

# DOING BUSINESS IN GUANAJUATO

## INVESTORS' HANDBOOK



Granda de México

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Secretaría  
de Desarrollo  
Económico  
Sustentable

# Welcome



Alejandro Hernández Fonseca

Undersecretary of Investment Promotion  
Guanajuato State Government

Dear reader,

First of all, I would like to thank you for considering Guanajuato State as one of your potential options to expand your operations in the Bajío area. It is very important for us to share the main competitive advantages that our State offers to companies like yours, so you can take an accurate decision of which location is the most suitable according to your main requirements and needs. Guanajuato is one of the world's leading Foreign Direct Investment recipients, mainly due to its competitive business environment, a qualified and reliable workforce, world class infrastructure, and consolidated industrial clusters.

Our proactive Government has forged win-win, long term, business partnerships with more than 500 global companies that have found the right conditions to expand their footprint in North America.

As Undersecretary of Investment Promotion in the Ministry of Economic and Sustainable Development, I am committed to keep and further consolidate these excellent conditions. We are cultivating and strengthening Guanajuato to be a location that is attractive both now and in the future. We want our region to enable local and international companies as well as Research and Development centers from all sectors to keep performing at their best.

In the north American region, companies must now operate under the new USMCA Trade Agreement and need to implement strategies to reduce costs in trade of intermediate goods, and use technology to boost growth, so they can keep themselves in global competition.

We also want your company to become part of this success story. An initial guide for the choice of location can be found in this manual, to help you and your team learn more about the specific advantages offered by Guanajuato State.

A team of professionals will be glad to offer advice to successfully land your business project in our State. They are quite familiar with the concerns and needs of international companies with presence in this region, and can actively support you.

We look forward to your visit.

Welcome to Guanajuato!

Alejandro Hernández Fonseca

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*For any additional information related to this document, please contact:*

**William Florian Francois Rousvoal**

Investments Promotion Coordinator

wffrancois@guanajuato.gob.mx

# 1. Political Conditions

## a. Political Organization.

### Mexican Political System:

Mexicans live in an electoral democracy where the right to universal suffrage is fully exercised. The country is a federal republic composed of thirty-two federal entities: thirty-one states and Mexico City and has a Presidential system of government. There are three branches of government: Executive, Legislative, and Judicial both at the federal and the state levels

To know more about the Political Constitution of the Mexican United States, please consult the following webpage: [https://www.senado.gob.mx/comisiones/puntos\\_constitucionales/docs/CPM\\_INGLES.pdf](https://www.senado.gob.mx/comisiones/puntos_constitucionales/docs/CPM_INGLES.pdf)

The human rights established both in the Constitution and in international treaties must guide the actions of the government and individuals. The constitution establishes that the powers which are not expressly granted to the Federation are reserved for the States, in this regard, business matters (including banking) are federal, whereas civil matters are local: real estate ownership is therefore governed by the laws of each state.

### Guanajuato State:

Guanajuato is one of the 32 states which makes up the Federal Entities of Mexico. It is divided into 46 municipalities and its capital city is Guanajuato. The largest city in the state is León.

The state government is headed by an elected governor who controls the executive branch of government. Our current governor is Mr. Diego Sinhué Rodríguez Vallejo for the 2018-2024 administration.

Central Mexico Bajío Region composed by Guanajuato, Querétaro, Aguascalientes, San Luis Potosí and Jalisco is a political and economic Alliance focused on developing the friendliest and most competitive business Environment for FDI and Mexican companies.



## b. Guanajuato State Economic, Social and Sustainable policy.

Guanajuato has been recognized for being the most active state in the country for the last 10 years. Guanajuato represents the 6th economy in México with a GDP of \$50.8 billion USD, the 6th most populated state with 6.11 million inhabitants and a labor force of 2.68 million. Guanajuato's exports increased by 226% in the last 10 years for an amount of 23.8 billion USD with to more than 500 companies that selected Guanajuato as their preferred destination for doing business.

Some of the major employers are: General Motors, Continental, P&G, Ferrero Group, Honda, Mazda, Toyota, Ford, Michelin, Pirelli, BDF, GKN, Conduemex, Colgate Palmolive, Flexi, Cuadra, Danone, American Axle, Hella, De Acero and Inter ceramic among others.

## c. Key Performance Indicators (KPI's)

### MAIN ECONOMIC INDICATORS

- 6th largest economy in Mexico (2020)
- 1st largest exporting state not located on the Mexican border (2020)
- \$50.8 billion USD GDP (2020)
- 4.2 % National GDP (2020)
- GDP per capita: \$8,177 USD
- 4.5% average annual growth (2015-2020)
- \$ 2.9 billion USD in FDI (2020)
- Population: 6.16 million inhabitants (2020)
- 2.6 million economically active labor force (2020)
- 29 years old average
- 80,000 new job seekers per year (2020)
- High Credit Qualification rating by renowned US credit firms.

### EXPORTS

- 6th national exporter (2020)
- 6.3% of the national exports (2020)
- \$25 billion USD in Exports per year

Main exports:

- 1st in Leather & Footwear
- 2nd in Automotive Industry Production Value
- 3rd in Metal Products
- 4th in Fruits, Seeds and Vegetable

### FOREIGN DIRECT INVESTMENTS

- 7<sup>th</sup> national recipient between 2010 and 2020
- 3<sup>rd</sup> national recipient in Q1 2021
- Mexican Investors and other 25 foreign countries already invested in Guanajuato as USA, Germany, Spain, Italia, France, Canada, Italia, Korea, Japan, China, Switzerland, Thailand, Czech Republic, Portugal, Israel, Brazil, Austria, among others.

## 2. Labor Conditions

### a. Labor Costs

The wages shown below do not include the typical and most common fringe benefits established by de labor law. Fringe benefits account to approximately 30% on top of the wage and include the following: Medicare, housing found, holiday paid vacations, Christmas bonus, profit sharing. It's quite common to find other benefits commonly provided by the industry that are not mandatory by law such as: bus transportation, subsidize lunch (canteen), productivity bonuses, punctuality bonuses, uniforms and so on.

\*The hourly wages described below for operators' positions reflects entry level wages:

Monthly Wages in GTO (Entry Level) USD			
	Minimum	Average	Maximum
Plant Manager/ Area Director	\$ 7,233	\$ 9,041	\$ 10,850
Manager Entry Level	\$ 3,244	\$ 4,103	\$ 4,867
Engineer Entry Level	\$ 1,207	\$ 1,509	\$ 1,810
Specialized Tec Entry Level	\$ 593	\$ 742	\$ 890
Operator	\$ 305	\$ 382	\$ 458

Daily Wages USD			
	Minimum	Average	Maximum
Plant Manager/ Area Director	\$ 301.38	\$ 376.72	\$ 452.07
Manager Entry Level	\$ 135.18	\$ 170.95	\$ 202.78
Engineer Entry Level	\$ 50.29	\$ 62.86	\$ 75.43
Specialized Tec Entry Level	\$ 24.72	\$ 30.90	\$ 37.08
Operator	\$ 12.72	\$ 15.90	\$ 19.08

### b. Productivity Rate

The labor productivity rate latest information we have from the INEGI 2014 economical study shows a productivity rate of \$ 959.74 Mexican pesos generated per worked hour in the manufacturing industry in Guanajuato compared to \$831.59 Mexican pesos for the national indicator.

### c. Work Time

8 hours a day (Max 48 hours per week). Some companies do 9 hours a day for 5 days and others do 12 hours a day for 4 days per week , as you can notice the working conditions are flexible but you must follow the legal regulations that apply for night shifts or over time hours that demand a higher wages.

### d. Labor Training Programs

We are aware that human capital is one of the most important factors in your decision-making process. Guanajuato has close to 140,000 high school students with more than 30% of the alumni enrolled in technically oriented programs. Moreover, every year 32,000 + young students are graduating from high school. Last year, our industry driven educational system trained more than 100,000 students allowing the State of Guanajuato to become the national leader in "tailor made" training programs in Mexico. That only happens in a Business Oriented State such as Guanajuato, that has followed a consistent public policy regarding strategies to support Foreign Direct Investment, for the last 20 years.

Guanajuato State Training Institute (IECA) is a unique training center model in Mexico, with 31 different locations in the main cities of our state. The IECA will be fully briefed on your training needs and scope of your project, in order to help you develop the right skills and competences among your future employees to successfully carry on your industrial processes. It offers tailor made training programs focused on Mechanics, Industrial Maintenance,



Electricity, Electronics, Instrumentation, Industrial Automation, Quality Process, Informatics, Computer Assisted Design, Languages and soft skills. Trainings are done through workshops, seminars, courses, conferences.

It is also worth mentioning that Guanajuato State Government is learning best practices from different Educational and Training Institutions from our main partners: USA, Germany and Japan. Guanajuato Economic Development team visited the Henry Ford Community College in Ann Arbor, Michigan (supporting the training needs of the new F150 launching program in regards to the transition from steel to aluminum) in order to learn from the best industry practices (e.g. Michigan Advanced Technical Training program) and team up with them to enhance the training of our workforce. We have also successfully launched the German dual system in some of our trade schools and Technical Universities have also signed collaboration agreement with the Steinbeis Foundation headquartered in Stuttgart.

Training models are being developed by our Undersecretary of Employment and Training, focusing on 4 different initiatives:

1. Workers Training Scholarships on site.
2. Technical Workforce Scholarships
3. Special Training for Engineers and/or Administrative position,
4. Engineers Scholarships/Training without Borders.

#### e. Labor Unions, rights and strike frequency

In Guanajuato State, we enjoy a stable labor environment with no registered any strikes for the last 20 years

The Federal Labor Law governs all aspects of the employer-employee relationship, including collective bargaining, the right to strike, minimum wage rates, work hours, compensation, and occupational health and safety.

The Law provides that groups of 20 or more employees, irrespective of whether they are employees of the same company, may form a labor union. If a company has fewer than 20 employees, its employees may affiliate with another union and request that the company enter collective bargaining.

Strikes are recognized and protected by law as a tool available to workers for obtaining improved benefits and working conditions. Although the labor authorities may only resolve the legality of a strike once started, as a matter of practice, they may intervene in labor disputes in order to avoid work stoppages. The largest and most influential labor union in Mexico is the Confederation of Mexican Workers (CTM).

It is important to mention that Guanajuato is known as having "business-oriented unions". Unions do not represent any major issues for companies with good HR practices. Hiring a good HR manager must be one of your top priorities and the key for your success in Mexico.

It is quite unusual to have individual labor lawsuits in Guanajuato, if you have a good HR Manager that is fully familiar with local labor practices.

Every year salaries are increase taking in consideration:

- Inflation rate
- Increase on Minimum wages

#### f. Social Insurance

Social security is a right for all formal workers. Above this law, you can grant Life & Medical insurances

#### g. Availability

Guanajuato State has a 2.6 million active population, more than 250,000 High School Students enrolled, nearly 80,000 Engineering Enrolled Students, an annual Offer over 5,000 Engineers, 45 Universities with an Engineering program in 77 different campus.

Depending on the final locations for your project, a specific study of the area can be provided.

#### h. Unemployment Rate

According to international labor standards our official unemployment rate is 3,4%. We must underline that there is many people that are underemployed, self-employed, part time employees that do not have access to social security and other fringe benefits, so they are actively looking for formal job opportunities.

### i. Workforce Fluctuation

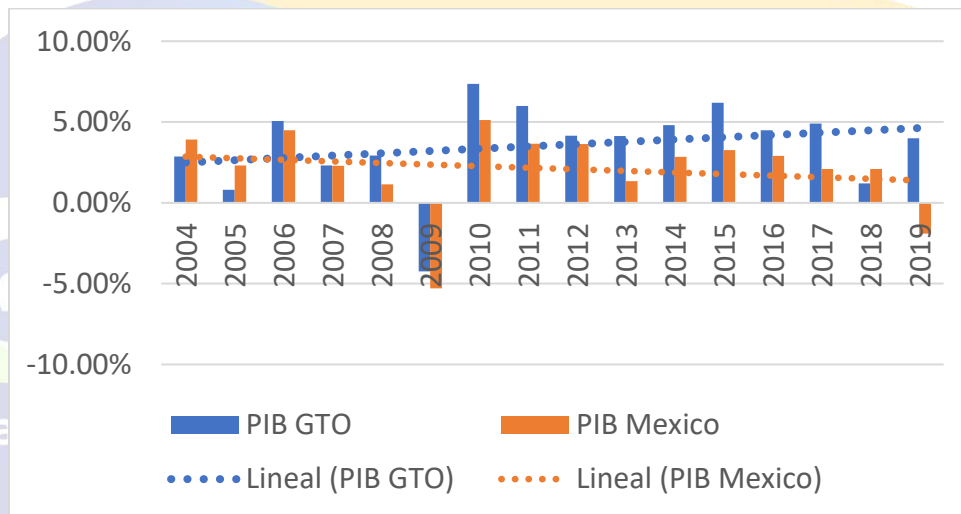
Our last statistics show a 6.00 % turn over for operators' level per month.

## 3. Economic Conditions

### a. Overview

The Doing Business report prepared by the World Bank measures how easy it is to do business in Mexico base on several variables. Currently, Mexico is in 60<sup>th</sup> position out of 190 assessed countries in 2019, with a rating of 72.1 points. Within LATAM, it lies in second place after Chile.

Guanajuato state is the 6<sup>th</sup> economy in Mexico with \$50.8 billion USD GDP and an export increase of 226% in the last 10 years reaching \$25 billion USD.



### b. Main Sectors

The main driver of the local economy is manufacturing, with the sector accounting for more than 38% of its economic output, according to the National Statistics and Geography Institute. In addition to being Guanajuato's most important economic sector, the manufacturing industry is also one of the state's most dynamic. Over the decade leading up to 2016, industry and manufacturing expanded at an average annual rate of 4.8%. Furthermore, the expansion of manufacturing has brought numerous benefits. For example, the transport, real estate and services sectors have all grown substantially as a result of the increased investment in industry.

Guanajuato is proud to count 7 automotive OEM's as GM, Toyota, Honda, Mazda, Ford, Hino, VW and an automotive cluster of more than 400 Tier 1 and Tier 2 companies.

According to the INA (Automotive Spare parts National Industry) Guanajuato produces 10.2 % of all the spare parts national production, including motors and transmission. The Bajío region represents 31.2% of the spare parts national production. The automotive industry in Guanajuato is consolidated by a strong and active automotive cluster composed by around 3,600 suppliers. 400 companies are Tier 1 and 2; 3,200 are small to midsize indirect manufacturers (spare parts, machinery, screws, maintenance, packing and cleaning chemicals among other products) and other are services suppliers (transport, security, canteen, cleaning, logistics, civil works...). The cluster's purpose is also to develop a network of local supply to strengthen the supplier base and generate the best competitive conditions for new automotive companies considering Guanajuato as a potential new manufacturing site.



Agriculture is another important economic sector for the state. In total, the state produces crops worth more than MXN40bn (\$2.2bn) per annum. Traditionally, Guanajuato's main agricultural outputs have been strawberries, grains and beef, but over the last two decades the state government has worked to help local farmers shift towards higher value-added crops. As a result of diversification efforts, Guanajuato is now Mexico's top producer of broccoli, cauliflower, anise, barley and artichokes.

Guanajuato state is the 6<sup>th</sup> exporting state in the country and now stands out as the largest exporting state not located on the U.S. border.

## c. Trade Agreements and Connections.

### 1. Trade Agreements:

Mexico has 12 active free trade treaty with 46 countries

Mexico is a member of the World Trade Organization (WTO), Asia-Pacific Economic Cooperation (APEC), the G-20, and the Organization for Economic Cooperation and Development (OECD). Mexico has more free trade agreements (FTAs) than any other country in the world—12 FTAs covering 46 countries—which include the European Union, European Free Trade Area, Japan, the Pacific Alliance, Israel, and ten countries in Latin America.

On March 8, 2018, 11 Asia Pacific countries including Mexico signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, formerly known as the Trans-Pacific Partnership). The Mexican Senate ratified this agreement April 24, 2018. For U.S. exporters, Mexico's participation in these international agreements means that in general the Mexican market is one of the most open and competitive in the world.

#### **The USMCA:**

The USMCA responds to the 21<sup>st</sup> century economy where it modernizes the NAFTA's framework of rules and disciplines, it guarantees certainty in trade and investments, it strengthens North America's competitiveness and it drives company towards a more responsible regional trade. Nowadays, Mexico and Canada are the US' top trading partners and US-Mexico trade now exceeds US trade with Canada and China.

Mexico is already a key player in the region as it offers USA and Canada Market Proximity, competitive labor costs, established infrastructure and trade agreements with other countries as well.

Mexico is part of the USMCA and is engaged in respecting the agreement and the new rules of operation. The main changes between USMCA versus NAFTA are:

- USMCA is a completely new document and it is not related to NAFTA; it consists of 34 chapters vs. 22 of the actual trade agreements.
- USMCA term is 16 years, with revisions every 6.
- More strict Labor Laws and independence of workers for representation (in line with the recently approved labor law in Mexico and International Labor Organization rules)
- Consolidates the current level of openness to foreign investment between the USMCA partners.
- Grants protection to investors and investments in each country.
- Modifies rules for Dispute Settlement.
- Includes Digital Trade (NAFTA did not have it)
- Includes Financial Services
- New chapter on Small & Medium Sized Enterprises (SMEs)
- Protection of Intellectual Property of Innovators

#### USMCA Status:

December 2019: USMCA trade agreement was approved by Mexican Senate.

January 2020: The Trade Agreement was approved by US President Donald Trump.

March 2020: The Trade Agreement was approved by Canadian Parliament.

April 2020: Conclusion of internal proceedings by the USA, the Mexican and Canadian Government.

1<sup>st</sup> of July 2020: The USMCA comes into effect and the new rules have been applied to all industries.

Main changes for all sectors:

- Labor Regulations of Free Association and Collective negotiation
- Sunset clause at year 16
- Intellectual property rules modifications
- Maintain openness for Agricultural products in North America
- Digital Trade and Intellectual Property new regulations
- 70% of the Steel and Aluminum must be originated in North America.

Main changes for the Automotive Industry with the USMCA Trade Agreement:

- Rules of Origin.
- Regional Value Content (RVC)
  - Up to 75% For Passenger Cars and Light Trucks
  - Up to 70% for Heavy Trucks
- Labor Value Content: 40% must be produced in an area of high wages (minimum of US \$ 16 per hour).
- Additionally, at least 70% of the steel must originate in North America.
- Vehicles that do not meet the ROO may be exported by paying the 2.5% Most Favored Nation (MFN) tariff, currently applied by the US.
- It's progressive over the next five years.
- Quotas of import for up to 2.6 Million Canadian and Mexican Vehicles to USA
- Quotas of import for up to 32.4 Billion of auto parts from Canada and 108 Billion in Mexican auto parts
- Protection in case US raises tariffs.

**2. Protection Agreements and Treaties for Foreign Investment:**

Mexico has 34 reciprocal investment promotion and protection agreements ("APRIS"), 32 of which are currently in effect, together with 17 commercial treaties with investment protection provisions. Both APRIS and Commercial Treaties offer foreign investors a series of guarantees, such as fair and equal treatment, no discrimination (for example, under clauses of domestic treatment and most favored nation), expropriation compensation (direct and indirect) and access to arbitration.

**d. Taxes**

**Federal** income tax rate on profits is 30% on taxable income. In Mexico there are not state or municipal income taxes.

**State** tax includes a payroll tax of 2.3% (it is the only tax related to the State).

**Local** taxes (any municipality or city you choose for setting up your new operation) it is divided in different concepts:

- *Traslado de Dominio*: Property Transfer Tax (Paid only once)
- *Predial*: Property Tax (Paid on yearly basis) 0.002% yearly (land only), 0.004% yearly (on ground + construction value).
- *Licencia de Construcción*: Construction License: Depending on the characteristics of the building (Paid only once)
- *Registro Público de la Propiedad*: Public Property and Commerce Registration Depending on the characteristics of the building (Paid only once)

**4. Energy Supply Infrastructure**

**a. Electricity**

CFE (*Comisión Federal de Electricidad*) is the federal electricity provider and their price for Medium Tension (MT) sets at \$0.055 USD per kW/h more fixed cost related to distribution and connection (CFE Public Prices at November 2020).

High Tension (AT) prices at 0.058 USD per kW/h more fixed costs (CFE Public Prices at July 2020).

For updated prices, please consult CFE official webpage:

<https://app.cfe.mx/Aplicaciones/CCFE/Tarifas/TarifasCREnegocio/Acuerdos/AcuerdosNegocio.aspx>

Electricity suppliers to CFE in Guanajuato are Intergen, Desmex, Enelgreen, X-Elio and Iberdrola. Energy is also generated from renewable sources as Guanajuato State counts with 3 thermo power plants, 1 wind generators and 3 solar parks.

Utility services and infrastructure related to electricity can be critical for some specific operations, **please contact Guanajuato Promotion and Infrastructure Team** to review feasibility of the potential site considered, whether it is greenfield of industrial park

### b. Water Supply

Depending on the needs and location, average price sets at \$1.83 USD per m3. (\$1.00 USD = \$23.00 MXN). For more information, please consult cities "Income Law" and public water agencies:

<http://normatividadestatalymunicipal.guanajuato.gob.mx/archivos.php?arcid=132>

Utility services and infrastructure related to water supply can be critical for some specific operations, **please contact Guanajuato Promotion and Infrastructure Team** to review feasibility of the potential site considered, whether it is greenfield of industrial park

### c. Gas supply

Price for natural gas sets at \$2.92 USD per Mft3 (prices at May 2020). California price would be 152% higher.

For updated prices, please consult CRE official webpage (Guanajuato is located in zone V):

<https://www.cre.gob.mx/IPGN/>

Utility services and infrastructure related to gas can be critical for some specific operations, **please contact Guanajuato Promotion and Infrastructure Team** to review feasibility of the potential site considered, whether it is greenfield of industrial park

### d. Waste Disposal

Waste disposal services are providing by multiple private companies. To get a list of providers please review: "Directorio Automotriz" webpage (<https://www.directorioautomotriz.com.mx/listing/search/filter/277/0/Guanajuato/-1/>).

### e. Internet Connectivity

Guanajuato state can rely on a fiber optic network installed covering the main industrial cities as León, Irapuato, Celaya, Apaseo, Guanajuato and Salamanca. This network is mainly installed underground to maintain a stable connectivity.

Telephone companies operating in our state are Telmex, Alestra, Izzy and Megacable

Optical Fiber companies operating in our state are: Telmex, Bestel and Alestra

For more information, please refer to Instituto Federal de Telecomunicaciones <http://www.ift.org.mx/>

## 5. Transportation Infrastructure

### a. Road System

Guanajuato is in the crossroad of the main Highway system that links central Mexico with the USA as well as the main ports. Most of the industry is located either in highway 45 (GTO Industrial Corridor) or highway 57 the so-called NAFTA highway. Guanajuato counts on a unique system of "20 min distance between each industrial city" connected by both federal and state highways connecting the industrial parks and served by public transportation and a nearby bus stop.

For more information, please review *Guanajuato State Government Infrastructure Information Brief 2020* and [Ministry of Public Works, Connectivity and Mobility \(https://sicom.guanajuato.gob.mx/\)](https://sicom.guanajuato.gob.mx/)

For instance, public transportation ticket in León costs \$11.00 MXN per trip per person.

Many private transportation companies can provide service to industrial companies with custom pick up and drop off points with personalized schedule for your operation. Prices may depend on the needs and the location.

## b. Railway System

The two most important railway companies providing railway transportation service in Mexico are Ferromex and Kansas City Southern, they go across the State and provide easy access to the border and main ports in Mexico.

Kansas City Southern railway crosses Guanajuato over 370km of railway and Ferromex 300 km.

## c. Seaports Connection

295 miles from Silao to Lazaro Cardenas Pacific Ocean seaport in Michoacán State.

436 miles from Silao to Veracruz Atlantic Ocean Seaport in Veracruz State. For more information, please review Guanajuato State Presentation.

## a. Airport Connection

Guanajuato Bajío International Airport (BJX) is the best connected in the region offering daily International non-stop flights to Houston, Los Angeles, Dallas, Atlanta, Chicago, Detroit, Auckland, Las Vegas, Sacramento, San José and San Antonio (11 direct international flights), as well as domestic flights to Mexico City, Guadalajara, Monterrey. Bajío International Airport offer connections to 19 destinations with 10 airlines operating, 2.3 million passengers in 2018.

# 6. Company Foundation

## a. Foundation Process

It usually takes from 7 - 12 weeks to complete the incorporation process of a Mexican subsidiary with foreign investment. The threshold depends on the nationality of the partners/shareholders, and whether the country or origin is a party to the Apostille Treaty.

Upon the incorporation of an entity, the company must obtain:

- i) Tax Payer's ID - 3 - 6 business days upon the incorporation. \*\*\* This usually depends on the availability of involved authorities.
- ii) Recording before the Public Commerce Registry - from 3 to 7 business days upon the obtention of the Tax ID.
- iii) After items i and ii are obtained, then can the process for the obtention of a bank account start. Which can take from 2 - 3 weeks upon the filling of the company information before the financial institution of your choice.

## b. Bank Account Establishment

It usually takes from 1 to 5 days to establish a corporate bank account.

## c. Tax Identification Number (RFC)

The Mexican Tax Administration Service assigns a unique number (Clave en el Registro Federal de Contribuyentes - RFC) to each person enrolled in the Registry; the issued RFC has a special structure depending on the type of taxpayer (individual or legal person). The latter is the only distinction provided for in the Mexican tax provisions.

For more information, please review the Mexican tax administration website: <https://www.sat.gob.mx/>.

## d. Shareholder Structure

The basic procedures related to the organization of a new Mexican company (hereinafter the 'Company') **with 100% of foreign capital participation** are as follows:

In Mexico, the two major types of companies are called the Sociedad Anónima and the Sociedad de Responsabilidad Limitada. They are basically the equivalent of a Corporation and a Limited Liability Company in the United States. There are other company forms such as the Sociedad Civil, which is similar to a professional partnership that your doctor or lawyer might have for his or her office. There is also the Asociación Civil, which can be compared to a non-profit company. In choosing the best type of Mexican Corporation, you need to take into consideration how many shareholders there will be, the flexibility desired in managing the company and the level of formality required.

For a small business like a restaurant, store or small-scale manufacturing operation, you may opt for a Sociedad de Responsabilidad Limitada. For a large-scale manufacturing operation or a business with more than, let's say 5 investors you may consider the Sociedad Anónima.

In either case, a Sociedad de Anónima offers certain legal protections for shareholders that are not necessarily available with other corporate forms. For both the S.A. and the S. de R.L. the option of variable capital (capital variable) can be established, thus permitting the increase or decrease of capital with minimized formalities.

The General Law of Commercial Companies (Federal Law) provides for several types of companies that can be organized and, depending on the form chosen, there are differences in their legal and tax treatment.

Sociedad Anónima (S.A.) equivalent to Stock Company:

It is usually recommended to incorporate a limited liability stock corporation, which may adopt the form of a fixed capital company or that of a variable capital company (S.A. de C. V.). The principal difference between the two is that the latter may increase or decrease its capital within the limits established in the by-laws by a mere Stockholders' Meeting resolution without the need to fulfill the formalities applicable to the S.A. Nevertheless, both types of companies must notify the National Registry of Foreign Investments and other applicable Government Agencies of any capital amendment.

Key characteristics:

- The shareholder's liability is limited to their stock interest in the company and the directors are fully liable for the loyal and diligent administration of the company.
- There must be at least two shareholders and a minimum capital of fifty thousand Mexican pesos, of which 20.0% must be paid at the time of incorporation.
- They must appoint a statutory examiner who is a third party who supervises the operations of the company and represents the interests of the shareholders.
- The shares, which represent the capital stock of the company, are freely transferable and can be traded publicly, after the corresponding filings have taken place.

Sociedad de Responsabilidad Limitada (S. de R.L.) equivalent to a Limited Liability Company: Recently, this form of Limited Liability Corporation or limited partnership has become popular among foreign companies; in particular, those who want to reduce their tax liabilities in the US. This type of company is viewed for US tax purposes as a partnership and the key characteristics are as follows:

- The partners' liability is limited to their partnership interest in the company and the directors will be fully liable for the loyal and diligent administration of the company.
- It must have at least two partners with a maximum capital of fifty thousand Mexican pesos, and a minimum capital of three thousand Mexican pesos, of which 50% must be paid at the time of incorporation;
- There is no requirement to appoint a statutory examiner;
- The tax rate will be the normal corporate tax rate of 34.0%;
- The shares representing the partnership interest in the company must not be freely transferable and cannot be traded publicly.

**For more information, we invite you to consult and hire company constitutions consultors and legal advisory.**

**e. Timeline from company foundation to beneficial occupancy.**

Once the site selection is done, land purchasing process do not take more than 3 months. Construction varies from 6 to 9 months depending on the building requirements. Beneficial occupancy could take place between 6 and 8 months.

Beware of environmental permits for construction and operation that can take some time and should be taken into consideration. For more information about the estimated timeframe and environmental requirements, please contact us to get a personalized assessment.

## 7. Real Estate

### a. Industrial Market and Inventory

Industrial real estate market in Guanajuato offers multiple industrial properties within or outside industrial parks. The main cities with the biggest market offer for industrial site are Silao, Celaya, Irapuato, Salamanca, León, San José Iturbide and San Miguel de Allende. Guanajuato state counts with 37 industrial parks and more than 5,990 has of land for industrial use.

Average asking price for AAA industrial property for lease is \$4.20 per sqm per month and availability rate is at 9.2% of an inventory of 5.8 million sqm. We have currently 190,000 sqm of industrial property under construction for build to suit and multiftenant properties.

#### **Real Estate Cost Guide per sqm:**

<b>León</b>	Land Cost: \$39.00 - \$60.00 Lease Rate: \$3.50 - \$4.45
<b>Silao</b>	Land Cost: \$40.00 - \$60.00 Lease Rate: \$3.70 - \$4.70
<b>Celaya</b>	Land Cost: \$39.00 - \$67.00 Lease Rate: \$4.10 - \$4.60
<b>San José Iturbide</b>	Land Cost: \$37.00 - \$69.00 Lease Rate: \$4.10 - \$4.50
<b>Irapuato</b>	Land Cost: \$36.00 - \$60.00 Lease Rate: \$3.70 - \$4.20
<b>San Miguel de Allende</b>	Land Cost: \$36.50 - \$68.00 Lease Rate: \$4.10 - \$4.55
<b>Salamanca</b>	Land Cost: \$37.00 - \$57.00 Lease Rate: \$4.20 - \$4.50

Land Cost: Price Range per SQM inside an international standards industrial park including main services and infrastructure. Prices are subject to change at any time from industrial real estate developer.

Lease Cost: USD / SQM / MONTH, triple net, based on a +5 years contract. Metric conversion 1 SQM = 10.764 SQF.

Construction cost for industrial site without major improvements is around \$500.00 USD per sqm.

### b. Office Market and Inventory

Offices real estate development is mainly focused in the city of León as it offers the best quality of life, top universities and great residential areas. We estimated more than 60,000 sqm of class A and A+ office space under construction in León right now, to be delivered between 2020 and 2021.

The lease price range is between \$12.00 USD to \$17.00 USD per sqm per month for class A/A+ offices.

### c. Process

Lease contract: 5 to 7 years minimum for AAA industrial build to suit building or ready to lease.

Purchase or lease process: Maximum 2 to 3 months

### d. Housing Market for expatriates

Guanajuato states offers high quality residential neighborhoods in cities like León, San Miguel de Allende, Irapuato and Celaya; many of them offer golf course, gym, swimming pool as part of their amenities. Security is taken seriously by real estate developers and all of them offer controlled access, security guards, CCTV and electric fences.

Housing Market	Selling price	Renting price per month
Medium	Around \$2,000,000.00 MXN	\$8,000.00 MXN to \$10,000.00 MXN
Residential	\$2,500,000.00 to 4,000,000.00 MXN	\$12,000.00 to \$18,000.00 MXN
Residential +	\$4,000,000.00 to 10,000,000.00 MXN	\$20,000.00 to 40,000.00 MXN

Premium	Over 10,000,000.00 MXN	Over \$40,000.00 MXN
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Construction cost for a Residential property sets around \$ 7,000 pesos per sqm.

Land in residential neighborhoods may vary on the city and the area, in León you can find a plot of land between \$4,500 and \$7,000 MXN per sqm for sell.

## 8. Natural Environment

### a. Geographical features

Located in the heart of Mexico's central Bajío region, Guanajuato is surrounded by San Luis Potosí to the north, Jalisco to the west, Querétaro to the east and Michoacán to the south. Guanajuato's territory spans more than 30,500 sq km, accounting for less than 1.6% of Mexico's total land mass.

Having a temperate climate that averages 18°C annually – hitting monthly average lows of 5°C in January and highs of 30°C in May and June – and an average annual rainfall of 650 mm per year, Guanajuato's geography and climate present favorable growing conditions.

For more information, please contact Guanajuato Promotion team to review each site selection option considering climate and geographical specifications.

### b. Risks

Guanajuato State is in zone B where low risk seismic activity occurs and at infrequent intervals.

Floods risk exists in Guanajuato in localized lowlands area near rivers and areas with inefficient sewers system. Cities like León invests great amount of money to modernize sewers and prevent such risks. There is no risk of tornadoes or Heavy winter due to the geographical position of the state. (For more information please review: <http://www.atlasnacionalderiesgos.gob.mx/>)

## 9. Quality of Life

### a. Overall Living Conditions

Guanajuato state provides expatriates and foreign retirees a unique cosmopolitan atmosphere, as well as a warm climate. Guanajuato city and San Miguel de Allende have been declared world Heritage by UNESCO.

The State of Guanajuato offers one of the richest, most interesting and accessible tourism and historical circuits in Mexico, drawn by the important role of its cities San Miguel de Allende; Guanajuato, capital of the State; and Dolores Hidalgo, birth place of Mexican Independence and one of the most cherished Magical Towns in the country. A route framed by beautiful colonial architecture and historical monuments that still preserve that tradition of this great land.

Contemporary Guanajuato has an interesting cultural billboard held throughout the year by offering the most renowned International Arts and Culture Festivals in the country, including the most traditional popular and religious celebrations.

Our State offers a good number of international schools and a world class lifestyle. More than 21,000 permanent foreign residents who have chosen the state to live and do business, are evidence of the high standards of living of Guanajuato

Guanajuato possess a wide variety of amusement options such as touristic cities, cultural and sport events, as well as world class shopping centers. For instance, in Guanajuato takes place the Cervantes International Festival, which is the most recognized arts festival in Latin America, as well as the FIA World Rally Championship.

- A mild weather with an average of 19° C (67 F)
- Social safety, political stability and law enforcement orientation.
- Guanajuato is top 5 in an anti-corruption index made by ONG Transparencia Mexicana
- Labor stability
- More than 196 superior education centers
- 612 medical units and 31 general hospitals
- First class malls and commercial centers
- World class Hotels
- 9 golf courses

For more information please review Guanajuato Tourism Information website: <http://www.guanajuato.mx/> & <https://www.guanajuato.gob.mx/turismo.php>

For more information about costs of living in Guanajuato you can contact expatriation consulting agency or consult webpages such as: <https://www.expatisan.com/cost-of-living/guanajuato>

## b. Hotel and Housing Availability

We have counted 959 hotels in Guanajuato and 32,000 rooms available daily.

León has the highest inventory of apartments and more than 40 new condos projects are under construction or to be developed in the next 5 years. For more information about housing real estate market, please review to the Real Estate Section.

## c. Safety Conditions and Law Enforcement Strategy

Guanajuato state is focused on offering the best living and working conditions to people and companies. Thanks to more than 3,300 state elements, more than 2,000 criminal investigation agents and local police, Guanajuato State is fighting criminal organization vigorously. We have such commitment for peace, safety and justice our State Governor has instructed the correspondent authorities to work on an integral approach considering 4 main pillars:

- Empowerment of Local Police Force figure. Given that City Police is the first figure of Authority with which regular citizens get in touch whenever they require support, it is imperative to improve technology and equipment for the work (bodycams, new weapons, fast ADN analysis system, car patrols, ATVs, tactical gear among others..), to increase the number of training hours and to promote a competence-based salary increase system. A fund of more than 600 million pesos (\$27.7 million USD) has been put in place to promote these initiatives.

International Narcotics and Law Enforcement - FBI authorities gave 10 police dogs (K-9) to Guanajuato Police with special training to complement narcotics law enforcement strategies. During the first stage of this approach, more than 1,700 elements have been deployed in our 46 municipalities to enforce the law and protect the local population. Currently more than 3,000 state elements are enrolled to enforce security and fight organized crime.
- Integral attention model for Victims. It is crucial to offer pertinent and punctual support for victims and anyone that has suffered from crimes and felonies of any kind. On this regard, current Administration has a focus on making improvements to Centers for attention of such victims, so that they can be reincorporated to their regular productive activities as soon as possible.
- Strengthening of Public Prosecution Offices. Current Administration is focused on improving the capacities of Public Prosecution Offices, so that a larger number of cases can be processed in a shorter period, and justice can be guaranteed in a timely manner.
- Use of available technology (C5I). Please review this webpage containing updated information on our Coordination, Command, Control, Communication, Computing and Intelligence State System (C5i), in which more than 2,300 million pesos have been invested in order to structure an interconnected scheme, allowing an efficient communication between Federal, State and City Police Forces, as well as Civil Protection, and a 24/7 Emergency Attention system. (<http://seguridad.guanajuato.gob.mx/sistema-c5i/>) The 911 hotline is a pioneer in first response and public attention and offers a Japan Desk dedicated team to respond to Japanese community in English and Japanese language 24/7 (dial 075).



Our main goal is to take advantage of this set of technological tools, with the aim to strengthen the preventive approach regarding Public Safety in the State. Guanajuato states is already seeing the results of those strategies and received the award of the Best Impunity Fighting Strategy on Mexican Territory in 2019.



We acknowledge security is a mandatory requirement for national and foreign investments companies and safety is also taken very seriously into account as we receive thousands expatriates each year. If your project needs specific attention before SOP and/or during operation, we will be glad to offer support and coordinate meetings with law enforcement authorities to attend company needs.

Nationwide, during 2019 the criminality rate and homicides have been growing and Guanajuato state has been affected. Federal felonies related to oil and gas theft as well as drug cartel are a major problem in Mexico and our state acknowledges this issue considering that we remain below the average national crime rate.

## 10. State Support & Benefits

### a. Main Supports

An attractive package of incentives (explained below) and personal assistance program has been developed and improved through the last 15 years based on industry needs. This investment promotion program, named "GTO Me Atrae" (Guanajuato Attracts Me) is managed by Guanajuato Ministry for Economic and Sustainable Development (SDES) and the Undersecretary for Investments Promotion.

To review Guanajuato Incentives program in more details, please review <https://sde.guanajuato.gob.mx/index.php/programas/guanajuato-me-atrae/>.

The support offered by the Guanajuato Government vary depending on the outreach of the investment project based on a 5 years business plan:

- Direct jobs generated (registered at the IMSS). A minimum of 50 direct and new jobs to be created is required to apply to our promotion program.
- Amount of investment in fixed assets (million USD). A minimum of \$2.0 million USD is required to apply to our promotion program.
- Type / Sector of industrial activity played by the company.
- Municipality where the new operation will be installed (if it is within the industrial corridor or in a marginalized area or municipality under development).
- Level of integration of local suppliers in their process.
- Capacity to bring new suppliers to the region than will generate productive plants and create more jobs.
- Technology incorporated into production processes.
- Payroll.

### b. Incentives

A package of incentives is prepared to suit each project consists of three main parts:

#### 1. Cash incentives

In proportion to the variables described above, we offer to the investors a cash incentive support, fully personalized and tailor made for the project, which can be applied to cover part of the following costs:

- Land purchase
- Facility leasing cost
- Electricity supply arrangements.
- Connection fee of natural gas or LP.
- Water supply and sewerage system construction.
- Facility adjustment expenses
- Machinery, industrial equipment and technology acquisition.
- Other expenses that may arise during the first phase of the operation.

Cash incentives to be applied in financing training programs and overseas training are offered.

- Support for training abroad.
- Support to cover costs of accommodation, food and transport (only applies in some cases)

Additional information: Guanajuato economic development guidelines and policies do not include tax incentive. Guanajuato Economic and Sustainable Development Ministry is driven by long term relationship and easy to use foreign direct investment policies. Guanajuato state Government has chosen to design financial incentives focused on helping direct national and foreign investment with direct and indirect start-up and operation costs, applying on a

5 years business plan. Taxes are the main state income to finance such incentives and it has been preferred to offer meaningful cost reduction incentives and scholarships which are more relevant for the investment project and to boost your economic activity and enabling better life conditions for the local population.

Choosing Guanajuato as your future host state among other potential locations means also having many non-quantifiable benefits as linkage with local universities, local businesses, and employment outsourcing process for instance.

Local tax as the "Property Tax" can sometime be discounted at a certain rate in some cities and can represent a fiscal incentive to set up in this municipality. It is recommended to get in touch with the local authorities as each one has different rules, and some specific conditions may apply.

## 2. Scholarships

Guanajuato is fully dedicated to developing human capital and develop strategies to improve employability and professionalism.

**Employability program scholarships:** It is a labor focused training program paid directly by the state to the people looking for a job and to facilitate its hiring chances to get hired. This program grants can last from 1 month up to 12 months.

- This scholarship is applied for general workers and is based on the salary that the company will pay them, once hired, from 1 up to 10 minimum salaries, and also considering the skill set required for the job position.
- After the training period, it is required that the company pays at least 0.5 minimum wages more than the amount received by the employee during this period
- It requires the company to hire at least 80% of people who receive training.

**Skills Development program scholarship:** It is a training program designed for your active staff in order to develop new skill sets and soft skills. It can include training in a foreign country where the program is taking charge of accommodation, meal and flight tickets expenses. This program applies to operators, engineers, administrative staff and management team.

## 3. Savings

There is a section in the package of incentives offered by the State, where it is calculated an estimate of the savings that the company gets to establish a long-term relationship with the state. In other words, these are resources that the company would have to pay a third party, if they didn't have the support from the State.

- One stop shop: a single window to which the company can go for advice on federal, state and municipal procedures to achieve its goals in the best way and in the shortest time possible. Linking support is provided with institutions such as the Institute of Ecology, Federal Electricity Commission, National Migration Institute, etc.
- Support for development of the supply chain.
- Assistance from the State Employment Office in the process of recruitment and selection of the labor force (with the understanding that full participation of the Human Resources Company required).
- Other savings.

## c. Overall Process

The promotion and incentives program is subject to budget availability and the investment promotion board final approval. Our application process is easy to follow, and the incentive proposal represents a sign of our strong commitment to develop a long-term partnership with our national and international investors.

Application process is described below:

- Fill in the Request for Information (RFI) format to share the details of the project.
- Project Presentation and Evaluation by our team leaders
- Project Incentives Proposal is designed if project meets the program requirements.
- Incentive Proposal approval from the applicant.
- Reception of the required legal documentation and business plan.

- Incentive Proposal Authorization. For companies to receive cash incentives from our office (Ministry of Economic Development), we have to present the project to the Guanajuato State Investment Promotion Board (known as "COMISION" in Spanish). Prior to this, we need to gather information on the specific project. The Investment Promotion Board is the institution that evaluates and authorizes cash incentive packages for different companies in Guanajuato. Such board is integrated by all Government Areas (Finance, Institute of Ecology, Ministry of Public Works, etc.) and private sector that actively participate in the process of studying each project and determining the feasibility to grant the proposed incentives.
- Once project has been approved, a document is signed by the members of this board (known as "Dictamen"). We present this dictamen to our Legal Department, so that they can start working on the Agreement which will be signed by both parties (Ministry of Economic Development and Company). This document is known as "CONVENIO" (Spanish word for AGREEMENT). This agreement will give the company legal certainty that Government will honor its commitments (delivery of the incentives) and the company will honor its investments and job generation goals.

#### d. Project Assessment Services

Guanajuato Foreign Investment team can deliver tailor made assessment for your project. We highly recommend getting in touch with us so we can understand your operation requirements and give you support on key areas to be considered before taking some decisions.

In each step of the process, from site selection evaluation, operation start up to full operation, we always recommend companies to do thorough studies and analysis to get a full understanding of the final destination for your project, taking into account all factors that could affect your operation.

Site-selection considerations that are most likely to cause problems when not addressed early in project planning:

- **Environmental & Archeological** (Conditions, regulations and protected sites by INAH)
- **Economic** (Financial Costs, Business Plan & Incentives)
- **Infrastructure** (Transportation & Energy supply)
- **Social** (Labor, local culture and surroundings activities)
- **Market** (Customers and Supply Chain)
- **Mobility**
- **Federal, State and Local Regulations**

**IMPORTANT RECOMENDATION:** The best way to ensure site-selection criteria are thoroughly evaluated is to use a team of experienced consultants and get the right expert advice from both private and public institutions.

#### e. Contact Information

We look forward to getting to know each other, get a first glimpse about your investments plans and position Guanajuato State as your preferred location. Our experts will be happy to help you with your internationalization project. Our team is here to inform foreign potential investors about Guanajuato's strengths as well as the underlying conditions for doing business in Mexico.

Our Investment Promotion Team is responsible for informing potential investors about the advantages of locating a business in their respective cities, presenting them with concrete location proposals, and organizing local support for investors as they settle in. Even after an investment project has been completed successfully, our team continues to look after the investors through a one stop shop service. We support foreign investors through the network of local economic development team and various private-sector partners

For more information, please contact:

**Alejandro Hernández Fonseca**  
Undersecretary of Investment Promotion  
[foreigninvestment@guanajuato.gob.mx](mailto:foreigninvestment@guanajuato.gob.mx)

**Alfredo Porras Orozco**  
Investment Promotion General Director  
[strategy@guanajuato.gob.mx](mailto:strategy@guanajuato.gob.mx)

**Francisco Aguilar Flores**  
Investment Promotion Director  
[faquilarf@guanajuato.gob.mx](mailto:faquilarf@guanajuato.gob.mx)