Doing Business in Latin America

Will the economy and climate change win or lose in the 2024 elections?

Kreston Global in Latin America

Kreston Global Latin America spans 17 countries, 25 firms and over 1200 staff. Ranking as the 15th largest global accounting network in Latin America according to the International Accounting Bulletin, our firms support the millions of small to medium enterprises in the region.

As Latin America enters an election year in five of the 21 countries, the anti-incumbency wave is expected to subside, with at least four of the ruling parties expected to win. This political landscape, influenced by voter disillusionment and the popularity of some leaders, will be crucial for businesses and investors to monitor. Our experts share their thoughts on the developments and the impact it may have on doing business in the region.

Economically, most of the region is poised for growth in 2024, with central banks easing monetary policy more aggressively than their developed-market counterparts. This proactive approach aims to bolster GDP growth, though challenges remain, particularly from tight monetary policies in developed economies that could dampen demand for Latin American exports.

Nearshoring remains an opportunity, especially for Mexico, Panama, and Costa Rica, which are set to benefit from US-led efforts to realign supply chains. Investments in critical minerals and infrastructure projects are also expected to drive growth across the region. However, there is a continuing slowdown in the US, which may impact Mexico's growth prospects despite a recent investment boom driven by nearshoring.

If you are currently exploring doing business in Latin America, our experts, with a clear view the region's opportunities and challenges, offer critical insight in our latest regional overview.

Contents

2024: The year of the election

FRANCISCO BRACAMONTE

Tax Partner,
Kreston BSG,
Mexico

This year, some countries in Latin America will change presidents: Mexico, Panama, Uruguay, Venezuela, the Dominican Republic, and El Salvador.

The only election that has taken place so far is in El Salvador, where despite the constitution prohibiting re-election, the current president Nayib Bukele was re-elected.

This country has had some success in reducing criminality but with serious questions regarding respect for human rights.

The rest of the countries will have elections during the remainder of the year. Mexico, the most populated country among them, will hold elections. The competition is between the candidate of the governing party (left-populist) and the candidate of the opposition alliance (centre-right).

ESG factor

Although it is expected that Mexico will benefit from the nearshoring process, receiving additional investments relocated from China, the depth and speed of these investments will depend on the election results. The business climate in Mexico will be tied to the election outcome because both options have different focuses in important areas. For example, the governing party aims to limit private investment in energy, particularly green energy, while the opposition proposes continuing the policy of an open and competitive energy market.

Impact

In general, elections in Latin America will share some characteristics:

- Disillusionment with democracy, particularly with traditional parties.
- The rise of populist candidates offering easy but inefficient solutions.
- Weakening of the rule of law, ranging from Venezuela, which will not have free elections, to hybrids like Mexico and El Salvador, which have relatively free elections but with many questionable practices.
- Increased polarisation and lack of open dialogue between different political groups.
- Illegal money and corruption.

Opportunities

Despite these challenges, Latin America will present investment opportunities for multinational companies:

- Low labor costs with a medium level of education and everyday more people speaking English.
- Except for Venezuela, most countries recognise the necessity of private investment for development and poverty reduction.
- Minimal differences in language and culture among countries, allowing Latin America to be considered as one region for investment purposes.
- A tendency toward low inflation and interest rates, which will accelerate GDP growth in the coming years.
- Significant mineral resources and key raw materials.

There are not expected to be significant changes in the investment climate that multinational companies need to consider. Mexico will continue to be a natural destination for certain investments, particularly in automotive and other industries strongly tied to US production chains. Similarly, other countries will serve as natural markets for specific industries, such as semiconductors, software programming, mining, agriculture, etc.

Venezuela

Overall, significant political instability is not predicted, except for Venezuela, which has not received foreign investment for some years now. There are forecasts of social mobilisations following the inequitable elections and possibly more international sanctions.

Latin America is not expected to undergo major changes in the business environment, except in the event that the opposition takes power in Mexico and implements changes to energy and mining policies, which could open the door to new private investments.

Argentina – the next gold rush for overseas investors?

RICARDO GAMEROFF

Managing Partner,
Kreston BA,
Argentina

Political turmoil and economic headaches have given Argentina miles of bad press in recent years. Yet, another story is that the country is opening up to overseas companies, and foreign direct investment increased 122.5% to USD$ 15 billion in 2022, according to the World Investment Report published by UNCTAD.

Argentina's economic landscape is transforming under President Javier Milei's leadership since his November 2023 victory. His commitment to significant economic reforms, including addressing high inflation, deregulating various sectors, and privatising state-owned enterprises, has boosted investor optimism. All these factors combine to make Argentina a more attractive destination for international companies than ever before.

However, navigating the complexities of the Argentine market requires careful planning, local expertise, and strategic partnerships. Kreston BA Argentina is positioning itself as one of the only firms that can offer all of the above under one roof.

'Diversification is one of the best opportunities Argentina can offer firms looking to expand their global footprint, in areas such as services, manufacturing, agribusiness, energy, and mining,' said Ricardo Gameroff, Managing Partner of Kreston BA Argentina. 'It is rich in natural resources, is investing heavily in renewable energy infrastructure and plans to promote private participation in infrastructure projects through public partnerships.'

Nearshoring

As well as providing investment opportunities, there is a possibility that nearshoring could become more attractive on Argentinian soil.

'It's strategic location in South America, coupled with its access to major markets in North and South America, positions it favourably for nearshoring initiatives,' said Gameroff. 'Argentina can also offer a well-educated and skilled workforce, with low labour costs, while the government is keen to attract foreign investment with tax breaks and investment promotion programmes.'

Market gap

But there is no denying that Argentina, despite its focus on reform, still does not offer the easiest entry to market for global companies. Gameroff feels there is a gap in the local market for the kind of tailored, end-to-end service clients are going to need if they are to establish operations quickly.

For instance, hyperinflation and currency fluctuations pose a real problem for local and international companies in their day-to-day operations. But while these problems might seem dauting, Gameroff believes they can be overcome.

It is important to understand the local economic landscape to mitigate risks and capitalise on opportunities – BA Argentina will help clients with risk management, compliance and regulatory support, as well as continuous monitoring and adaptation to anticipate changes that may affect clients' businesses.

'By staying proactive and agile, we can adapt our strategies and recommendations in real-time to help our clients,' said Gameroff.

Customised offering

Being able to adapt for each client is what will make BA Argentina unique. 'Our firm distinguishes itself by offering a diverse portfolio of services that can be customised for each client,' said Gameroff. 'We are also able to work with clients at every stage of their business lifecycle, from inception to international expansion. This simplifies administrative complexities for our clients as we can be their single point of contact.'

To offer this kind of service, everyone at Kreston BA Argentina is not only an expert in their field but also in the local market. As a member of Kreston Global, this local knowledge is partnered with a global perspective.

'Being part of the Kreston network means we can anticipate international trends, share best practices, and equip our clients to navigate global challenges and opportunities,' said Gameroff.

Management team

The management team brings multidisciplinary experience across diverse industries, while the partners bring extensive international experience and qualifications to the table. With backgrounds that include executive roles in firms such as EY in Canada, Chile, and Argentina, Kreston BA Argentina has a deep understanding of global business practices, regulations, and industry standards. In addition, Gameroff is a CPA in the United States and Argentina, fluent in English, and have vast experience serving international clients.

The new firm is looking to target both local businesses and international companies as it builds a robust client base across a variety of industries. Diversification and strategic partnering are going to be key to developing sustainable growth.

'As we gain traction in the market and better understand the evolving needs of our clients, we will explore opportunities to expand our service offerings and diversify our revenue streams,' said Gameroff. 'This may include introducing specialised services in emerging areas such as technology consulting, sustainability reporting, or regulatory compliance. We will be keen to forge alliances with law firms, financial institutions, technology providers, and other complementary service providers, we can offer comprehensive solutions and access new market segments.

Economic outlook

While the local economic conditions in Argentina may pose challenges, Gameroff believes that with the right expertise, strategic planning, and proactive measures, businesses can thrive in the Argentine market.

'At Kreston BA Argentina, we are committed to supporting our clients in overcoming obstacles and achieving their business objectives despite the prevailing economic conditions,' he said.

Puerto Rico: Low tax jurisdiction offers attractive base to local and foreign investors

FRANK SÁNCHEZ RUIZ
CPA, CMA, CIA, CGFM, CGMA

Managing Member,
Kreston PR,
Puerto Rico

Puerto Rico has seen GDP increase of 11% growth in its economy since 2019, despite the challenges felt globally from COVID 19, to global recession and supply chain challenges. So far in 2024 the International Monetary Fund records the island having the highest GDP per capita in the Caribbean.

Strategic location

Puerto Rico (PR) can claim several advantages that can be attributed to this growth. It is a strategic Caribbean geographic location, offering political stability, modern infrastructure, and a highly skilled bilingual workforce (Official languages are Spanish and English). It is the main air and sea access hub in the Caribbean, with multiple flight options to and from the major cities of the United States, Latin America, and Europe.

Unincorporated United States territory

Secondly, Puerto Rico enjoys the United States constitutional, legal, financial, and regulatory protection, including among others, intellectual property, Homeland Security matters, and banking system. The U.S. dollar is also the official currency, and no passport is required for U.S. citizens.

Recent tax incentives

Thirdly, Puerto Rico enjoys fiscal autonomy and has a number of tax incentives to attract investment. Puerto

Rico recently published legislation designed to boost remote PR workers. The governor, Pedro Pierluisi, signed the new act into law on January 17, 2024. This legislation builds on Act 52-2022, targeting the enhancement of the foreign private sector's remote work force in PR.

Tax incentives for local and foreign companies and individuals

During 2019 PR enacted legislation to compile all previous PR tax exemption laws into Act 60, that has attracted foreign and local businesses, and non-resident high net worth individuals who relocate to PR, contributing to the overall economic health of the island. The benefits cover a number of industries attractive to investors, most notably:

1. Export of Goods and/ or Services – Act 60-2019 (Formerly Act 20) – Available to businesses established in Puerto Rico that offer services or sell goods to customers or clients outside Puerto Rico.
2. Manufacturing, Research and Development – Act 60-2019 (Formerly Act 73) – Available for manufacturing, R&D and high-tech industries that invest in the island.
3. Creative Industries – Act 60-2019 (Formerly Act 27) – Available for entities engaged in film production, postproduction, and similar creative projects.
4. Green Energy – Act 60-2019 (Formerly Act 83-325) – Incentive is available for entities engaged in the production/sale of green energy, sale of equipment, assembly, or installation of green energy equipment.
5. Visiting Economy (Tourism – Formerly Act 74) – Available for businesses engaged in tourism activities.

Income Tax rate

Among its benefits, Act 60 grants a reduced income tax rate from 37.5% to 4% on eligible activities as well as 100% exemption on distributions from earnings and profits on those activities, designed to stimulate growth in key industries and attract investors to the country. The tax decree also provides exemptions on indirect taxes (municipal license, property taxes, excise tax, among others) that ranges from 50% to 100% of exemption, making investment even more appealing to local and foreign businesses.

Individual resident investor and other tax incentives

Non-resident high net worth individuals who relocate to Puerto Rico also benefit from additional tax grant benefits under Act 60. Also, there are other tax incentives for those engaged in providing highly skilled medical professional services (physicians), professional researchers or scientists, small and medium enterprises (PYMES), young entrepreneurs, public porters of air transportation, maritime transport services, infrastructure investment and agriculture.

Low tax jurisdiction

This legislative update is a key component of Puerto Rico's strategy to stimulate economic growth, attract global talent, and encourage the development of a diverse and resilient economy.

Peru: Macroeconomic stability appealing to Foreign Investors

MARTIN QUEVEDO
Quality Control Partner,
Kreston Perú,
Peru

Martín Quevedo, Quality Control Partner at Kreston Perú, explains Peru's commitment to stimulating Foreign Direct Investment (FDI). Peru offers macroeconomic stability, despite lingering challenges.

Peru is undertaking key initiatives to stimulate Foreign Direct Investment (FDI), standing out for its favourable environment and policies to consolidate its position as an attractive destination for international investors. The implemented measures include signing free trade agreements with over twenty countries, facilitating access to global markets and promoting smoother trade. A strong legal framework has also been established to protect investors, ensuring legal stability and intellectual property protection, crucial elements for attracting foreign investment.

Low inflation

Peru is distinguished by its impressive macroeconomic stability, a feature that places it among the most competitive countries in Latin America. The country's macroeconomic indicators reflect sustained economic growth, controlled inflation that has maintained single-digit figures for twenty-six consecutive years until the end of 2023, and international reserves representing 29.4% of GDP. Furthermore, the fiscal deficit has remained at manageable averages, with 3.4% of GDP over the last five years and a projection aiming for a reduction to 1.6% by the end of 2023. On the other hand, public debt is estimated not to exceed 33% of GDP by the end of the same year.

FDI-friendly policy

This favourable macroeconomic panorama, combined with specific policies to promote FDI, suggests that Peru is well-positioned to experience a significant increase in foreign investment in the coming years. Despite previous political challenges that may have generated some hesitation in the

Source: ProInversión

investment environment, there is evidence of recovery and renewed interest in the country as an investment destination. FDI is primarily directed towards strategic sectors such as mining, finance, communications, and energy, demonstrating the diversity and richness of opportunities available in the Peruvian market.

Although Kreston Peru does not directly work with companies in these sectors, it is ready to advise on macroeconomic indicators and other relevant information that could be crucial for locating foreign investments in Peru.

Additionally, significant mining projects that had been paused due to conflicts between the Peruvian state and local communities, driven by political differences, are expected to be reactivated. In the mining sector alone, the reactivation of projects exceeding $9 billion in investment is anticipated, which could make a significant difference in FDI flows in the post-2023 period.

The country maintains a conducive environment for sustained economic growth and continued attraction of foreign investment

However, it is important to recognise that challenges such as insecurity and the perception of political corruption remain present and could negatively impact the investment climate. Nevertheless, Peru's solid macroeconomic fundamentals, along with the independence of the Central Reserve Bank of Peru, the confidence placed by current investors, and a government direction leaning towards a centre-right stance, suggests that the country maintains a conducive environment for sustained economic growth and continued attraction of foreign investment. This set of factors highlights the resilience of the Peruvian economy and its ability to overcome adversities, maintaining a promising outlook for foreign investment.

ESG in Brazil: From carbon market to transfer pricing challenges

TATIANA ANDRADE

Partner,
Kreston KBW Auditores,
Brazil

Discussions about ESG strategies have been becoming increasingly common on a global scale. A complex and strategic move that is shifting dynamics in the global economy, the culture of environmental, social, and corporate governance brings a myriad of issues that warrant careful analysis.

On the legislative front, the House of Representatives in Brazil passed PL 2148/15, which proposes the regulation of the carbon market in the country and the establishment of the Brazilian System of Greenhouse Gas Emissions Trading (SBCE), which sets emission caps and establishes a market for the sale of credits. For now, we are waiting for the proposal to undergo analysis and approval by the Senate.

Besides establishing unprecedented regulations in Brazil, initiatives like this significantly influence the national business environment, not only concerning domestic aspects.

In this scenario, there is optimism for Brazil and for Latin America. According to information from the UNCTAD's World Investment Report 2023 – United Nations Conference on Trade and Development – foreign direct investments in Latin America and the Caribbean increased by 51%, reaching $208 billion in 2022. In Brazil, the increase was 70% ($86 billion).

According to the report, international investments in SDG sectors and activities – which relate to the Sustainable Development Goals established by the UN – also increased in 2022, resulting in the growth of projects in infrastructure, energy, water, sanitation, agricultural systems, health, and education.

The carbon offset market's structure

Firstly, PL No. 2,148/2015 establishes a limit for greenhouse gas emissions within the corporate scope. Thus, it proposes that companies surpassing pollution levels must offset their emissions by buying credits, while those falling short of emission caps receive quotas that are tradable in the market.

The purpose is to create incentives in a way that can curb emissions and consequently the climate impacts caused by companies.

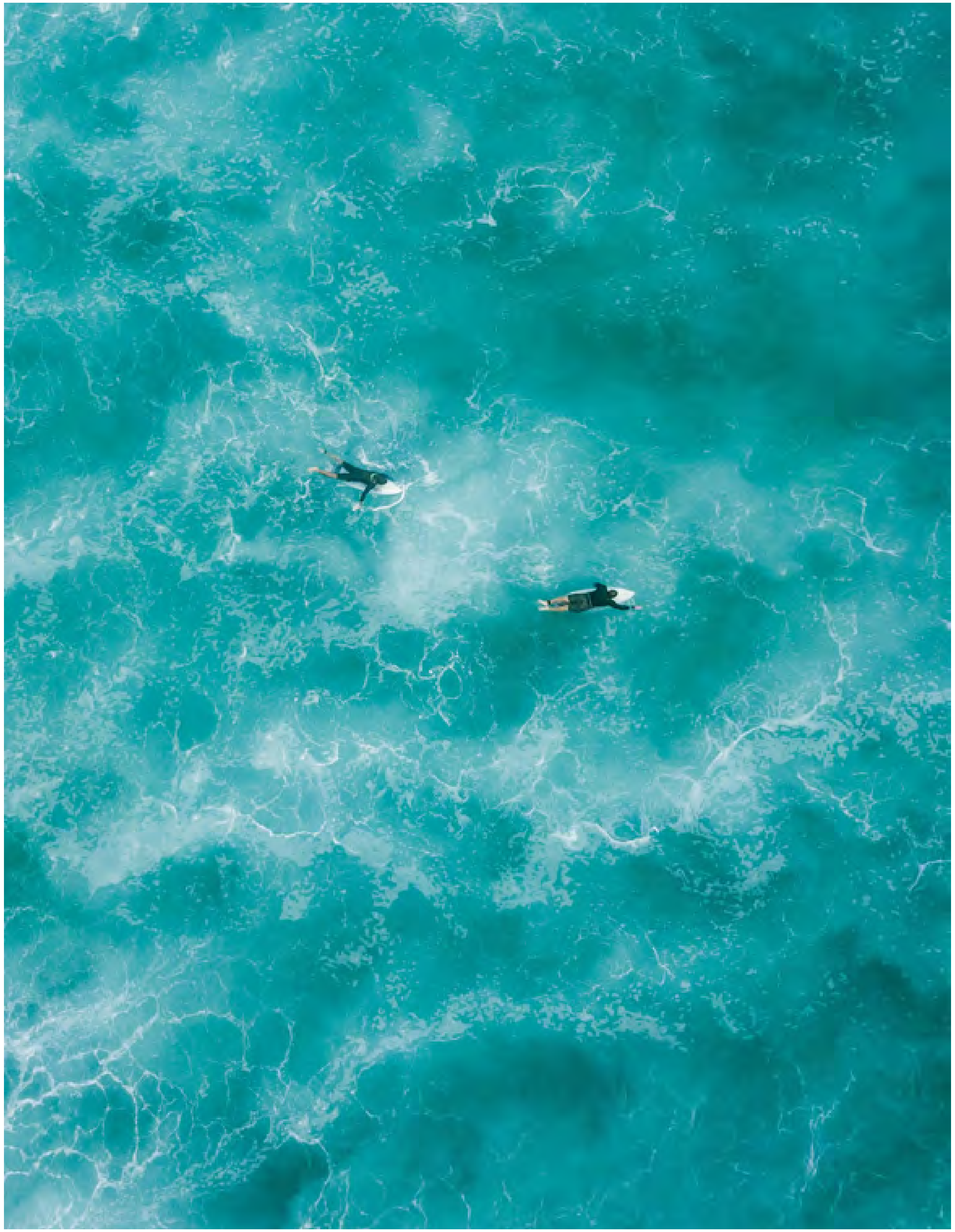
In a second stage, the regulated market of offset credits and generation of credits based on the level of greenhouse gas emissions, linked to the SBCE, comes into play. The proposal suggests a system in which Brazilian emission quotas (CBE) and certificates for verified emission reduction or removal (CRVE) can be traded.

According to research from Banco BV (BV Bank), the regulated carbon market could generate R$ 48 billion annually for the country

Regarding regulation, studies already indicate that it could lead to positive economic shifts: according to research from Banco BV (BV Bank), the regulated carbon market could generate R$ 48 billion annually for the country.

Challenges

In addition to encouraging new practices in business operations, the implementation of a market guided by an ESG vision brings forth debates and initiatives in the tax aspect of organisations as well. In



recent years, there has been discussion about the adoption of carbon taxes in Brazil and their potential consequences in terms of economic, financial, and social aspects.

However, a point that is not always recalled and brings with it particular challenges involves transfer pricing within the context of globalised markets or even in the transfer of goods and services between companies of the same group but headquartered in different countries.

On top of the requirement that the arbitrated price complies with RFB regulations in the case of Brazilian companies – responding to the pillars of corporate and tax governance – the new adoption of ESG indicators influences the macroeconomic dynamics between countries/ multinationals themselves.

Therefore, the challenging aspects related to transfer pricing from an ESG perspective encompass everything from the costs of the value chain to a more detailed analysis of a company's risks and its transfer assets concerning sustainable practices from an organisational standpoint.

Sustainable investments

Finally, in Brazil, the investment sector is one of the drivers of ESG practices in the market. Recent studies indicate, for example, that investors in Brazil also base their decisions on ESG disclosures from companies.

Thus, paying attention to the new economic paradigms that are moving towards sustainability has become imperative for companies, not just in terms of rhetoric, but especially to remain attractive and competitive in markets where sustainability is no longer a distant goal.

Brazilian growth beats analyst's expectations

Brazil's economic activity expanded by 2.45% in 2023, surpassing initial forecasts that growth would be tepid in the face of high interest rates. At the beginning of last year, private economists estimated that the economy would grow by less than 1%, whereas current forecasts indicate an expansion of 2.9%, according to a weekly survey conducted by the Brazilian central bank.

TATIANA ANDRADE

Partner,
Kreston KBW Auditores,
Brazil

This makes Brazil the most successful Latin American economy. With a new government focus on market and tax reform and a strong emphasis on ESG, local firms are predicting a boom year, as international clients flock to its shores.

"Particularly in the second half of 2023 and in the first two months of 2024, we saw a significant increase in the demand for foreign companies wanting some type of assistance to set up or increase their business volumes in Brazil," said Tatiana Andrade, Partner of Kreston KBW Auditores. "This shows an excellent medium and long-term scenario. As an example, the search for new international clients in our office increased by around 40% compared to the same period of the previous year, a significant increase for our international area."

Within Kreston KBW Auditores, Andrade has noticed that the services sector is the one with the most demand for consultancy skills, particularly technology and digital marketing.

Tax reform needed

The Brazilian tax system has long been complicated and frustrating, and while reform has been promised, it is still a long way away.

In 2023, the Brazilian congress approved a major tax reform that had been held up for voting for many years. However, the approved proposal will take around 10 years to be fully implemented and divides opinion among tax experts as to how much benefit it will bring to businesses.

Andrade believes that when reform does come, it will not bring much in the way of simplification and that the increase in the tax burden will go from the current 20% to approximately 28%. But that is good news for the local office.

"We have been fielding a lot of enquiries, from national and especially international clients, who are very eager to see how much this will impact their operations," said Andrade.

International clients

The international market is an important one for Kreston KBW Auditores, as this is where it can add the most value. International clients count on complete assistance from the opening of the company and the geographic location strategy, to assistance with tax planning. The founding partners have extensive experience in the national and international market and all came from auditing multinationals, including the Big Four.

With a new left-wing government in power that is keen to work with foreign investors, a maturing business environment and an aggressive push for corporate transparency to aid ESG reporting, Andrade is expecting 2024 to be a successful year.

"Our strategy is to grow by 20% in relation to revenue," she said. "We have been strengthening our team with some major hires in 2023 and now we are feeling the effects of these new hires. An interesting moment for our office is the increase in demand for ESG, our partner in the sustainability area will have a great challenge ahead. We believe that the ESG area will grow by more than 100% compared to previous years."

ESG is an important driver for Brazilian companies as they seek corporate transparency

ESG is an important driver for Brazilian companies as they seek corporate transparency. It means skills such as auditing will become even more important, as auditors will be key to ensuring the quality of ESG information from audited companies to investors, stakeholders and regulators.

"In Brazil, companies listed on the stock exchange must disclose in their financial statements the effects of ESG on their operations," said Andrade. "Although it is not mandatory for all Brazilian companies, many funds only invest in those who have a well-defined ESG policy, so companies, even if they are not obliged, have sought us out to help implement ESG in Brazil."

Technology and R&D investment

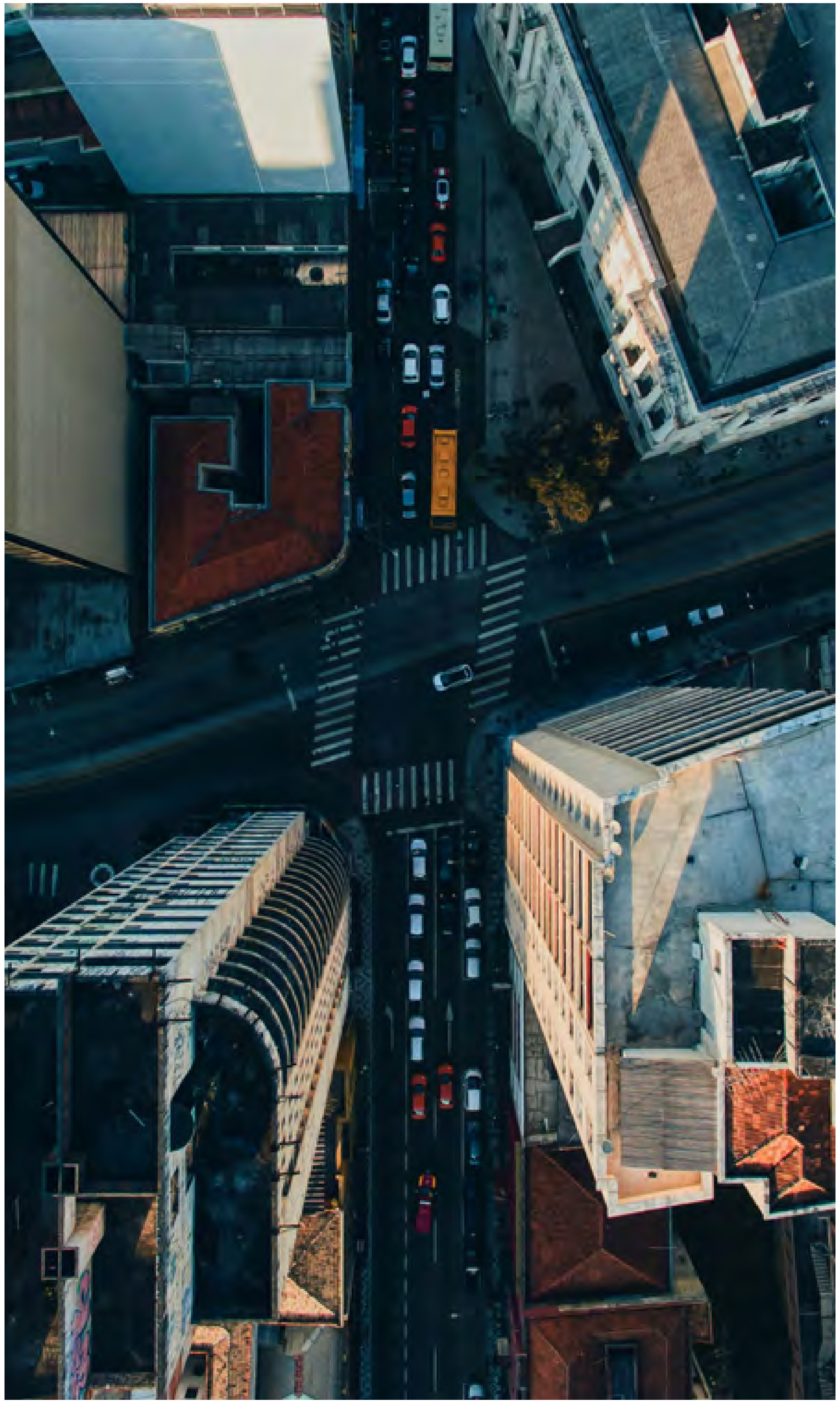
Technology has had a huge impact on the way accountancy firms do business and the Brazilian office now sets aside a portion of revenue to be spent keeping abreast of new development.

"A minimum of 3% of revenue must be for investment in technology and R&D," said Andrade. "In previous years we have surpassed the 5% mark of our revenue, but I think that has had a direct result on our annual growth, which always exceeds two digits."

As Brazil blossoms under a new government, there is no reason why new entrants to the market cannot ride this wave of optimism.

Tax reform: Impact on businesses in Brazil

Tax reform in Brazil, a topic that had been stagnant for decades, is gaining momentum. As a thriving economy in Latin America, the pace at which regulation is now being brought into law is testing the business industry. Recently, new tax law was given approval in the Chamber of Deputies in July 2023 and then underwent Senate deliberation by October 2023.



WELLINGTON CALOBRIZI

Partner,
Kreston KBW Auditores,
Brazil

Once a central focus of national discourse, this reform held the promise of transformative changes within the country's tax sphere. During this upheaval, the pressing question emerged: How would small businesses fare with these changes, and were there potential advantages awaiting SMEs? To provide clarity, BWise analysed the tax reform for clients, highlighting its possible implications for the day-to-day operations of small businesses in Brazil.

Critical aspects of tax reform

The narrative surrounding tax reform in Brazil has spanned decades, culminating in a historic milestone with the approval of the text of PEC 45/19, a pivotal piece of legislation at the heart of the reform. Several vital considerations emerged as the proposal underwent scrutiny in the Federal Senate.

Firstly, the proposed unification of taxes under the Value Added Tax (VAT) system signified a monumental shift in the country's tax structure. Federal taxes, including IPI (Tax on Industrialized Products), PIS (Social Integration and Formation of the Assets of Public Servants), and Cofins (Contribution to the Financing of Social Security), were slated for restructuring. Simultaneously, state and municipal taxes faced an overhaul with introducing the Goods and Services Tax (IBS). This restructuring aimed to bring coherence and simplicity to the existing tax framework.

Additionally, the reform introduced a Selective Tax (IS) targeting products that impacted health or the environment, marking a commitment to sustainability and public health. The determination of tax rates was governed by a Complementary Law, adding a layer of legislative precision to the reform. Further deliberations included discussions on exemptions and cashback mechanisms, focusing on sectors and populations with lower purchasing power.

Tax reform and small businesses: Essential points

For small businesses that fall under the umbrella of Simples Nacional, with a revenue ceiling of up to R$ 4.8 million, the impact of the tax reform was less pronounced. These businesses could continue to leverage the benefits of the existing regime, albeit with a shift in the tax vocabulary. Nevertheless, several considerations were pertinent:

The reform aimed to streamline and simplify the tax structure, potentially reducing the number of taxes. Even for businesses under Simples Nacional, which already followed a simplified tax model, decreased tax costs could be contingent on the proposed rate changes. The reform introduced an opportunity for Simple Nacional companies to use tax credits, a previously unavailable feature within the regime. This alteration could lead to a more dynamic financial landscape for these businesses.

Another benefit was the possibility for Simples Nacional companies to opt for the value-added tax (VAT), although not mandatory. The decision to embrace VAT could be beneficial depending on the company's position within the broader business chain. While suppliers or entities heavily involved in inputs might have found VAT to have positive advantages, service providers might still have considered Simples Nacional a more attractive model.

Businesses were encouraged to seek specialised accounting advice to fully understand how these tax updates impact doing business in Brazil. This was especially vital as tax planning, facilitated by online accounting models, became an accessible tool for small businesses to evaluate the feasibility of transitioning to the VAT proposed by the tax reform. BWise can offer strategic support, empowering small businesses to secure sustainable growth.

Ecuador Investment Contract: Tax incentives key to increase in attracting inward investment

GERMÁN MOYA
Tax Manager,
Kreston Ecuador,
Ecuador

Germán Moya, Tax Manager at Kreston Ecuador, explores the significance of Ecuador's Investment Contract, a tax incentive for Foreign Direct Investment. Are reduced income tax rates, exemptions and successes in the mining sector attracting investors?

Ecuador has a tax incentive to promote Foreign Direct Investment (FDI) called the Investment Contract. This legal condition originates from the Organic Code of Production, Trade, and Investments, published on December 31, 2010.

Why sign an investment contract with the Ecuadorian State? It is a legal framework that provides protection and stability to taxpayers who apply for tax benefits.

Benefits of the Investment Contract:

This process begins with a request addressed to the Ministry of Production, with a detailed project description according to the forms published by the same entity. The investor must have no outstanding obligations with the State. The minimum amount to initiate a contract subscription request is USD$ 1 million. This investment can be executed over time, with the investment within the first year being at least USD$ 250,000.

One of the tax benefits generated by Investment Contracts is a remarkable reduction of up to five percentage points (5%) in the income tax rate. The cumulative reduction cannot exceed the amount of the investment or the granted term (up to 15 years) for the contract benefits (whichever occurs first).

Current legislation also benefits Investment Contract subscribers by exempting them from the Foreign Exchange Exit Tax caused by payments made abroad to import capital goods and raw materials. This exemption requires that imports have a direct relationship with the investment project. Likewise, the exemption of all foreign trade taxes is considered, except for customs service fees.

Investment Contracts and Foreign Direct Investment:

As the Ministry of Production reported in its official channels, in the last five months of 2023, the Ecuadorian government signed 17 investment contracts for approximately USD$ 879 million.

- In the first semester of 2023, FDI recorded a value of USD$ 107 million, representing a decrease of 86.9% (-USD$ 705 million) compared to the same period in 2022.
- The main destination sectors for FDI are "mining and quarrying," "commerce," and "transportation and storage." These three sectors recorded a positive flow of USD$ 117 million.

The highest foreign direct investment, totalling USD$ 92.2 million, originated from the United States, China, and Chile during the first semester of 2023.

Attractiveness for mining investments:

Those making investments in medium and large-scale metallic mining are entitled to benefit from tax stability for a specified period, starting from

the subscription of an investment contract. This benefit refers to strength regarding;

a. All rules determining the taxable base of the Income Tax and the amount of the tax to be paid, in force at the date of contract subscription;

b. Concerning rates and exemptions from the foreign exchange exit tax and other national direct taxes; and,

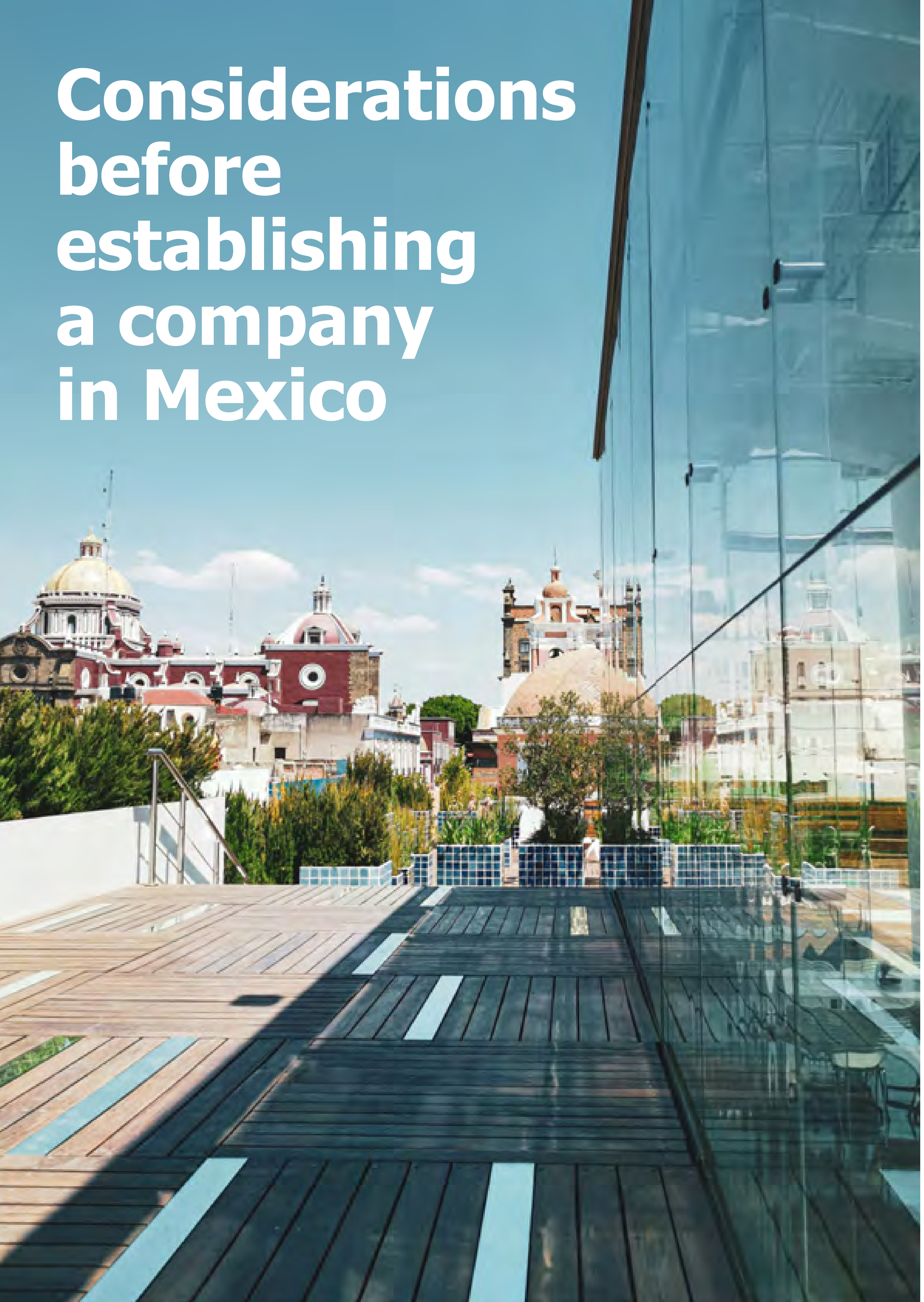
c. Concerning rates and exemptions from the Value Added Tax for companies making investments to exploit medium and large-scale metallic mining, whose production is destined for export.

This tax stability can also be granted at the parties' request in the investment contract for companies in other sectors, including primary industries, making productive investments for the country's development, provided that the investment amount exceeds USD$ 100 million.

Ecuador has developed extensive legislation regulating mining activity in all its phases

Ecuador has abundant mineral resources, making it attractive for mining investment. Additionally, Ecuador has developed extensive legislation regulating mining activity in all its phases. It now has human resources with experience in this field, both for its control by the State and for its technical, environmental, social, and financial management. Mining projects in Ecuador are highly feasible to benefit both the country and investors.

Considerations before establishing a company in Mexico



ENRIQUE PASTOR
Tax and Business Processes Partner, Kreston FLS, Mexico

In a global marketplace, geopolitical challenges are creating pinch-points on supply chains. This presents an opportunity in some regions, businesses pull operations geographically closer to avoid costly delays and unpredictable prices.

Mexico is a benefactor of the US moving away from manufacturing in Asia, with US firms setting up operations closer to home Mexico, capitalising on lower labour costs, geographical proximity and free trade agreements. Enrique Pastor, Tax and Business Processes Partner at Kreston FLS in Mexico City shares his experience on setting up businesses in Mexico for the last two decades.

Whether you want to take advantage of nearshoring benefits or your own expansion plan, before establishing a company in Mexico, it is important to consider several factors.

Market analysis

Conduct a detailed analysis of the Mexican or North American market if you are an exporting company to understand consumer preferences, competition, and business opportunities.

Legal and regulatory aspects

The legal and regulatory requirements for operating companies in Mexico, including obtaining permits, licenses, and compliance with labor and environmental regulations, must be considered. There are various legal entities to establish a company in Mexico. The most suitable depends on various criteria, so proper advice is essential to define the most appropriate. Regulatory issues are a specialty in professional consulting; do not embark on a venture without being sure of the regulatory requirements, which can vary even by city

Human resources

Have a plan for recruiting, training, and retaining human talent in Mexico, considering cultural and labour differences. Issues such as social security costs, union relations, and other matters must be analysed to define operational strategies in the country.

Political and economic risks

Evaluate the political and economic risks in Mexico, including the recent strength of the Mexican Peso exchange rate.

Proximity and delivery times from suppliers

Although the country has good communications, its size can affect the timing and quality of supplies. Consider this before deciding where to establish the company.

Trade agreements

Mexico may have the highest number of treaties to avoid double taxation and treaties to boost trade, so consider that besides the North American market, there is a whole world that could buy from you.

Geography

Consider establishing in the Isthmus of Tehuantepec area, where a project connecting the Pacific and Atlantic Oceans by rail, complementing the Panama Canal, offering shorter crossing times and competitive costs and will offer significant real estate and industrial development opportunities. This could be beneficial if your market is not exclusively North America.

Fiscal incentives

Mexico offers a variety of fiscal incentives to promote investment and economic development in various parts of the country, including development zones, border incentives, and programs like IMMEX and the Inter-Oceanic Train of the Isthmus. These range from one-third discounts on the Income Tax rate and 50% off the Value Added Tax, to immediate deductions for investments in specific industrial areas or sectors.

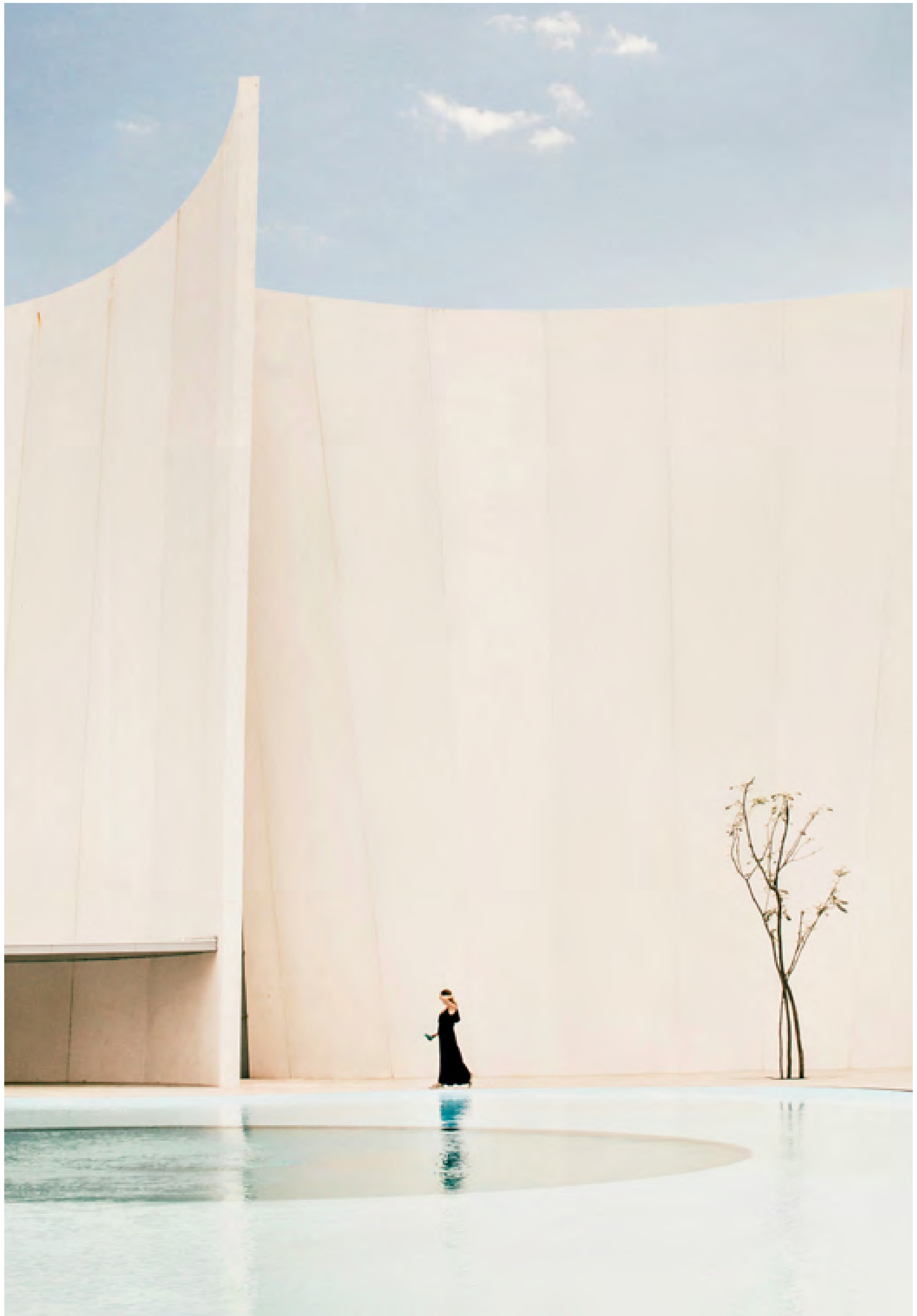
Incentive for Foreign Direct Investment

To promote foreign investment interest in Nearshoring, the federal government enacted in October 2023 a Fiscal Incentives Decree for the 20 export production sectors listed below.

The benefits, which are the accelerated deduction of investments for companies, vary from 56% to 89% in 2023 and 2024. An additional deduction of 25% for three years for worker training expenses, focusing on human capital development, is allowed in the Income Tax. The incentives are available in all states and municipalities of the country, extending the opportunity window by one year for interested companies

The sectors benefiting from these incentives include fertilisers, agrochemicals, food products, pharmaceuticals, electronic components, medical equipment, batteries, electrical cables, automotive engines and parts, electrical and electronic equipment, and non-electronic medical devices, among others. A fiscal incentive is also offered for the production of copyrighted cinematographic or audiovisual works intended for export.

Mexico is an attractive destination for nearshoring and the domestic market due to its strategic location, competitive costs, access to the US market, and fiscal and regulatory incentives. However, it’s crucial to consider the mentioned factors thoroughly to ensure a successful establishment in Mexico.



Foreign direct investment in Latin America

MAURICIO GONZÁLEZ
Legal Manager,
Kreston BSG México

On July 5th, 2023, the United Nations Conference on Trade and Development (UNCTAD) published the World Investment Report 2023.

This report highlights important indicators such as:

- The flow of foreign direct investment (FDI) in Latin America and the Caribbean increased in 2022 by 51%, representing a total of $208 billion USD, largely due to the existence of greater demand for commodities and minerals called "critical" (lithium, nickel, cobalt, graphite, manganese, among others).
- In Mexico, the second largest recipient of FDI in Latin America, only behind Brazil, the FDI increased 12% in 2022, representing $35 billion USD, with new investments in equity instruments and reinvested earnings.
- Net worth in cross-border mergers and acquisitions (M&A) in Mexico increased to $8.2 billion USD (in the year 2021 it represented less than one billion).
- In the last five years, there has been an increase due to trade agreements between countries such as the Asociación Latinoamericana de Integración (ALADI, of which Mexico is a member) and the Mercado Común del Sur (MERCOSUR).

- Cross-border M&A activity increased by 80% ($15 billion USD) The manufacturing sector recorded the highest increase in net sales, particularly in food, beverage and tobacco, chemicals, paper, and paper products.

The indicators above mentioned are of interest when taking into consideration that, in the same year, 2022, the FDI´s reported a worldwide decrease by 12% (1.3 trillion USD) generated mainly by geopolitical tensions (war in Ukraine) that had an impact on the financial sector, which generated a lower volume of FDI in developed countries (the volume of negotiations fell by 25%, where the volume in M&A worldwide decreased by 9%).

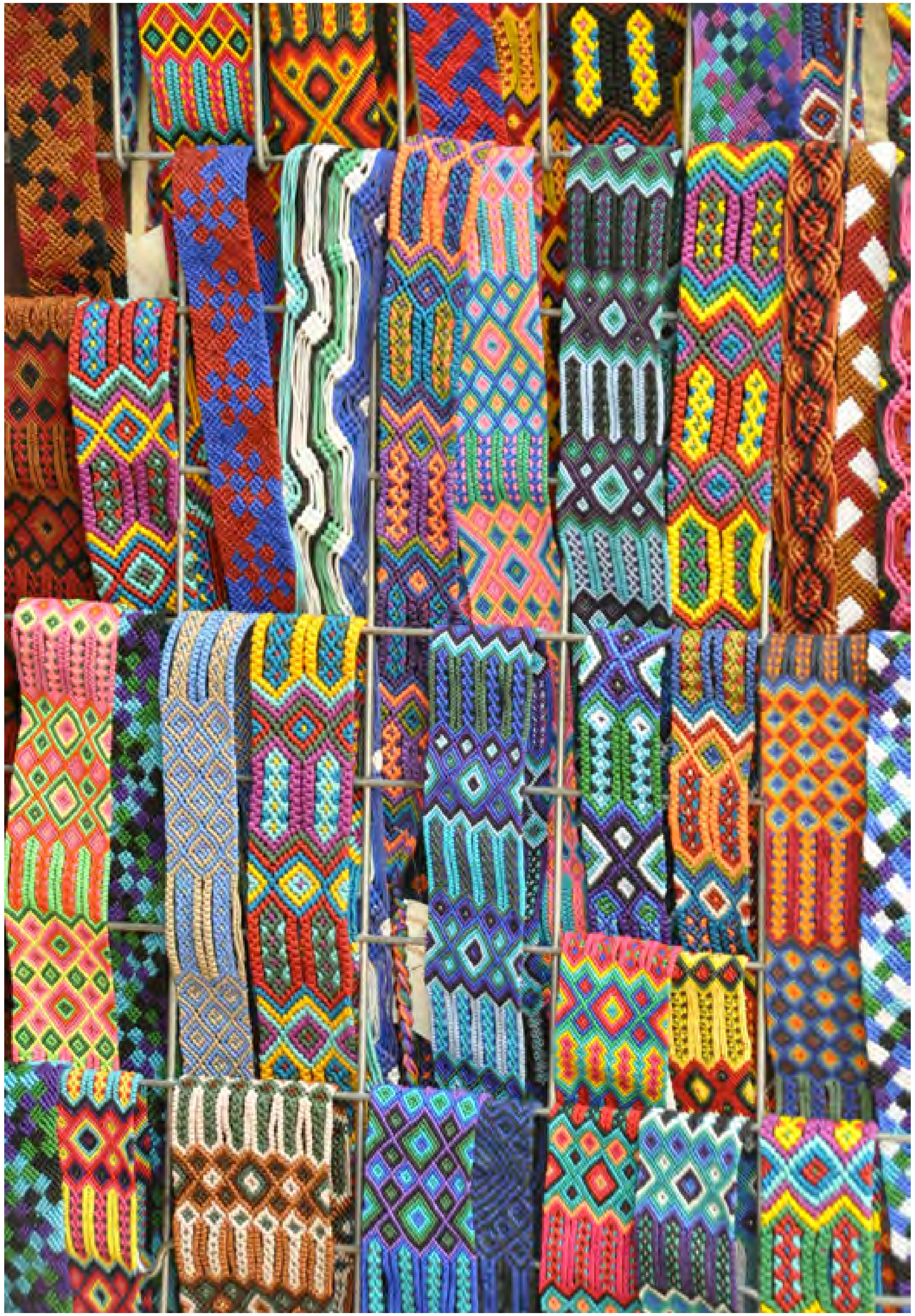
Notwithstanding the above, there is a trend of increase in FDI in developing countries, including countries in Latin America where there is still a deficit in annual investment with respect to their activity to achieve the Sustainable Development Goals (SDGs) related to renewable energies, as agreed in the 2015 Paris Agreement to which Mexico is a party (agreement to reduce global warming), revealing the 2023 World Investment Report that international investment in renewable energies has almost tripled since 2015, with three countries being the most benefit in 2022: Brazil, Chile and Mexico, attracted three-quarters of all renewable energy projects announced in the Latin American region in 2022.

This report also reveals that in developing countries there is no direct and significant domestic investment in renewable energies, which means that these countries turn abroad to look for financing up to three quarters of the cost of projects in this type of energy.

The report points out that developing countries require annual investments in renewable energy for amounts close to $1.7 trillion USD to achieve the aforementioned SDG targets, where in 2022 FDIs were reported for only $544 billion USD, therefore the UNCTAD makes an urgent appeal to support developing countries, so they are able to attract significantly more foreign direct investment for their transition to renewable energy.

In accordance with the above mentioned, it is expected that in the coming years there will be an increase in financing in developing countries to invest in the aforementioned transition to renewable energy and thus achieve the SDG goals for 2030, where, for example, Banks shall have to transform their business models and risk approach in order to take advantage of their funds to attract a greater volume of private financing for the aforementioned transition in developing countries.

At KRESTON BSG we understand the importance of this type of report as it allows us to comprehend the trends of investment in the world; with relevance on those items necessary to achieve the Sustainable Development Goals (SDGs) by 2030.



Key contacts

ARGENTINA

Castillo y Asociados
Humberto Primo 630. 4 piso of. 1
Córdoba
X5000FAN
Argentina
martinvazquez@castilloyasociados.com.ar

Kreston BA Argentina
Condarco 3969
Buenos Aires
1419
Argentina
ricardo.gameroff@krestonbaargentina.com

BOLIVIA

Kreston Bolivia
Zona Calacotoc/ 16
N° 8277
Esq. Claudio Aliaga
La Paz
Bolivia
info@kreston.bo

BRAZIL

Kreston KBW Auditores
Avenida Brigadeiro Faria Lima
1811 - ESC 1119
Jardim Paulistano
São Paulo
01452-001
Brazil
comercial@kbwauditores.com

Kreston Partnership
Rua Tamarataca 212
Mooca
São Paulo
03119-010
Brazil
faleconosco@partnership.com.br

CHILE

Kreston ATC Chile
La Concepción 141,
Floor 6, Providencia
Santiago
7500010
Chile
contacto@krestonatcchile.com

Kreston MCA
Roman Diaz 205
oficina 701
Santiago
7500618
Chile
krestonchile@krestonmca.cl

COLOMBIA

Kreston Colombia
Calle 72, Nº 10-07
Edificio Liberty Seguros
Oficina 1103
Bogotá
110231
Colombia
natalia.ms@kreston.co

COSTA RICA

Kreston Costa Rica
Centro Colón Building
P.º Colón 38
Avenida 0, Mántica
San José
Costa Rica
info@krestoncostarica.com

ECUADOR

Kreston Ecuador
Av. Amazonas 31-23 y Azuay
Edificio Copladi
Tercer Piso
Quito
170506
Ecuador
krestonuio@krestonecuador.com

EL SALVADOR

Kreston El Salvador
Ciudad Satlite
Pasaje Neptuno
No 12-F
San Salvador
El Salvador
rivasnunez.asociados@kreston-elsalvador.com

GUATEMALA

Kreston Guatemala
7a. Avenida 7-07
Zona 4
Edificio El Patio
Oficina 401
Guatemala City
Guatemala
gsarat@kreston-guatemala.com

HONDURAS

Kreston Honduras
Boulevard Morazán
Colonia Monte Carlo
Bloque 2
Casa No. 0310
Tegucigalpa
11101
Honduras
auditores@alfaroyasociados.hn

MEXICO

Kreston BSG
Osa Mayor No. 2523
1101 Torres UMA
Col. Reserva Territorial Atlixcáyotl
Puebla
C.P. 72193
Mexico
marketing@krestonbsg.com.mx

Kreston Canseco
Puebla 210 Colonia Guadalupe
89120
Tampico
Mexico
info@cansecoconsultores.com

Kreston CSM
Av. Paseo de la Arboleda No.2785,
Colonia Paseo de la Arboleda
Guadalajara
44540
Mexico
ragarcia@kcsm.mx

Kreston FLS
Calle Iguala 7, Colonia Roma Sur
Cuauhtémoc
Mexico City
C.P. 06760
Mexico
direccion@krestonfls.com

Kreston Quezada Fernández
Via Rapida Poniente #15035
Int. L-29
Coloina Rio Tijuana 3ra. Etapa
Tijuana
22226
Mexico
info@quezadafernandez.com

Kreston Vargas Ruiz
Av. Ejército Nacional 373
Piso 3, Col. Granada
Mexico City
CP 11520
Mexico
gvargas@vargasruiz.com

NICARAGUA

Kreston Nicaragua
Plaza Bolívar No. 8.
De los semáforos de ENEL central
300 mts. al norte.
Managua
Nicaragua
info@krestonnicaragua.com

PANAMA

Kreston Alvarez & Carrasco
Tower Financial Center Calle 50
Piso 15, Suite 15-B
Panama City
Panama
servicioalcliente@krestonayc.com

PERU

Kreston Peru
Av. Ejército Nacional 373
Piso 3
Col. Granada
Mexico City
CP 11520
Mexico
audiportal@krestonperu.com

PUERTO RICO

Kreston PR
1509 FD Roosevelt Avenue
Suite 303
Guaynabo
San Juan
00968-2612
Puerto Rico
fsanchez@krestonpr.com

URUGUAY

Damiani
Costa Rica 1720
Montevideo
11500
Uruguay
info@jpdamiani.com

VENEZUELA

Brito, D'Arrigo, Martínez Kreston
Municipio Chacao
Caracas
1050
Venezuela
carlos.darrigo@krestonconsulting.ca