%
12	Peru	51	▲ 1	0.06%
13	Panama	49		0.07%
=14	Argentina	43	▼ 3	0.02%
=14	El Salvador	43	▼ 3	0.19%
16	Dominican Republic	38	▲ 5	0.08%

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

† = First year in study: No comparative score for 2009

Evolution of Select PE/VC Markets: 2006-2010



Country Profile

ARGENTINA

	2010	2009
Overall Score:	43	46
Ranking:	10th (tied)	10th (tied)

Argentina's overall score decreased due to an increasingly complex and high-tax environment. Two elements that impact the PE/VC industry include an increased capital gains tax and an extended stamp tax that was passed in January 2009 by the City of Buenos Aires. The country is consistently considered to be an underperformer relative to its size and level of development.

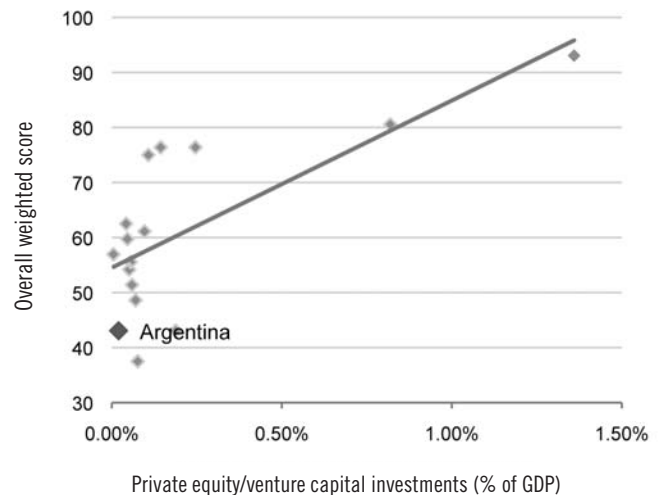
Strengths: The country's strengths are limited to its entrepreneurial vibrancy, and the quality of accounting standards which are among the best in the region.

Challenges: Argentina continues to be hindered by its legal framework for fund formation, and the fact that local pension funds were nationalized in 2008, barring these investors from participating in PE/VC. The perceptions of corruption in politics, along with bureaucracy and lack of a strong policy framework are also major hurdles for the country in regards to attracting investment.

	score	change
Overall score	43	▼ 3
Laws on PE/VC fund formation and operation	1	
Tax treatment of PE/VC funds & investments	1	▼ 1
Protection of minority shareholder rights	2	
Restrictions on 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 anónimas</i> . Additional obstacles were created in 2008 with the creation of a local registry in Buenos Aires, including dual registration obligations for entities operating from the nation's commercial and financial center, as well as the need to divulge controlling interests and demonstrate that they have no foreign activities. (Interviews, January 2010, January 2009; EIU/LAVCA survey, February 2007; EIU/World Trade Executive Country Briefing 2006).
Tax treatment of PE/VC funds & investments	1	The tax environment in Argentina has become increasingly complex and costly. All financial transactions on current account are taxed at 0.6%, one-third of which is credited as an advanced tax payment. Closed funds, specific-purpose open funds, and funds incorporated as <i>sociedades anonimas</i> are not pass-through. Argentine funds and companies are subject to capital gains at normal tax rates, which are set at 35%, up from 33% as of December 2008. The transfer of shares by a foreign, non-resident company or fund is exempt from income tax. The Value Added Tax generally applies to the provision of services: the current general rate for this tax is 21%. In January 2009, the City of Buenos Aires extended the stamp tax (of 0.8% on non-real estate transactions) to most deeds and contracts, including in principle PE/VC transactions. (EIU Country Finance October 2009, EIU Country Commerce, July 2009; interviews January 2010, January 2009; EIU/LAVCA survey, February 2009; hg.org).

Argentina ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Relevant regulations such as the capital market reform of 2001 are applicable only to publicly traded firms and the securities commission's 2008 corporate governance code is entirely voluntary. Argentina continues to have moderate scores on disclosure requirements and shareholder ability to sue; it also has a low score on director liability for self-dealing in the World Bank's Doing Business 2010. However, the shareholder law does allow for the negotiation of shareholder agreements and arbitration clauses, which can be set up by offshore funds so as to use foreign legal jurisdictions for disputes. Authorities seem to be increasingly sensitive to the issue—in part because they increasingly play the role of minority investors themselves through a fund of funds set up by the nationalised pension fund managers. (EIU Country Finance, October 2009; OECD Latin America CG Roundtable 2005; interviews January 2010, January 2009; EIU/LAVCA survey February 2009)
Restrictions on institutional investors investing in PE/VC funds	0	The December 2008 re-nationalisation of the social security system hastened and mandated the return of individuals from private pension funds to the state-run system. While the managers of the 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. (EIU Country Finance October 2009; interviews January 2010, January 2009; EIU/LAVCA survey, February 2009)
Protection of intellectual property rights	2	The Office of the US Trade Representative includes Argentina on its 2009 Priority Watch list of 12 countries not respecting intellectual-property rights. Argentina is a member of the World Intellectual Property Organisation (WIPO), and it has signed several international and regional agreements on the protection of intellectual-property rights. Argentina amended its patent legislation in 1996 to adapt its legal framework to this agreement. With Laws 26229 and 26230 of March 2007, Argentina ratified its participation in the Nice and Strasbourg Conventions. (EIU Country Commerce July 2009)
Bankruptcy procedures/creditors' rights/partner liability	2	Bankruptcy has become somewhat easier procedurally. The 2002 <i>Ley de Quiebras</i> allows firms to restructure debts through an extra-judicial procedure without the unanimous shareholder approval previously required; just a simple board majority suffices. Terms of restructuring are applied equally to all debtors and all shareholders are bound by them. Argentina scores below the regional average on rights of lenders and borrowers in the World Bank's Doing Business 2010. However, bankruptcy is quicker, less costly, and yields a higher recovery rate for creditors as compared to regional average. (Interviews, January 2010, January 2009; EIU Country Finance October 2006, EIU/World Trade Exec. 2006)
Capital markets development and feasibility of exits	2	Access to local market and stock market liquidity remain stable, but depth of financing is a problem according to the EIU's Risk Briefing and Business Environment Rankings (2008/09). Argentina's stock exchange remains small and dominated by large foreign companies. In June 2009 the market capitalisation of the Buenos Aires Stock Exchange was down 3.9% from June 2008. Foreign firms account for the majority of the market capitalisation and the bourse has not listed an initial public offering since 2007. The stock exchange remains small and does not provide significant equity financing for domestic firms. No firms had requested authorisation to list new shares in the year to September 2009. (EIU Risk Briefing and Business environment rankings; Country Commerce 2009 and Country Finance 2009)
Registration/reserve requirements on inward investments	2	Complex requirements and exchange controls that aim to discourage "hot money" and speculative capital flows remain in place. Decree 616 of June 2005 established that investors must set aside 30% of the inflows in an interest-free dollar account for one year unless they can demonstrate that the flows constitute a capital increase in an existing undertaking. In December 2008, a capital-repatriation law temporarily lifted the 30% reserve requirement, from March 1st–August 31st 2009, to encourage the re-entry of funds. Capital repatriation exceeding US\$5m needs authorisation from the central bank. Financial entities wishing to purchase and sell securities in self-regulated markets are subject to approval of the Central Bank when it cannot be shown that the relevant securities were maintained in the seller's portfolio for more than 3 days. (EIU Country Finance, October 2009; EIU Country Commerce, July 2009; interviews, January 2010, January 2009; EIU/LAVCA survey, February 2009)
Corporate governance requirements	2	Standards exist under the 2001 capital markets reforms, but only for publicly traded firms, and enforcement through the judicial system remains lengthy and cumbersome. However, the shareholder law does allow for the negotiation of shareholder agreements and arbitration clauses, the latter of which can be set up by offshore funds so as to use foreign legal jurisdictions for disputes. World Bank Doing Business 2010 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 2009; interviews January 2010, January 2009; OECD Corporate Governance Roundtable 2005; EIU/LAVCA survey February 2009)
Strength of the judicial system	2	The Argentine justice system is slow, though commercial arbitration exists. Investors should be aware that the judiciary can be subject to political pressure. (EIU Risk briefing 2009, and Interviews January 2009 and January 2008)
Perceived corruption	1	Corruption in politics continues as the presidential couple continues to be the subject of new corruption allegations. Bureaucracy and the lack of a predictable policy framework are constraints to smooth functioning in many sectors. (EIU Country Report, Jan 2009)
Quality of local accounting industry/use of international standards	4	Local accounting norms that are generally in line with international standards are used by SMEs as a whole, though full international standards are followed by those that also do business outside the country. International auditors are present and reliable. Use of IFRS will be required from 2012 for listed companies. (Interviews January 2010, January 2009; Deloitte IASPLUS 2010)
Entrepreneurship	3	Entrepreneurial activity, as measured by The World Bank Group Entrepreneurship survey (WBGES) research team, indicates a stable business entry rate level for 2009. Argentina is recognized as a regional hub of start ups and entrepreneurial activity, and the economic crisis earlier this decade resulted in greater support for start-ups and small business. The Ministry of Science and Technology is supporting entrepreneurship in the biotech sector, and government agency Prosperar is targeting the expansion of seed capital. (WBGES and World Bank cost of starting a business databases and Interviews January 2010, January 2009)

Country Profile

BRAZIL

	2010	2009
Overall Score:	75	75
Ranking:	2nd	2nd

Brazil's scores remained constant. The country returned quickly to growth following a sharp downturn in late 2008. A new window opened for Brazilian IPOs in the second half of the year with successful listings of PE-backed firms and the largest IPO in Brazil's history by Banco Santander Brasil. In September 2009 a resolution of the National Monetary Council established PE/VC as a separate asset class for investments by closed pension funds, which is likely to streamline reporting requirements. The resolution also established a limit of 10% for pension fund commitments to funds registered abroad.

Strengths: Favorable laws on fund formation and operation, permissive regulations on institutional investors and quality of accounting standards rank as the country's major strengths. In addition, Brazil continues to score above average on indicators such as tax treatment, protection of minority rights, bankruptcy procedures, capital markets development, corporate governance and entrepreneurship.

Challenges: Fighting the perception of corruption remains a challenge for the country, as well as the enforcement and procedures associated with intellectual property.

Brazil ScoreNotes

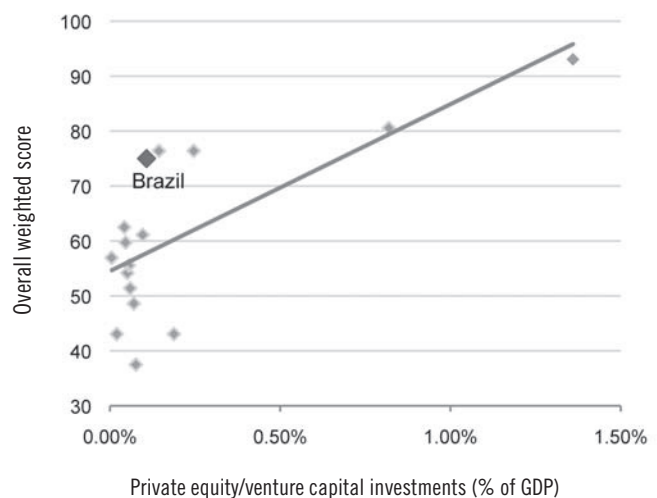
Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	4	Brazil has a range of frameworks under which different types of fund instruments can be set up. In 1994 an initial framework for VC activity focusing on smaller firms and start-ups was provided by <i>fundos mútuos de investimento em empresas emergentes</i> , or FIEs. Instruction 391/03 of 2003 by the securities commission (CVM) created <i>fundos de investimento em participações</i> (FIPs, or shareholding investment funds). There has been rapid expansion of fund formation and activity under this framework; FIPs are particularly attractive for PE funds. Prior to Instruction 391, offshore PE vehicles adapted existing rules for stock investment funds (<i>fundos de investimento em ações</i>) and in 2009, the CVM approved a regulation that simplifies the creation of new funds and is also likely to lower costs and speed up the process. (ABVCAP site 2008, 2007; Interviews January 2010, January 2009; EIU/LAVCA survey reply, January 2010)
Tax treatment of PE/VC funds & investments	3	Brazil has a complex and multi-layered tax system. In 2009, a 2% tax on portfolio inflows was imposed to curb capital inflows. The tax will impact foreigners investing in local funds but will not impact offshore funds. Under Law 11.312/2006 foreign investment in regulated PE/VC funds is exempt from income tax and capital gains tax provided it does not come from entities registered in tax haven countries. The tax rate for Brazilian institutions and individuals investing in domestic funds was reduced to 15% effective January 2005. The 0.38% financial-transactions tax paid by Brazilian investors expired at end-2007 and was not renewed. Dividends paid to residents and non-residents from profits accruing after December 31st 1995 are not subject to withholding tax and are not included in the taxable income of resident recipients. The effective tax rate on corporate income is 34% (slightly less for smaller companies). Deals must carefully structure pass-through provisions in FIEs, but double taxation can generally be avoided for foreigners though it remains an issue for domestic investors. (Interviews January 2010, January 2009, EIU Country Commerce September 2009; EIU Viewswire; EIU/LAVCA survey reply, January 2010)

	score	change
Overall score	75	
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 institutional investors investing in PE/VC	4	
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
Protection of minority shareholder rights	3	The current corporate law framework was designed to extend greater protection to minority shareholders, and introduced shareholder controls, tag-along rights and the mandatory distribution of dividends. Most recently, Law 11638 seeks to modernise these concepts. 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. Under the CVM's corporate governance recommendations, minority shareholders have the right to include agenda items in general shareholders' meetings, and should have at least one representative on audit committees. The World Bank's Doing Business 2010 rates shareholder ability to bring suits as well below regional average, but director liability and disclosure requirements well above. (EIU Country Commerce September 2009; ibgc.org.br; interviews January 2010, January 2009)
Restrictions on institutional investors investing in PE/VC	4	Insurance companies may invest up to 50% of reserves in variable-income instruments such as shares. The insurance sector is expanding, but remains underdeveloped. Pension funds have become major players in the PE/VC industry. "Open" pension funds (ie, not limited to employees and retirees from specific companies) may invest 60% of reserves in variable income instruments. In September 2009, a resolution of the National Monetary Council (3792) established PE/VC investments as a separate, permissible asset class for investments by closed pension funds, which may now invest up to 20% of reserves in PE/VC funds, with sub-limits of 10% each for real estate funds, and funds registered abroad. The measure seems likely to allow more tailored investment reporting and facilitate daily operation. (EIU Country Finance April 2009, http://www.bcb.gov.br/?CMN ; interviews January 2010, January 2009; EIU/LAVCA survey reply, January 2010)
Protection of intellectual property rights	2	While there has been stepped up vigour in copyright enforcement actions and IPR protection is deemed by IT investors as fairly good, piracy in internet and optical media products remains high and software patents can be difficult to obtain if not embedded in hardware that is being patented. The process of registering and enforcing patents and other intellectual property remains slow and cumbersome. Weak IPR enforcement legislation and concern over pharmaceutical patent protection are reasons Brazil remains on a US IPR watch list. (US Country Commercial Guide 2008, interviews January 2010, January 2009)
Bankruptcy procedures/creditors' rights/partner liability	3	A bankruptcy law enacted in February 2005 has shown modestly positive results. It is in line with US Chapter 11 in giving insolvent firms necessary leeway to restructure debts. It creates a 180-day window to negotiate restructuring deals with creditors inside or outside the court system, aims to reduce delays, gives creditors 30 days to respond to restructuring plans, and slightly increases creditors' rights. Where bankruptcy is inevitable, the law allows for more rapid proceedings, and includes the creditors in the liquidation process. Experience is slowly growing with this type of reorganisation, though there are a handful of cases. Partner liability beyond capital shares is not a problem, except in cases of demonstrable negligence. (Interviews January 2010, January 2009; US Country Commercial Guide, 2009, EIU Country Commerce August 2009)
Capital markets development and feasibility of exits	3	The overall strength of Brazil's stock market and its relatively high turnover rate offers investors exit options not afforded in other regional markets. Following the increase in liquidity and depth in Brazil's domestic financial system, the number of companies listed on the Brazilian exchange increased in 2007, reversing the trend of local companies delisting due to the high costs of stock market participation. Foreign firms in Brazil that have easy access to foreign credit tend to prefer to finance their operations abroad. Credit remains very expensive, as the average cost of market-based credit remains high. (EIU Country Finance April 2009)
Registration/reserve requirements on inward investments	3	Simple on-line registration of forex transactions exists for record-keeping purposes only. The central bank requires registration of all investments (equity or debt) that foreign investors conduct in Brazil. Investors must register in order to secure their right to acquire foreign currency directly from institutions authorised by the central bank. This purchase is necessary each time the investor decides, for example, to remit dividends, pay interest or repatriate capital, or obtain foreign currency loans from authorized institutions. There are no reserve requirements. (EIU Country Commerce September 2009)
Corporate governance requirements	3	Public companies are required to use external auditors and publish annual financial reports. In 2001, BM&F Bovespa created three new segments, each with progressively higher governance requirements; of these, the Novo Mercado section requires the tightest standards. The Securities Commission (CVM), which has been granted greater oversight functions and financial independence in recent years, published voluntary, non-binding governance standards in 2002 and firms (whether listed or not) are requested, but not required, to report on their non-compliance. There is no penalty for non-compliance, however. In March 2009, the CVM reported that 19 companies had been non-compliant. Shareholder agreements are a common, effective and legally enforceable means of dealing with these issues invested firms. (Interviews January 2010, January 2009; EIU Country Commerce September 2009; EIU Country Finance, April 2009; OECD Latin American CG Roundtable)
Strength of the judicial system	2	There exist alternative dispute settlement mechanisms via private arbitration, including recourse to international arbitration where specified in shareholder agreements. Companies listed on the BM&F Bovespa's segments of corporate governance must adhere to the rules of the Bovespa's Arbitration Chamber for resolution of disputes involving the controlling shareholders, the managers and the members of the fiscal council. These function well despite the slowness of the courts. (EIU risk briefing and Interviews January 2009, January 2008)
Perceived corruption	1	Corruption is pervasive throughout the public sector, and many corruption scandals stem from the high cost of politics and violations of campaign-finance rules. Despite reforms, structural weaknesses persist in the political and legal systems, as well as in the tax and social security structures. Unwieldy procedures and constitutional structures can hamper the political process. The management of the civil service is bureaucratic and inefficient, even though the government is staffed with highly competent ministers and managers, and implementation of reforms is still slow. (EIU Risk Briefing, 2010)
Quality of local accounting industry (international standards)	4	Movement toward International Accounting Standards (IAS) has been rapid in recent years. Companies listed on the Novo Mercado section of the stock exchange must use GAAP. Law No. 11,638, adopted in December 2007, which amends several articles of Brazil's Company Law, and brings a set of complex rules that change accounting rules and financial statements of Brazilian corporations, which have been furthered by subsequent regulations issued by the securities commission (CVM). Most of the changes aim to bring Brazilian GAAP closer to international accounting standards. All listed firms and financial companies must transition to IFRS by 2010. International accounting companies are present and reliable. (EIU Country Commerce September 2009, interviews January 2010, January 2009; Deloitte IAS Plus; lexuniversal.com, January 24, 2008)
Entrepreneurship	3	Entrepreneurial activity continues to expand. There are strong government support programs for start-ups, technology ventures, and SMEs more generally. In 2009, a new annual innovation competition, the Premio Inovar was introduced. (WBGES and WB Cost of starting a business databases 2009 and Interviews January 2009, January 2008)

Country Profile

CHILE

	2010	2009
Overall Score:	76	76
Ranking:	1st	1st

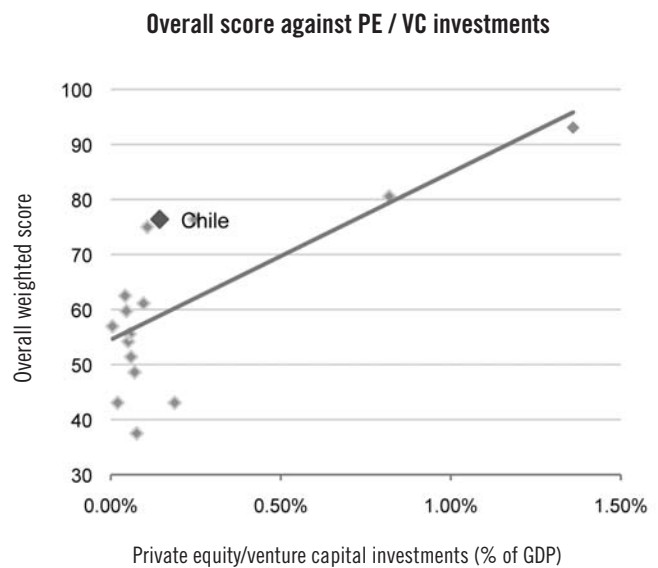
Chile leads the Scorecard rankings for the fifth year in a row, with the most competitive business environment in the region. State development agency CORFO continues to expand with new programs and funding for the development of a domestic venture capital industry. However, Chilean pension fund commitments to domestic private equity funds are still fairly limited and there is growing demand for these investors to increase their exposure to local managers.

Strengths: Chile still has the region’s strongest laws for fund formation (along with Brazil) and relatively strong capital markets. It continues to perform well in all categories, especially within intellectual property protection, judicial transparency and perceived corruption, when compared to the regional average.

Challenges: While the country scores above average in the indicator areas, there remain opportunities to increase its standings. Two areas for progress include requirements for inward portfolio investment and quality of international accounting standards. Efforts are underway to fully transition international accounting standards for non-listed firms by 2013.

	score	change
Overall score	76	
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 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	4	Two fund vehicles, <i>fondos privados</i> and <i>fondos públicos</i> , have been adopted by PE/VC. Institutional investors can participate in the first vehicle, but not the second. The process of opening a <i>fondo público</i> with the banking superintendent can be slow and costly. Law 18,815 of 1989 allowed the emergence of the first venture capital funds (<i>fondos de inversión de desarrollo de empresas</i> —FIDEs), known locally as investment funds. Law 20,190, a capital-market reform law known as MK2, was implemented in June 2007 and aimed to stimulate the PE/VC industry. It created a new form of corporate organisation, the share-issuing limited-liability company, which has the flexibility of a corporation with a capital structure similar to that of a limited-liability company. These companies do not fall under the jurisdiction of the securities commission (SVS), need not disclose annual financial statements, and enjoy tax advantages. Starting in 2012 under the reforms contained in MK2, funds can no longer hold real estate portfolios. A third stage of capital markets reform was pending as of February 2010, and its fate and content remained uncertain given the change of party in power in Chile. (EIU Country Finance, May 2009; Interviews January 2009, February 2009)

Chile ScoreNotes

Aspects	Score (4-0)	Notes
Tax treatment of PE/VC funds & investments	3	Corporate tax rates are straightforward and generally low, ranging from 17-35%, depending on the share of profits re-invested and distributed. However, a 19% value-added tax on fund administrator commissions for foreign participants in funds makes Chile less attractive than some other countries for regional funds. Dividends from local corporations are not taxable for shareholders since they were taxed upon distribution, but dividends paid to non-resident individuals and firms are still taxable as corporate income. Foreign shareholders are subject to a 35% additional tax, less a credit for the 17% first-category tax, under Chile's two-stage tax calculation system. Since the additional tax is calculated on the dividend plus the credit, the tax burden is 35%. A capital markets reform package (Law 20,190 or MK2), implemented in June 2007, aims to stimulate the VC/PE industry by creating exemptions from capital gains taxes. In practice, according to industry participants interviewed over the past two years for this study, the exemptions have been difficult to impossible to access given subjective enforcement by the tax services. The law exempts angel, seed and venture capital investors from capital gains tax; provides an eight-year capital-gains tax exemption for profits from transactions in shares of emerging companies; and grants a permanent tax exemption for capital gains for share-issuing limited-liability companies. (see Laws on VC/PE Fund Formation above and Minority Rights below). (Interviews January 2010, February 2009; EIU Country Finance May 2009, EIU Country Commerce January 2010)
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 1 st 2010 addresses board composition and procedures, independent board members, and disclosure policies for publicly traded firms. For private firms, there are fewer requirements. The share-issuing limited-liability company structure created in 2007 allows for additional flexibility in the transfer of shares and the agreement and exercise of corporate control. The tradeoff is that this corporate form is not subject to specific regulation by the banking superintendency (SVS). (EIU Country Briefing January 28, 2008; interviews January 2010, January 2008; EIU Country Finance May 2009; EIU/LAVCA survey, January 2010).
Restrictions on institutional investors investing in PE/VC funds	3	Pension funds and insurance companies are a substantial source of long-term funding since they are large investors in shares and acquire the bulk of corporate bonds. However, they still face some restrictions in Chile. The 2000 law, <i>Ley de OPAS</i> , allowed pension funds to invest in PE/VC fund (FIDE) debt. Reforms in 2002 also enabled them to invest up to 2.5% of assets in PE/VC investments, though this is still a somewhat low cap. Onerous reporting requirements also continue to raise the costs of such investments and serve as a deterrent. A 2001 law enabled mutual fund management and insurance firms to invest in FIDEs. Under the capital markets reform legislation implemented in June 2007, two major types of new institutional investors have been able to enter the PE/VC markets: banks are now authorised to invest, through their affiliates, up to 1% of their assets in PE/VC funds, as well as to set up their own funds, while CORFO, the major state development agency, is also now permitted to invest in up to 40% of a fund's shares (previously, it had only been authorised to lend to funds). (Interviews January 2010, February 2009; EIU Country Finance May 2009)
Protection of intellectual property rights	3	The legal framework for intellectual property protection is TRIPS-compliant and the US-Chile Free Trade Agreement strengthens some protections, yet enforcement through administrative and legal channels (and the level of coordination between the two) is sometimes deficient. The cost of protecting trademarks and patents is high, and the country remains on the US Special 301 Watch List for intellectual property violations. Through the creation of a specialized police brigade, progress was made in Chile's accession to the Patent Cooperation Treaty. (Interviews January 2010, February 2009; US Country Commercial Guide 2009)
Bankruptcy procedures/creditors' rights/partner liability	3	The bankruptcy law of 2005 facilitates extra-judicial accords with creditors; if 50% agree to terms proposed by a troubled firm, a 90-day suspension of liquidation is granted to allow time to work out the full terms. Also, firms, especially SMEs, may ask courts to call creditors' meetings and name an expert facilitator to help negotiate debt restructuring; a 2/3 approval of shareholders is required. The law also establishes a clear hierarchy of debtors. Partner liability is limited to capital share, yet it remains almost impossible for restructuring firms to obtain fresh injections of capital given the lack of priority in repayment accorded to lenders or investors. The World Bank's Doing Business 2010 rates legal rights of borrowers and creditors below both regional and OECD averages. The Doing Business report also notes that bankruptcy is slower, about the same in cost, and with a lower recovery rate in Chile compared to the Latin America/Caribbean averages. (Interviews January 2010, February 2009; EIU Country Report 2009; Diario Estrategia 2005)
Capital markets development and feasibility of exits	3	While the development of capital markets overall in Chile is solid, low levels of market capitalization and high costs of meeting listing requirements mean that IPO exits are not accessible to the vast majority of SMEs. (Interviews January 2010, February 2009)
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 requirements or exchange controls, though a financial analysis unit has monitored suspicious financial transactions since May 2004 under money-laundering and terrorist-financing legal restrictions. (EIU Country Commerce, January 2010)
Corporate governance requirements	3	A new corporate governance law effective January 1 st 2010 further strengthens legal provisions for publicly traded companies regarding board composition and procedures, independent board members, shareholder meetings, disclosure policies, and related party transactions, among other issues. The 2000 <i>Ley de OPAS</i> initiated the formation of audit committees, strengthened management responsibility for ensuring fair market prices for transactions, set limits for stock options and purchase of own shares, and established other corporate governance norms for listed firms. The World Bank's Doing Business 2010 scores Chile above the OECD and regional average on disclosure requirements and director liability, though below both on ability of shareholders to file suit. In practice, investors rely a great deal on shareholder agreements to establish workable corporate governance practices. (EIU Country Commerce January 2008; EIU Country Briefing January 28, 2008; interviews, January 2010, February 2009; EIU/LAVCA survey response, January 2010)
Strength of the judicial system	3	While the judicial system is slow, the law permits the use of private, alternative dispute resolution mechanisms, such as arbitration centres. (Interviews January 2010, February 2009)
Perceived corruption	3	Chile stands out in the region for its relatively low level of perceived corruption. 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. (Interviews January 2010, February 2009)
Quality of local accounting industry (international standards)	3	As of 2009, IFRS are required of all firms, and a four-year transition to them began for non-listed firms. 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 their books with care before entering deals. (Deloitte IAS PLUS 2010, EIU Country Commerce January 2008; Interviews January 2010, February 2009).
Entrepreneurship	3	There is considerable entrepreneurial dynamism in Chile. Government support for SMEs and start-ups is growing considerably through the creation of a national competitiveness council and the activities of the development agency, CORFO. (WBGES and WB Cost of starting a business databases and interviews January 2010, February 2009)

Country Profile

COLOMBIA

	2010	2009
Overall Score:	60	57
Ranking:	4 th	5 th

Colombia continues to improve its overall score and move up in the regional rankings. This year's move is attributed to the country's improved capital markets score, returning to its 2008 levels after a dip in 2009. The country's financial superintendency approved revisions to the rules governing pension fund commitments to PE/VC as part of an ongoing process to streamline this regulation. The country remained stable in all other indicators.

Strengths: Laws on PE/VC fund formation and operation continue to be Colombia's greatest strength when compared to the region. Institutional investors face low barriers and liberal policies toward foreign portfolio investment. It also ranks above the regional average in minority shareholder rights, restrictions on institutional investors and corporate governance.

Challenges: Colombia continues to combat a number of obstacles, including the perception of corruption and the weakness of the local judicial system. Exits also remain difficult due to capital market restrictions in size and liquidity; Colombia, Chile and Peru aim to link their exchanges by end 2011 to increase liquidity and allow investors to spread risk. Efforts are underway to transition to international accounting standards.

Colombia ScoreNotes

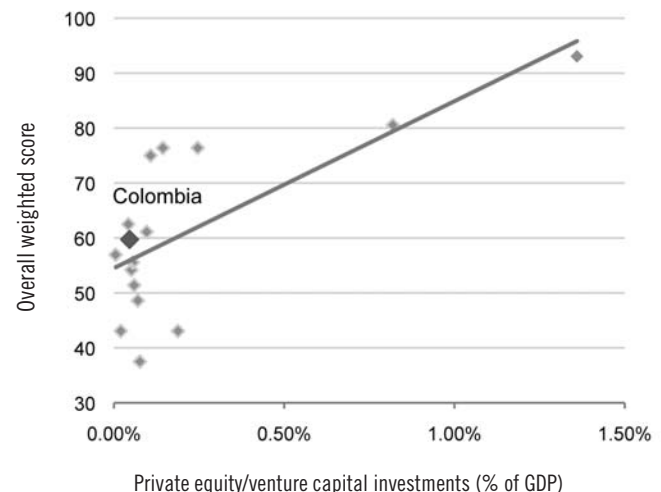
Aspects	Score	Notes (4-0)
Laws on PE/VC fund formation and operation	3	Ongoing improvements in the regulatory structure have been consolidated over the past two years. Resolution 470 of June 2005 allowed for the establishment of private equity funds (<i>fondos de capital privado</i>) which invest at least two thirds of their capital in unlisted companies or in mixed portfolios, and set up a framework to provide investors with a secondary market for liquidity. An investor is required to register equity funds rights with the National Securities Registry and the stock exchange. The capital markets reform and Decree 2175 passed in 2007 have improved the framework for the PE/VC industry. Regulatory changes include: local fund managers no longer require a broker or fiduciary; <i>fondos de capital privado</i> may now invest abroad and create regional funds; Colombian fund managers are no longer required to have a minimum of \$10m under management in order to invest in PE transactions outside of Colombia. Decree 4938 of December 2009 mandated that fund managers issue annual reports to investors. The Financial Reform Act of July 2009 establishes minimum capital requirements for managers of <i>fondos de capital privado</i> . The effects are yet to be seen and no exact figures have been set. (Interviews January 2010, January 2000, EIU/LAVCA survey relies, January 2010, January 2009, EIU Country Finance May 2009; website, Superintendencia Financiera)
Tax treatment of PE/VC funds & investments	2	Foreign investment funds and PE/VC funds are not taxpayers in Colombia, as they are considered pass through vehicles for tax purposes. In principle, PE/VC funds are not subject to income tax, but dividends and gains distributed to shareholders may be taxable. The absence of specific provisions in the tax code for PE/VC creates uncertainties as to tax treatment going forward. The corporate tax was reduced to 33% in 2008, where it remains. A financial transactions tax (0.4%) was made permanent in 2006. As of 2007, capital gains are treated (i) as ordinary income, if the relevant asset was held for less than two years, and (ii) as a separate taxable capital gain if the relevant asset was held for two years or more. Capital losses may be deducted and carried forward subject to general rules. Certain capital gains exemptions apply to institutional investors. When the beneficiary of the fund is a foreigner, the withholding tax on interest and taxable dividends paid to foreign entities is 33%. 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 (Interviews January 2010; EIU; LAVCA survey response, January 2010, EIU Country Commerce January 2010; EIU Country Finance May 2009)

	score	change
Overall score	60	▲ 3
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 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	▲ 1
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)
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. Law 964 of 2006 permits shareholder agreements to establish special minority rights. The voluntary national corporate governance standards established in 2007 for listed firms address general aspects of corporate governance (such as audit committees and disclosure requirements). Awareness of minority rights is growing considerably in the investor and business communities. Under recent reforms (see Corporate governance), standards have become stronger in listed firms and regulation and sanctions on conflicts of interest have been established. Recent voluntary efforts based on self-reporting are focusing on disseminating a set of standards for closely held and family companies, though specific impacts remain to be seen. Director liability has improved considerably in the estimation of the World Bank's Doing Business 2010, and disclosure requirements and ability of shareholders to bring suits remain significantly above the regional and OECD averages. (Interviews January 2010, January 2009, EIU/LAVCA survey, February 2009, OECD Latin American Corporate Governance Roundtable 2005)
Restrictions on institutional investors investing in PE/VC	3	A loosening of restrictions aims to facilitate increased participation by pension funds in PE/VC. Circular 005 of February 2008 issued by the Financial Superintendency raised the limit for pension funds' investments in domestic and foreign variable-income instruments (including private equity) and in foreign-currency-denominated investments (including offshore PE funds) to 40% each. The limit of 20% of a fund's portfolio that may be invested in a single issuer appears still to apply. The mandatory pension funds may invest up to 10% of the value of the fund in PE (5% in local funds and 5% in foreign funds). For voluntary pension funds, up to 10% of the total value of the fund may be invested in PE. At least one of the entities in such transactions (the vehicle used to set it up, the fund manager or its parent, or the fund administrator) must be located in an investment-grade jurisdiction, have US\$1bn under management, and have five years of relevant fund-management experience. Rule 36 adopted on September 28, 2009 requires pension funds investing in private equity funds (in Colombia or abroad) to make all relevant information about the creation of investment portfolios available to its members and the Financial Superintendency. The rule also enables them to invest in funds of funds for the first time and restricts conflicts of interest by pension fund managers and the holdings of PE funds in which they invest. Invested firms must meet certain minimum corporate governance requirements. Resolution 470 of 2005 allows institutional investors to invest in private equity funds which are registered in the national securities registry and listed on the stock market. (Interviews January 2009, January 2008, EIU/LAVCA survey, February 2009, EIU Country Finance May 2009, EIU Country Commerce January 2010)
Protection of intellectual property rights	2	Despite comprehensive legislation and important progress in recent years, enforcement of IPR in Colombia remains uneven, and infringements are common. Enforcement and prosecution of infringers is still weak because of inefficiencies in the judiciary and the budget limitations of enforcement agencies. Legislation provides for adequate procedures to allege and stop abuses on intellectual property. Registration of trademarks, patents, copyrights, and industrial designs and models is mandatory. The US Trade Representative has placed Colombia on the official Lower Level Watch List for high piracy levels again in 2008. (US Country Commercial Guide 2009 and USTR Watch List notes, 2009)
Bankruptcy procedures/creditors' rights/partner liability	2	Both bankruptcy laws and their enforcement are seen as problematic. 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. It remains fairly untested, however, as six decrees regarding crucial implementing procedures for the framework have been adopted over 2007-09. According to the World Bank's Doing Business 2010, compared to LAC averages resolving a bankruptcy now in Colombia takes slightly less time, costs much less, and yields a much higher recovery rate for creditors. Legal rights of borrowers and lenders are rated below the regional average by the same source. Shareholder agreements must be structured carefully to solidify limited liability. (Interviews January 2010, January 2009; EIU/LAVCA survey, February 2009)
Capital markets development and feasibility of exits	2	Colombia improved its score on this indicator, returning to its 2008 score. Relatively low market capitalisation and high costs of meeting listing requirements mean that IPO exits are still not accessible to the vast majority of SMEs. The stock exchange, in collaboration with various government agencies, is seeking to identify ways to improve listing procedures and eliminate barriers to entry for first-time issuers. After booming in 2003-06, the stockmarket faced some risk aversion in 2009 but has been rising since October (Interviews January 2010, January 2009; EIU/LAVCA survey, February 2009; EIU Risk Briefing Feb 2010)
Registration/reserve requirements on inward investments	3	Foreign investment in most new ventures, expansions or acquisitions does not require prior approval. However, all foreign investment must be registered with the central bank to guarantee access to foreign currency for repatriation. To deter short-term speculative investments, the government implemented minimum-stay and deposit requirements for foreign portfolio investments. In May 2007, the government established a six-month, non-interest-bearing deposit of 40% of the value of any new portfolio investment entering the country. The local managers of foreign-investment funds and <i>fondos de capital privado</i> are required to register flows by filing fund-transfer forms with the central bank. There are no reserve requirements. (EIU Country Commerce January 2010, EIU Country Finance May 2009, interviews January 2010, January 2009)
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. Director liability has improved and now well exceeds regional and OECD averages in the estimation of the World Bank's Doing Business 2010, while disclosure requirements and ability of shareholders to bring suits are also significantly above both the regional and OECD averages. (Interviews January 2010, January 2009; EIU/LAVCA survey, February 2009; website: superfinanciera.gov.co ; Diario La Republica 2005; OECD Latin American Corporate Governance Roundtable October 2007)
Strength of the judicial system	2	Law 315 of October 2000 permits contracts between foreign investors and domestic parties to have clauses providing for binding international arbitration of investment disputes. However, there is no relevant experience with international arbitration in PE/VC investments. Shareholder agreements are legally recognised. (EIU Country Commerce January 2009 and Risk Briefing February 2010; Interviews January 2010, January 2008)
Perceived corruption	1	Perceived corruption remains an issue in Colombia's business operating environment. EIU's Risk Briefing notes that the judicial and civil service sectors are subject to corrupt practices and intimidation. (EIU Risk briefing, Business environment ranking 2009)
Quality of local accounting industry (international standards)	2	Colombian accounting standards differ significantly from IAS. IFRS are not permitted for either listed or non-listed firms. International accounting firms are present, but there have been ongoing delays in efforts to transition to international standards. Inflation-adjusted accounting for tax purposes persists. Under Law 1314 of July 2009, the country is initiating a process of adjusting the structure of accounting bodies and to coordinate agencies in order to undertake convergence toward IAS. Starting January 10 2010 and by July 10 2010, the Technical Commission of Public Accounting is charged with adapting Colombia to international norms by mid-2012. (Deloitte IAS PLUS 2010, interviews January 2010, January 2009)
Entrepreneurship	2	There is active government support of entrepreneurship initiatives. According to the World Bank's Doing Business survey, start-up costs remain relatively high. However data indicates that the business entry rate, and the number of new firms as a percentage of existing firms, has improved since 2008. (WBGES and WB Doing Business databases, 2008 and 2009)

Country Profile

COSTA RICA

	2010	2009
Overall Score:	54	53
Ranking:	7 th	7 th

Costa Rica's score improved slightly from 2009. While legislation for fund formation and operation remains weak, in early 2010 efforts were announced to establish a specific regulatory legal framework for the creation of private equity and venture capital funds in the country. If passed, such legislation has the potential to have a major impact on the industry. Costa Rica improved its score for perceived corruption by one point, placing it at the forefront of the region in this indicator.

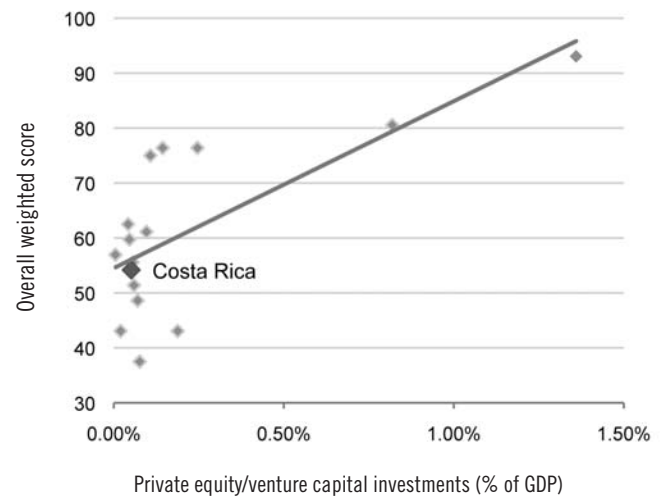
Strengths: The country's main strength is the quality of accounting standards, but in addition, tax treatment, protection of intellectual property, openness to foreign portfolio investment and judicial system all rank relatively favorably.

Challenges: Costa Rica's greatest weaknesses remain the poor protection of minority shareholder rights, the restrictions on institutional investors and the absence of laws permitting fund formation of nationally domiciled PE/VC funds, which would be addressed by proposed new legislation. The country also needs to focus on improving corporate governance, bankruptcy procedures and entrepreneurship.

	score	change
Overall score	54	▲ 1
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 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	▲ 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



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. However, 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. In May 2008 the <i>Consejo Nacional de Supervision del Sistema Financiero</i> (Conassif) announced that the stock market was not yet ready for PE/VC investment, which essentially nullified any formal bridge between the MAPA scheme and fund investing. Another problem is that the "sponsors" that are part of the process of shepherding firms through private placements may sometimes lack expertise or have conflicts of interests. (Interviews January 2010, January 2009; EIU Country Finance, February 2009; "Guia General al Mercado MAPA," nacion.com, December 30, 2009)
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 to Costa Rica. Costa Rican withholding taxes are levied on post-tax business profits. The country has a simple tax system with low rates (10-30%), yet according to the World Bank's <i>Doing Business 2010</i> , the total annual tax payable by a medium-sized company in Costa Rica works out to an average of 54.8% of gross profit, significantly higher than both the regional (48.3%) and OECD averages (44.5%). Commercial paper and security issues are subject to an 8% withholding tax. Costa Rica is not a party to any double-taxation treaties. (EIU Country Commerce November 2009; interviews January 2010, January 2009)

Costa Rica ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	The concept of minority rights is generally 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 2010, Costa Rica has weak disclosure requirements and shareholder rights to take legal action against the board, 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 2010, January 2009, EIU Country Commerce November 2009)
Restrictions on institutional investors investing in PE/VC funds	1	The pension system is partially privatized, and there is competition between private pension-fund managers and state-owned administrators. 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) currently plays only a minor role as an investor in the stock exchange, mainly in the markets for bonds and commercial paper, and there do not appear to be imminent prospects for regulations allowing for PE/VC investments to be made by insurers. (Interviews January 2010, January 2009, EIU Country Finance February 2009)
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 and training and inadequacies in the criminal justice system. Costa Rica improved its IPR legislation during the implementation process to CAFTA-DR, but the country remains on the USTR watch list due to shortcomings in IPR enforcement. (US Country Commercial Guide 2009 and USTR Watch List notes, 2009)
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 2010 reports that bankruptcies are resolved somewhat more slowly, at somewhat less cost, and with a slightly lower recovery rate than the average for the LAC region. 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	Local equity markets are thin, and IPO exits difficult but not impossible, and foreign access to local markets is good. With the acquisition of listed domestic firms by international concerns, de-listings have become common. The creation by the stock exchange of the Alternative Market for Shares (MAPA) in 2007 has created a possible new opening for private placements of shares, though so far it has been limited in practice. (Interviews January 2010, January 2009, EIU Country Commerce November 2009)
Registration/reserve requirements on inward investments	3	All foreign-exchange transactions take place through the central bank (Banco Central de Costa Rica--BCCR), the national banking system and private banks. Export and other sources of foreign income are recorded by the BCCR, but there are no requirements on where proceeds can be deposited. There are no limits on access to foreign exchange for trade purposes, including surcharges and prior-deposit requirements. Registration of capital is not mandatory, but the central bank does not guarantee availability of foreign exchange for repatriation for non-registered investments. (EIU Country Commerce November 2009, interviews January 2010, January 2009)
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. The World Bank's Doing Business 2010 classifies disclosure requirements and shareholder ability to sue in Costa Rica as well below regional averages, and director liability as slightly below average. Under the still unproven Alternative Market for Shares (MAPA) for private share placement, registered firms are required to adopt corporate governance norms, and operate under a scheme of supervision by exchange-designated firm "sponsors" who oversee the implementation of these norms and preparation for private share offerings, though the expertise and objectivity of these sponsors has been questioned. (Interviews January 2010, January 2009, EIU Country Commerce November 2009)
Strength of the judicial system	3	The judicial system is independent and enjoys high legitimacy, but remains extremely slow-moving. The wide powers of judicial review of the independent Constitutional Chamber are a central pillar of Costa Rica's institutionalized democratic mechanisms. However, 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. Due to its professional civil service, Costa Rica has one of the most autonomous and technically able bureaucracies in Latin America. (EIU Risk briefing and Business Environment Rankings, 2009)
Perceived corruption	3	Costa Rica has avoided the infiltration of its state institutions by interests allied to the illegal drugs trade, and corruption is lower here than elsewhere in the region, even though corruption legislation is evolving slowly. (EIU Risk briefing and Business environment Rankings, 2009)
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	There have been initiatives organized recently to promote SMEs (like incubators) and angel investing in the sector, although expenditures on R&D (0.3% of GDP) are below regional and international averages. According to the World Bank, the number of procedures required to set up a business in Costa Rica are above average for the region, and serve as a deterrent to entrepreneurs. (WBGES and WB cost of starting a business database, 2009 and Interviews January 2010, January 2009)

Country Profile

DOMINICAN REPUBLIC

	2010	2009
Overall Score:	38	33
Ranking:	12th	12th

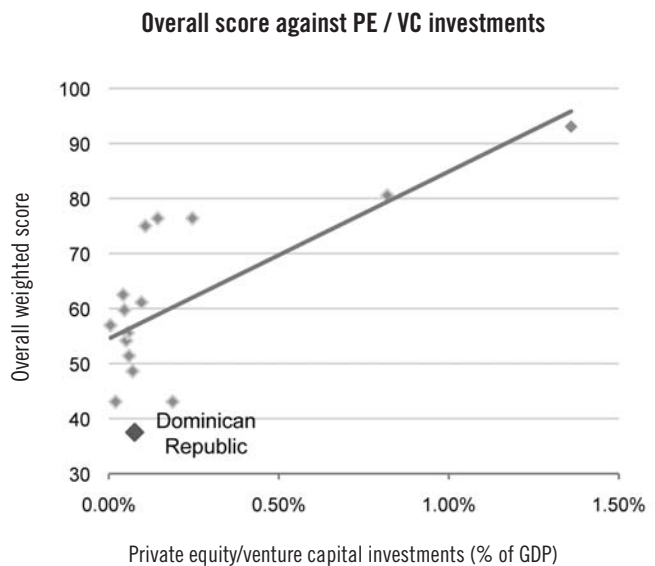
The country improved its score this year after a decrease in 2009, but the Dominican Republic continues to rank at the bottom of the Scorecard due to an overall weak investment infrastructure. There were gains in the quality of accounting standards (bringing it above the regional average) and corporate governance requirements due to a new Company Law that came into effect in 2009.

Strengths: The country remains open to inward portfolio investment, and, with improved scores this year, now ranks relatively favorably in corporate governance requirements and international accounting standards.

Challenges: The Dominican Republic needs to develop laws for fund formation and operation, as well as lower its restrictions on institutional investors and the tax burden. The perceived corruption is one of the worst in the region, and both the judicial system and bankruptcy procedures are in need of overhauls.

	score	change	
Overall score	38	▲	5
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 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	▲	1
Strength of the judicial system	1		
Perceived corruption	0		
Quality of local accounting/use of international standards	3	▲	1
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)



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, the latter 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 is mostly limited to individual angel investors, though the government has made efforts to form networks of angel investors and there is a business incubator that operates a seed capital fund with IDB funding. (Comision de Valores website, interviews January 2010, February 2008)

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. 25% is also the flat income tax rate for corporations. Businesses and corporations must pay a 1% annual tax on assets in two installments. Payments abroad to persons or entities not domiciled or resident in the Dominican Republic are subject to a 25% retention on the amount paid. This retention is considered as final and definitive payment of the taxes owed for the operation. No deductions are allowed. The only exceptions to this provision are interest payments to financial institutions abroad, which instead are subject to a 10% retention. Corporations must retain 25% of the dividends paid to shareholders. The amount retained becomes 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 2010, February 2008; 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 Company Law that went into effect in June 2010 (see Corporate governance) minority board members may finally gain access to more timely and transparent financial information in SAs. Minority rights would appear to be weaker in the limited liability company form also created by the law, though there a one-tenth minority can vote to appoint an accounting commissar to conduct audits. (Interviews January 2010, February 2008; Comision de Valores website, Ley General 479-08; Headrick, Rizick, Alvarez & Fernandez, Boletin Informativo, December 2008)
Restrictions on institutional investors investing in PE/VC funds	1	Pensions funds can still 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, up to 100% foreign-owned insurance firms are permitted, and they are not governed by such restrictions. However, they have been slow to establish a presence in the country. (Interview, January 2010, www.dr1.com, United States Trade Representative 2006)
Protection of intellectual property rights	1	The Dominican Republic remained on the USTR 2009 Watch List due to poor intellectual property rights enforcement. While the CAFTA-DR accords strengthened intellectual property rights protection, there is still concern about the enforcement of these laws. (US Country Commercial Guide 2009)
Bankruptcy procedures/creditors' rights/partner liability	1	Compared to the regional average for Latin America and the Caribbean, 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 has been 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 2010, interview February 2008)
Capital markets development and feasibility of exits	1	Local IPOs are not an exit option as there is not yet a viable stock market. The country has a less efficient financial system than its CAFTA-DR partners. Looking ahead, tighter international financing conditions will put pressure on interest rates. Banking sector efficiency is ranked relatively low. While the stock market will continue to grow, it does not provide a significant channel for equity finance. (Interviews January 2010, February 2008, EIU Country Report)
Registration/reserve requirements on inward investments	3	There are no reserve requirements or exchange controls, and registration is simplified under CAFTA-DR. The former exchange commission of 13% charged by the Central Bank was eliminated in early 2006, and the import tariff equivalent to the same amount that replaced it was also phased out with the implementation of CAFTA-DR. (EIU Viewswire, interviews January 2010, February 2008)
Corporate governance requirements	3	A new Company Law came into effect June 19th 2009. It created limited liability companies and divided corporations (<i>sociedades anonimas</i> or SAs) into public and private and all firms had to update their registrations and bylaws by that date. 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. 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 separate from the board. With respect to the newly created category of limited liability companies (<i>sociedades de responsabilidad limitada</i>), under the law, it is not clear if the benefits of flexibility which may lead many smaller and medium size firms to opt for it or convert to it (e.g., there may be as few as two shareholders, and assemblies may be conducted virtually) come at the expense of less rigorous corporate governance. It will be important to assess the law's impacts on governance standards, and which forms companies opt for, with care. According to the World Bank's Doing Business 2010, the country has higher disclosure requirements and shareholder ability to sue than the regional average, and below average director liability (up from a zero score in 2008). Sanctions and policing of financial reporting remain problematic. (Interviews January 2010, February 2008; EIU, Global Microscope on the Microfinance Business Environment, 2009; Comision de Valores website, Ley General 479-08; European Corporate Governance Institute 2008)
Strength of the judicial system	1	There is a new constitution and effort to strengthen the legal system, yet the impact of these in the judicial process remains to be seen. The slow and ineffectual judicial process and weaknesses in the regulatory framework are the main contributors to operating risk in the Dominican Republic. The risk that a contract will not be enforced is moderate. The judiciary is relatively weak and prone to corruption.
Perceived corruption	0	The political and judicial systems have been relatively ineffective in the fight against corruption. Both the Mejia (2000-04) and Fernández administrations accused previous administration officials of corruption and have investigated some cases, but there have been very few prosecutions. A National Commission for Ethics and against Corruption, created in 2005, produced a plan to reduce corruption, which was followed by legislation to regulate government procurement and require public bids for all sizeable government contracts, to increase transparency and reducing corrupt practices. But the process of implementation of new laws is slow and implementation is weak. A series of corruption scandals have raised doubts about both the government's commitment to transparency and the independence of the judiciary. Mr Fernández is unlikely to attach much priority to the issue in his third term. Without further improvement, corruption will continue to undermine the efficiency of the public sector, with negative implications for fiscal management, prospects for infrastructure improvements and the business environment more generally. In this context, the long-term interests of foreign business are best served by seeking to raise standards of accountability by example and lobbying pressure. (EIU Country Report, Risk briefing and Business environment rankings March 2010)
Quality of local accounting industry (international standards)	3	IFRS are required for both listed and privately held firms; the Institute of Certified Public Accountants adopted international accounting standards in 1999. Yet implementation and enforcement have been quite weak in practice, and international firms have tended to follow local practices. However, the new Company Law, effective June 2009, improves the situation. Corporations, SAs (<i>sociedades anonimas</i>), must undergo annual audits following the Institute's standards, and their accounting commissars (<i>comisarios de cuentas</i>) must now be certified public accounts. While limited liability companies (<i>sociedades de responsabilidad limitada</i>) are not required to have a commissar, it requires only a one-tenth vote of shareholders to appoint one. (Deloitte IAS PLUS 2010, interviews January 2010, February 2008)
Entrepreneurship	1	The beginnings of an entrepreneurial culture can be detected, but costs of starting a business are high. The new limited liability company will be a more flexible form and might ease business creation for smaller firms. (Interviews, January 2010, February 2008, and based on World Bank business start-up costs score)

Country Profile

EL SALVADOR

	2010	2009
Overall Score:	43	46
Ranking	10 th (tied)	10 th (tied)

El Salvador continued a downward trend with a decrease in its overall score, which has been reduced by seven points since 2008. The country continues to battle perceptions of corruption, receiving the lowest possible score due to increased violence and crime which increases security costs for companies. Due to a lack of regulations that allow funds to form and operate, all PE/VC activity is in offshore funds. The country made no gains this year, and in addition to a decreased score in corruption, it also saw a drop in its score for entrepreneurship.

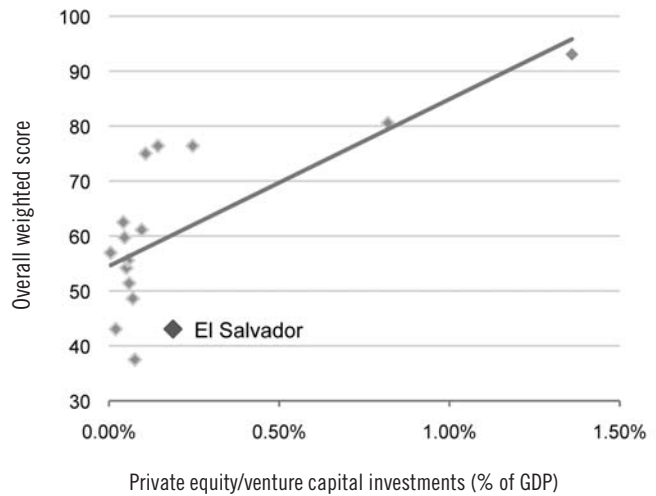
Strengths: While strengths are limited, the country continues to have a high use of international accounting standards, and a relatively favorable tax treatment.

Challenges: El Salvador faces many obstacles, from a lack of a legal framework for local fund formation to strict restrictions on institutional investors and weak corporate governance. The country ranks well below the regional average on most indicators.

	score	change
Overall score	43	▼ 3
Laws on PE/VC fund formation and operation	0	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	2	
Restrictions on 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	0	▼ 1
Quality of local accounting/use of international standards	4	
Entrepreneurship	1	▼ 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



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. A law remained under consideration that would allow for both open and closed funds. All PE/VC activity in El Salvador is limited to offshore funds at present. (Interviews January 2010, January 2009)
Tax treatment of PE/VC funds & investments	3	There is 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). Non-residents are subject to a 25% tax on capital gains earned from selling property. Dividends paid to non-resident individuals are taxed as normal income, but a 20% advance payment is withheld at the source (it appears that this will fall to 10% under the new tax reform effective January 2010, though implementing regulations were still pending). Those paid to non-resident entities are not subject to withholding tax. 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 2009, interviews January 2010, January 2009)

El Salvador ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Minority shareholders can convene a board meeting but have few other statutory rights, such as audit committees or access to information. No legal requirements exist on the percentage of shares that constitute effective control, 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 Commerce June 2009, interviews January 2010, January 2009)
Restrictions on institutional investors investing in PE/VC funds	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 centres 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. At end-August 2009, only 0.5% of total investments were in foreign instruments. (Interviews, January 2010, January 2009; EIU Country Finance December 2009; Diario El Mundo 2006)
Protection of intellectual property rights	2	CAFTA-DR provisions require the country to strengthen legal protections, but enforcement and implementation of legal protections is problematic, and seeking redress of violations through mercantile and criminal courts remains a slow process. El Salvador's Law to Promote and Protect Intellectual Property (<i>Ley de Fomento y Protección de la Propiedad Intelectual</i>), passed in 1993, is meant to provide for the creation of special courts to handle intellectual property cases. As of mid-2009, however, there was no timeline for the establishment of such courts. (US Country Commercial Guide 2009, Interviews January 2010, January 2009; EIU Country Commerce June 2009)
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 the World Bank's Doing Business 2010, bankruptcy is slower but considerably less costly than the LAC averages, and the recovery rate for creditors 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. Talk of a bankruptcy law has not advanced very far. 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	The market for VC and PE in El Salvador remains thin. Foreign firms account for all VC activity, with no local VC firms as of November 2009. Despite the fact that foreign investors may invest directly in El Salvador's stock exchange and that no restrictions apply to foreign purchases of any type of portfolio investment, the stock market is not well capitalized. Listing requirements add to costs. Underdevelopment of capital markets is a key constraint to El Salvador's long-term growth. At present, the equity market is not a particularly viable option for PE/VC exits from the country. (Interview January 2010; EIU Country Finance December 2009, EIU Country Forecast 2008)
Registration/reserve requirements on inward investments	3	The Central Reserve Bank (Banco Central de Reserva, the central bank) 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 (Ministerio de Hacienda) for tax purposes. There are no reserve requirements or exchange controls in this dollarised economy. (EIU Country Commerce June 2009; interview January 2010, January 2009)
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, weak director liability, and average ability of shareholders to sue are observed in El Salvador, according to the World Bank's Doing Business 2010. 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 Commerce June 2009, interviews January 2010, January 2009)
Strength of the judicial system	1	Arbitration clauses are increasingly common in contracts and the Chamber of Commerce and Industry has an arbitration centre. Arbitration is often costly and time consuming. Formally independent, El Salvador's judicial system is considered inefficient and corrupt. Since 2004, however, the government of El Salvador has been working on an initiative to strengthen the effectiveness, accessibility, and credibility of the judicial system. The project, being carried out with \$24 million in World Bank support, is due to close in mid-2010, so judicial improvements may be forthcoming. (Interview January 2009; EIU Country Commerce June 2009)
Perceived corruption	0	CAFTA-DR has forced El Salvador to tighten its regulatory framework for investment in several areas including reforms to existing legislation governing the assignment of public contracts; as a result, officials can no longer bid for public-sector contracts if they have been convicted, or are under investigation for corruption. El Salvador continues to struggle to surmount obstacles that have held back its development in the past, including corruption, the power of vested interests, crime, the underdeveloped capital market and the shortage of skilled labour, all of which constrain long-term growth. Crime and gang violence in urban areas, fuelled by unequal income distribution, drug trafficking and widespread police corruption, have risen sharply in recent years. As a result, security costs for businesses are high despite government efforts. (EIU Country report, Risk briefing and Business environment rankings, 2008)
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. A process is underway that would make these standards required by the end of 2010. International accounting firms are present and competent. Double-bookkeeping remains common, though criminal penalties for such tax evasion practices have increased substantially in recent years. Outside audits are required of all firms. Funds investing in Salvadoran firms find it important to conduct both financial as well as (given high rates of tax evasion) fiscal audits. (Deloitte IAS PLUS 2010, Inter-American Accounting Conference 2006, interviews January 2010, January 2009)
Entrepreneurship	1	El Salvador had a moderate level of new business start-ups for the region, but business start-up costs are high and discouraging to entrepreneurs. (WBGES and WB cost of starting a business databases, 2009)

Country Profile

MEXICO

	2010	2009
Overall Score:	63	58
Ranking:	3 rd	4 th

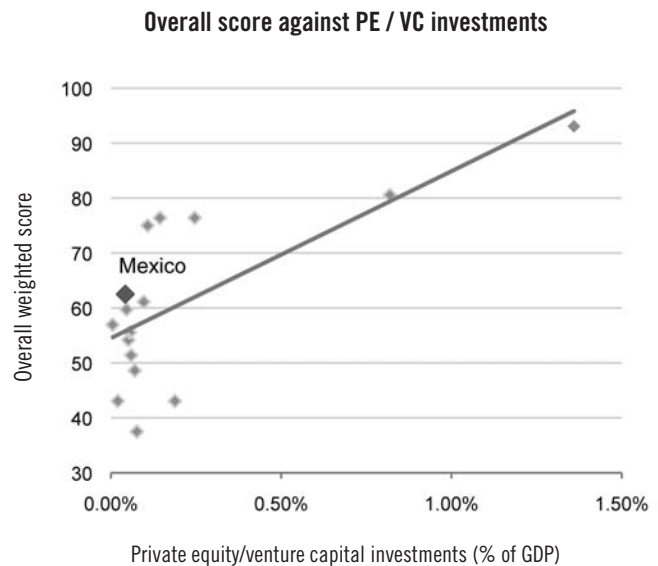
Mexico's score and ranking increased this year due to improved scores on the restrictions on institutional investors and bankruptcy procedures. Mexico benefited from the reforms adapted in 2009 that will allow AFORES, the state pension funds, to gain access to local private equity funds through a vehicle known as Development Capital Certificates. New funds are being raised locally with pension fund commitments, but there is a need for increased investor education and the implementation of best practices.

Strengths: Relative to the region, Mexico's strengths continue to be in tax treatment, corporate governance requirements and the protection of minority shareholder rights.

Challenges: Weaknesses remain in the legal framework for fund activity, bankruptcy procedures and entrepreneurship. In addition, the country continues to be plagued with perceptions of corruption and authorities' ability to control the drug trade.

	score	change
Overall score	63	▲ 5
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 institutional investors investing in PE/VC	3	▲ 1
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	▲ 1
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)



Mexico ScoreNotes

Aspects	Score (4-0)	Notes
Laws on PE/VC fund formation and operation	2	Most of the larger funds remain offshore; NAFTA rules permit establishment of limited partnerships in Canada, which remain by far the preferred vehicle. The FICAP (<i>fideicomisos de inversion de capital privado</i>) structure created in 2005 appeared to be an improved vehicle for risk capital funds, but a relatively small number have been set up to date. Among the problems identified by critics are the lack of proper implementing regulations; norms that limit the liquid portion of capital not to exceed 20% and require immediate distribution of gains from selling companies in the fund's portfolio (rather than re-investment); high management fees and fiduciary fees charged by the banks and the <i>casas de bolsa</i> that administer these trusts; and the fact that legal responsibility is shared by general and limited partners. Foreign investors in particular seem uninterested in FICAPs, preferring the lower costs and lesser legal exposure of limited liability offshore vehicles. (Interviews January 2010, January-February 2009; 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 recent tax reform raises the tax burden more generally, with some impacts on the industry. Tax reforms adopted in 2005 eliminated double taxation for both offshore VC funds and FICAP equity capital trusts. Investments in PE/VC funds are still not eligible for the same type of tax incentives and exemptions that are available for investments in listed firms. There are no capital gains taxes on securities bought and sold on the <i>Bolsa Mexicana de Valores</i> (BMV), but certain limits apply. Management fees are still not deductible in the same tax year in which they were incurred. Under a tax reform effective January 1 st 2010, the top corporate income tax rate is 17.5%; for individuals, it was increased from 28% to 30%, through the end of 2012. It is not clear if the new reform has any direct implications for PE/VC funds and their investors. The tax treatment of development capital exchange certificates (CKDs), created as a vehicle for pension fund investment in PE/VC funds, is also not yet clear. (EIU Country Finance March 2009; EIU Country Commerce August 2009; Interviews January 2010, January-February 2009; 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 one director. The 2005 Securities Markets Law increases guarantees for minority shareholders (see corporate governance). A special corporate category known as SAPI (<i>Sociedad Anónima Promotora de Inversión</i>) created by the 2005 law has been well received by private-equity, as it allows special provisions in the bylaws, such as “drag-along” and “tag-along” rights. Lingering concerns for all these reforms continue to be enforceability and prevalence of family and other ties that dilute minority shareholder voice. (EIU Country Commerce, August 2009; EIU Country Finance March 2009; interviews January 2010, January-February 2009, January 2008)
Restrictions on institutional investors investing in PE/VC funds	3	Reforms adopted in 2009 under the National Commission of the Retirement Savings System (CONSAR) to the investment regime of pension funds (AFORES), in conjunction with reforms made by the exchange itself to its rules (BMV), now allow AFORES to invest in PE/VC funds. This is possible under a “development capital stock certificate”, one form of which (CKD-A) permits investment in trusts such as PE/VC funds. A CKD-A allows an AFORE to invest in a PE/VC fund by purchasing a stock certificate, which the fund must issue on the exchange. It appears that the fund (which must be domiciled in Mexico) must meet the corporate governance requirements of the BMV. The certificates function as stock with no guarantee of payment of principal or interest or yields, and are tied to the issuing funds’ longer term success. Many practical and perhaps regulatory issues remain to be defined such as tax treatment and the AFORES’ lack of technical expertise in evaluating and implementing such investments. Nonetheless, the CKD initiative does seem likely to generate a significant increase in pension fund investment in PE/VC activity over the medium term. Rules which took effect in January 2005 allow pension funds to invest up to 15% of their assets in stock-related instruments outside of Mexico, but until now they remained unable to invest in domestic equities. (EIU Country Finance March 2009; Interviews, January 2010, January-February 2009; World Trade Executive/Viewswire August 2006; AMEXCAP; Baker & McKenzie)
Protection of intellectual property rights	2	Mexican law protects intellectual property (IP), but enforcement is weak and pirated goods exist throughout Mexico. The Office of the US Trade Representative (USTR) states that Mexico’s enforcement efforts and IP law do not meet international standards. However, as of 2009 the USTR moved Mexico to the Watch List (previously on Priority Watch List) in recognition of the overall improvements made in IPR enforcement efforts. Pressure on Mexico to step up its anti-piracy-enforcement efforts also comes from foreign firms, including music publishers and software makers, such as Microsoft (US). (EIU Country Commerce 2009 and Risk briefing and business environment rankings, 2009)
Bankruptcy procedures/creditors’ rights/partner liability	2	Based on more complete information on bankruptcy procedures and 2007 legal amendments, Mexico’s score has been revised upward by one point. FICAPs have shared legal responsibility between general partners and investors, unlike offshore vehicles which are typically set up under limited liability rules. Bankruptcy reforms of 2000 in principle established clearer criteria, shorter time limits, greater ability to use and take collateral, and greater judicial power for restructuring or liquidating firms through a special institution to oversee bankruptcy proceedings, directed by private specialists in the field. Pending challenges include legal delays/weak enforcement, backlog of payments, and creditors obligation to accept devalued payments. As a result, partner liability must be addressed clearly in shareholder agreements, though legal enforceability is sometimes an issue. The legal rights of creditors and borrowers are still rated well below both regional and OECD averages by the World Bank’s Doing Business 2010. According to the same study, however, bankruptcies are resolved much faster and with a considerably higher recovery rate compared to the LAC average, albeit at higher cost. (EIU Country Commerce August 2009, August 2008; interviews January 2010, January-February 2009; standardsforum.org)
Capital markets development and feasibility of exits	2	IPOs remain a difficult and unattractive exit option for PE investment in SMEs, in part because of the continued absence of a special segment of the market catering to smaller firms, but also due to the low appetite of large investors for such riskier investments. There were only two IPOs in Mexico during 2008, down from four in 2007. As an alternative, the industry has been developing an over-the-counter (OTC) market to buy and sell target investments. The market operates through a website, www.empresasextrabursatiles.com.mx . There is a good M & A market for PE. (Interviews January 2010, January-February 2009 and EIU Country Finance 2009)
Registration/reserve requirements on inward investments	3	Registration (under money laundering regulations) is easy and straightforward, and there are no reserve requirements. Foreign investors participating in a Mexican company, including through trusts or neutral investment, must register with the National Foreign Investment Registry (Registro Nacional de Inversiones Extranjeras). (EIU Country Finance March 2009, EIU Country Commerce, August 2009, Interviews, January 2010, January-February 2009)
Corporate governance requirements	3	The 2005 Securities Markets Law increases guarantees for minority shareholders for traded firms. Companies must provide full access to information, introduce independent board members, comply with requirements for general offers, and limit the amount of voting and non-voting restricted stock. Under the SAPI corporate structure, a company can avoid some requirements of the conventional corporation for three years in return for adopting the “Best Practices of Corporate Governance” code and conceding more power to minority shareholders. This has led to improvements, but has not been a solution to all problems due to a steep learning curve in terms on the administration and regulation of SAPIs. The SAPI form (see Minority Rights) obviates the need to deal with many of these governance issues in shareholders’ agreements in order to ensure enforceability. Overall, there remain concerns about corporate governance more broadly in Mexico in terms of weak oversight and reporting requirements, prevalence of tight family and personal networks in running businesses, and full enforceability of shareholder agreements. The World Bank’s Doing Business 2010 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 2009; EIU Country Commerce August 2009; OECD Latin American CG Roundtable 2005)
Strength of the judicial system	2	Investors and invested companies avoid using the courts due to delays. International commercial arbitration has grown in importance though enforceability of such arbitration settlements is sometimes an issue and can be expensive. (Interviews January 2010, January-February 2009)
Perceived corruption	1	There are signs that the government is making efforts to reduce red tape and expand SARE, a fast-track scheme for opening businesses. Government procurement prioritises purchases from SMEs as part of countercyclical plan. Concerns remain about the ability of Mexican authorities to control the drug trade and about corruption in Mexican law-enforcement agencies. (EIU Business Latin America, Risk briefing and Business environment Rankings Feb 2010)
Quality of local accounting industry	3	Mexico is converging toward international standards. On 11 November 2008, the CNBV announced that all companies listed on the Mexican Stock Exchange will be required to use IFRS starting in 2012, but private companies will not have the same requirement. International auditors are present and competent. Since small and medium-sized enterprises tend to use small local accounting firms of uneven quality, funds investing in them tend to require they undergo audits by larger international audit firms.(EIU Country Commerce August 2009; Deloitte-IAS PLUS 2010; interviews January 2010, January-February 2009)
Entrepreneurship	2	There is some perception of an improvement in recent years in the amount and quality of entrepreneurial activity; more recently through the publicly financed Fund of Funds. There are active governmental programs and funding to foster new and small businesses and new business registration levels remain stable. (WBGES and WB cost of starting a business databases, 2009 and interviews January-February 2009, January 2008)

Country Profile

PANAMA

	2010	2009
Overall Score:	49	49
Ranking:	9 th	9 th

Panama is one of only two countries in Central America that continues to attract investment from abroad, though the PE/VC industry is still nascent with most activity taking the form of offshore, regional funds. The country's indicator scores remained unchanged this year, signaling little to no improvement after a decline in areas such as capital markets development and entrepreneurship in last year's Scorecard.

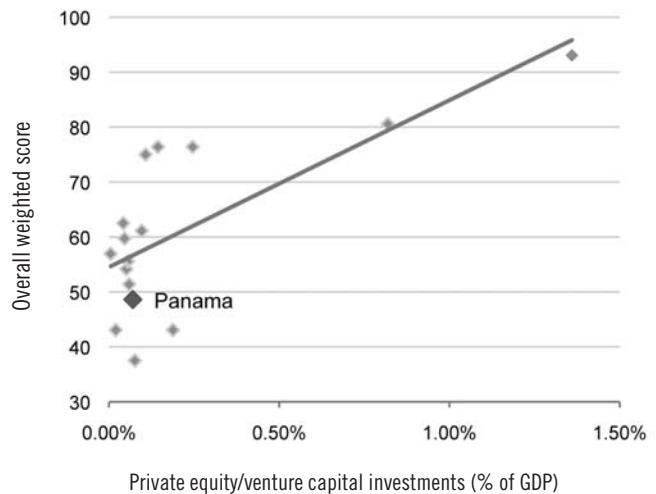
Strengths: Panama's principle strength remains its dollarized economy that is open to inward portfolio investment.

Challenges: The country ranks below the regional average on key indicators for the PE/VC industry such as tax treatment, restrictions on institutional investors and minority shareholder rights. In addition, the country lacks specific laws for fund formation, and needs to improve accounting standards, corporate governance laws and bankruptcy procedures.

	score	change
Overall score	49	
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 institutional investors investing in PE/VC	2	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	2	
Capital markets development and feasibility of exits	2	
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	2	
Entrepreneurship	1	

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

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 must 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 proper on nominal shares, though some funds use offshore vehicles to avoid this. A withholding tax rate of 5% applies on dividends derived from operations outside of Panama as well as from the export of goods from Panama. The rate is 20% for bearer shares. 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. The taxable base for applying the income tax rates is 50% of the total payment remitted. If dividends distributed equal less than 40% of after-tax income, the tax is nevertheless levied on 40% of net income. Corporate income is taxed at a flat 30% rate of net profits (or 1.4% of net sales, whichever is higher), though Panama only taxes domestically sourced and export income. There is a 2.0% tax on companies' assets (minus liabilities), as well as a 5% luxury-goods tax. A tax reform law—with strong likelihood of passage—is currently pending before Congress and would progressively lower the corporate tax rate from 30% to 27% and then 25%, eliminate the 1.4% tax on net sales, and raise the luxury goods tax to 7%. 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 February 2010, January 2009, EIU Country Finance, February 2009; EIU Commerce November 2009)

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, though 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. But funds work with sophisticated, internationally trained lawyers who are able to incorporate minority rights into enforceable shareholder agreements. The concept of minority rights is well understood, and legally enforceable, in this context. (EIU Country Commerce November 2008, interviews February 2010, January 2009)
Restrictions on institutional investors investing in PE/VC funds	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. Thus, PE/VC funds are not available. The securities-issuing companies must have been operating for at least three years and be proven solvent. For pension funds, 45% of assets may be invested in stocks, 40% in bonds and 15% in bank deposits. Pension funds are an attractive but only potential investor for the PE/VC industry. (EIU Country Finance February 2009)
Protection of intellectual property rights	2	Enforcement of intellectual property rights has improved significantly in recent years through the creation of a special prosecutor's office and a commercial court that hears IPR cases and cases involving infringements of consumer-protection law. Carrying out such cases is a slow process, however. (US Country Commercial Guide 2009, 2008; EIU Country Commerce November 2009)
Bankruptcy procedures/creditors' rights/partner liability	2	According to the World Bank's Doing Business 2010, liquidating a bankrupt business is a slightly swifter 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. Efforts to reform the bankruptcy system to create a restructuring window have been discussed since 2003 but have not progressed. Liability beyond capital share is not a concern under Panamanian jurisprudence. (EIU Country Finance February 2009, interviews February 2010, January 2009)
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 February 2009, shares of 23 companies were listed on the exchange. Some listed firms have gone private as they have been acquired by foreign investors from elsewhere in Latin America. IPO exits remain an untested and unlikely option given the newness of VC/PE in the country and lack of capitalization. (EIU Country Finance March 2009; interview, February 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 thwart money-laundering and terrorist financing. Amounts over US\$10,000 brought in or taken out of the country in cash or financial instruments must be reported to the Ministry of Economy and Finance's customs offices. No reporting restrictions apply to companies or private individuals remitting royalties or fees, dividends, profits, or 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 Finance February 2009, EIU Country Commerce November 2009)
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. The World Bank's Doing Business 2010 scores Panama, within the regional context, very low on disclosure requirements, low on director liability, and high on shareholder ability to sue. (EIU Country Commerce November 2009; interviews February 2010, January 2009)
Strength of the judicial system	2	Enforceability of legal agreements continues to be considered good, and a functioning system of private arbitration is in place. The efficiency of Panama's judicial system is considered poor, however, and its independence has been questioned. In 2009, Ricardo Martinelli, the president, nominated two political allies to vacant Supreme Court seats; their nominations were quickly approved by the National Assembly. The process was criticized by the media and civil rights groups because it circumvented a process already in place under which Supreme Court nominees are nominated by a special commission that considers public input on nominees. (Interviews January 2009, January 2008; EIU Country Report February 2010)
Perceived corruption	1	Panama's legal system and civil service both suffer from corruption and a lack of independence, which can put outsiders, particularly foreign investors, at a disadvantage. Laws to combat money laundering have been tightened in response to pressure from the OECD, but Panama continues to attract criticism from the OECD for its lack of transparency. (EIU Country Monitor, 2008; Risk Briefing and Business Environment Rankings 2009; EIU Country Report February 2010)
Quality of local accounting industry (international standards)	2	IFRS are required for both listed and unlisted firms, though their application to the latter has been under legal challenge and hence postponed. However, the tax reform law currently pending before Congress—which seems likely to achieve passage—specifies the legal obligation to use IFRS for all firms. While there is a strong push toward adoption of international norms with the influence of foreign investment and acquisitions, SMEs (traditionally family-owned) have traditionally 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, in the view of the US Country Commercial Guide 2009. (Deloitte IAS PLUS 2010, interviews February 2010, January 2009)
Entrepreneurship	1	Starting a business still depends on family connections and faces fund-raising obstacles. There have been some efforts at business incubators and accelerators; more government support for seed capital is needed. (WB cost of starting a business database, 2009 and interviews February 2010, January 2009, and January 2008)

Country Profile

PERU

	2010	2009
Overall Score:	51	50
Ranking:	8th	8th

Peru saw an improvement in its overall score this year, with a gain in the protection of intellectual property rights due to a law passed in 2009 to increase penalties. In December 2009, the Banking Superintendency proposed imposing a 2.5% cap for pension fund allocations to alternative assets, domestically and internationally. This was eventually revised and approved at 3% in early 2010, with the expectation that the limit will increase over time. The country's fast growing economy, booming stock exchange and pro-trade reforms are attracting global capital and investment.

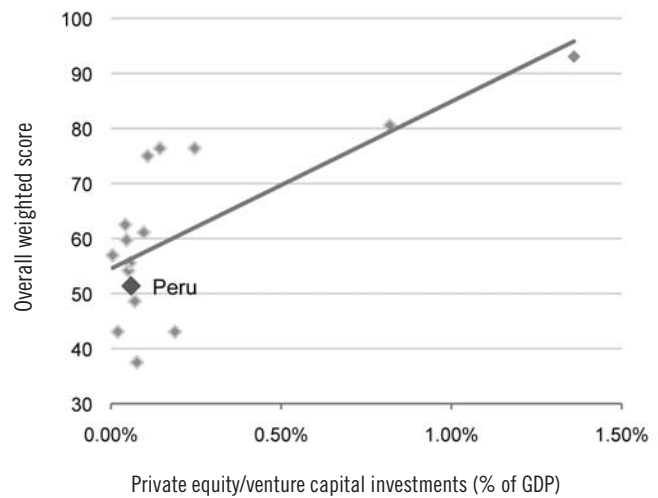
Strengths: The use of international accounting standards is a major strength for Peru, along with high scores on restrictions on institutional investors, openness to inward portfolio investment and corporate governance.

Challenges: Top priorities for reform efforts in Peru include laws governing fund formation and operation, minority shareholder rights and its tax laws. The country also continues to rank below the regional average in the perception of corruption and the strength of its judicial system.

	score	change
Overall score	51	▲ 1
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	1	
Protection of minority shareholder rights	1	
Restrictions on institutional investors investing in PE/VC	3	
Protection of intellectual property rights	2	▲ 1
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	Notes
Laws on PE/VC fund formation and operation	2	The security commission's regulatory framework remains incomplete, and capital market reform projects to improve PE/VC have been stalled for a number of years. There are often conflicts regarding how to handle these issues among the banking superintendency, securities commission, and the ministry of the economy. The securities commission (CONASEV) is criticised for having a conservative attitude toward the entry of new actors into the PE/VC market. <i>Fondos de inversion</i> continue to be the only legally established framework, and tend to be more suited to PE than VC. Offshore co-inversion funds typically have to be set up to attract foreign investors given current high taxes and fees. (Interviews January 2010, January 2009)
Tax treatment of PE/VC funds & investments	1	Although funds are "pass through" for income tax purpose since 2004, in general the tax environment in Peru is complex and expensive. 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 from the stock market were tax-exempt through December 2008, while those from outside the exchange were exempt only for individual investors. From January 1st 2009 there is a 5% tax on share transactions, which was approved in March 2007. A 5% capital gains tax, first adopted in March 2007 but suspended in December 2008 for a year amid the global recession, applies from January 1st 2010. A 4.1% tax is levied on resident shareholders (individual or corporate), and non-resident shareholders have the 30% corporate tax withheld at the source. Peru also levies a financial transaction tax. A general sales tax of 19% is assessed on management fees charged to investors by VC funds. (EIU Country Commerce June 2009; Interviews January 2010, January 2009; Procapitales)

Peru ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	1	Minority rights remain weakly regulated and protected. <i>Sociedades anonimas abiertas</i> (SAAs) must disclose non-confidential information at the request of shareholders representing at least 3% of capital. The securities commission, CONASEV, has a committee for the protection of minority shareholder rights in SAA publicly traded companies. Shareholders with less than 10% may request an inspector to investigate transactions, but they do not have the power to inspect documents themselves prior to filing suit. Shareholder agreements, covenants, loan contracts, and private arbitration are the main recourse in the absence of effective legal norms, though their legal enforceability is sometimes limited in part because courts are not familiar with contractual clauses in PE/VC transactions. The minimum quorum for a general meeting is 50% of capital on the first call. For major decisions, such as capital increases or decreases or bylaw changes, the minimum quorum is two-thirds of total capital on the first call and 60% on the second call, and the decision requires an absolute majority of total paid capital. A minority of one-third may demand outside auditing of the balance sheet and profit-and-loss statement. (EIU Country Commerce June 2009; interviews January 2010, January 2009)
Restrictions on institutional investors investing in PE/VC funds	3	There is no specific category for PE/VC investments but a "variable income" category has allowed Peruvian pension funds to invest in several local funds in recent years. The regulation creates, in theory, a competitive context between PE/VC investments and public equities. As of 2008, local pension funds may also invest directly in offshore funds registered locally, including regional funds making investments in firms in other countries. However, in December 2009 the banking and insurance superintendency (SBS) proposed a reduced cap of 2.5% on allocations to all alternative asset classes, which was ultimately approved at 3%. Investments in PE/VC have to be valued at book rather than fair market ("mark to market") value. Pension funds can invest in five categories of assets. Insurance firms face more restrictions and are not an important player in PE/VC investments. (Interviews January 2010, January 2009; EIU/LAVCA survey, January 2009)
Protection of intellectual property rights	2	Intellectual property rights enjoy a moderate level of protection in Peru. The government signed Law 29316 in January 2009 that incorporated and increased penalties for intellectual-property rights violations in the criminal code, hence the improved score for this year. Overall, Peru has many laws and decrees that have raised the country's standard of intellectual property protection to international levels. Peru's Copyright Law (Legislative Decree 822) has been in force since 1996, raising protection levels to the standards called for by the agreements on Trade-Related Aspects of Intellectual Property (TRIPs) and the World Intellectual Property Organisation (WIPO), yet enforcement has been an issue. The International Intellectual Property Alliance (IIPA) recommended in its 2009 report that Peru be kept on the US Trade Representative's Watch List. (EIU Country Commerce June 2009, Risk Briefing 2009)
Bankruptcy procedures/creditors' rights/partner liability	2	The administrative bankruptcy procedure set up earlier this decade under the National Institute for the Defense of Free Competition and Intellectual Property (INDECOPI) has proven to be subject to delays and judicial intervention. However, it is somewhat easier to restructure or liquidate troubled firms. The creditor hierarchy is similar to that of US bankruptcy law. Compared to LAC averages, the World Bank's Doing Business 2010 finds that bankruptcy settlements take a little less time, cost much less, and award a little less to plaintiffs; legal rights of creditors and borrowers are judged to be well above the regional average. Under Company Law, partner liability is limited by law to capital invested by the minority partner. (US Country Commercial Guide 2009, Interviews January 2010, January 2009)
Capital markets development and feasibility of exits	2	After a ten-year absence, 2007 saw the return of local IPOs, although at this time an IPO is not an exit strategy available for PE/VC funds. Procedure listing is difficult and in some aspects unclear, and insider trading remains under-regulated. There are few restrictions on foreign-owned firms gaining access to the domestic market. (Interviews January 2010, January 2009, EIU Risk Briefing 2010)
Registration/reserve requirements on inward investments	3	Overall, there are simple registration requirements, foreigners can participate directly in the capital market, and there are no reserve requirements. Foreign exchange from equity investments can be converted to local currency or maintained in foreign-currency-denominated deposits in the financial system. The financial-transactions tax (ITF) on all financial transactions was implemented in March 2004. The government extended the ITF through at least 2010 under a March 2007 decree, but has successively lowered rates, from 0.07% in 2007 to 0.06% in 2009 to 0.05% from January 1st 2010. Before repatriating capital or remitting profits, a company must pay all applicable taxes, including the ITF; royalty and fee transfers are also subject to 30% withholding tax. (EIU Country Commerce June 2009)
Corporate governance requirements	3	Peruvian companies face strong financial disclosure requirements. According to the World Bank's Doing Business 2010, the country is slightly below average in terms of director liability. Open <i>sociedades anonimas</i> (SAs) must disclose non-confidential information at the request of shareholders who represent at least 3% of capital. Board composition and decision-making are only partially regulated and determined by bylaws, and thus must be dealt with in shareholder agreements, whose enforceability is sometimes questionable. CONASEV set up a voluntary corporate governance code in 2002 under which listed SAs could become signatories to a public registry and agree to submit annual reports on CG compliance. CONSAV initially published 2006 data on compliance in 2007, but has not followed up with more recent data for the past two years. (Interviews, January 2010, January 2009; EIU Country Commerce June 2009; CONASEV website)
Strength of the judicial system	1	Commercial courts in Lima with expertise in business lawsuits are building a good reputation for effectiveness, but in general the judicial system remains slow and prone to corruption. Arbitration, as an alternative mechanism, is becoming more common, though its enforceability sometimes remains a question mark because courts in theory can annul its judgments; for that reason, parties frequently stipulate non-recourse to appeals in shareholder agreements calling for arbitration. (Interviews January 2009, February 2008; EIU Risk Briefing 2010)
Perceived corruption	1	On a national level, the governing Partido Aprista Peruano (Apra) maintains a strong position, despite a series of damaging corruption allegations. Nevertheless, the central government will need to manage relations with the regional governments carefully. Most of Peru's democratic institutions inspire little public trust, and Congress and the judiciary in particular are held in popular disdain. Several government bodies, notably the Ministry of Economy and Finance, are now largely free of corruption; however, there are no signs that a government-wide overhaul can be expected in the near future. (EIU Country Risk Service Feb 2009; Risk briefing and Business environment rankings, 2009/10)
Quality of local accounting industry (international standards)	4	IFRS are required for listed firms. International standards are in use and international firms present, though inflation adjustment according to official figures is required. Standards tend to be more uniformly followed by listed firms, and sometimes funds need to require firms to upgrade practices when undertaking investments in them. (Deloitte/IAS PLUS 2010; Conasev; Procapitales; interviews January 2010, January 2009)
Entrepreneurship	2	Costs of starting a business are relatively low by regional standards, yet bureaucracy remains an issue. Over the longer term, bureaucracy may gradually be reduced and the business environment may become more conducive to entrepreneurship. (WBGES database and WB business start-up costs, EIU Country Forecast 2009)

Country Profile

TRINIDAD AND TOBAGO

	2010	2009
Overall Score:	56	63
Ranking:	6 th	3 rd

Trinidad and Tobago's overall score dropped significantly this year due to decreases in two double-weighted indicators – protection of minority shareholders and restrictions on institutional investors. A 2008 regulatory change loosening the cap on equity investments by pension funds and insurance companies in variable-rate instruments has not had much impact to date. Trinidad & Tobago also saw a decrease in the score for international accounting standards. Overall, the island ranks in the middle for its business environment due to the openness to international investment.

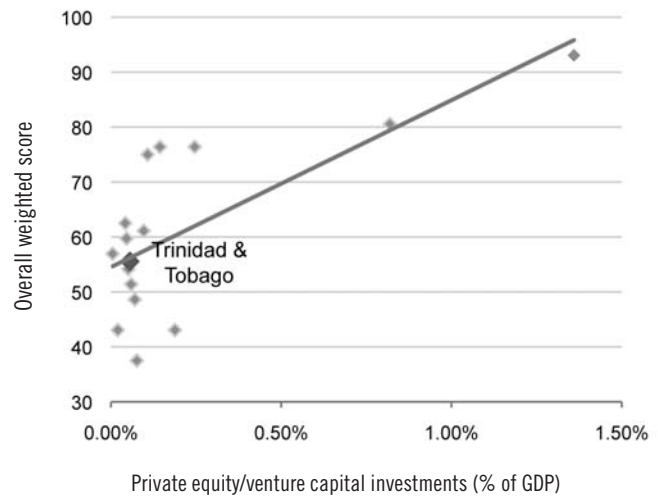
Strengths: The Island's main strength remains its openness to inward investments and the freedom of movement of foreign capital. Tax treatment is also favorable.

Challenges: Improvements still need to be made in order to allow for local fund formation, and the perception of corruption is pervasive. In addition, improvements should be made in areas such as bankruptcy procedures, corporate governance and enforcement of intellectual property rights.

	score	change
Overall score	56	▼ 7
Laws on PE/VC fund formation and operation	2	
Tax treatment of PE/VC funds & investments	3	
Protection of minority shareholder rights	2	▼ 1
Restrictions on 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	4	
Corporate governance requirements	2	
Strength of the judicial system	2	
Perceived corruption	1	
Quality of local accounting/use of international standards	3	▼ 1
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 slight 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—as most fund managers do—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 February 2010, January 2009; www.dynamic-equity.com)
Tax treatment of PE/VC funds & investments	3	There is a fairly light tax environment for PE/VC investments, and no concerns about pass-through. Funds not registered under the VC Act are treated as normal companies for tax purposes. 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% (down from 15%) on dividend remittances, but Trinidad has double tax treaties which would negate that for recipients in most relevant countries. Tax incentives are available for funds registered under the VC Act. At 25%, the country's corporate tax rates are fairly low by regional standards. (Interviews February 2010, January 2009)

Trinidad and Tobago ScoreNotes

Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	This score has been revised downward, based on improved information from fund investors about their lack of strong confidence in existing practices and protections. The Companies Act of 1995 provides some rights, such as disclosure of directors and substantial shareholders, 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 and is similar to that in Commonwealth countries. Issues can also be dealt with in shareholders' agreements. 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. The securities and exchange commission is seeking to strengthen minority rights among listed firms. (Interviews February 2010, January 2009; Eastern Caribbean Securities Exchange)
Restrictions on institutional investors investing in PE/VC	2	As of mid-2008, the Central Bank loosened the cap of 50% of equity that may be invested by pension funds and insurance companies in variable-rate instruments. The firms and funds in question still must be registered with the local securities commission, and must be solvent. However, thus far institutional investors have demonstrated little appetite for investing in this risky, unknown asset class due to the corporate governance and minority rights concerns noted above. The score has thus been returned to its 2008 level, to reflect the unproven benefits of the 2008 regulatory change. (Interviews February 2010, January 2009)
Protection of intellectual property rights	2	Trinidad's IPR legislation is consistent with WTO and is rated "Trips-plus" by the US Dept. of Commerce. Enforcement issues remain in areas such as copyright, but important strides in problem industries have been made to raise consciousness about the importance of registering. The lack of a separate commercial court raises some shortcomings in terms of enforceable remedies for infringed parties. (Interview, February 2010; US Country Commercial Guide 2009)
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. Creditors have the strongest rights in the LAC region, with no automatic stay on assets, secured creditors paid first, and restrictions on reorganization, according to a 2005 IDB study. 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. A full range of financing options is open to firms. The stock market is small but well-functioning, and local IPOs are normally easily undertaken, though the market has recently had issues of excess liquidity and the risk appetite of institutional investors has been low. As of end-2005, there is freedom of regional interests to invest or list in exchange and Trinidadians to invest in region under CARICOM Single Market and Economy program; cross-listings with the exchanges of Barbados and Jamaica are common. (Interviews February 2010, January 2009, February 2008, US Country Commercial Guide 2007)
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 February 2010, January 2009; US Country Commercial Guide 2009)
Corporate governance requirements	2	The Companies Act of 1995 continues to be recognized as incomplete by authorities. Though there are proposals to adopt more stringent standards and a formalized set of codes and to improve monitoring and enforcement, these proposals have not been acted upon. Investors in VC/PE 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 periodically to issue stricter guidelines for publicly traded companies based on consultations with the industry. World Bank Doing Business 2010 scores Trinidad right at the LAC average for disclosure requirements but significantly above average on the ability of shareholders to file suit and above average on director liability. (Interviews February 2010, January 2009, Eastern Caribbean Securities Exchange)
Strength of the judicial system	2	The judicial system upholds the sanctity of contracts and generally fosters a "level playing field" for foreign investors. The Bilateral Investment Treaty with the US allows for alternative dispute resolution procedures for US investors, such as binding arbitration. Trinidad is a member of the International Center for the Settlement of Investment Disputes, and has ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Courts can refer parties to mediation, and there is a Mediation Board to certify and train mediators. There can be substantial delays in the legal process and the lack of separate commercial courts remains an obstacle, though relatively new civil regulations for the courts and case management are improving matters. Local attorneys are essential. (Interviews February 2010, January 2009,; U.S. Country Commercial Guide 2009)
Perceived corruption	1	Trinidad and Tobago continues to struggle with corruption, an important political issue as well as one that can affect trust and confidence and thus investments in and by PE/VC funds. (Interviews February 2010, January 2009; EIU Country Report 2009)
Quality of local accounting industry (international standards)	3	While local accounting standards follow international ones, and IFRS are required for all listed and unlisted firms, there are frequent problems in terms of the transparency of finances, in the view of fund investors. 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. These findings have merited a drop in the country's score. International accounting firms are present, but find that they can not reliably evaluate the finances of invested companies. There are also restrictions on the ability to rectify impaired asset values in such audits. (Deloitte IASPLUS 2010, interviews February 2010, January 2009, February 2008, US County Commercial Guide 2007)
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. Government support for entrepreneurs is good, as is the dynamism of start-ups and expansions. (WB cost of starting a business database and Interviews January 2009, February 2008)

Country Profile

URUGUAY

	2010	2009
Overall score:	57	54
Ranking:	5th	6th

Uruguay increased its overall score this year due to improvements in its bankruptcy procedures and the judicial system, which also brought it back to its 2008 ranking within the region. Uruguay's economy proved to be relatively resilient to the global financial crisis. While the lack of a legal framework for PE/VC funds continues to hinder the development of domestic funds, there has been positive movement in the country's efforts to foster start-ups and innovation with tax incentives for tech activities established in 2009.

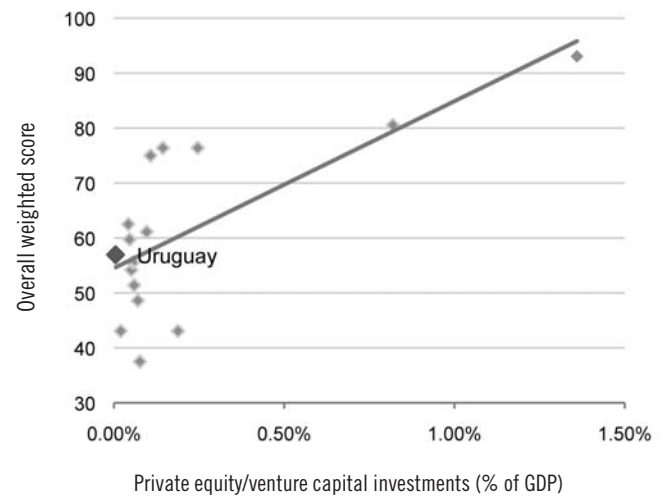
Strengths: Uruguay ranks favorably in its tax treatment, openness to inward investment and accounting standards. With an improved score in bankruptcy procedures, it now ranks above the regional average and its perceived corruption score continues to be among the best in the region.

Challenges: Adopting a friendlier legal framework for nationally domiciled fund formation and operation, as well as reducing restrictions on institutional investors and improving corporate governance would make it more attractive to the PE/VC industry.

	score	change
Overall score	57	▲ 3
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 institutional investors investing in PE/VC	2	
Protection of intellectual property rights	2	
Bankruptcy procedures/creditors' rights/partner liability	3	▲ 1
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	▲ 1
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 still exists but it is somewhat cumbersome, particularly for foreign investors, and not designed specifically for PE/VC funds. 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	A comprehensive tax reform that went into effect in July 2007 has a neutral to slightly negative impact on individual deals, depending on the circumstances. It replaces various corporate income taxes with a unified tax (<i>impuesto a la renta de la actividad empresarial</i> —IRAE), while reducing the rate from 30% to 25%. Individuals and locally constituted firms and financial institutions pay a net worth tax (<i>impuesto al patrimonio</i>) on assets held in country; it remains at 2.8% for financial institutions and is now 1.5% for companies (including non-resident companies). 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 and are inflation-adjusted (though capital gains are subject to personal income tax). Dividends paid to resident and non-resident individual shareholders are subject to a 7% tax. To eliminate double taxation in Uruguay, Law 16462 of 1994 exempts from taxation dividends paid by one local company to another. Dividends remitted abroad bear income tax (down from 30% to 25%). The reform reduced the tax paid on dividends distributed to non-resident companies to 7%, down from 30%. Profits credited or paid abroad by companies subject to Uruguayan income tax are not taxed if the profits are taxed in the recipient's country and if no credit is available for payment of Uruguayan taxes. (Interviews January 2010, February 2009, EIU Country Commerce April 2009)

Uruguay ScoreNotes

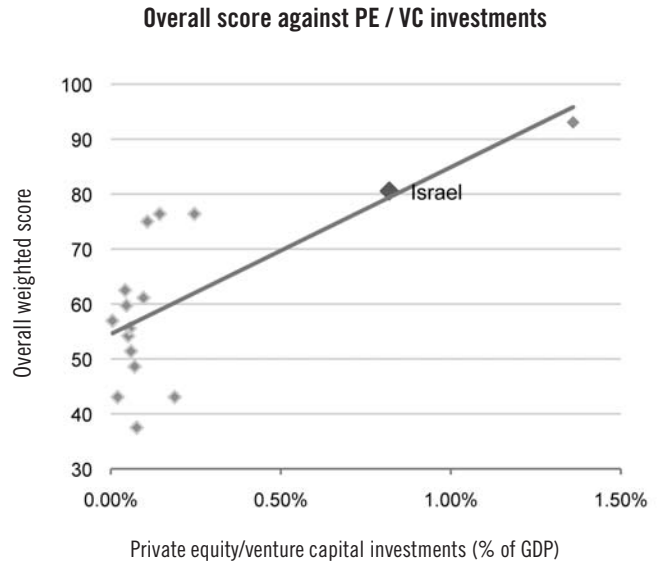
Aspects	Score (4-0)	Notes
Protection of minority shareholder rights	2	Minority rights are generally weak, even in publicly traded firms. The lack of minority shareholder rights and transparency issues hinder, for instance, the successful issuance of corporate bonds. Investors are wary of purchasing bonds issued by firms where a limited number of shareholders have the power to make decisions and minority shareholders have limited participation. Shareholder agreements are a common and generally effective response for VC/PE investments. (EIU Country Commerce April 2009, interviews January 2010, February 2009)
Restrictions on institutional investors investing in PE/VC	2	Institutional investors may only invest in rated instruments with adequate corporate governance standards, though the availability of investment capital on the part of pension funds has increased. Insurance companies mobilise fewer assets and face tighter restrictions. (Interviews January 2010, February 2009)
Protection of intellectual property rights	2	On average, a patent can be obtained in about three years, an industrial design in two to three years and a trademark in a year and a half, if there is no opposition. The registration process of a patent may last up to eight years in case of opposition. Yet, as many firms look to operate abroad, it is important to note that registration in other countries also provides automatic protection in Uruguay. The copyright law of January 2003 and its regulatory decree of May 2004 are TRIPS-compliant, though software piracy remains markedly above the regional LAC average according to the 2008 annual study prepared by IDC and the Business Software Alliance (BSA). (EIU Country Commerce April 2009)
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 law creates a uniform procedure for all types of creditors, 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. The World Bank's Doing Business 2010 reports that the resolution of bankruptcies is faster, less costly, and with a higher recovery rate than the respective regional LAC averages; legal rights of creditors and borrowers are below the regional average. Partner liability must be addressed carefully through shareholder agreements. (Interviews January 2010, February 2009; EIU Country Commerce April 2009; iflr1000.com)
Capital markets development and feasibility of exits	1	Uruguay has almost no capital markets. The Montevideo exchange is comprised of a very small number of firms, and trading is negligible. Only medium-sized and large corporations participate in the stock market, because of the costs associated with debt-securities issues and meeting information requirements. Most operations are in the public sector, especially in debt securities issued by the government. Commercial and state development banks remain the principal source of long-term investment capital. Some local mid-sized companies have been subject to M & A and taken private. IPOs are a long way off as a viable exit option. Strategic buyers and foreign acquisitions remain the preferred exit strategies. (EIU Country Commerce April 2008; interviews January 2010, February 2009)
Registration/reserve requirements on inward investments	3	There are simple registration rules, no reserve requirements, and no 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 (Banco Central del Uruguay). 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. (Interviews January 2010, February 2009; EIU Country Commerce April 2009)
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 (Boletín Oficial). Closed SAs need not publish their balances unless they invoice 100,000 re-adjustable units fixed by the state-owned Uruguayan Mortgage Bank (about US\$1.7m in March 2009) or have total assets exceeding 30,000 adjustable units (about US\$495,000 in March 2009). 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 the World Bank's Doing Business 2010. Funds deal with these issues effectively through shareholder agreements. Internal auditing is compulsory for open SAs and optional for closed SAs. A fiscal commission conducts the internal auditing; the commission comprises three or more members, who must be compensated, need not be shareholders and must be appointed by the shareholders' meeting. If there is suspicion of serious mismanagement, disclosure of company books, nominative share registry and minutes of meetings are required in response to a formal request by shareholders representing at least 10% of capital. (EIU Country Commerce April 2009, interviews January 2010, February 2009)
Strength of the judicial system	3	Uruguay's score improved due to better arbitration processes. It has ratified the Mercosur Agreement on International Commercial Arbitration, which provides member countries with private-sector alternatives to resolve controversies arising from international commercial contracts signed between private corporations or individuals. Although these arbitration decisions may take up to five months, binding settlements are usually reached in two or three weeks. Local and international companies and individuals have used these services, and the amounts in dispute have reached US\$30m. Well-known international experts advise the arbitration centre, and they can also be appointed as arbitrators. (EIU Country Commerce April 2009; interviews February 2009, January 2008)
Perceived corruption	3	The Economist Intelligence Unit ranks Uruguay 45 th out of 160 countries on its 2009 quality of life index based partly on its low levels of corruption and the fact that domestic security risk is low with no significant level of organised crime. Although arbitration proceedings are a costlier solution to business conflicts, the Settlement and Arbitration Centre of the International Arbitration Court for Mercosur, run by the Montevideo Stock Exchange (Bolsa de Comercio de Montevideo), is an alternative to civil suits. Because judiciaries in the Mercosur region are too busy to provide a quick resolution to the increasing number of trade and financial disputes, the centre aims to resolve such conflicts by alternative means of resolution. Uruguay ranks, along with Chile, 25 out of 180 countries in Transparency International's 2009 Corruption Perceptions Index. (EIU Risk briefing 2009)
Quality of local accounting industry (international standards)	3	By law, all Uruguayan companies must still follow IFRSs existing as of May 2004. Uruguayan GAAP 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 2010, February 2009; Deloitte IAS PLUS 2010)
Entrepreneurship	2	Public and public-private efforts to foster start-ups and innovation, such as a public business incubator, a small business loan guarantee programme, and a new National Association of Innovation, are growing in strength. Improvements in 2009 included tax incentives for tech activities. (WB cost of starting a business database, 2009 and interviews)

Country Profile

ISRAEL

	score	change
Overall score	81	
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 venture-capital (VC) industry to develop since the 1980s. The scope of venture-capital activity remains high relative to the size of the economy, and there is a mix of domestic and foreign fund managers. Following the decline of 2001-03 which mirrored that of high-tech oriented VC funds in the US, the industry underwent a shake-out: some funds merged and the fees charged by fund-management companies were scaled back, in some cases after fierce clashes between investors and fund managers. Stronger and better-managed funds survived the crisis and have emerged in better shape, able to launch new funds. Willingness to invest in the earliest or seed stage declined in 2008 due to the global economic downturn, though interest in mature- and late-stage investments remains high. Only 6% of total funds raised went to companies still in their nascent stage in the first three quarters of 2009, up slightly from 4% in all of 2008 but down from 14% in 2007. However, the industry proved in the slump of 2001-03 that it could adapt to rapid swings in the financing environment, and it is expected to be able to do so again in this downturn. (EIU Country Finance December 2009)
Tax treatment of PE/VC funds & investments	3	Companies are generally subject to corporate tax on their corporate income and dividends paid to shareholders are usually subject to dividend tax. From January 2008, inflation-adjusted accounts were eliminated. Investors in a fund will generally be subject to income tax on their share of the fund's income as if such income was realized directly by the investors, regardless of whether such income is actually distributed. Profits from financial investments, whether from income or capital gains, were taxed at standard corporate rate of 29% rate in 2007 which will fell to 27% in 2008 (down from 31% in 2006). But foreign portfolio investors are exempt from capital gains tax on securities traded on the Tel Aviv Stock Exchange. Foreign individuals or companies domiciled in a country with which Israel has a double-taxation treaty that invested in Israeli assets between July 1st 2005 and end-2008 are exempt from capital gains tax on the profits from these investments (save real estate), irrespective of when these profits are realized. From January 1st 2009, foreign investors are exempt from tax on all equity investments made from that date (save when main assets are in traded real-property companies), whether the shares are traded on the Tel Aviv Stock Exchange or any other exchange, or not traded at all. In May 2009 the Ministry of Finance exempted foreign investors from tax on profits derived from private-equity funds. Profits on these funds were taxed at a rate of 15% for individuals and 25% for corporations. The measure will align the tax benefits on these funds to those of Israeli VC funds. It is expected that the tax exemption will significantly increase foreign activity in this area as it did for VC firms. Rates of capital gains tax on Israeli individuals and institutions are 15% (on inflation-adjusted gains) and 20% (on nominal profits on unlinked instruments). 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 residents, excepting "significant shareholders", but this rate is generally reduced for people overseas, thanks to tax treaties. The Israeli budget for fiscal years 2009 and 2010 (January 1st–December 31st) set the corporate income tax to 26% for 2009 and 25% for 2010. A multi-year tax-reduction program will reduce corporate income tax rates, by 1 percentage point per annum for 2011–15, cutting the rate to 20%. A final 2 percentage point reduction is planned for 2016, reducing the tax rate to 18%. (EIU Country Finance December 2009, EIU Country Commerce August 2009, 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. Ability of shareholders to file suit and request audits, and director liability all continue to be rated well above OECD average by The World Bank's Doing Business 2010. (EIU Country Commerce August 2009)

Israel ScoreNotes

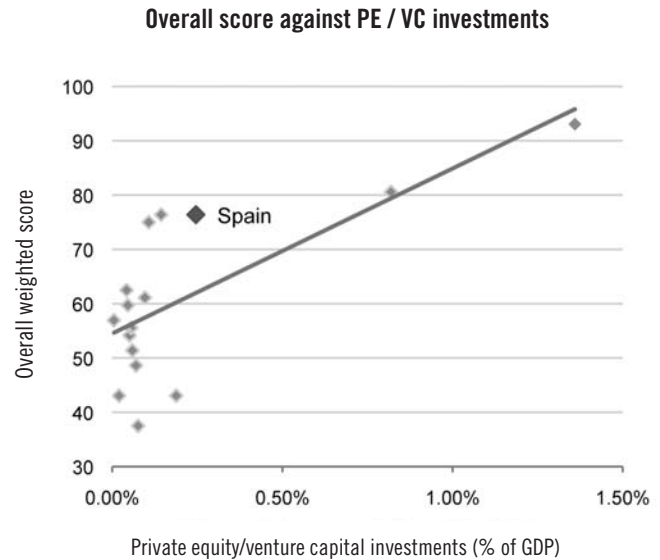
Aspects	Score	Notes (4-0)
Restrictions on institutional investors investing in PE/VC	3	All restrictions have been lifted since 2002 for insurance companies, subject only to prudential oversight by regulators. Insurers play the central role in the management of financial assets in Israel. Since a 2003 pension fund reform, the same freedom is granted to those pension funds established since 1995; older funds that are no longer open to new enrollees and that are suffering from actuarial deficits are still restricted to investing in government bonds. The level and intensity of regulatory oversight on the insurance and pension sector has increased in recent years. In November 2008, in tandem with placing a safety net for older savers, the government introduced measures designed to help insurance companies and pension funds quickly raise their professional capabilities in the area of corporate lending. In addition, the government will help these institutions develop procedures for helping to reschedule and refinance corporate borrowers suffering from liquidity, rather than solvency, problems. Furthermore, it is clear that the professional capabilities of pension institutions' boards of directors and investment committees will need to be significantly enhanced. These entities will have to employ in-house credit analysts and loan officers, if they are to remain credible sources of long-term finance to borrowers and of long-term yields to their savers. Draft rules published in June 2009, but not yet adopted as of February 2010, would require provident fund managers to appoint a professional risk manager. Other rules in place require the independent assessment of assets managed by pension and provident funds and insurers. (EIU Country Finance December 2009, December 2020)
Protection of intellectual property rights	2	Patents, trademarks, industrial designs and copyrights are legally recognised in Israel, and there is adequate enforcement of property rights once secured. In 2000 the Knesset (parliament) approved a law (in effect, an amendment to the general Antitrust Law) on the protection of intellectual property (IP). It aims to improve enforcement; in extreme cases, it provides for criminal charges against offenders. But jurisdiction over the protection of IP remains problematic, the more so 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 usually meets with civil remedies, including an injunction and damages in Israel. For flagrant infringement, a company may sue for double damages. Israel's enhanced efforts to counter piracy led to its removal from the US Department of Commerce's priority watch list in 2003. However, Israel returned to this list in 2005 and has remained on it in subsequent annual reports based on concerns with both software piracy and pharmaceutical patents. (EIU Country Commerce and Risk briefing 2009)
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 the World Bank's Doing Business 2010. By that same study, legal rights of borrowers and creditors are above OECD average. 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. Israel scores high on creditor rights de jure and de facto in the 2005 international IDB study. (EIU Country Commerce August 2007, World Bank Doing Business 2010)
Capital markets development and feasibility of exits (ie, local IPOs)	3	Israel has well-developed and diversified capital markets. A boom period for the Tel Aviv Stock Exchange (TASE) climaxed in 2007 and was a banner year for capital-raising. Out of 113 issues of equities and convertibles that raised a total of NIS14.3bn, half were IPOs, and these garnered the lion's share of that total, or NIS10.3bn. However, the situation changed dramatically in 2008. There was only one IPO during the year—on February 28th 2008 Sella Capital Real Estate, a real-estate investment trust focusing on income-generating commercial properties, raised NIS35.2m through the sale of equities and warrants. As of early December 2009, there was only one IPO for the year, that of the biopharmaceutical company D-Pharm that raised NIS85m in a rights offering and IPO on the TASE to fund a late-stage clinical trial programme. Aside from this, the negligible amount of money raised through IPOs in 2008–09 is the lowest recorded on the TASE in several years. It reflects both a reaction to the frenetic activity that characterised the new-issue market in 2007, as well as testimony to the depth of the slump that enveloped the Israeli market in the wake of the global financial crisis. (EIU Country Finance December 2009)
Registration/reserve requirements on inward investments	3	There is registration for monitoring purposes by the Bank of Israel, but there are no reserve requirements or exchange controls. (EIU Country Finance December 2009)
Corporate governance requirements	4	Most companies in Israel take the limited liability form. There are requirements for listed companies on information disclosure, reporting of audited statements, quarterly statements, and reports on material developments. Listed companies also may not issue non-voting shares, and must have at least two outside directors. There are fewer formal requirements for privately held companies. But for all types of companies, a minority exceeding 25% may block major decisions. Election of board members usually requires a simple majority (more than 50%) of voters in attendance. It is mandatory for institutional investors (provident funds and unit trusts/mutual funds) holding more than 5% of a company to attend general assemblies and to vote. Israel continues to score well above OECD averages on disclosure requirements, director liability, and power of shareholders to file suit. (World Bank Doing Business 2010, EIU Country Commerce August 2009)
Strength of the judicial system	3	Enforcing contracts continues to incur delays and can be costly. (EIU Country Commerce August 2009)
Perceived corruption	3	Israel's bureaucracy can be difficult to comprehend and although corruption exists it is not a severe problem. Investors should obtain approvals or other commitments from regulators in writing before proceeding rather than relying on unofficial verbal promises. Political corruption remains an issue, and there is a risk that the need to focus on pressing security issues, and on issues of tackling corruption, could crowd out attempts to deal with long-standing proposals to improve socio-economic conditions or move forward more strongly with economic liberalisation. Overall, the civil service has grown relatively accustomed to frequent changes of government, but while existing policies will be implemented, the pace of policymaking may be slowed by government instability. (EIU Risk Briefing 2009)
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). Inflation-adjusted accounting was phased out at end-2007 for tax purposes, but was not and is not used for financial reporting. In the 1990s the Israeli Securities Authority and the Institute of Certified Public Accountants established the Israel Institute of Accounting Standards, in which the ISA acts as a full partner. However, the ISA decided to promote the adoption of the accounting standards being promulgated by the International Accounting Standards Board in Israel. The process of adjustment of Israeli standards to these global ones was completed in the first quarter of 2008. The largest international accounting firms maintain offices in Israel. (Deloitte IASPLUS 2010, EIU Country Commerce August 2009, August 2008)
Entrepreneurship	3	New business registrations as a percentage of total businesses continue to remain constrained in growth, yet costs of starting a business as a percentage of GNI per capita are relatively low. (WBGES and WB cost of starting a business databases, 2009)

Country Profile

SPAIN

	score	change
Overall score	76	▼ 2
Laws on PE/VC fund formation and operation	3	
Tax treatment of PE/VC funds & investments	4	▲ 1
Protection of minority shareholder rights	3	
Restrictions on 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	▼ 1
Registration/reserve requirements on inward investments	3	
Corporate governance requirements	3	
Strength of the judicial system	2	▼ 1
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	The venture-capital industry began to enjoy greater transparency and liquidity in Spain after the Alternative Stockmarket (MAB) was opened to venture-capital firms in April 2007. Most investment companies (<i>Sociedades de Inversión</i> —SICAVs) left the traditional stock market and moved into the MAB after the change. However, PE/VC investment fell to €678m in the first half of 2009, down 49% from the same period a year earlier, according to a report from the Spanish Venture Capital Association (Ascri). At end-2008 a total of 173 VC/PE entities were operating in the country. Fifteen of these were created in 2008, while the activities of seven entities were closed in the same year and 2009 appears to have been even more difficult. Ley 25/2005 simplified the regulatory burden to establish SICAVs, allowed acquisition of listed non-financial firms in order to de-list them, and permitted the creation of private funds of VC funds (<i>fondos de fondos</i>), which are aimed at institutional investors. These funds must invest at least 50% of their assets in other venture-capital firms located in Spain or OECD countries, so long as these firms do not invest more than 10% of their assets in other venture-capital firms. Venture-capital companies 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 venture-capital funds or the assets of venture-capital corporations. Minimum capital of €1.2m is required for stand-alone firms and €1.5m for funds. VC funds 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. (EIU Country Finance September 2009; interview February 2008; www.ascri.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, provided the venture-capital companies are listed with the Comisión Nacional del Mercado de Valores. The period may be extended up to 20 years with prior CNMV authorisation. This exemption remains in place up to three years after the company is listed on the stock market. Dividends are not taxed as long as the venture-capital firm 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 management of venture-capital firms from value-added tax. Pass through provisions are absolute for non-resident entities and individuals, while the former 100% tax deduction for double taxation on resident investors and entities has been replaced from 2007 by an exemption of €1,500. Spain's withholding tax on dividends, which rose to 18% on January 1st 2007 and to 19% for FY 2010, is applicable to both dividends paid by a Spanish company to a foreign parent company and dividends paid to a resident individual or corporation, unless the payer is a qualified subsidiary or part of a corporate group allowed to consolidate earnings. The tax credit for double taxation of dividends has been abolished, and there is now an exemption of €1,500 instead. From January 1st 2007, the previous 35% basic rate of corporate tax was reduced over a two-year period to 32.5% for the 2007 tax year and to 30% for the 2008 tax year and beyond. Newly issued shares, dissolutions, and capital reductions and increases are subject to a 1% transfer tax. Non-resident corporations (which would include offshore PE/VC funds) without permanent establishments in Spain are subject to a number of differential tax rates: Since January 1st 2009, capital gains are treated as ordinary business income taxable at 30%; general payments, dividends and interest are taxed at 18%; profits on services or technical assistance provided by a non-resident affiliate to a Spanish resident company, unless a tax treaty states otherwise, at 24%. Foreign insurers are not subject to the 18% withholding tax on returns that domestic companies must pay, and this different treatment has attracted foreign insurers to the Spanish market. (EIU Country Finance September 2009; EIU Country Commerce March 2009; interview February 2008; EVCA Tax and Legal Committee/Baker & McKenzie, 2010)
Protection of minority shareholder rights	3	The Company Law (<i>Ley Mercantil</i>) is flexible, allowing for registration of companies with strong protections of minority rights established in their charters. A 5% minority can call an extraordinary meeting or demand an outside audit in a <i>sociedad anonima</i> (corporation) or in a <i>sociedad de responsabilidad limitada</i> (SRL, or <i>limited liability company</i>). In SRLs, shares are transferable only with the consent of other controlling shareholders. But the lack of board votes on executive appointments and compensation, as well as detailed information on compensation, raises some concerns. Board decisions in SAs must be challenged within 50 days and it takes 20% of shareholders to request issuance of a restraining injunction by a judge. Spain continues to rank below OECD averages on disclosure requirements and shareholder ability to challenge board decisions but above them on director liability, according to the World Bank's Doing Business 2010. (EIU Country Commerce March 2009; interview February 2008)

Spain ScoreNotes

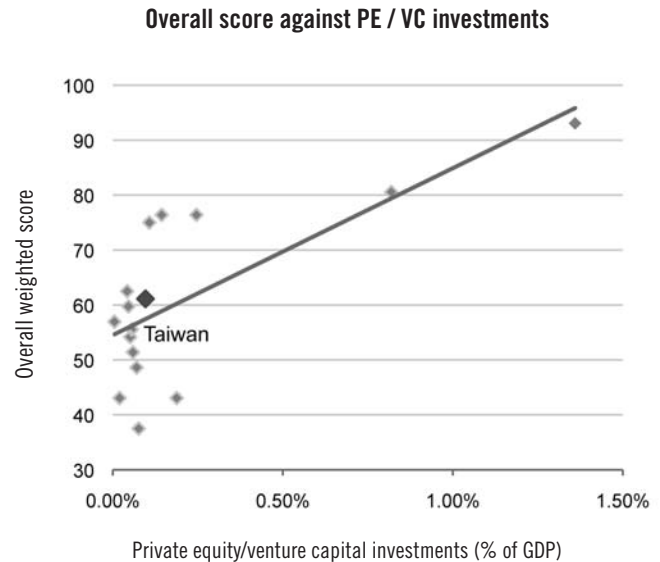
Aspects	Score (4-0)	Notes
Restrictions on institutional investors investing in PE/VC	3	Regulations on insurance companies and pension funds which took effect on February 17th 2007 make shares in VC entities' assets suitable for investment by insurance companies, and open the way for them to invest in 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 not 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 the total of investment plus lending to a single institution may not exceed 10% of total financial assets. Most pension funds have been very conservative in their risk profile, with only a small minority of assets invested in variable-income securities. However, both categories of institutional investors have been increasingly active in PE/VC. With their diversified risk profile, Spanish pension funds have fared much better than those of Europe in general in terms of portfolio losses with the global crisis. (EIU Country Finance September 2009; interview February 2008)
Protection of intellectual property rights	3	Patents, industrial designs, trademarks and copyrights are recognised in Spain. The country has ratified all the main international conventions, which allow non-Spanish nationals to protect their local rights. Spanish laws are in line with European Union legislation on intellectual property. It adheres to the "registration" principle (that is, there can be no right to an invention or a trademark unless it has previously been registered) and to the "first-to-file" principle (that is, the first to apply for registration receives priority rights). (EIU Risk briefing 2009 and Country Commerce 2009)
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 is beginning to make bankruptcy reorganizations more common, reversing a tradition whereby firms in distress were traditionally liquidated. In the most common 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 (<i>sociedades de responsabilidad limitada</i>) also exist. Spain ranked moderately in de jure and de facto protection of creditor rights in a 2005 international IDB study, and ranked somewhat below the OECD average in legal rights of creditors and borrowers according to the World Bank's Doing Business 2010. The latter study also 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 2009, March 2008; Interview February 2008; El Pais 2005)
Capital markets development and feasibility of exits	3	The Alternative Stock market (MAB) was opened to venture-capital firms in April 2007. Most investment companies (Sociedades de Inversion—SICAV) left the traditional stock market and moved into the MAB after the change. The venture-capital segment is intended for less liquid securities and utilizes the system of "fixing" (orders are concentrated at 12 am and 4 pm). While Spain's business operating environment is constrained by an unstable macroeconomic outlook and a degree of labour market rigidity, the increasing openness of the economy and developing capital markets are among the most attractive features. The government has responded to the international financial crisis with a number of measures designed to provide liquidity to the domestic financial system, including the creation of the Fund for Ordered Bank Restructuring in June 2009. Market capitalization in Spain's bourse is concentrated in a small number of stocks. Institutional investors, particularly savings banks and insurance companies, play a dominant role in the market for fixed-income securities and a less important, but quickly growing one, in the equity market. (EIU Country Finance, September 2009 and Country Forecast, Jan 2009)
Registration/reserve requirements on inward investments	3	There is simple reporting of transactions by 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 2009; interview, February 2008)
Corporate governance requirements	3	In 2006-07, a somewhat strengthened code, called <i>Codigo Conte</i> , was adopted for listed firms. A 2003 law required reporting on board composition and remuneration, ownership structure, ties to other firms, and compliance with CG regulations as well as notification and disclosure of shareholder agreements. Yet concerns remain, particularly about privately held companies. Spain continues to rank below OECD average in the World Bank's Doing Business 2010 scores of disclosure and investor protection but above average on director liability. (Interview February 2008; EIU Country Briefing November 2005; EIU Country Commerce March 2009, March 2008)
Strength of the judicial system	2	The Spanish judicial system can be slow, and advances in legal reforms remain constrained due to a political transition in 2008 and the economic crisis. Spain has entered into a period of parliamentary instability and the politicisation of much of the judiciary and regulatory bodies along with the decentralisation of Spain's regions are a source of frustration for businesses. (EIU Business environment rankings 2010)
Perceived corruption	3	Cases of corruption sometimes come to light in government operations and the property sector, but they do not generally affect business. Confidence in Spain's political system was strained in 2009 by a renewed wave of alleged corruption cases implicating senior politicians. (EIU Risk briefing and Business environment scores 2009, 2010)
Quality of local accounting industry (international standards)	4	Spain completed its gradual transition to the EU version of IAS in 2007. Since end-2005 international financial reporting standards have been legally mandated for listed companies. As of 2007, unlisted companies may use IFRS in consolidated statements. The corporate tax law (Law 43/1995, of December 27th 1995) and subsequent reforms included in the personal income tax reforms were aimed at narrowing the gap between Spain's fiscal system and international accounting guidelines. International auditors have a strong presence. (Deloitte/IAS PLUS 2010; EIU Country Finance September 2009; interview, February 2008)
Entrepreneurship	2	There remains a fairly weak culture of entrepreneurship, and large multinational firms tend to prevail as opposed to SMEs. (WBGES and WB cost of starting a business databases, 2009 and analyst research, 2010)

Country Profile

TAIWAN

	score	change
Overall score	61	▼ 2
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 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	2	
Corporate governance requirements	2	
Strength of the judicial system	3	
Perceived corruption	2	
Quality of local accounting/use of international standards	2	
Entrepreneurship	3	▼ 1

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



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). (EIU Country Finance September 2009, September 2008)
Tax treatment of PE/VC funds & investments	3	In April 2009 the Legislative Yuan approved amendments to the Income Tax Act and a simplified system took force from January 1st 2010. Under the new regime, a single flat-tax rate of 20% will apply on all corporate income exceeding NT\$120,000. Capital gains are taxable as normal income. There is no capital gains or income tax on disposal of marketable securities, though a 0.3% financial transaction tax is levied against the seller on the value of all securities sold. There is a 2% levy on all financial institutions. From 1998, income from business operations is taxed only once, as part of personal income, at a 10–40% rate. There is a 10% surtax on retained earnings, though a dividends withholding tax remains in force for non-resident companies. In effect, if a resident company distributes its profits to shareholders, it will be subject only to the regular corporate income tax. Dividends received by a resident company from portfolio investments are fully exempt from taxes. Dividends received by shareholders (corporate or individual) as a result of an expansion are not taxable until transferred. Dividends derived from securities-exchange transactions conducted by a VC fund are tax exempt during the period of suspension of the securities-exchange income tax. Resident individuals pay individual income tax on dividend income exceeding an exempt amount. But foreign investors who serve as board directors or managers of authorised businesses may be taxed at the 20% withholding rate on their dividend income, even if they are resident in Taiwan. Interest payments to non-resident companies are subject to a 20% withholding tax, which may be waived. However, both resident and non-resident companies are subject to 6% withholding tax, to be taxed separately from ordinary income on interest payments from securities issued under the Financial Asset Securitisation Act and under the Real Estate Securitisation Act. Dividends of foreign institutional investors subject to home country taxation are 100% tax exempt. Tax incentives exist for holding shares for three years or more in selected strategic high-tech sectors. Income from business operations is taxed only once, as personal income. (EIU Country Finance September 2009, September 2008; EIU Country Commerce December 2009)
Protection of minority shareholder rights	1	The voice of minorities remains 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 they can approach the management of target companies and request a shareholders' meeting, at which a two-thirds majority could force the minority shareholders to sell. According to the World Bank's Doing Business 2010, disclosure requirements are above the OECD average, while director liability and shareholder ability to sue are below. (EIU Country Commerce December 2009).
Restrictions on institutional investors investing in PE/VC	2	For insurance companies, many restrictions were removed in 2001. But insurer's stake in an individual company's stocks or bonds must not exceed 10% of its capital and its stakes in all stocks and bonds not exceed 35% of capital. From June 2007, insurers are allowed to engage in discretionary investment business, and their limit for overseas investments increased from 35% to 45% of enterprise funds. Pension funds remain undeveloped, few, and government-run, and they invest very conservatively and under opaque procedures. (EIU Country Finance September 2009, September 2008)
Protection of intellectual property rights	3	Despite some progress over the past year, inadequate protection of intellectual property rights remains a concern for foreign companies in Taiwan. In January 2009 the United States Trade Representative (USTR) announced Taiwan's removal from its watch list, following an "out-of-cycle" review that had been under way since April 2008. When making public its decision, the USTR said Taiwan had come a long way since the beginning of the decade. However, in its annual report issued in April 2009, the USTR highlighted continuing problems in Taiwan. The International Intellectual Property Alliance (IIPA), a US-based private watchdog for protection of intellectual-property rights, argued in a February 2009 report that Taiwan's actions in 2009 should be carefully monitored to determine if it ought to remain off the watch list. In its report, the IIPA estimated that US manufacturers lost US\$126.4m in

Taiwan ScoreNotes

Aspects	Score	Notes
Protection of intellectual property rights	3	<i>cont.</i> 2008 because of counterfeit products from Taiwan in the US market, down markedly from a revised US\$341.8m in 2007. The IIPA praised Taiwan for efforts to stamp out physical piracy but warned that all the gains were at risk of being erased because of growing Internet piracy. The Business Software Alliance and International Data Corp put the piracy rate for business software in Taiwan at 39% in 2008, down from 40% in 2007. Taiwan's Intellectual Property Office (IPO) covers all copyright and patent activities and oversees an intellectual-property-rights enforcement regime. There have been cases of US companies suing Taiwan companies in US courts. (EIU Risk briefing and Business Environment Rankings scores 2009 and EIU Country Commerce, December 2009)
Bankruptcy procedures/creditors' rights/partner liability	3	Corporate reorganization, which is part of Company Law, applies only to public companies or those issuing bonds, and it 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 2010, costs of resolving bankruptcy is lower than the OECD average, time period is shorter; recovery rates by creditors are much higher. Reorganization allows creditors to share in a bankrupt firm's assets on a proportional basis. The latter study rates legal rights of creditors and borrowers below both OECD and regional averages. (EIU Country Finance September 2009, EIU Country Commerce December 2009)
Capital markets development and feasibility of exits	3	Taiwan is still partway through a long transition from a state-dominated financial system to a liberalised, market-driven framework. Local companies do use capital markets as a source of financing, although initial public offerings have remained scarce. Bank loans remain the most important source of financing for companies operating in Taiwan. Taiwan's financial services industry is large, and there is strong demand for sophisticated products. However, the industry is fragmented and subject to government interference and control. Officials have been moving in recent years to restructure the industry, but have had mixed success. Despite recent sell-offs of stakes in large banks, the authorities retain ownership and control of many of the leading financial institutions—including the largest bank, the fully state-owned Bank of Taiwan. Foreign financial institutions play an important role in the markets for foreign exchange and derivatives, and participate mainly in corporate lending, trade finance, private banking and advisory work. (EIU Risk tracker and Business Environment Rankings, 2009 and EIU Country Finance, September 2009)
Registration/reserve requirements on inward investments	2	There are various forms of exchange control and reporting requirements, though no reserve requirements. In response to the global financial crisis since late 2008, the Central Bank of China (CBC) has stepped up its monitoring of the exchange-rate system. In November 2009 it barred foreign securities investors from parking their funds, which were to be invested in the stock market, in time deposits; the aim was to curb the circulation of speculative "hot money". It has also reinforced an existing system of real-time reporting of large foreign-exchange transactions and has also stressed the need for companies to adhere to the existing rule that forward trade must be for real transactions, such as trade and financing. The CBC also urged banks to strengthen their risk-management capabilities to minimize risk exposure. Since 1998 the Central Bank of China has required that local banks immediately report all transactions involving the purchase of more than US\$500,000 for individuals and US\$1m for corporate customers. The remittance ceiling for residents or foreign nationals holding a resident visa, for both inward and outward remittances converted into or out of New Taiwan dollars, is US\$5m per year. For companies, the ceiling is US\$50m, although remittances related to imports or exports, or the payment of staff, are not included. Remittances above the limits require prior CBC approval. There are no limits, however, on inward and outward remittances related to stock market investments that are not converted into or out of New Taiwan dollars. An expatriate without a resident visa can remit a total of US\$100,000 a year. There are, however, no limits on inward and outward remittances that are not converted into or out of New Taiwan dollars. There are no reserve requirements. Individual foreign investors are limited to US\$5m stakes in listed firms, while individual institutional investors have no such limit. Foreign institutions placing up to NT\$1.5bn of investment in local companies need permission from the Ministry of Economic Affairs. (EIU Country Finance September 2009, EIU Country Commerce December 2009)
Corporate governance requirements	2	Listed companies must include independent directors from 2002, when the exchange also introduced a voluntary code of governance; there are minimal requirements for privately held firms. For both limited and share-holding companies, companies with capital of NT\$30m or more must have their accounts audited by public accountants. In an amendment to the Company Act, the legislature in April 2009 abolished minimum-capital requirements for companies limited by shares and limited companies. As compared to OECD average, the World Bank's Doing Business 2010 continues to rate this country below average in director liability and shareholder ability to sue and above average in disclosure requirements. Transparency of governance remains a problem in privately held firms as small groups or families have tended to run Taiwan's numerous SMEs with little input from "outsiders." (EIU Country Commerce December 2009)
Strength of the judicial system	3	The judiciary is independent of the executive branch but organized crime is known to influence the outcome of some court cases by means of bribery and physical threats. Decision-making within the judiciary is also slow. While Taiwan is not a member of the various international judicial bodies that mediate investment disputes, these are rare in practice and are generally resolved based on domestic law. Restrictions on portfolio investment are gradually being reduced. Laws on intellectual property rights are improving, but enforcement is a problem. Contract rights are generally well-respected, and there is virtually no risk of the expropriation of foreign assets. Cases involving technical issues stretch the professional expertise both of the judiciary, and also of the broader legal establishment—there are an insufficient number of lawyers on the island. Arbitration may be an option for some businesses, although Taiwan is not a member of the major international arbitration conventions. (EIU Risk briefing, 2009)
Perceived corruption	2	Taiwan's relatively weak bureaucracy and shortage of lawyers creates a weakness in the knowledge base that leaves the system open to corruption. Corruption has long played a role in Taiwan's politics. In recent years public expectations and an emboldened judiciary have become less tolerant of corruption in political life. (EIU Risk briefing 2009)
Quality of local accounting industry (international standards)	2	On 14 May 2009, the Taiwan Financial Supervisory Commission (FSC) announced its roadmap for the full adoption of IFRSs in Taiwan. Taiwan has adopted a plan to adopt IFRSs in two phases. Phase I companies (listed companies and financial institutions supervised by the FSC, except for credit cooperatives, credit card companies, and insurance intermediaries) will be required to adopt Taiwan-IFRS starting 2013. Early adoption in 2012 is optional for companies that have already issued securities overseas, or have registered an overseas securities issuance with the FSC, or have a market capitalization of greater than NT\$10 billion. Phase II companies (unlisted public companies, credit cooperatives, and credit card companies) will be required to adopt Taiwan-IFRS starting 2015, with optional early adoption starting 2013. (Deloitte IASPLUS 2010, EIU Country Commerce December 2009)
Entrepreneurship	3	While business start up costs remain low, the business entry rate dropped from last year's scorecard and remains on the same level this year. (WB cost of starting a business database, 2009 and WBGES)

Country Profile

UK

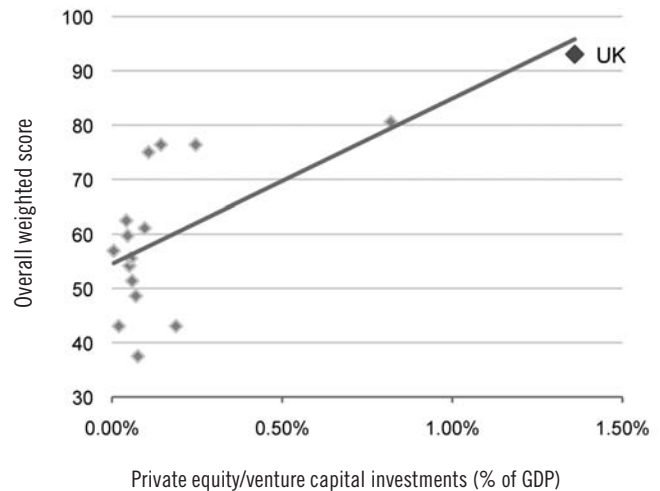
	score	change
Overall score	93	▲ 3
Laws on PE/VC fund formation and operation	4	
Tax treatment of PE/VC funds & investments	4	
Protection of minority shareholder rights	4	▲ 1
Restrictions on institutional investors investing in PE/VC	4	
Protection of intellectual property rights	4	
Bankruptcy procedures/creditors' 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	Clear laws make possible the formation of VC/PE funds (no distinction is made between the two). 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. Legal forms are Enterprise Investment Schemes, closed-end investment trusts, and venture capital trusts. The scope of venture-capital activity remains high relative to the size of the economy. Research released by the British Venture Capital Association in February 2008 (the most recent such breakdown) estimated that companies that have received private-equity backing at some point employ some 3m people, which is equivalent to 21% of UK private-sector employees. The number of people employed by companies backed by private equity in 2007 was 1.1m. (EIU Country Finance June 2009)
Tax treatment of PE/VC funds & investments	4	Incentives are generous, and tax rates are low and advantageous. A number of tax credits or incentives apply to investments in funds that target disadvantaged areas, start-ups, smaller unquoted high-tech companies, and SMEs more generally. 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. Corporate taxes are on a progressive scale from 19% upward (to 28%) that benefits smaller enterprises. SMEs can claim an enhanced tax deduction of 175% (150% prior to April 1st 2008) for qualifying research-and-development expenditure. Corporate capital gains on a portfolio investment are taxable in the country of residence of the investor unless they make the investment via a subsidiary. In that case, corporate capital gains, known as chargeable 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. 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. A basic-rate taxpayer in the UK has no further tax liability, whereas a higher-rate taxpayer pays 32.5% on dividend income. UK-resident individual portfolio shareholders in foreign companies are also eligible for the 1/9th tax credit under domestic law from April 6th 2008. (EIU Country Commerce October 2009, EIU Country Finance June 2009)
Protection of minority shareholder rights	4	Formal governance requirements are less stringent for private limited than public limited companies, and are also more relaxed for small and medium-sized private companies. VC and PE funds generally seek to bolster their voice through minority rights provisions in shareholder agreements and through dispute settlement provisions involving commercial arbitration, taking advantage of the enforceability of such agreements as well as a well-functioning judicial system and system of private commercial arbitration. For private limited companies, there needs to be at least one director and--from April 6th 2008--management no longer needs to appoint a company secretary but may choose to do so without regard to qualification requirements. Private companies defined as "small" (those meeting two of the three following requirements: annual turnover of no more than £6.5m, balance-sheet total of less than £3.26m and a workforce not exceeding 50 employees) may submit a shortened balance sheet and notes, and a special auditor's report (unless claiming audit exemption). Medium-sized companies (those meeting two of the three following requirements: turnover of no more than £25.9m, balance-sheet total of no more than £12.9m and 250 or fewer employees) 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. Shareholders, however, must continue to receive a fuller set of accounts. (EIU Country Commerce October 2009)
Restrictions on institutional investors investing in PE/VC	4	Insurance companies may invest where they choose, provided they follow the "prudent person" rule--that is, they take a responsible attitude to investing. Investment also must be within the bounds of solvency requirements for insurers (including friendly societies and mutuals) which came into effect on 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 that they had not previously had to provide. In addition, all firms must make individual capital assessments of their capital needs. If the FSA disagrees with the results of these, it can issue guidance to insurance companies to increase their capital. Insurers are major customers for UK equities. Since a 2003 pension fund reform the same basic freedom is granted to pension funds established since 1995, though older funds no longer open to new enrollees and suffering from actuarial deficits are still restricted to investing in government bonds. There has, however, continued to be a flight to quality and safe returns 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. While direct investment in equities by defined-benefit funds has fallen, there has also been increasing diversification toward fixed-income investments, hedge funds (a major player in PE/VC activities) and real estate funds. (EIU Country Finance June 2009, June 2008)

Overall score against PE / VC investments



UK ScoreNotes

Aspects	Score (4-0)	Notes
Protection of intellectual property rights	4	Intellectual property rights are generally secure in the UK, although as in other European countries, pirated software and fraudulent trademarked goods are widely available. Companies are usually able to obtain legal judgments against systematic and large-scale violations of their patents, trademarks, registered designs and copyrights. (EIU Risk briefing score, March 2010)
Bankruptcy procedures/creditors' rights/partner liability	3	Regulations adopted in 1999 govern insolvency procedures for liquidating distressed firms in an expedited fashion. There is no precise analogy to US-style Chapter 11 in which a firm can be restructured while enjoying considerable short-term relief from its debts. Insolvency reform has been under discussion since 2008. In 2009 the government's Insolvency Service proposed reforms, and held consultations with various trade bodies and business associations which ended in September. Reforms aimed at improving the chances of more insolvent businesses being saved and ending abuses of the present set-up through contentious pre-pack arrangements, under which businesses are pre-packaged for a quick exit out of administration after they have failed. The proposals had not been formally promulgated as of February 2010. An IDB study from 2005 rates UK creditor rights as among the strongest in world. The World Bank's Doing Business 2010 produces scores that suggest how the system helps creditors: Resolving a bankruptcy is significantly quicker and less costly and yields a significantly higher recovery rate as compared to OECD averages. Under a partnership, partners may be fully liable for debts to third parties; under a limited liability partnership their liability is limited; and under a limited company (the most common form for PE/VC investments) it is limited to their shareholding or guarantee. (telegraph.co.uk, EIU Country Finance, June 2009, June 2008; EIU Country Commerce October 2009, October 2007)
Capital markets development and feasibility of exits	4	The UK's financial markets are among the most sophisticated in the world. The capital markets are liquid and sophisticated and London is one of the world's leading financial centres. London is the world's largest international financial centre for foreign-exchange trading, cross-border bank lending and over-the-counter derivatives. The UK, moreover, has the highest stock market capitalisation relative to GDP in the G7 group of leading industrialised states, a reflection of the longstanding reliance of UK firms on equity issuance rather than bank lending as a source of funding. London's advantages have not been eroded by the UK's non-participation in the euro area. (EIU Risk briefing March 2010)
Registration/reserve requirements on inward investments	3	There are no exchange controls in the UK. Moreover, European Union rules require free movement of capital throughout the bloc. No currency considerations affect the remittance of profits, dividends, interest, royalties, or licensing, management, design, and technical and patent fees. Nevertheless, the 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. There exists registration for monitoring purposes but no reserve requirements. (EIU Country Commerce, October 2009; EIU Country Finance June 2009)
Corporate governance requirements	3	Efforts by regulators and fund managers have continued to lift corporate governance in the UK to higher standards, focused on listed companies and driven by concerns at larger companies about executive pay, conflicts of interest, board independence, and auditing transparency. At least at that level, they seem to be bearing some fruit: the World Bank's Doing Business 2010 continues to give the U.K. its highest possible score on disclosure requirements, and scores on director liability and shareholder ability to file suit remain well above OECD averages. All companies incorporated in the UK and listed on the Main Market of the London Stock Exchange are required under the Listing Rules to report on how they have applied the Combined Code on Corporate Governance issued by the UK Financial Reporting Council (FRC), effective November 1st 2006. The main changes introduced at that time provide more flexibility in allowing company chairmen to sit on the remuneration committee, require more transparency in voting rules, and allow a "vote withheld" option for proxy votes on resolutions at annual shareholders' meetings for firms without electronic voting so that shareholders can exercise voice without voting "no." The code sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audits, and relations with shareholders. The FRC reviewed the impact and implementation of the code in 2007, and at end-May 2008 it announced it would be making changes to the code, applicable for accounting periods beginning on or after June 29th 2008. The key changes were removal of the restriction on an individual chairing more than one FTSE 100 company; and calling for the chairman of a listed company below the FTSE 350 to be a member of, but not chair of, the audit committee, provided he or she was considered independent on appointment. In March 2009 the FRC announced another regularly scheduled review of the Combined Code, as a result of which it proposes to make a number of revisions to the Code. Consultation on these proposals ends on 5 March 2010. EU Directive 2006/46, which revises the EU 4th Company Law Directive and is effective from September 5th 2008, requires listed companies to include a corporate governance statement in their annual report and account. Outside auditing and annual financial reporting requirements are looser for small and medium-sized private firms, however, the most stringent corporate governance directives are strictly voluntary for such unlisted firms. Shareholder agreements, typically involving commercial arbitration clauses, are the most common recourse of PE/VC funds in improving governance at invested firms. (EIU Country Finance June 2009, EIU Country Commerce October 2009; 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 risk briefing, March 2010)
Perceived corruption	3	The British civil service is among the world's most efficient, with established administrative procedures for decisions. Over the past decade there has been an underlying consensus between the main political parties (in practice, if not always in rhetoric) on most major policy issues, particularly in relation to the broad, pro-business direction of economic management. Policy will be focused on managing the fallout from the crisis, the scale of which means there will be little option but for the state to assume a greater role in the economy. The increasing threat of social unrest could impact on the formulation of policy. The concentration of executive power was exacerbated under the "presidential" prime ministership of Tony Blair, with policymaking becoming more "politicised". Little has changed under Gordon Brown, and relations between the office of the prime minister and his parliamentary party remain fractious. (EIU Risk briefing, March 2010)
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 and to be listed on the Main Market of the London Stock Exchange; companies must prepare their accounts following IAS The accounting and audit body, the Financial Reporting Review Panel (FRRP), undertook consultations in 2007-08 aimed at improving the quality and reliability of annual financial statements over which it exercises review powers, and agreed appropriate corrections with companies found to have irregularities through consultations falling short of its legal intervention powers. 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. Large international accounting firms are present and reliable. (Deloitte/IAS PLUS 2010, EIU Country Commerce October 2009, EIU Country Finance June 2009)
Entrepreneurship	4	The business entry rate ranks among the highest internationally. The World Bank's cost of starting a business ranking is also favourable. (WBGES and WB cost of starting a business databases, 2010)

APPENDICES

Appendix A: Select bibliography

The following cross-national data and information sources were used in the preparation of the 2010 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, 2009

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, 2009 and 2010, Ease of Doing Business index, 2009 and 2010, and “Doing Business In” series, various countries, 2009 and 2010

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

Transparency International, Corruption Index 2009

Appendix B: Interviews

For this fifth Scorecard, the EIU conducted new interviews in January and February 2010 with LAVCA members who are fund managers based in the LAC region. These aimed primarily to obtain more in-depth information on the nature and impact of regulations in the country or countries in which they operate. We promised these individuals anonymity.

As in 2009, the interviews for the 2010 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 2010 Scorecard on the Private Equity and Venture Capital Environment in Latin America 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

The
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The Latin American Venture Capital Association is a not-for-profit membership organization dedicated to supporting the growth of the private equity and venture capital industry in Latin America and the Caribbean. LAVCA's mission – to spur regional economic growth by advancing venture capital and private equity investment – is accomplished through programs of research, networking, education, the promotion of best investment practices, and the advocacy of sound public policy. More information at www.lavca.org

Additional Contributors

The 2010 Scorecard was made possible by generous contributions from the Multilateral Investment Fund (MIF) and the Corporación Andina de Fomento (CAF).



ABOUT 

As global investors turn their attention to Latin America and the Caribbean, the Latin American Venture Capital Association (LAVCA) is actively supporting the expansion of private capital investment within the region. LAVCA's membership is comprised of over 60 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 20 billion dollars, directed at capitalizing and growing Latin American businesses.

LAVCA members gain a competitive edge through proprietary industry data, information and analysis. LAVCA membership provides an important networking platform – linking investors, managers and other industry players through global events and targeted initiatives – as well as special access to a wide range of partner programs, events and discounts. Members receive privileged access to LAVCA and its board, membership and staff – a valuable network of contacts and information.

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- Original Research, Survey Results and Tools for LAVCA Members

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- **Access exclusive industry networks and global investors at LAVCA events**

- Annual Summit and Investor Roundtable: New York – September 29-30, 2010

- Country Specific Conferences: Chile and Colombia

- Global and Regional Partner Events

- **Ensure that your voice is heard in LAVCA's advocacy agenda**

- LAVCA plays an active role in engaging with regulators across Latin America on behalf of PE and VC managers, business owners and other industry players. The Annual Scorecard on the PE and VC Environment is widely recognized and used by Latin American policymakers and regulators. Member firms count on LAVCA's support to track policy developments and advance the private capital agenda.



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