A Guide to Selected Emerging Markets for Microfinance Issuers and International Investors:

Mexico

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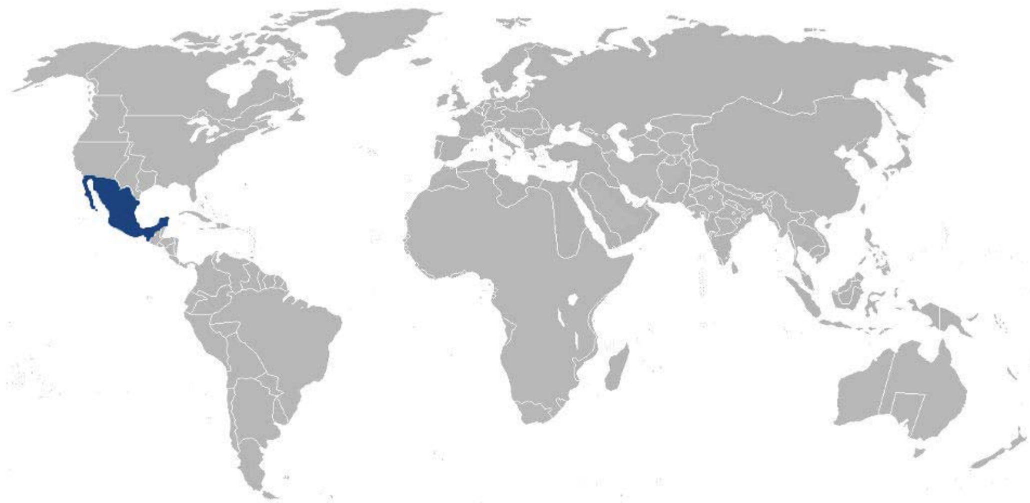
This guide was produced through the joint effort of Women's World Banking, Barclays Capital and local legal counsel in Mexico. A special thank you to the Women's Initiative Network at Barclays and to the team of reviewers in Barclays Capital's Mexico office for their support throughout the project, as well as to Michell Nader of Jáuregui, Navarrete y Nader, S.C. for legal review of the guide.

MEXICO



CAPITAL MARKETS ACCESSIBILITY CHART	DIFFICULTY LEVEL
Investment Considerations for Foreign Investors	
Investment Regulatory Requirements:	
Foreign Direct Investment (FDI)	Medium to Low
Portfolio Investments (PI)	Medium to Low
Foreign Credit	Medium to Low
FX Convertibility	Low
Repatriation	Low
Taxes on Gains	Medium
Taxes on Income (dividends)	Medium to Low depending on jurisdiction
Issuance Considerations for MFIs	
Publicly Registered Securities	Medium to Low
Private Placements	Low

CONTENTS

Overview of the Microfinance Markets and Capital Markets

Microfinance Market Overview:

- The MFI penetration rate in Mexico is estimated at 21 percent and represents one of the top ten countries in MFI penetration rates in the world. However, only 25 percent of Mexico's population is estimated to have access to financial services.
- In 2001, the Popular Savings and Credit Law (LACP) was passed to encourage and increase membership in Mexican cooperatives and to regulate the sector.
- Through the LACP, the National Banking and Securities Commission (CNBV) created the Popular Savings and Credit Entities (EACP) which were divided into two broad categories: savings and loans cooperatives, which are cooperatively owned, non-profit entities; and popular financial societies, which are privately owned, for-profit entities.
- Banco *Compartamos* is the largest enterprise lending MFI in Mexico, and is among the largest in Latin America in terms of the number of clients. It was the first microcredit lender in the world to issue debt in the capital markets and the first Latin American MFI to go public in 2002 and 2007, respectively.

Capital Markets Overview:

- The Mexican capital markets have seen consistent growth in the past 5 years with both the investor and issuer base broadening.
- Mexico's debt market is more developed and used more broadly as a source of financing than the equity market. This can be largely attributed to the participating SIEFORES (pension funds).
- The Bolsa Mexicana de Valores (BMV) is Mexico's only exchange and the second largest in Latin America.
- All Mexican debt transactions require at least one credit rating in order to be issued in the public markets. In order for the SIEFORES to take part in any transaction, the issuer must have two ratings as per their investment regime.
- The official currency is the Mexican Peso (MXN) an independent, free-floating currency. The MXN is fully convertible and there are no restrictions on the movement of capital in Mexico.

Key Foreign Investor Considerations:

- Mexico has an open trade regime, with free trade agreements with the U.S., Canada, the EU, and 41 other nations.
- Foreign direct investment (FDI) in Mexico for 2008 was $22.0 billion, with the U.S., as the largest foreign investor, accounting for 40 percent of the total. Due largely to the economic slowdown in the U.S., FDI to Mexico slowed to $11.4 billion in 2009.
- There are no specific restrictions on foreign portfolio investment.
- While foreign investors are restricted from investing in Mexican credit unions, restrictions do not apply to the legal structures for microfinance institutions in the LACP. These EACPs are separate legal structures from the restricted credit unions and may have 100% foreign ownership.

Key Local Microfinance Issuer Considerations:

- Recent changes to issuance regulation has increased the level of transparency and facilitated greater access to capital markets in Mexico.
- Potential issuers must consider the Securities Market Law, the Issuers Circular and BMV regulations before planning to offer securities in Mexico.
- Mexican law allows Investment Promotion Companies (SAPIs) to issue securities with a number of exemptions to normal regulatory requirements.

Microfinance Market Overview

History and growth

The microfinance industry in Mexico can trace its origins back to the *cajas populares* (rural banks) designed to serve the country's poor in the 1950s. This was Mexico's earliest form of lending to low-income people and was run primarily by churches and other community organizations. These bodies provided savings accounts and small loans to poor individuals who did not have access to financial services[1].

The microfinance industry as it exists today began to develop in Mexico in the early 90s when *cajas solidarias* were created as part of wider programs to reduce poverty in the country. Although funded by a government program, *cajas solidarias* were autonomous in their savings and lending activities and maintained a multi-tiered structure that allowed them to function with some additional assistance from the government. The first tier of this structure is the local *caja* where members make initial contact, the second tier is where the office is located and where loans are regulated, and the third and fourth tiers are state and national level coordinators that supervise the *cajas*. By the end of 1993, 49 *cajas solidarias* had been created and by 2000, 216 were operating and serving 200,000 clients in Mexico. This significant growth demonstrated the demand for financial services by the poor[2].

In addition to *cajas solidarias*, other forms of MFIs in Mexico are *Sociedades de Ahorro y Préstamo* (savings and loan societies; SAP), *Sociedades Financieras de Objeto Limitado* (non-deposit taking lending institutions; SOFOLs), credit unions, cooperatives and NGOs. Of these, only the SAPs and credit unions are regulated by the *Comisión Nacional Bancaria y de Valores* (National Banking and Securities Commission; CNBV). All other MFIs remain outside the purview of the formal financial sector[3].

In 2001, President Vicente Fox passed a new law, *Ley de Ahorro y Crédito Popular* (Popular Savings and Credit Law; LACP), to encourage and increase membership in these cooperatives and to regulate the sector. Through this law, the CNBV introduced a regulatory framework and for the various types of microfinance institutions and identified them all as *Entidades de Ahorro y Crédito Popular* (Popular Savings and Credit Entities; EACPs). All EACPs were divided into two broad categories: 1) *Sociedades Cooperativas de Ahorro y Préstamo* (Savings and Loans Cooperatives; SOCAPs) which are cooperatively owned, non-profit entities, and 2) *Sociedades Financieras Populares* (Popular Financial Societies; SOFIPOs) which are privately owned, for-profit entities[4].

The creation of *Banco del Ahorro Nacional y Servicios Financieros* (National Savings and Financial Services Bank; BANSEFI) in 2001 was another important addition to the financial services sector. BANSEFI's responsibilities include developing the technology platform for the sector, providing technical assistance to all EACPs, and serving as a second-tier bank for the system by providing back-office services, networking capabilities, and deposit services for MFIs[5].

Additional government programs were created to help provide financing to MFIs. The PRONAFIN (*Programa Nacional de Financiemento al Microempresario*) program as well as other second-tier banks provide credit and other financing to MFIs.

Mexico's microfinance sector has been considered one of the fastest growing in the industry. Since new LACP legislation was approved in 2001, the MFI sector has been growing at an annual rate of 20 percent[6] and more recently, grew 48 percent from 2005 to 2008[7]. The MFI penetration rate in Mexico is estimated at 21 percent, making Mexico one of the top ten countries in terms of rates of MFI penetration in the world[8].

However, the sector still has plenty of opportunity to expand; only 25 percent of Mexico's population is estimated to have access to financial services[9].

Governing regulations

The LACP outlines a delegated system of supervision in which federations consisting of from MFIs representatives who are responsible for self-regulation. Federations set up Supervisory Committees of ten people to provide supervision both on- and off-site. Supervisory Committees need to be certified by either the CNBV or the *Développement International Desjardins*[10] (a Canadian organization that provides technical assistance and funding to the community finance sector in emerging markets) Several regulatory rules reduce the risks of conflict of interest that could potentially arise in self regulation[11]:

- supervisors must sign sworn statements that they have not worked in a caja in the last three years;
- supervisors must be evaluated every six months by *Développement International Desjardins*; and
- president of a committee cannot be dismissed without authorization by the CNBV.

Regulation of EACPs is specific to each type of institution. Prudential standards are set according to the institution's portfolio size and are divided into three different tiers of regulation. The top tier applies to the largest portfolio sizes and has regulatory norms that are similar to those applied to commercial banks[12].

All regulations that apply to EACPs can be found in the CNBV's *Guia de Supervisión Auxiliar* which includes reports that are published monthly, quarterly and annually.

Largest players

Compartamos is the largest enterprise lending MFI in Mexico by number of clients, and is among the largest in Latin America. The basic characteristic of its lending model is offering group solidarity loans, in which the credit risk is mutually shared by a group of people. The company has approximately 1.3 million active clients and US$ 534 million in outstanding total loans. This represents 40 percent year-on-year (Y-o-Y) growth[13].

In 2000, *Compartamos* became a SOFOL, a non-deposit taking regulated institution. As a SOFOL, *Compartamos* gained access to capital, contributing to further growth. However, the SOFOL legal structure did not allow for *Compartamos* to take deposits. In an effort to overcome this impediment and become a more holistic financial service institution, *Compartamos* sought and obtained a commercial banking license in 2006. Subsequently, it changed its name to *Banco Compartamos S.A. Institución de Banca Multiple*.

Compartamos became the first microcredit lender in the world to issue debt in the capital markets (2002) and the first Latin American MFI to go public (2007). Investors from around the world participated in the IPO including those from the U.S. (52 percent), Europe (33 percent), and South America (10 percent)[14].

The second largest MFI in Mexico is *Financiera Independencia*, which focuses on consumer microlending. This institution went through the IPO process in 2007.

THE 10 LARGEST MFIS IN MEXICO BY GROSS LOAN PORTFOLIO OUTSTANDING ACCORDING TO MIX MARKET [15]

MFI	GROSS LOAN PORTFOLIO	CLIENTS
Banco Compartamos	534,000,000	1,300,000
Financiera Independencia	323,488,687	1,085,963
Crezkamos Kapital	45,878,208	5,493
FinComún	35,709,081	58,509
Apoyo Económico	31,392,679	60,092
CAME	27,057,778	148,733
FINCA - MEX	24,370,839	112,858
ASP Financiera	16,188,328	11,212
Credi-Capital	9,911,050	33,573
Banco Amigo	9,004,304	16,583
*excludes Caja Popular Mexicana		

Notable recent MFI capital markets transactions

In 2002, *Compartamos* issued its first bond for US$ 20 million with a tenor of three years, and placed it with domestic private investors. Following the success of this initial bond deal, *Compartamos* decided to set up a structured bond issuance program to issue a total of US$ 43 million through two transactions which occurred in 2004 and 2005. The IFC granted a partial credit guarantee to 34 percent of the outstanding principal. Both Standard & Poor's and Fitch[16] ultimately rated the bonds AA.

During 2009, *Compartamos* issued additional debt in the public market. The transaction totaled US$ 120 million for notes with a tenor of three years and a rate of 6.92 percent. This transaction initially took place in July of 2009 raising US$ 80 million and was reopened in August of 2009 due to additional market demand. The reopening raised an additional US$ 40 million.

Capital Markets Overview

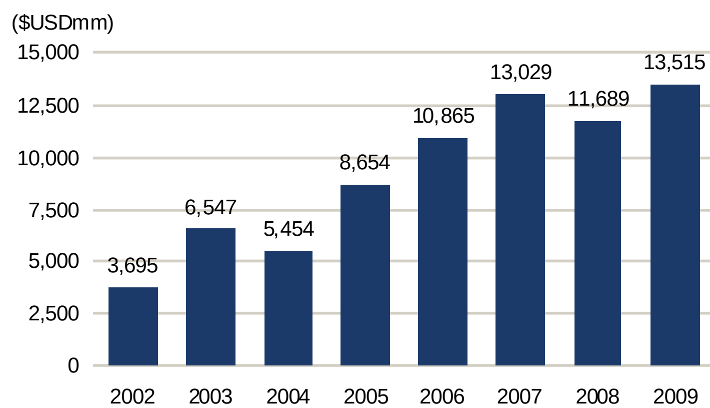
General Size and Activity

The Mexican capital markets have grown consistently in the past 5 years due to expansion in both the investor and issuer base. Bonds in the Mexican capital markets are known as *Certificados Bursátiles*. Mexico's debt market is more developed and used more broadly as a source of financing than its equity market due in large part to *Sociedades de Inversión Especializada en Fondos para el Retiro* (SIEFORES) pension funds investing more heavily in the fixed income markets as longer term and safer investment than equities.

Total debt outstanding in March of 2010 stood at US$ 559 billion, of which 57 percent is government debt and 43 percent is private sector debt. Total equity market capitalization currently stands at US$ 390 billion, representing 0.83 percent of total global market capitalization and 14 percent of Latin American market capitalization, showing Y-o-Y growth of 85 percent[17].

Corporate bond issuances have more than doubled over the past 5 years. In 2009 more than US$ 13 billion in corporate bonds were issued in the local market, marking a significant development for *Certificados Bursátiles*.

HISTORICAL DEBT ISSUANCE 2002-2009



Key Players

In the local fixed income markets, the key issuers are: the federal government (60 percent), Institute for the Protection of Banking Services (20 percent), corporations and public companies (15 percent) and mortgage-backed securities and other securities (5 percent). Top Mexican corporate issuers in 2009 included the oil company *Pemex*, food company *Bimbo*, and telecommunications conglomerate *Telmex.* Together the three companies issued a total of US$ 3.04 billion in 2009. On the investment side, the biggest participants in the overall fixed income market are SIEFORES (pension and mutual funds). Managing approximately US$ 88 billion and US$ 73 billion in assets, respectively, pension and mutual funds have contributed largely to the growth and development of the Mexican capital markets in the last ten years[19].

Regulatory Framework and Bodies

The *Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit; SHCP) is the head of the financial regulatory system in Mexico. The SHCP is a federal public administrative body that ensures laws and policies are implemented correctly in financial institutions. A branch of the SHCP, the CNBV, functions as direct supervisor and regulator of the financial system, including banks and securities markets. The *Banco de Mexico* (Central Bank of Mexico; BOM) is constitutionally autonomous in its operations and management. Its main function is to provide currency to the domestic economy. It also has monetary and other responsibilities, including regulating foreign exchange and derivatives markets, as well and setting credit controls and reserve requirements for Mexican banks.

Local Currency

The Mexican Peso (MXN) is Mexico's official independent, free-floating currency. Previously pegged to the dollar, the Mexican government has maintained a free-floating exchange rate since December 1994. The free-floating currency regime has increased Mexico's ability to adjust to external shocks, promoted change in the composition of capital inflows in favor of long term capital and reduced speculative attacks on the currency[20].

The MXN is fully convertible and there are no restrictions on purchases or sales. It is the most highly traded currency in Latin America with daily average turnover of US$ 20 billion. The Central Bank sets a fixed exchange rate by conducting surveys among local banks and calculating the average. This rate, as published in the Daily Official Gazette, is used for U.S. dollar contracts held in Mexico.

At the end of the 4th quarter of 2009 the exchange rate was 13.09 MXN per U.S. dollar. The graph below shows that the currency remained stable from 2005 to 2008 before rapidly depreciating at the end of 2008. The MXN reached a high of $15.40 in March of 2009 and has been modestly recovering since the end of 2009.

US$/MXN SPOT RATE 2005 TO 2010

Prevalent Accounting Standards

Both Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS) are used in Mexico, although in recent years IAS disclosure has become more prevalent. Mexican GAAP resemble U.S. GAAP due in part to the strong presence of U.S. foreign investment in the country. Several statutes and regulatory entities supervise the accounting system for public companies in Mexico. The Securities Market Law (*Ley del Mercado de Valores*; LMV) requires listed companies to report to the CNBV, which in turn only accepts Mexican *Normas de Informacion Financiera* (Financial Information Norms; NIF) standards issued by the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos*; IMCP)[21]. International accounting firms such as Ernst & Young, Deloitte, Accenture, KPMG and PricewaterhouseCoopers as well as an array of local accounting firms provide accounting services in Mexico.

Securities Exchanges

Overview of Debt/Equity Exchanges[22]

The *Bolsa Mexicana de Valores* (BMV) is Mexico's only exchange and the second largest in Latin America. The exchange was owned privately by a group of brokerage firms until June of 2008 when it became publicly owned and started trading on its own exchange.

The BMV offers fully electronic platforms for cash equities, financial derivatives and over-the-counter (OTC) fixed income securities, stocks, debt instruments (government and corporate bonds), warrants and other derivatives. The trading of listed equity and certain debt securities is conducted directly through the exchange, while their listed futures and options business is conducted through MexDer, the derivatives exchange. Fixed-income and derivatives products transactions are carried out through the inter-dealer broker, SIF ICAP. There are currently 130 companies listed on the BMV. *America Movil*, FEMSA (*Fomento Económico Mexicano*), *Grupo Mexico*, *Empresas ICA*, and *Walmart de Mexico* are the exchange's most actively traded securities.

In 2009 an average of 6,821 equity trades were made daily, with an average aggregate daily trading value of US$ 2.4 billion, compared to 2008, average daily trading values were up 65 percent and with a decrease of 0.9 percent in average aggregate daily trading value.[23] In 2008, the average daily number of trades and average daily value traded had increased 28% percent and 10% percent respectively from 2007. In the fixed income market, 2009 average daily number of trades was 277,386 representing a 2.4 percent decrease in trading activity from 2008[24].

Rating Requirements

All Mexican debt issuances require at least one credit rating in order to be viable in the Mexican public markets. Additionally SIEFORES requires the issuer to have two ratings. Transactions that only have one credit rating are primarily bought by mutual funds, which have fewer restrictions. International agencies Fitch, Moody's and Standard and Poor's have the greatest presence in Mexico. Locally, HR Ratings, established in 2007, also provides ratings for Mexican securities. The following table shows SIEFORES investment regime limits including local rating investment limits[25].

			Limits by kind of SIEFORE (fund)[1]				
			1	2	3	4	5
Market Risk		Value at Risk [$VAR_{historical}$ (1-a=95%,1day)]	0.6%	1.0%	1.3%	1.6%	2.0%
Market Risk		Equity (only through indices)	0%	15%	20%	25%	30%
Market Risk		Foreign Currency *(dollars, Euros, Yens or currencies to acquire equity)*	30%	30%	30%	30%	30%
Market Risk		Derivatives	Yes	Yes	Yes	Yes	Yes
Credit Risk		mxAAA[2] and Government securities	100%	100%	100%	100%	100%
Credit Risk		mxAA- rated securities	50%	50%	50%	50%	50%
Credit Risk		mxA- rated securities	20%	20%	20%	20%	20%
Concentration / Counterparty Risk	Local Securities	mxAAA rated securities from one issuer[3] or counterpart	5%	5%	5%	5%	5%
Concentration / Counterparty Risk	Local Securities	mxAA rated securities from one issuer or counterpart	3%	3%	3%	3%	3%
Concentration / Counterparty Risk	Local Securities	mxA rated securities from one issuer or counterpart	1%	1%	1%	1%	1%
Concentration / Counterparty Risk	Local Securities	BBB+ rated sec. denominated in foreign currency from one issuer	5%	5%	5%	5%	5%
Concentration / Counterparty Risk	Local Securities	BBB- rated sec. denominated in foreign currency from one issuer	3%	3%	3%	3%	3%
Concentration / Counterparty Risk	Local Securities	A- rated foreign securities from one issuer or counterpart	5%	5%	5%	5%	5%
Concentration / Counterparty Risk	For.	Holdings of an issuance[4]	35%	35%	35%	35%	35%
Other Limits		Foreign securities (if fixed income, minimum rate is A-)	20%	20%	20%	20%	20%
Other Limits		Securitizations[5]	10%	15%	15%	30%	40%
Other Limits		Structured securities[6]	0%	5%	10%	10%	10%
Other Limits		REITs (Real estate must be in Mexican territory)	0%	5%	5%	10%	10%
Other Limits		Inflation protected securities (TIPS)[7]	Yes (51% Min.)	No	No	No	No
Conflicts of Interest		Securities endorsed by related parties	15%	15%	15%	15%	15%
Conflicts of Interest		Securities endorsed by parties with control related to the Afore[8]	5%	5%	5%	5%	5%

* *This document is a summary of the applicable regulation and it should be used only as a guide of the investment regime.*

1 *Limits are expressed as percentages of assets under management. All limits are maxima, except for the inflation protected securities which reflects the minimum percentage applicable to the SB1.*

2 *These are local ratings for securities issued by Mexican issuers. Global rating apply to foreign securities. All securities must have at least two ratings.*

3 *Issuer or endorser in the percentage it guarantees. Counterparty exposure in repos and derivatives is added to the permitted limit.*

4 *It is maximum percentage of the outstanding that all funds (Siefores) operated by the same Afore can hold.*

5 *Securitizations must comply with Circular 15–19's appendix K for the SPV to be considered as an independent issuer.*

6 *Includes CKD's, IPO's, individual stocks that are not included in any authorized equity index, subordinated and convertible obligations. In all cases the securities must be issued at the Mexican Stock Exchange.*

7 *This limit reflects the minimum holdings of SB1 in TIPS linked to the Mexican inflation index (INPC).*

8 *Limit is established in the SAR Law, Art. 48, Paragraph X. Under exceptional circumstance it could be increased up to 10%. For parties whose board members belong to the Afore's board or have influence on it, this limit is 0%.*

Notable Recent Transactions

There have not been any initial public offerings in Mexico since 2008. The most recent IPOs in the country occurred in June:*Genomma Lab* (US$ 183 million) and the BMV (US$ 288 million)[26]. It is important to note that the other two notable transactions were done by MFIs including *Compartamos*' IPO (468 million) and *Financiera Independencia's* IPO (300 million) in 2007.

Debt markets remained more active in 2009. Mexico's state-owned oil company *Pemex* the third largest oil company in the world in terms of crude oil production, issued US$ 1.6 billion. *Bimbo*, the largest food company in Mexico and leader in the national baking industry, issued US$ 800 million. Finally, *Telmex*, a conglomerate headquartered in Mexico City that provides telecommunication products and services in Mexico, Argentina, Brazil and other Latin American countries, issued US$ 638 million.

Pemex accessed the market again in early 2010 via a multi-tranche US$ 1.1 billion debt offering in the local market. The deal consisted of US$ 638 million of 5 year bonds, US$ 400 million of 10 year bonds and US$ 159 million of 10 year bonds denominated in inflation linked units called UDIs (Unidades de Inversion). The *Pemex* deal was the first transaction priced in the Mexican capital markets in 2010[27].

Banking Sector

Relevant regulations and Regulator

The Central Bank of Mexico has autonomy in its operations and management through the *Ley de Banco de Mexico* (Act of the Bank of Mexico). Its main function is to provide currency to the domestic economy. The Bank also ensures the stability of the currency's purchasing power. Its other functions are to promote both the sound development of the financial system and the optimal functioning of payment systems[28].

Banks are regulated mainly by the *Ley General de Instituciones de Crédito* (the Bank Law), established in 1990. The Ministry of Finance issues circulars to allow for a more efficient implementation of banking regulation; the CNBV and SHCP supervise financial institutions.

Key Players

The current Mexican banking system is a product and legacy of the banking crisis that swept the country in 1994. During that time, the Central Bank of Mexico drained its reserves to pay out its bondholders and was left with low reserve levels. This led many banks to fail and subsequently many leading Mexican banks were acquired by foreign institutions.

Home to a total of 43 banks, Mexico has a highly concentrated banking system, with the five largest banks holding an estimated 77 percent of total banking assets and 76 percent of the system's deposits. The bulk of the system is also largely foreign owned. Dominant players in the bank space include *BBVA Bancomer* (Spanish), *Banamex* (Citi-controlled), *Santander* (Spanish), *Grupo Financiero Banorte* (Mexican), and HSBC (British)[29].

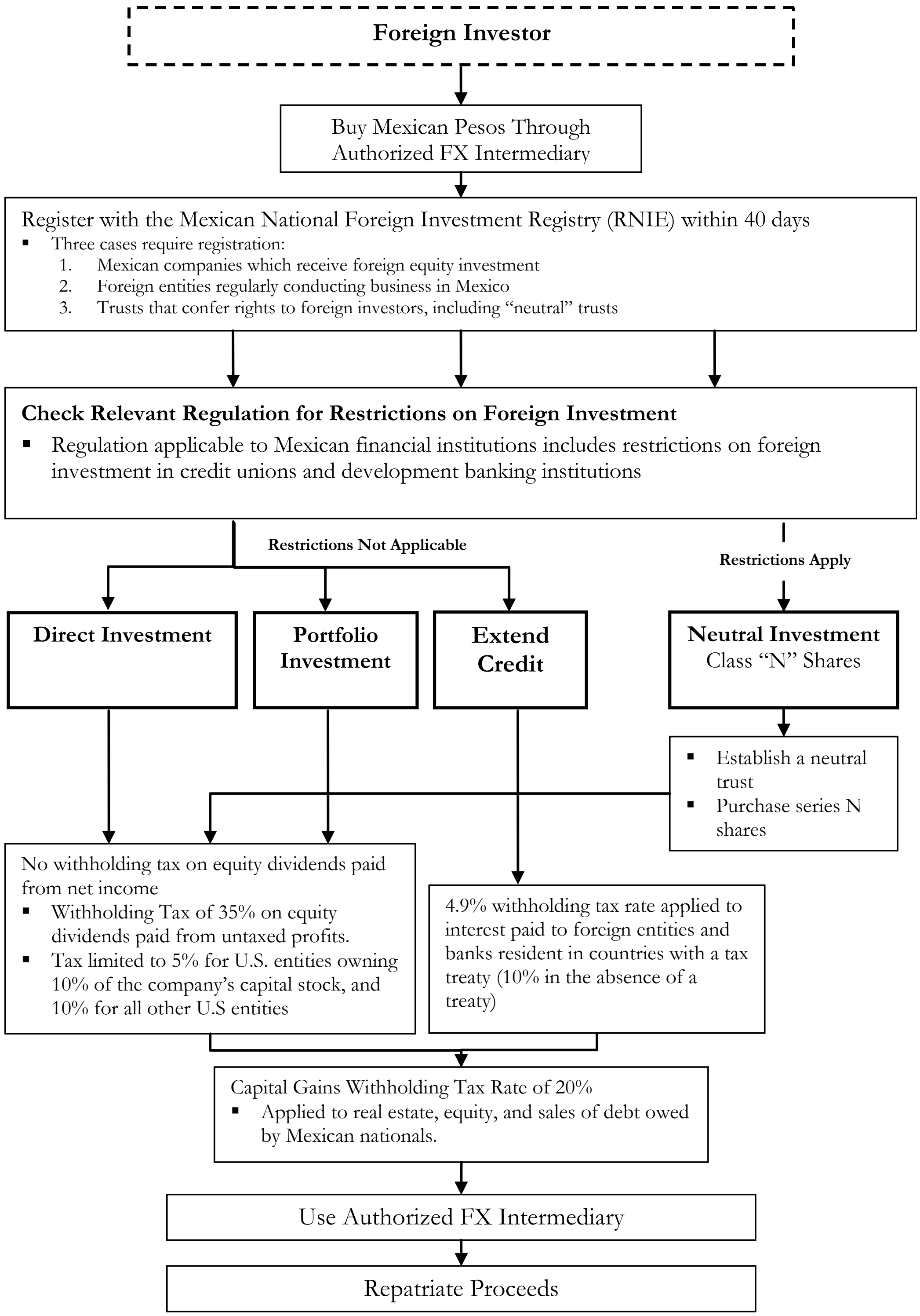
Smaller regional, niche and recently established banks hold the remaining 23 percent of the banking system's deposits. These banks are still developing and are more focused on specific cities rather than on serving the entire country[30].

Grupo Financiero Banorte is Mexico's only large, domestically-owned bank in Mexico with shares listed on the Mexican stock exchange. With an 11 percent share in the system's assets, *Banorte's* market capitalization is US$ 8 billion and it holds a total of US$ 21 billion in deposits[31].

Spanish-owned BBVA *Bancomer* is the system's largest bank and holds a total of US$ 47 billion in deposits, representing a 25 percent market share[32].

Foreign Investor Considerations

Summary Chart: Key Steps for Investments and Repatriation in Mexican Capital Markets by U.S. Investors



Overview

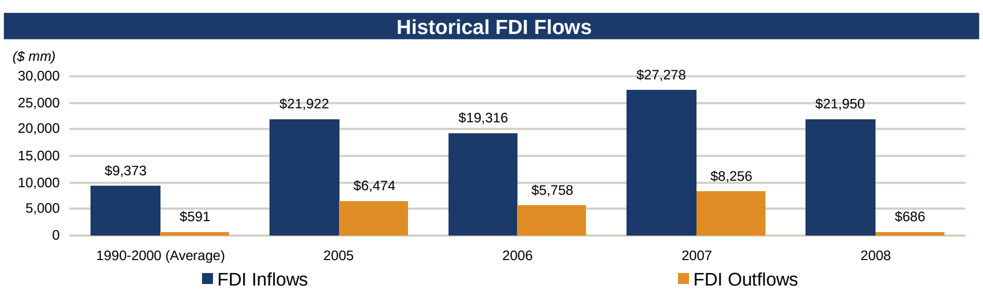
Mexico has an open trade regime, with free trade agreements with the U.S., Canada, the EU, and 41 other nations. Since the currency was devalued in 1994, macroeconomic fundamentals have consistently improved. Ratings for Mexico's sovereign debt are investment grade with stable outlooks[33].

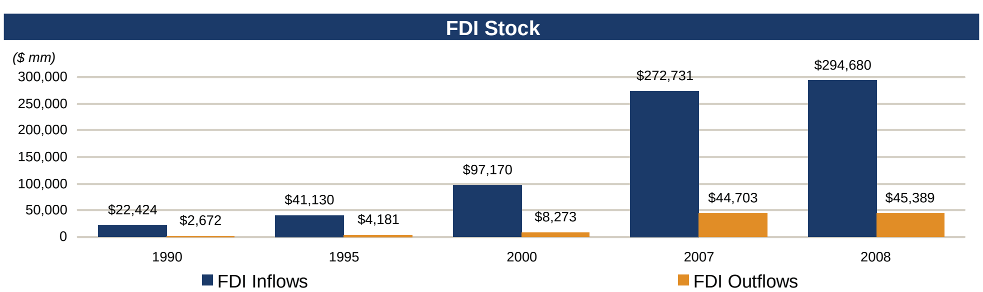
Rating Agency	Rating / Outlook[34]	Date Rated
Moodys	Baa1 / Stable	7/9/2009
Standard and Poors	BBB / Stable	12/14/2009
Fitch	BBB / Stable	12/1/2009

Since 1982, the Mexican government has pursued a policy of privatization of government-owned enterprises. More than 1,150 of 1,400 previously state-owned enterprises have been privatized, accounting for more than US$ 24 billion added to the federal treasury[35].

Liberalizing reforms in 1989 and 1993 have gradually reduced the activities and sectors reserved for the Mexican State and encouraged foreign direct investment (FDI). Additional deregulating amendments to the Foreign Investment Law were made in January 1999, when railroad services, gas distribution, and the majority of financial services were completely deregulated, increasing the allowed percentage of participation by foreign investors[36]. The United Nations World Investment Prospects Survey for 2009-2011 ranks Mexico 12th among the most attractive nations for foreign investment[37] based on interviews with company executives.

In 2008, FDI in Mexico was $22.0 billion. The U.S. as Mexico's largest foreign investor accounted for 40 percent of the total. Due largely to the economic slowdown in the U.S., Mexico's FDI dropped to $11.4 billion in 2009[38 39]. The charts below show historical FDI





Source: UNCTAD – World Investment Report 2009[40] stocks and flows in Mexico.

Foreign investment is regulated by the Foreign Investment Law, dated Dec. 27, 1993, which revised the more restrictive law of the same name from 1973. The law outlines the ways in which foreign investments may be made in Mexico and establishes the National Foreign Investment Commission and the National Foreign Investment Registry[41].

Key Regulations Governing Foreign Direct Investment

Foreign investment is defined in the Foreign Investment Law as "participation by foreign investors, in any percentage, in the capital stock of Mexican companies, investments by Mexican companies in which foreign capital has majority interest."

Foreign investors may participate in any proportion in the capitalization of Mexican companies, with the exception of certain sectors expressly regulated by the Mexican state. These reserved activities are divided between what is reserved exclusively for the State, and what is reserved exclusively for Mexicans or Mexican companies operating with foreign investment exclusion clauses. For example, activities exclusively owned by the Mexican State include petroleum and other hydrocarbons, electricity, generation of nuclear energy and bank note issuing. Credit unions and development banking institutions are activities reserved exclusively for Mexicans and Mexican companies. Other examples include domestic land transportation for passengers, tourism and freight, gasoline retail sales and distribution, and radio broadcasting services.

Additionally, Mexican law stipulates that in certain sectors foreign capital may only participate in a limited and specified percentage of the total capital stock of companies. In all other sectors, foreign investment may reach 100 percent of the capital stock of a company. Listed below are the restrictions on the participation of foreign capital:

Percentage of Capital Stock	Restricted Sectors and Activities [42]
10 percent	Includes cooperative production companies
25 percent	Includes domestic and specialized air transportation and shuttle services
49 percent	Includes insurance companies, bonding companies, currency exchange houses, retirement funds management companies, firearm manufacturing, print media, integral port administration, supply of fuel and lubricants for ships, airplanes, and railways, agriculture, ranching, forestry, fishing, and telecommunications

The Foreign Investment Law further stipulates sectors in which foreign investor participation may exceed 49 percent with prior approval from the Mexican Foreign Investment Commission. These sectors and activities include:

- port services, such as towing, mooring and barging
- shipping companies engaged in the exploitation of ships solely for high-seas traffic

- concessionaire or permissionaire companies of air fields for public service
- private education services of pre-school, elementary, middle school, high school, college or any combination;
- legal services
- credit information companies
- securities rating institutions
- insurance agents
- cellular telephony
- construction of pipelines for the transportation of petroleum and products derived therefrom
- drilling of petroleum and gas wells
- construction, operation and exploitation of general railways, and public services of railway transportation

Permission of the Mexican Foreign Investment Commission is needed for foreign investment to participate in a percentage higher than 49 percent of a company that has aggregate asset value at the date of acquisition that exceeds the amount determined annually by the Mexican Foreign Investment Commission[43].

In some cases, foreigners may invest in Mexican companies through in percentages higher than those provided by law. Neutral investment is the acquisition of Series N shares, which provide holders economic but not corporate rights (i.e. voting at shareholders' meetings). These investments require prior approval from the Mexican Foreign Investment Commission.

Microfinance and Restrictions on Foreign Investment

By law credit unions must be owned exclusively by Mexican nationals. Microfinance institutions may be set up under this legal structure and restrictions on foreign investment would thus apply, forcing foreign investors into neutral investment options.

Restrictions do not apply to the legal structures legislated for MFIs in the LACP. These EACPs, as mentioned in Section I, are separate legal structures from the restricted credit unions and development banking institutions and may have 100 percent foreign ownership.

Mexican National Foreign Investment Registry

The Foreign Investment Law requires that the following Mexican companies register with the Registro Nacional de Inversiones Extranjeras (RNIE)[44]:

- Mexican companies which receive foreign equity investment;
- foreign companies regularly conducting business in Mexico; and
- trusts that confer rights to foreign investors, including trusts used for investing in restricted Mexican real estate and for neutral trusts, which allow foreign investors to take non-voting ownership stakes in restricted activities (Series N shares).

The RNIE is not public and consequently may not provide information concerning registered entities to any third party.

Specific forms are used for each type of registration. These forms must be used for the required annual renewal of registration. Registration requirements include disclosure of identification information, the amount of capital stock subscribed or paid and a forecast schedule for total investment, if applicable [45 46].

Registration must be made within 40 business days following the date of foreign investment or participation[47]. In addition, changes to the stock composition, appointment of attorney-in-fact, domicile, and other material changes to the registration must be registered within the 40 business days following their occurrence.

Neutral Investment

Outlined in the Foreign Investment Law of 1993, the mechanism of neutral investment allows foreigners to hold greater than specifically allowed percentages of restricted Mexican companies as stipulated by law. Neutral investments grant only limited rights to shareholders. Neutral investment is not taken into account when determining the percentage of foreign investment in the capital structure of Mexican companies[48].

The Foreign Investment Law stipulates three mechanisms through which neutral investments may be made[49]:

1. neutral trust funds,
2. issuing neutral shares, and
3. neutral investment by international development financial companies.

While some sectors regulated by the Foreign Investment Law do not have much or any neutral investment, capital intensive sectors with large investment needs such as broadcasting, telecommunications, and aviation depend heavily on foreign neutral investment[50].

Key Regulations Governing Foreign Portfolio Investments (Market Investments—Debt & Equity)

There are no specific restrictions on foreign portfolio investment. Foreign investors are allowed to participate in 100 percent of the capital stock of foreign companies, given the exceptions listed above.

Direct Lending—Foreign Credit Activities, A Further Distinction

Article 11 of the Mexico-United States Convention for the Avoidance of Double Taxation (Jan. 1, 1994) establishes a withholding tax rate of 4.9 percent for interest paid on loans made by registered foreign banks and financial entities[51 52].

General interest payments to foreign entities are taxed at a withholding rate of 30 percent, increased to 40 percent when paid to residents of lower-tax countries.

Restrictions on Foreign Holdings

Expatriation and Repatriation of Capital

There are no restrictions on repatriation payments which may be made in any currency[53].

Tax Considerations

Tax Treaties with the United States

The United States–Mexico Income Tax Convention, dated January 1, 1994, seeks to avoid double taxation as well as prevent fiscal evasion with respect to income taxes[54]. Certain legislation applicable to foreign investment is outlined below.

Capital Gains Taxes

The gross amount of net gains on a real estate or equity interest is subject to a withholding tax rate of 20 percent. This rate also applies to gross proceeds of the sale of a debt owed by a Mexican national when sold by a non-resident in the course of a debt-equity exchange.

Dividends or International Tax Income

A withholding tax on equity dividends of 35 percent is applicable if dividends are paid from untaxed profits. If dividends are paid from taxed profits, there is no applicable withholding tax.

The United States–Mexico Income Tax Convention provides that if a U.S. entity owns at least 10 percent of a Mexican company paying dividends, taxes on such dividends will be limited to 5 percent of the gross amount of the dividends. In all other cases, taxes on dividends between the U.S. and Mexico will be limited to 10 percent of the gross amount of the dividend[55].

Other Withholdings

Certain withholding taxes apply to interest paid to non-Mexican nationals. The tax rate for interest paid to registered foreign entities and banks is 15 percent, increased to 35 percent if the entity is not registered with the SHCP.

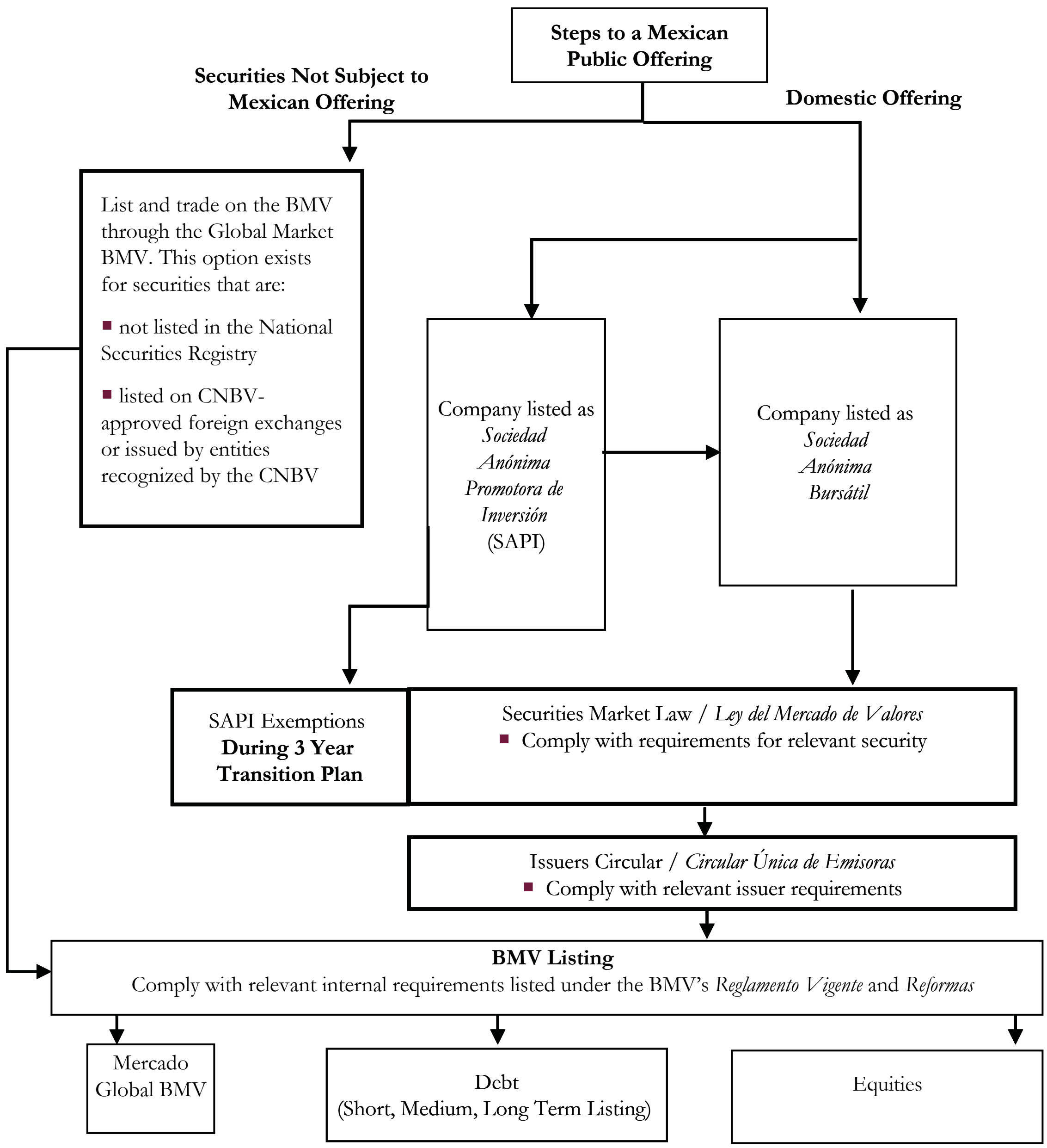
As mentioned above, for U.S. residents, interest received from Mexico will be taxed at 4.9 percent if interest is derived from loans made by financial institutions or exchange traded securities. If interest is derived in other ways, it will be taxed at 10 percent if paid by Mexican financial institutions or the purchaser of machinery sales made on credit, and 15 percent in all other cases[56].

There is a withholding tax rate of 25 percent charged on royalty payments made to non-residents, including royalties paid for technical assistance, which is increased to 35 percent for use of patents and trademarks[57].

Before deciding to invest in Mexico, foreign investors are urged to consult with Mexican legal counsel regarding these and other applicable regulations of foreign investments in Mexico.

LOCAL MICROFINANCE ISSUER CONSIDERATIONS

Summary Chart: Keys Steps for Microfinance Issuers to Issue in Mexican Markets



Overview

In recent years, Mexican capital markets have become increasingly regulated while simultaneously becoming more accessible. While a number of institutions influence securities regulation in Mexico, the most direct influence over issuance requirements come from national law, the CNBV and BMV.

The following items are defined as securities under Mexican law and are regulated accordingly by the CNBV: stocks (common and preferred shares), domestic mutual funds, exchange traded funds, approved foreign equities, real estate investment trusts, certificates of interest, options, futures, bonds (corporate and government), warrants, debentures, promissory notes, and "other credit instruments that represents the capital stock of a legal entity, undivided interest in an asset; or the participation in an individual or collective credit[58]."

To navigate Mexican securities requirements effectively, issuers must comply with three complementary but distinct regulatory codes: (1) The LMV outlines national legal definitions and general requirements for securities, issuers and market players in Mexico's capital markets[59] (2) The Issuer's Circular or *Circular Única de Emisoras* builds on the LMV legislation and outlines the CNBV's specific requirements for the issuers of various security types and transaction structures[60] (3) the BMV sets forth additional rules specific and internal to the BMV exchanges[61].

Published in the Official Newspaper of the Federation (*El Diario Oficial de la Federación*) during December 2005, the LMV completely replaced previous securities regulation and sets the framework for more transparent and accessible Mexican capital markets. The law, which became effective June 29, 2006, heightens standards for corporate governance and creates new avenues for small and medium businesses to access Mexico's capital markets. It continues to be updated and re-circulated in the national newspaper as reforms are made.

The BMV is Mexico's only stock exchange and offers a variety of listing segments and mechanisms for listing. Fixed income securities trade over-the-counter through a subsidiary of the BMV, the SIF-ICAP. Additional mechanisms of interest include the Mercado Global BMV for debt and equity securities that are not registered in the National Securities Registry or do not meet domestic listing requirements.

According to March 2003 securities regulations, all issuers of publicly traded securities must comply with various disclosure requirements. Key disclosure requirements include:

- CEO and CFO certification of the accuracy of financial reports, issued quarterly and annually; and
- certification by an external auditor of all disclosed information.

Potential Listing Entities

Mexico outlines a number of company designations, both public and private.

The *Sociedad Anónima Bursátil* is a public company that must have the following

characteristics:
- has a board of directors with at least 25 percent independent directors;
- shares recorded in Mexican Securities Registry;
- is subject to shareholder rights regulations and regulatory requirements and limitations for the company board of directors, as outlined by the LMV;
- has a committee of social practices; and
- has an auditing committee.

The *Sociedad Anónima Promotora de Inversión* (Investment Promotion Company; SAPI) or is a mid-sized private company that voluntarily adopts certain provisions of corporate governance but not all of those outlined in the LMV. SAPIs listing or issuing securities are subject to special exclusions and modifications of relevant regulation during a three-year period of transition to public company status, called the transition period.

SAPIs may transform into public companies through the following process:
1. outline a transition plan to operate as a public company within three years;
2. progressively adopt practices of public companies over a three year transition period and per exchange requirements;
3. amend company bylaws to reflect public company status and comply with relevant public company requirements; and
4. obtain approval from regulatory authorities and maintain compliance with outlined transition plan through transition period.

In petitions to publicly list, Mexican companies must also include the submission of all relevant materials electronically to the BMV. Once petitions are submitted, the BMV will check for missing documents and perform a technical inquiry into the company before any approvals are granted.

Requirements for public companies wishing to list include disclosure of and compliance with the following:
- disclosure of 3 years of financial and operating data;
- appoint a legal representative to act on behalf of the company and in accordance with the Code of Ethics and the Code of Best Practices;
- acknowledge and ensure compliance with the terms of the applicable regulations, according to the type of security to be listed;
- comply with restrictions for maximum aggregate listing amount, limits to consolidated ownership of listed securities and other relevant distribution and ownership requirements as dictated by the BMV; and
- have a Board Of Directors of the appropriate size with requite number of independent members to oversee management and perform other tasks for the company as outlined by the CNBV.

The Market Securities Law offers the option for SAPIs to issue securities with a number of special exemptions. Requirements for SAPIs wishing to list include disclosure of and compliance with the following items as an exception or instead of the regulations that normally apply to a public company:

- minimum of 2 years of financial disclosure
- minimum of 15,000,000 units of equity
- company may register shares with the exchange either through public offer or without public offer.

Only institutional investors or investors that acknowledge risk in SAPI investment may acquire SAPI shares during the transition period. SAPI's prospectus or offering memorandum must clearly outline how SAPI disclosure and governance requirements differ from that of normal public companies. In addition to meeting these legal requirements, the SAPI transition program must also be approved by the appropriate exchange

The BMV outlines characteristics and requirements for specific debt securities. Commercial paper is unsecured and must have a face value of $100 pesos with terms ranging from 1 to 360 days. Corporate bonds have terms of three years or more and a face value of $100 pesos, 100 UDIs or some multiple of that. For more information regarding yields, guarantees and other requirements, see www.bmv.com.mx/wb3/wb/BMV/BMV_mercado_deuda[62].

Potential issuers are urged to consult with Mexican legal counsel regarding these and other applicable regulations in order to fully comply with current regulatory requirements for offering public securities in Mexico.

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