



**TRADE POLICY REVIEW**

REPORT BY

THE KINGDOM OF BAHRAIN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by The Kingdom of Bahrain is attached.

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## 1 INTRODUCTION

1.1. The information herewith is for the fourth trade policy review of the Kingdom of Bahrain at the World Trade Organization.

1.2. The Kingdom of Bahrain confidently strides towards achieving its economic vision 2030, that was launched in 2008 by His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, to provide a clear direction for the continued development of the Kingdom's economy and, at its heart, is a shared goal of building a better life for every Bahraini. The Kingdom is striving to move from an oil-based economy to a globally competitive, productive, sustainable, and diversified economy backed by a solid regulatory framework creating an attractive domestic and foreign investment environment lead by a committed agile government working together with the private sector towards a sustainable future.

1.3. The Government of the Kingdom of Bahrain led by His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, focuses on the principles of fairness, competitiveness, and sustainability to shape the vision of the Government, society, and the economy. The Vision 2030 also addresses the Sustainable Development Goals 2030 (SDGs).

1.4. Accordingly, these three principles are reflected in the government action plan which reflects the Government of Bahrain's strategic priorities over a four-year period and focuses on delivering sustainable change in line with his majesty King Hamad's development programme. Built upon the principles of sustainability, transparency, fairness and competitiveness, the government action plan seeks to capitalize on the Kingdom's resources and capabilities to meet the needs of all Bahrainis. The Kingdom of Bahrain is currently amid the process of implementing the government plan for the years (2019-22) focuses on the achievements of the Kingdom and its people in the light of the fiscal balance programme that aims at creating balance between public expenditure and revenues to achieve economic growth, financial stability, and sustainable development. The government plan (2019-22) is based on the following strategic priorities:

- a) Upholding the values of the State and Society.
- b) Financial sustainability and economic development.
- c) Supporting an Enabling Environment for Sustainable Development.

1.5. Bahrain is looking forward to achieving the following general objectives through its Government Action Plan (2019-22):

- a) Invest in citizens by enhancing, improving, and sustaining government services in education, health, and other sectors.
- b) Create a safe and stable society.
- c) Enhance sustainable development to achieve fiscal balance and maintain economic growth.
- d) Support the private sector to drive national development and create opportunities for citizens and investors.
- e) Optimize the use of resources and ensure their sustainability for the next generations.
- f) Family stability and achieving gender equity.
- g) Continue to finance development projects and infrastructure that enhance growth and serve citizens.
- h) Redefine the role of the public sector from operator to regulator and partner.

- i) Support creativity, excellence, and highlight the role of woman, youth, sports as well as expanding the role of small and medium enterprises in the economy in all government programmes and initiatives.

1.6. Moreover, Bahrain is working continuously in implementing its trade policies in line with its WTO commitments and is fully applying the Trade Facilitation Agreement two years ahead of planned date.

1.7. In line with the Government's Action Plan, the Kingdom of Bahrain is making strides towards digitizing its economy and improving the Kingdom's ecosystem through emerging technologies, where the Government has identified the significance of technology to reinforce its economic growth, jobs creation, and human development whilst creating new opportunities that improve quality of life for its people.

1.8. The hashtag "#TeamBahrain" was created in 2018 in response to the statement made by His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister that "Every soldier that protects our nation, every police officer that upholds our security and stability, every public and private sector employee that support our national progress – we are all part of #TeamBahrain. Together we can overcome any challenge, under the leadership of HM King Hamad". The hashtag created huge reactions both from the public and private sector alike in support of the statement. #TeamBahrain is a model of private-public collaboration to create solutions for investors and entrepreneurs looking to base their activities in the Kingdom. Whether it's a large multinational.

1.9. Based on the above-mentioned criteria the main axes of the achievements and aspirations of the Government of Bahrain will be addressed in the context of this review report.

## **2 FOREIGN TRADE**

### **2.1 Imports**

2.1. Non-oil imports experienced (2.61%) average annual growth between 2010-20.

2.2. According to 2020 imports data; mechanical and electrical equipment topped the five top imported commodities (28% of total imports), followed by chemicals products (14%), mineral products (9%), transportation vehicles and equipment (8%) and base metals and articles of base metal (8%), while other commodities constitute around (32%) of total imports.

2.3. Furthermore, for imports in 2020, China topped the list of trading partners (14% of total imports), followed by Saudi Arabia (7%), Australia (7%), Unites States of America (7%) and United Arab Emirates (6%).

### **2.2 Exports**

2.4. Total non-oil exports witnessed (5.37%) average annual growth between 2010-2020, while the national origin exports average annual growth is about (3.93%) between 2010-2020.

2.5. Moreover, the contribution of non-oil exports to total exports increased from (27%) in 2010 to (53%) in 2020. Exported commodities during 2020 were dominated mostly by base metals and articles of base metal (59% of total exports), mineral products (11%), chemicals products (9%), plastic and rubber products (4%) and prepared foodstuffs, beverages, and tobacco (4%). Other exported commodities constitute only (13%) of total exports.

2.6. Saudi Arabia was ranked first with regard to top five exporting partners with a (22%) share of total exports, United Arab Emirates was second at (9%), followed by the Unites States of America (8%), Sultanate Oman (7%) and Netherlands (6%) as for 2020.

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### 3 ENHANCING PRODUCTIVITY AND CAPACITY

#### 3.1 Developing commerce

##### 3.1.1 Legislations

3.1. The Government of Bahrain has implemented several policies and passed a number of regulations to enhance the legislative framework for sectors that support economic growth, including the following commercial legislations:

- a) Decree-Law No. (15) of 2021 regarding External Auditors, replacing Decree-Law No. (26) of 1996 regarding Auditors.
- b) Decree-Law No. (18) of 2021 amending some provisions of Law No. (51) of 2014 regulating the Practice of Engineering Professions.
- c) Law No. (5) of 2021 Regulating and Controlling International Trade in Endangered Species of Wild Fauna and Flora.
- d) Decree Law No. (28) of 2020 amending some provisions of the Commercial Companies Law promulgated by Decree Law No. (21) of 2001, The amendments are part of Bahrain's ongoing aim to develop its compliance and regulatory frameworks in line with international best practice.
- e) Decree-Law No. (29) of 2020 on Amending some Provisions of Decree-Law No. (4) of 2001 on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), The Central Bank of Bahrain views the fight against money laundering ('AML') and combating the financing of terrorism ('CFT') as a key priority. Bahrain is part of the Financial Action Task Force ('FATF') through the full membership of the Gulf Cooperation Council in the FATF and is committed to the implementation of all international standards in this area. Bahrain is also a founding member of the regional MENA-FATF and hosts its secretariat.
- f) Decree Law No. (54) of 2018 promulgating the Electronic Communications and Transactions Law.
- g) Decree-Law No. (52) of 2018 amending some provisions of Decree-Law No. (27) of 2015 regarding the Commercial Register, that includes provision related to setting the criteria and rules for determining the ultimate beneficiary in accordance with best practices and standards related to improve international tax compliance, combating money laundering and terrorist financing. As well a commitment on behalf of the trader to implement any obligations undertaken by Bahrain under international conventions and treaties, which would enhance tax compliance, combat tax avoidance and evasion, and combat money laundering and terrorist financing, in a manner that ensures the verification of the actual economic substance of the trader's activities in the Kingdom, which includes, without limitation, verifying that profits and returns result from the trader's actual economic activities in the Kingdom, and for this purpose MOICT may compel the trader to submit any reports or documents and keep them for the same legally prescribed period for keeping commercial books.
- h) Decree-Law No. (51) of 2018 amending some provisions of the Commerce Law promulgated by Legislative Decree No. (7) of 1987, that includes maintaining commercial books to show the trader's/ company's financial status and to keep these records for a period of 10 years.
- i) Decree No. (22) of 2018 Promulgating the Reorganization and Bankruptcy Law. This law is a step towards strengthening the legal framework and business ecosystem in Bahrain, through boosting transparency and efficiency in the insolvency process and improving the ease of doing business in Bahrain.
- j) Order No. (97) of 2017 with respect to regulating incubators and accelerators activities, which opened an investment opportunity for the private sector to invest in the Business Incubators & Accelerators sector, boosting the Startups sector and encouraging them to

operate under a supporting environment. It also offered sector specific support and services for Startups.

- k) Law No. (65) of 2016 to issue the Implementation Regulation of the law (system) with respect to Trademarks of The Gulf Cooperation Council countries. It is a unified law dealing with the protection, enforcement, and commercialization of trademarks across each of the GCC member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE). It is not a unitary GCC registration system and brand owners seeking protection of their trademarks still must file separate trademark applications with the Trademark Offices of each GCC country and pay separate official fees.
- l) Law No. (17) of 2016 ratifying the Protocol amending the Marrakesh Agreement to establish the World Trade Organization by adding the Trade Facilitation Agreement to Annex 1 (A) of the Agreement.
- m) Decree-Law No. (27) of 2015 Concerning the Commercial Register, a completely new law replacing Decree No. (1) Finance 1961 on the Establishment of the Commercial Register.
- n) Decree Law No (62) of 2014 with respect to Commercial Fraud The law establishes further grounds to trademark owners to file a complaint before the Bahraini authorities to pursue and impose sanctions against traders and entities that supply counterfeit products, including foodstuffs, basic and luxury products, medical products, cosmetics, and other commodities.

### 3.1.2 Dispute Resolution

3.2. The Bahrain Chamber for Dispute Resolution (BCDR) was established by Legislative Decree No. (64) of 2014 (as amended) and operates with the American Arbitration Association (AAA). The BCDR adopted the UNCITRAL Model Law on International Commercial Arbitration (Model Law) during 2015 for both international and domestic arbitration. The BCDR Court administers disputes more than BHD 500,000 (approx. USD 1.3 million) in which at least one party is a financial institution licensed by the Central Bank of Bahrain, or the dispute is of an international commercial nature.

3.3. Between its establishment in 2010 and the end of 2019, BCDR registered 282 cases equivalent to USD 1.44 billion, which covered disputes arising in aviation; banking and finance; construction; consultancy; insurance; Islamic finance; paintings and antiquities; pensions; real estate; steel management; and waste management.

### 3.1.3 Innovative Ecosystem- Sijilat

3.4. With the aim to streamline the business registration processes in Bahrain, in 2016 the Ministry of Industry, Commerce and Tourism's Commercial Registration Portal "Sijilat" was launched. To push the Kingdom of Bahrain up among the business competitiveness ranks in various global indicators in line with the Bahrain Economic Vision 2030.

3.5. "Sijilat" is an advanced electronic system for the commercial registration and licensing of commercial and industrial establishments in Bahrain, that allows full connectivity with all electronic systems of other relevant entities, which goes hand in hand with the Government's plan for digitizing the Kingdom's economy and improving its ecosystem. Some of the key features of Sijilat are:

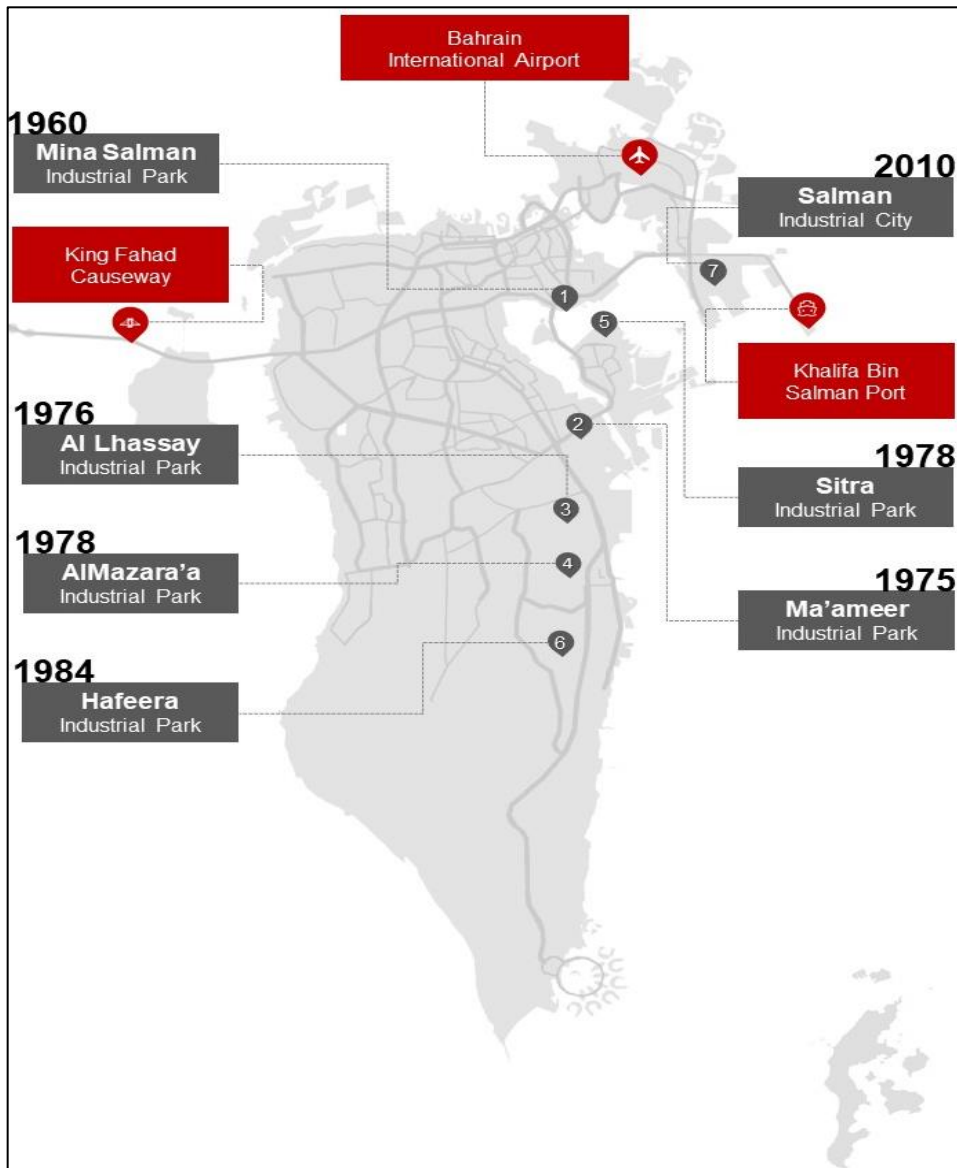
- a) Provide all services electronically through a single virtual platform: e-application, e-submission, e-booking of commercial names, e-payment, e-notice, e-certificate, and e-verification of transactions.
- b) To approve supporting e-services provided by the e-Government Authority (such as e-link with other ministries, e-payment gateway, and e-key).
- c) To provide multiple channels of service including e-gateway and a contact centre.
- d) To provide the unified procedures guide for registration and licensing processes and apply the International Standard Industrial Classification of all economic activities (ISIC4).

- e) To separate the registration process from the licensing process.
- f) To develop activities and default record.
- g) To unify business processes by resetting and facilitating procedures according to the best international practices.
- h) To link with all the relevant authorities competent with licensing.
- i) To adopt high transparency and electronic documents.

### 3.2 Developing Industry

3.6. Since 1960, the Kingdom of Bahrain developed an economic diversification strategy that included the establishment of industrial parks that target attracting businesses across several industries such as food and beverages, FMCG, pharmaceutical, aluminium, light engineering, plastics and fiberglass. Currently there are seven designated industrial areas in Bahrain that are owned and managed by the Ministry of Industry, Commerce and Tourism with a total size of 22 million m<sup>2</sup>.

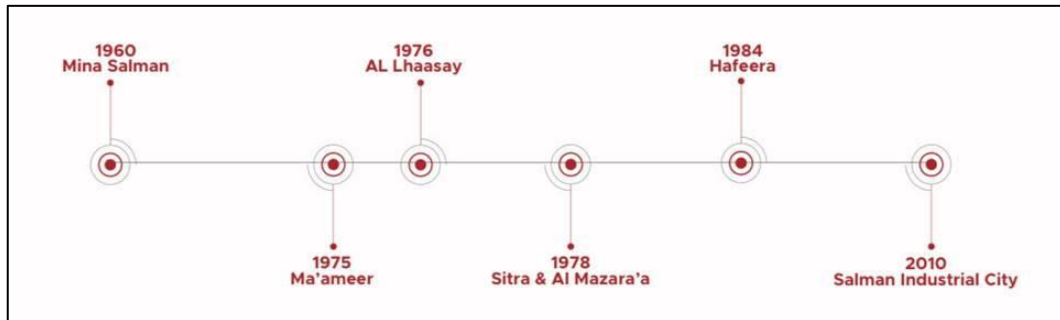
**Figure 1: Map of the 7 Industrial Parks**





3.7. The history of the industrial parks in Bahrain started with Mina Salman Industrial Park that was established in the 1960s with a total area of 590,950 m<sup>2</sup> and a direct access to the sea, the park was named after the neighbouring Salman Port and was a prime location for manufacturing companies in addition to logistic companies. Whereas Salman Industrial City is the latest industrial park opened in 2010 with a size of 12 million sqm and is home to the Bahrain International Investment Park (BIIP), Bahrain Investment Wharf (BIW), and the Hidd Industrial Park.

**Figure 2: History of Industrial Parks in Bahrain**



3.8. There are lands used for industrial purposes that are managed by the private sector. There are also factories located in private estates but licensed by the Ministry.

3.9. Bahrain is the home of major industrial projects since the sixties including, for example: Aluminium of Bahrain "ALBA", Arab Shipbuilding and Repair Yard "ASRY", Gulf Petrochemical Industries Company "GPIC" and Gulf Aluminium Rolling Mill Company "GARMCO", JBF Bahrain W.L.L., Mondelez Bahrain Biscuits W.L.L., Mueller Middle East B.S.C. Closed, Arla Foods W.L.L., Reckitt Benckiser W.L.L., Midal Cables Company Limited W.L.L., BFG International W.L.L. and other local and multinational investments.

3.10. Salman Industrial City is the latest industrial area with a size of 12 million m<sup>2</sup>, and is home to the Bahrain International Investment Park, Bahrain Investment Wharf, and the Hidd Industrial Area.

3.11. Industrialization has formed the backbone of Bahrain's drive for economic diversification for more than four decades. Bahrain's development strategy, Vision 2030, confirmed the importance of the manufacturing sector as a key driver for the diversification process, innovation, and knowledge-based economy.

3.12. Bahrain's diversification plans focus on reducing positively correlated volatilities amongst industries, avoiding fluctuation, and attracting some optimal combination of industrial investments in this pursuit.

3.13. Manufacturers operating in Bahrain cover a number of sectors from food and beverage manufacturing to fiberglass production and aluminium downstream industries.

3.14. A number of industrial services provided by the Ministry of Industry, Commerce and Tourism are available online:

- a) Industrial License: applications to obtain an industrial licence, to implement an industrial project, to add new industrial activity to the industrial licence, to add a branch to the industrial licence, to conduct an expansion of a plant, or to make any transactions related to an industrial licence.
- b) Industrial Registration: registration of existing factories that have entered into production by applying for Industrial Registration which should be submitted within 60 days from actual production commencement. Industrial Registration Certificate renewal also included under this system.

3.15. Rental Payment Service: payment of the rent for the industrial plot.

3.16. Auction Services: to apply to participate in "Mazad Bahrain" auctions related to industrial plots.

### 3.3 Fiscal Policy

3.17. Despite positive growth in the non-oil sector's contribution to GDP, non-oil government revenues have not kept pace with economic growth leading to successive budget deficits. Recognizing the importance of restructuring Government expenditures and revenues to align with positive economic growth, stabilizing debt and strengthening fiscal sustainability, the Government introduced several initiatives between 2015 and 2017. These initiatives were centred around three key priorities: streamlining government expenditure, increasing revenues, and redirecting government subsidies towards eligible citizens.

3.18. In late 2018 the Government launched the Fiscal Balance Program, which provides a roadmap for addressing Bahrain's fiscal challenges over the medium-term, with the overall objective of achieving a balanced budget by 2022. To achieve this goal, six initiatives were introduced:

- a) Reducing government operational expenditure through activating six dedicated Government Task Forces to identify and implement savings and setting criteria for the procurement of standard products and services.
- b) Introducing a voluntary retirement scheme for government employees providing them with the opportunity to contribute to the Kingdom's economic growth through entrepreneurship or participation in the private sector.
- c) Balancing the Electricity and Water Authority's expenditures and revenue.
- d) Streamlining the distribution of cash subsidies to citizens in need.
- e) Improving the efficiency of Government expenditure.
- f) Simplifying Government processes and increasing non-oil revenue, to drive economic growth, diversify government income streams and align non-oil revenue with positive economic growth.

3.19. Under these broad targets, the Fiscal Balance Program aims to strengthen the Kingdom's fiscal and economic foundations to ensure the sustainability of resources for future generations, through:

- a) further developing the provision of sustainable government services in education, health, and social services;
- b) continuing the provision of subsidized electricity and water services to citizens in their primary residences;
- c) creating quality job opportunities for citizens and ample support to business;
- d) establishing rules for the sustainable use of resources;
- e) enhancing the efficiency and fairness of direct government support to citizens;
- f) continuing funding development and infrastructure projects;
- g) streamlining and improving the provision of government services to citizens and investors; and
- h) improving Bahrain's credit rating, thereby reducing the cost of financing for citizens and investors.

3.20. Both the 2019-20 and 2021-22 state budgets demonstrate that Bahrain is prioritizing sound fiscal and economic policies while safeguarding the continued prosperity of citizens and reflects the Kingdom's continued commitment to achieving the Fiscal Balance Program targets. The budget has envisaged a gradual reduction of the fiscal deficit, as the government non-interest expenditure remains under tight control while continuing to improve the quality and efficiency of the government services. Also, a new taskforce focusing on non-oil revenue development was created to review existing fees and generate new revenue streams without overburdening the economy; this is expected to further drive the Kingdom's economic diversification and enhance the role of the private sector.

### **3.4 Monetary Policy**

3.21. The Central Bank of Bahrain (CBB) is responsible for setting and implementing monetary policy in the Kingdom of Bahrain. Bahrain maintains a fixed exchange rate regime between the Bahraini dinar and the US dollar. The exchange rate peg provides an anchor for monetary policy. Low inflation and a stable currency are important long-term features of the Bahraini economy which supports a stable business environment and high levels of investment, both of domestic and foreign origin.

3.22. Bahrain has a free market economy, with no restrictions on capital movements, foreign exchange, foreign trade, or foreign investment. The Kingdom has a leading position in the region as an open, free, transparent, and welcoming environment for investors. The monetary policy framework is geared to support the general economic goals of the Kingdom.

3.23. The Reserve Management Directorate of the CBB offers a foreign exchange facility for buying and selling Bahraini dinars against US dollar at rates very close to the official exchange rate.

3.24. The CBB does not maintain any administrative controls over market interest rates. There are no interest rate caps or floors and the CBB does not seek to influence directly the cost of credit or the distribution of credit in the economy. The private sector is thus free to allocate credit as it sees fit.

3.25. The CBB monetary policy operations aim to ensure that the liquidity situation in the banking sector is appropriate. The Bahraini dinar liquidity of the retail banks consists mainly of the clearing account balances they hold with the CBB. These balances, which can be traded between banks in the money market, fluctuate day to day, mainly as a consequence of the Government's conversions of US dollar to finance its domestic expenditure, the retail banks purchase of US dollars from the CBB, changes in the amount of currency in circulation and changes in the banks' reserve balances with the CBB.

3.26. It is important to have a monetary arrangement which mirrors that of major trading partners. The Bahraini dinar is pegged to the US dollar. The peg has been effectively unchanged since 1980. The use of a large foreign currency as a nominal anchor for monetary policy is a frequent arrangement among small open economies and has proven to be successful if supported by appropriate fiscal and structural policies. The US dollar peg serves to enhance credibility and transparency of monetary policy to maintain financial stability.

3.27. The CBB introduced additional amendments to the Operational Risk Management Module in May 2020 regarding outsourcing operation to cloud service providers. Cloud service providers are external companies (third parties) that provide a set of software, systems, and infrastructure over the Internet for storage and database services. These amendments require cloud service providers to comply with all laws and regulatory requirements in the Kingdom. The outsourcing contract must also clearly specify the procedures to be followed when outsourcing.

3.28. The CBB issued in May 2020 new amendments to the Financial Crime and High-Level Controls Modules to ensure compliance with all anti-money laundering and combating terrorist financing requirements.

3.29. The CBB issued Resolution No. (12) of 2020 regarding amending some of the provisions of Regulated Services Regulations. The amendment includes the new definition of financial sector support institutions: managing clearing rooms, settling payments, checks and securities, providing

credit information services, providing negotiable electronic instruments services, and training services in the financial field, in addition to providing other support services related to the financial services industry.

3.30. The CBB continued with its efforts towards continuous improvement in the financial sector. As such, new initiatives in this direction included providing guidance and issuing directives to licensees to take measures to support contactless payments, tokenization and single national QR switch as well as prepare themselves for implementing e-KYC and providing APIs for open banking platform.

3.31. The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) was launched on 10 December 2020, with the Central Bank of Bahrain and Saudi Central Bank being its first participants. AFAQ is the Real Time Gross Settlement system for cross-currency cross-border payments between the GCC countries. The first phase of AFAQ operational model will include several transferring services for the GCC member states currencies. The second phase will include other currencies like US dollars and euros which will enable processing cross border payments in addition to same-day settlement for the balances of central and retail bank's funds and financial centres. The system involves multiple stakeholders, including the Gulf Payments Company as an operator of the service, National Central Banks (NCBs) as the account holding and customer service providing institutions as well as monetary authoritative figures and finally certified retail banks as direct participants of the system.

3.32. Throughout 2020, The CBB had issued and continuously reviewed numerous measures to combat the financial repercussions of the pandemic. Such measures ranged from loan deferrals and concessions for all resident individuals and companies in the Kingdom of Bahrain, liquidity support for all licensees in the form of favourable rates and reduced LCR, NSFR, and cash reserves ratio requirements, easing of ECL requirements and staging, exemption and postponement of regulatory reporting requirements, reduction in eligible capital risk weights, and the promotion of near field communication technology (NFC), among others.

### **3.5 Islamic Banking**

3.33. The Shariah Board of the CBB has approved "Wakalah" which is a Shariah-compliant liquidity management tool for Islamic retail banks. It is the first of its kind in the region and aims to absorb the excess liquidity of local Islamic retail banks by placing it with the CBB. The total outstanding balance of Wakalah deposited by Islamic Banks was USD 434.56 million in December 2020, compared to USD 308.71million in December 2019, with a 41% increase.

3.34. As part of the ongoing efforts towards the development of Islamic banking and promoting Capital Market in the Kingdom of Bahrain, the CBB in collaboration with Bahrain Bourse has developed a Murabaha Sukuk Service for clients and Banks, which is a Shari'ah compliant liquidity and borrowing tool Launched on 1 June 2020. A total of 411 Murabaha Sukuk transactions were executed with a total value of USD 2,635.3 million during the year 2020.

### **3.6 Monetary Stability**

3.35. Monetary stability and a well-developed financial system significantly mitigate Bahrain's vulnerability to economic shocks, as does the demand led nature of developments.

3.36. The Central Bank of Bahrain (CBB) aims to ensure the continued soundness and stability of financial institutions and markets. The CBB believes that financial stability is critical for maintaining Bahrain's position as an international financial centre and for ensuring that the sector continues to contribute significantly to growth, employment, and development in Bahrain. The Central Bank of Bahrain (CBB) defines financial stability as a situation where there is continuous and prudent provision of financial services, even in the face of adverse shocks.

3.37. Monitoring financial stability is the primary responsibility of CBB's Financial Stability Directorate (FSD), which conducts regular surveillance of the financial system to identify areas of concern and undertakes research and analysis on issues relating to financial stability. The FSD is central to CBB's responsibility of maintaining monetary and financial stability.

3.38. The FSD's main strategic objective is to identify potential threats to the safety and soundness of the Bahraini financial system before they result in systemic financial crises. In pursuit of its objective, the FSD has the following responsibilities:

- a) Conducting regular macroprudential surveillance of the financial system to identify areas of concern.
- b) Conducting regular analysis of the safety and soundness of the Bahraini financial system through Financial Soundness Indicators (FSI's) developed to continuously monitor the financial sector.
- c) Monitoring domestic and international macroeconomic developments, with a view to assessing potential implications for financial stability in Bahrain.
- d) Advising CBB top management on issues and policies relating to maintaining the stability of the financial sector in Bahrain.
- e) Overseeing the operations, safety and efficiency of the national payment and settlement systems and the Financial Market Infrastructure (FMI) in the Kingdom of Bahrain for the evaluation of any financial stability risks.

3.39. A key component of CBB's financial sector surveillance framework is the Financial Stability Report (FSR). Produced semi-annually by the FSD, the FSR is prepared for the CBB management and is also a key tool aimed at informing the public. Its principal purpose is macro-prudential surveillance, assessing the safety and soundness of the financial system, reviewing recent trends, detecting areas of concern that require supervisory and policy attention and identifying potential risks to financial stability to mitigate them before they develop into systemic risk.

3.40. As per the CBB Law, the CBB is the sole overseer of FMIs and Payment Systems in the Kingdom of Bahrain. The FMIs and Payment Oversight Division is under the FSD with the principle role to oversee:

- a) Systemically Important Payment Systems (SIPS).
- b) Major Retail Payment Systems (MRPS).

3.41. The division relies on Principles for Financial Markets Infrastructures (PFMIs) proposed by the Committee on Payment and Settlement Systems (CPSS) at the Bank for International Settlement (BIS) in conducting and implementing the overall Oversight process.

3.42. Following the rapid changes in the global financial sector and the emergence of new technologies in finance, the FMIs and Payment Oversight includes Payment Instruments, Payment Channels, Critical Service Providers (CSP), Third Party Payment Providers (TPPP), Payment Service Providers (PSP), Ancillary Services, Payment Initiation (PI), Payment Innovation, Open Banking, and Cyber Resilience.

### **3.7 Bahrain Investment Market**

3.43. Bahrain Investment Market is an innovative equity market that is designed to enable fast-growing companies in the Kingdom of Bahrain, the GCC and wider MENA region to obtain growth capital via direct offering.

3.44. It is a platform for non-listed Bahraini shareholding closed companies and it provides for the following services:

- a) Direct trading of shares between shareholders Real Time ownership transfers between shareholders.
- b) Value-added services like share options, dividend distribution, E-voting and AGM management.

- c) Streamlined services provided to closed companies by eliminating requirements of notarization in memorandum of association in cases of trade between shareholders.
- d) Assists these companies in order for them to qualify to convert from a closed shareholding companies into public companies in future.

3.45. BIM aims to attract listing of growth companies in a number of key target sectors, namely: manufacturing, real estate, logistics, ITC, food and beverages, medical services, education and tourism and leisure.

### **3.8 National Bureau for Revenue**

3.46. The National Bureau for Revenue (NBR) was established by Royal decree (45) of the year 2018 as amended by Royal decree (9) of the year 2019, for the establishment and organization of NBR and is affiliated to H.E. the Minister of Finance and National Economy.

3.47. NBR is responsible for the registration of entities and individuals subject to VAT and Excise Tax, as well as the following:

- a) Validating the return filings of the entities and the related assessment.
- b) Collecting the VAT and Excise dues.
- c) Releasing refunds to the entities.
- d) Auditing and processing of any appeal.
- e) Monitoring and enforcement of compliance.

3.48. The Kingdom of Bahrain introduced Excise Tax system on 30 December 2017, in accordance with Law No. 39 of 2017 ratifying the Unified Agreement on Selective Tax for the Countries of the Cooperation Council for the Arab States of the Gulf. The Excise Tax is imposed on specific goods harmful to human health and the environment. The aim of the tax is to discourage citizens from consuming products that are harmful to health. Excise Tax revenues contribute to the treatment of diseases resulting from the consumption of these products. Excise Tax are imposed on the retail price of the following products: carbonated drinks (50%), energy drinks (100%) and tobacco and its derivatives (100%).

3.49. In 2018, Bahrain has issued Decree-Law No. (47) of 2018 ratifying the Unified Agreement for Value Added Tax for the Countries of the Cooperation Council for the Arab States of the Gulf as well as Decree-Law No. (48) of 2018 Issuing the Value Added Tax Law. Accordingly, Value Added Tax (VAT) has been applied in the Kingdom of Bahrain from 1 January 2019. VAT is imposed on the import and supply of Goods and Services at each stage of production and distribution, including "Deemed Supplies". The standard rate is (5%). Certain goods and services are subject to a zero-rate (0%) of VAT and others are exempt from VAT.

### **3.9 Privatization**

3.50. The Kingdom of Bahrain Privatization Program falls in line with the Kingdom's economic development goals as part of its Economic Vision 2030 that aims for a diversified economy beyond the oil sector towards high-potential, export-oriented sectors, such as tourism, manufacturing, and business services.

3.51. The Privatization Programme – which falls under the supervision of the Ministry of Finance and National Economy and the EDB – concentrates on tourism, communications, transportation, electricity and water, the ports and airport service, oil and gas, and postal service.

3.52. In March 2021, Bahrain hosted a global event, the Bahrain Metro Market Consultation, to seek out private enterprises interested in establishing a public private partnership (PPP) for the development of its metro system. It is the latest development in Bahrain's privatization efforts as

the Government has continuously emphasized the creation of a business-friendly environment to attract investors to the country.

3.53. Such efforts have been recognized by the World Bank, which currently ranks Bahrain as the second-best country in the Middle East and North Africa, for the ease of doing business. This comes as part of the effort to diversify and develop the economy in line with the country's Vision 2030.

3.54. The Government also adopted a Legislation with respect to Regulating Government Tenders and Procurements, creating a Tender Board to establish effective procurement practices and systems to facilitate private sector growth. These measures form the basis of privatization initiatives in Bahrain, supporting privatization projects in several sectors, including the public bus network in 2015.

3.55. In 2017, the Ministry of Housing Launched the "Mazaya" mortgage financing scheme with a number of private banks. Moreover, the Ministry of Housing in 2019 has launched the Developing Government Lands Program, which entails the construction of 15,000 housing units over a 10-year period by the private sector. On 23 October 2013, His Excellency Sheikh Khalid bin Abdullah Al Khalifa, Deputy Prime Minister, patronized the inauguration ceremony of the Social Housing Financing Scheme "MAZAYA", which provides citizens access to housing finance from banks participating in the programme, with government financial support, to contribute in the monthly instalments. The programme allows citizens to select and purchase housing units that meet their needs at affordable prices.<sup>1</sup>

3.56. Similar investments are equally seen in infrastructure:

- a) Khalifa bin Salman Port (KBSP) commenced its operation in 2009 with a total cost of USD 361.5 million. The port is operated by an international private company with an investment of USD 62 million into the port.
- b) Moreover, work is underway on the USD 3.5 billion King Hamad Causeway, the second land crossing linking Bahrain and Saudi Arabia, after an agreement was signed with the governments of the two countries, in 2019. King Hamad Causeway bridge would be parallel to the existing King Fahd Causeway (first land linkage between the two countries was in 1986) and complementary to the Gulf Railway Network project. The project will be implemented in partnership with multinational private enterprises.

3.57. Further, Aldur phase-II IWPP is already launched to boost the electricity production to 1,234 MW and water production to 48 MGD. Currently, the private sector produces around 90% of power generation capacity, and 80% of water requirement of the Kingdom. The privatization initiative is further extended to produce green power through development of grid interactive solar park in Askar to provide more than 100 MW of power, some part of which around 50 MW. Development of modern and efficient Aldur phase-II IWPP has phased out the old and inefficient Sitra Power and Water Station.

3.58. Thus, privatization will contribute to Bahrain's long-term plans for economic development and diversification. This becomes particularly relevant amidst the COVID-19 pandemic, which, together with the global oil price collapse in 2020, has led to a fall in the economic growth rate to a decade's low of -5.1% as unemployment levels rose to 4.9% in 2020. Such a hit to the economy has challenged government efforts to generate revenue and reduce spending. Indeed, the Government introduced a USD 11.2 billion stimulus package in April 2020, combined with business subsidies, as the budget deficit increased from -9% of GDP in 2019 to -18.3 % of GDP in 2020. In this sense, the impetus behind continued privatization efforts is likely to gain increasing traction as Bahrain attempts to recover from the pandemic.

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<sup>1</sup> <https://ministryofhousingstaticfiles.s3.me-south-1.amazonaws.com/reports/files/MOH+-+En+2017.pdf>.



3.59. The private sector is designed to stimulate economic growth by:

- a) enhancing productivity to achieve the ambition of being on par with global productivity leaders;
- b) increasing the skill set of the population and offering quality, high-wage employment opportunities in high-value added sectors to ensure that every Bahraini household has at least twice as much disposable income in real terms; and
- c) achieve the Government's aims of creating new and improved infrastructure, as well as offering a higher quality of services at large in the country, while downsizing the public sector and freeing up a sizeable portion of government funds.

3.60. Indeed, here the private sector can aid Bahrain's expansion into knowledge-based sectors by stimulating entrepreneurship and innovation, all of which will open new global markets to Bahrain and increase its regional and international competitiveness.

### **3.10 Small and Medium Enterprises and Startups**

3.61. Small and medium enterprises are one of the most vital factors serving sustainable development in the Kingdom through a variety of projects and investments supporting Bahrain's efforts in terms of economic diversification, as they represent 98% of locally registered companies.

3.62. Based on the directives of HRH the Crown Prince and Prime Minister, Chairman of the Bahrain Economic Development Board "EDB", the Small and Medium Enterprises Development Board (SDB) was created during 2017.

3.63. The SMEs Development Board (SDB) is a public-private collaboration initiative that aims to strengthening SMEs capacities to boost their competitiveness in domestic, regional, and global markets. It is chaired by the Minister of Industry, Commerce, and Tourism and includes on its board the Minister for Youth and Sports, the Chief Executive of the EDB, the Chief Executive of Labour Fund "Tamkeen", the CEO of Bahrain Development Bank (BDB).

3.64. The EDB board endorsed the SDB's strategic plan within the National Plan for the development of the sector during February 2018, with an aim as well to:

- a) Increasing the SMEs contribution to the Kingdom's GDP to reach 40% by the year 2022.
- b) Increasing their exports shares to reach 20% by the year 2022.
- c) Increasing the number of job opportunities to reach 43,000 by the year 2022.

3.65. The SDB strategic plan has launched 17 initiatives within its framework during 2018 under five strategic pillars, which are: access to finance, access to market, streamline business environment, foster skill development, and foster innovation. In addition to that, the Cabinet Ministerial Committee for Financial and Economic Affairs and Fiscal Balance has endorsed five additional initiatives in January 2020.

3.66. In 2017, the Government of Bahrain issued a Cabinet decision to allocate 20% of the value of government procurements and tenders for SMEs, and to obtain a preference of 10% in the biddings for the utilities that take place within the Government's facilities.

3.67. The Kingdom of Bahrain launched multiple programmes to assist SMEs in accessing markets in different sectors, as well as multiple initiatives related to access to finance for SMEs.

3.68. Additionally, Bahrain's digital transformation is in support of building a world-class springboard for innovators and start-ups. The Kingdom's regulatory environment and trusted digital infrastructure is encouraging an increasingly diverse range of world-class tech companies to choose Bahrain as the base for growing their businesses.



3.69. "Startup Bahrain" initiative supported by Bahrain Economic Development Board (EDB) offers an ecosystem that works to guide, develop, and support startups, as well as forging new connections that bring together investors, accelerators, incubators, and governments. The initiative focuses on six pillars: the start-up community, incubators and accelerators, finance, education, regulation, and corporate partnership.

3.70. Moreover, in May 2017 the Central Bank of Bahrain (CBB) issued "The Regulatory Sandbox Framework" through its Fintech and Innovation Unit, which is a virtual space for both CBB-licensed financial institutions and other firms to test their technology-based innovative Startups relevant to FinTech or the financial sector in general. Since its issuance date until 2020 the CBB has received more than 100 applications to join the Regulatory Sandbox, 11 of which succeeded in exiting.

3.71. "Al Waha Fund of Funds" is a USD 100 million venture capital fund which aims to provide funding access to Bahrain's start-up industry. The fund is focused on investing in technology, fintech and smart cities with the objective of bringing Bahrain and the MENA region to the forefront of global technological advances, as a hub for venture capital, startups, and technology companies. It primarily invests in venture capital funds that in turn invest directly in companies that are at the early stages of funding and/or can provide strategic impact through their expertise and network. The fund is managed by Bahrain Development Bank and its subscribers including Bahrain Mumtalakat Holding Company.

3.72. Solar Financing Scheme as part of Tamkeen's Tamweel Scheme to empower enterprises and enable them to purchase solar energy panels to generate energy which in turn will help them reduce their costs.

3.73. The Business Development Program Tamkeen is a co-financing programme that provides financial grants to aid growth and development within enterprises located in Bahrain. Tamkeen shall cover up to 50% of the cost for approved items/services based on the grant allocated to the enterprise. The grant allocated shall be determined by the enterprise's business requirements. The grant provided can be utilized across the following support schemes offered by the programme, Machinery & Equipment, Marketing & Branding, Information & Communication Technology, Cloud Computing, Exhibition Participation, Business Consulting, Quality Management, Accounting & Audit.

3.74. The Supreme Council for Women's Riyadat Financing Program is specifically designed to support woman-owned start-ups to help them develop and grow. Tamkeen, in collaboration with the Bahrain Development Bank, provides these companies with access to Sharia-compliant financing at a competitive profit rate, wherein Tamkeen provides support 60% of the annual nominal profit rate (capped at an 8% reducing balance).

3.75. Microfinance is a way for entrepreneurs to obtain affordable financing that they wouldn't be able to access through conventional banking. Tamkeen and the Family Bank offer the Microfinance Program which enables to obtain microfinancing that is Sharia-compliant and affordable. The programme empowers individuals with limited income to be able to establish new micro-business activities as well as support existing businesses.

3.76. The launch of business incubators and accelerators to nurture, develop and accelerate the growth of innovative Start-ups and SME business by offering a full range of services, facilities, support mechanisms and consultation for a specific period of time, in order to ease the challenges and difficulties faced by companies during their first stage of operation. Until July 2021, 24 incubators and accelerators have been licensed incubating 761 start-up businesses in various fields such as IoT, Technology, Fintech, E-commerce, Media, Creative industry & Medical.

3.77. Bahrain is concurrently focusing on developing a competitive SME sector, delivering international quality products and services, and contributing to quality employment opportunities.

### **3.11 Export Bahrain**

3.78. Export Bahrain is the Kingdom's first dedicated platform and the national export development and internationalization support arm of Bahrain that was launched in November 2018, under the purview of the SME Development Board as part of a national effort to support SME business expansion and international growth. Export Bahrain acts as a local partner to all businesses, creating

a successful roadmap for exporting to reinforce the Kingdom of Bahrain's position as a strategic global export hub and an international trade partner.

3.79. Export Bahrain's key mission is to promote, nurture and accelerate the growth of local businesses, products and services made in the Kingdom of Bahrain and enable exporters to take on more challenging, high-growth export markets.

3.80. Since its establishment Exports Bahrain facilitated in exporting 46 types of goods and services equivalent to USD 74 million (7% of services exports). Export Bahrain achieved a new milestone by facilitating over USD 100 million SME exports as of June 2021 to 55 markets globally, of which 36% are new markets, 18% are new exporters, 36% are businesses owned by women.

3.81. Since the inception of Export Bahrain, the company has strived to partner up with organizations that will add value to the exporting trade economy in Bahrain where customers would benefit from these partnerships by making their exporting procedures easier, faster and more cost effective in order to encourage more Bahraini based businesses to export.

3.82. Sustainability support schemes (with the introduction of VAT): Support programme for accounting and financial audit services aims to adopt accounting systems in accordance with international standards.

3.83. Export Bahrain has initiated and developed key solutions and services to support and nurture Bahraini based businesses in their export procedures. Through these solutions, Export Bahrain targets to deliver Bahrain to the global map by facilitating exporting deals of products and services that are made in Bahrain.

3.84. Export Bahrain's vision of putting Bahrain in the forefront of the globe in the export trade economy is well in route and it has had many great achievements and success. The desire to keep pushing Bahrain based businesses to export and reach global markets and expand their reach to new levels in the market is stronger than ever as more businesses are encouraged to complete their exporting deals.

### **3.12 Environment and Sustainable Energy**

3.85. In 2019, Decree No. (87) of 2019 was issued establishing the Sustainable Energy Authority (SEA), with an aim to develop a cohesive and sustainable energy policy and to promote renewable energy and energy efficiency in the Kingdom of Bahrain to ensure rapid progress towards the Kingdom's National Renewable Energy Targets and National Energy Efficiency targets by highlighting barriers to their achievement and taking clear and decisive action to ensure the barriers are overcome.

3.86. SEA works with both the public and private sector energy stakeholders as well as the private commercial, industrial, and residential end users of energy to promote and recommend legislation where needed to ensure uptake of sustainable energy best practices.

3.87. Go Green Initiative:

- a) Prepared by the Sustainable Energy Authority in cooperation with the Ministry of Works, Municipalities Affairs and Urban Planning as one of the twenty-two initiatives included in the National Energy Efficiency Plan. This guide is considered a pioneering and important step in the history of The Kingdom of Bahrain, as it constitutes a basic reference for all sectors with regard to the standards and special requirements that must be adhered to when requesting new building permits, which encourage and contribute to building more energy-efficient buildings, thus saving an estimated 20% to 30% of electric energy and water. The Green Building Guide includes ten mandatory requirements and 64 optional requirements.
- b) Work is currently underway, in coordination with the Ministry of Works, Municipalities Affairs and Urban Planning, to prepare complementary policies to the green building guide through which buildings are classified according to their energy and water savings and their compliance with the mandatory and optional requirements included in the green

building guide. Green building classification policies will be one of the important and basic tools for evaluating investments in buildings, and determining investment returns from integrating renewable energy solutions into buildings and applying techniques for improving energy efficiency in them.

3.88. The Electricity and Water Authority (EWA) launched a 5 MW hybrid solar and wind pilot power plant at Ras AbuJarjur to produce 3 MW from solar and 2 MW from wind to address the issues of greenhouse gas emission for the protection of environment.

3.89. Ministry of Industry, Commerce and Tourism (MOICT) have launched numbers of the Energy Efficiency initiatives in cooperation with relevant entities to increase energy efficiency potential in Bahrain:

- a) MOICT in cooperation with the World Bank and EWA launched the phase out of condensate lamp project on year 2015, initiated the Min. Energy Performance & Labelling for lightening Technical Regulation by issuing the Ministerial Order No. (3) 2015, the initiative was implemented, and Technical Regulation have been published for a directional lighting which making a considerable impact in improving the energy efficiency of the country's buildings. They last 5 times longer than traditional lightbulbs and produce the same amount of light while using up to 80% less electric power. The Technical Regulation direct the retailers to no longer be able to sell the majority of halogen bulbs for general household use in the Kingdom of Bahrain.
- b) Energy Performance Technical Regulation & Labelling: AC's: As per the Ministerial Order No. (70) 2015, the regulation on energy labelling and minimum energy performance requirements for air-conditioners has been implemented in Bahrain. This regulation specifies the Minimum Energy Performance Standard (MEPS) and the energy labelling requirements for air conditioning units and heat pumps used in residential and commercial sector and will be implemented in the industrial sector in the future. This minimum energy efficiency of air conditioners sold in Bahrain, and labels have been developed to increase consumers' awareness of energy efficiency in their choices when purchasing air conditioners. On 1 April 2021, a new electronic platform for the Energy Efficiency Rate label has been developed and came into force, which enables the economic operators, notifying bodies and the regulating bodies to complete all the required procedures online through the system.
- c) Vehicles & Tires Efficiency Technical Regulation & Labelling: Implementation of the Efficiency technical regulation on labelling of vehicles and tires with respect to fuel efficiency and other essential parameters have been entered into force for the models of year 2018 and after those imported to Bahrain market through the custom borders to the purpose of commercial use. Massive awareness campaigns conducted by the Testing and metrology Directorate to educate merchants, citizens, and residents. Market surveillance campaigns carried out in order to verify the conformity of technical regulations.
- d) Electric Vehicles Technical Regulation: The National Technical Regulation BH 1:2021 has been approved as per the Ministerial Order No (16) for 2021 regarding Electric Vehicles. This technical regulation covers Electrical Vehicles, with maximum GVW less than 3,500 kg, and a maximum design speed exceeding 25 km/h has been entered into force by 28 July 2021 in the Kingdom of Bahrain. The Technical Regulation for electric vehicles covers the vehicle, battery, charger, charging station and the energy efficiency labels. The ministry confirms that it meets the national directives to develop an integrated strategy to adopt and integrate sustainable mobility solutions and technologies in the Kingdom, as the Ministry works in cooperation and coordination with the Sustainable Energy Authority to develop strategies with an integrated and comprehensive perspective to sustain the transition from traditional vehicles to high-efficiency and environmentally friendly vehicles, and the Ministry seeks through the national energy efficiency plan adopted by the Cabinet and set clear initiatives and objectives to increase energy efficiency by rationalizing energy consumption by 6% and raising the reliance on renewable energy to 5% and raised to 10% in 2035. More such projects of power generation from renewable sources are being planned in view mitigating the global warming issues.

3.90. Bahrain has also participated in the development of a cross border grid named GCCIA (Gulf Cooperation Council Interconnection Authority) together with other member States KSA, UAE, Oman, Qatar, and Kuwait to exchange power and save cost on avoided generation and reduce emission.

### **3.13 Transportation, Logistics & Telecommunication**

3.91. Along with so many business opportunities, Bahrain offers a wide range of logistics business opportunities for international companies looking to establish a cost-effective distribution and fulfilment base in the region with companies such as DHL and Agility choosing Bahrain as a hub for their operations in the Gulf.

3.92. Strategically situated in the heart of the Gulf, Bahrain offers transportation and logistics businesses unparalleled access to a growing regional customer base throughout the Middle East. Offering the shortest transit time between seaport, airport, and industrial zones within the GCC, allowing for superior freight turnaround times and procedures.

3.93. To ensure the availability of infrastructure required to maintain and enhance the Kingdom's position as a regional telecommunication hub, a single national broadband network infrastructure was created through the separation of the wholesale unit of the incumbent operator and the creation of a separate legal entity Bahrain Network BSC(c) (BNet) to deliver ultra-fast broadband products and services (The Separation Project). BNet's mandate is to supply wholesale products and services based on fibre optic technology to all licensed operators in the Kingdom on a non-discriminatory basis (2016-19).

3.94. As a result of the aforementioned separation project, The Kingdom of Bahrain was awarded the "Regulatory Initiative of the Year in the MENA region" award in 2019 at CommsMEA's annual Awards ceremony in Dubai. The Kingdom of Bahrain was the first country in the Middle East and North Africa region to have successfully accomplished the project, with only seven countries achieving this worldwide.

3.95. Bahrain's telecommunications sector generates skilled job opportunities, especially for youth. Presently, 2,922 people work in the sector, marking a 52% increase since the launch of the liberalization policies in 2003. Bahrain is the regional headquarters for Huawei for the creation and acceleration of Bahrain's 5G ecosystem.

### **3.14 Digital Economy**

3.96. The past few years have been marked as the most definitive chapter yet in Bahrain's journey to becoming a fully-fledged digital economy, as the Kingdom has continued to invest in its world-class ICT infrastructure and pioneers' regulations that nurture innovation and is seeing digital transformation of key sectors across the board.

3.97. Bahrain currently houses a number of international companies, as the region's hyperscale data centre in which it has left its imprint on the country as the Kingdom now has a vital role to play as the regional base of these companies' global cloud network. The business landscape has been enriched by the cloud's benefits, promising to deliver a digital ecosystem that makes companies more efficient, more competitive, and more attractive.

3.98. Bahrain's government Cloud First policy has played a key role in the ICT sector's transformation, it gives companies within the Kingdom the support to grow and innovate through its agile regulatory system encouraging forward-thinking investment. Government departments from top down have leveraged the cloud to underpin one of the region's most progressive e-governments, and the private sector has followed suit using cloud network technologies to drive innovation.

3.99. Bahrain continues to enhance its investment ecosystem by implementing legislative and policy reforms to maintain the Kingdom's position at the forefront of enabling a digital economy, examples of those are the following laws:

- a) The Personal Data Protection Law, issued in 2018, which promotes the efficient and secure processing of big data for commercial use and provides guidelines for the effective transfer of data across borders.<sup>2</sup>
- b) Tradeable Electronic Records Law, issued in 2018, modelled on the United Nations Commission on International Trade Law (UNCITRAL) e-commerce model laws, Bahrain has become the first country to enact an Electronic Transferable Records Law. This new piece of legislation allows for electronic transferable documents including bills of lading, promissory notes among others, equivalent to traditional commercial documentation issued on paper. This fully paperless approach allows the holder of the electronic documents to claim payment of a sum of money or delivery of certain goods, ultimately creating unparalleled efficiency in the logistics supply chain's financial workflow. This modern new law further facilitates the future potential use of blockchain in FinTech and logistics.<sup>3</sup>
- c) Law for the Provision of Cloud Computing Services by Foreign Parties, issued in 2018, that aims to encourage the use of cloud computing services by foreign parties and investments in data centres in Bahrain, which means that authorities in designated foreign states will retain jurisdiction over the data of government entities and corporations established or constituted in such countries when they use designated data centres in Bahrain.<sup>4</sup>
- d) Law Approving Bahrain Joining the United Nations Convention on the Use of Electronic Communications in International Contracts, issued in 2020, which aims at facilitating the use of electronic communications in international trade by assuring that contracts concluded, and other communications exchanged electronically are as valid and enforceable as their traditional paper-based equivalents.<sup>5</sup>

3.100. The transformation of Bahrain's vibrant FinTech ecosystem has been driven by unmatched regulatory reform, paving the way for emerging industries to establish themselves, including:

- a) CRYPTO-Asset Platform Operators (CPO), which includes rigorous customer background checks, governance standards and controls on cybersecurity risks, will serve Bahrain and its investors well as they capitalize on a rapidly evolving industry.
- b) The Central Bank of Bahrain (CBB) furthered The Kingdom's reputation as the region's leading testbed for innovative regulation with the launch of new cryptocurrency laws, paving the way for the Middle East's first fully licensed exchange, Rain. Insurance-Aggregators Rules, which is an important step to transforming Bahrain's insurance market by the CBB. The new framework will open-up new opportunities within "InsureTech", a technology led evolution of the sector that is rapidly gathering momentum globally, giving customers the flexibility to review quotes from several brokers under a single electronic platform. The CBB issued new Rules on open banking requirements under the General Requirements Module with the objective of supporting Bahrain's role as a global fintech hub. Accordingly, the Banking Supervision Directorates in cooperation with the Fintech and Innovation Unit at CBB continued their close monitoring of the industry's adoption and application of open banking practices, while advising licensees with unsatisfactory track record to enhance their compliance with the same.

3.101. The FinTech & Innovation Unit at the Central Bank of Bahrain, in partnership with Fintech Galaxy, launched a beta version of FinHub 973 in October 2020, which will operate as Bahrain's central digital lab, overseen by the CBB. The digital lab will enable financial institutions to connect

<sup>2</sup> <https://www.legalaffairs.gov.bh/LegislationSearchDetails.aspx?id=14320>.

<sup>3</sup> <https://www.legalaffairs.gov.bh/Media/LegalPDF/K0120.pdf>.

<sup>4</sup> <https://www.legalaffairs.gov.bh/LegislationSearchDetails.aspx?id=14594>.

<sup>5</sup> <https://www.legalaffairs.gov.bh/Media/LegalPDF/K0120.pdf>.

with fintechs from all over the world through open APIs, where companies will be able to test innovative solutions through a centralized marketplace.

3.102. Due to the agile governmental regulatory framework and its recent reforms, ABC Bank launched "ila" its digital, mobile-only bank in Bahrain, the latest in a series of initiatives to promote Bahrain as a FinTech hub for the region. The bank uses an instant virtual card for online transactions, offering flexible funding options, in-app card controls and accounts that allow the customer to store money in foreign currency. The Bank employs the latest AI technology to best answer customer queries and one of its most innovative features is perhaps the first that can be enjoyed: opening an account takes just two minutes and requires nothing more than two IDs and a selfie.

3.103. The Ministry of Industry, Commerce and Tourism launched the National eCommerce Strategy 2019-2022 which aims to create an eCommerce ecosystem striving to make the Kingdom as a regional eCommerce preferred centre, through developing and streamlining regulatory policies and frameworks, improving consumer confidence in eCommerce and supporting SMEs via a range of initiatives aimed to achieve the following:

- a) Regulating and fostering eCommerce in the Kingdom of Bahrain.
- b) Elevating the level of eCommerce standards.
- c) Empowering SMEs.
- d) Supporting the local market by attracting international companies in eCommerce.
- e) Boosting Bahrain exports competitiveness.

3.104. Given the Kingdom of Bahrain's digital development and the availability of a secure and strong infrastructure in the field of communications and information technology, e-commerce has become increasingly popular at a rapid pace and has brought about a remarkable leap in electronic stores in the Kingdom of Bahrain, where the percentage of e-commerce is expected to grow to higher levels by the year 2022, an increase of 16.4%, globally.

### **3.15 Encouraging Inward investment**

3.105. The Government of Bahrain has adopted a strategic plan to develop six key economic sectors, namely financial services, information and communication technology, industry, logistics, tourism, and oil. The Economic Development Board has enhanced engagement with investors at home and abroad by highlighting the investment opportunities offered by the Kingdom in these areas. As a result, the volume of inward foreign direct investment into the Kingdom of Bahrain reached USD 31.7 billion while flows about USD 1 billion in 2020.

3.106. A number of initiatives has been implemented to increase the volume of foreign and local investments and create job opportunities: The Economic Development Board continues to target international markets, operating through more than 22 global offices. The board's efforts contributed to an increase of compound annual growth rate of 3.6% in foreign direct investment between 2010 and 2020.

3.107. In August 2021, a decision was issued by HRH the Crown Prince and Prime Minister specifying the commercial activities that companies with foreign capital may be licensed to practice in Bahrain. Foreign-owned companies have had access to a wide range of economic activities being permitted to have full ownership in 64% of economic activities. The newly issued decision liberalized 33% of economic activities (previously restricted to 49% foreign ownership) by allowing a higher percentage in foreign ownership in these activities subject to the presence of a Bahraini shareholder (percentage of foreign ownership is determined and agreed upon by the shareholders). Furthermore, 100% foreign ownership can be granted for the majority of retail activities which mandate the presence of a Bahraini shareholder, subject to satisfying a set of criteria issued by the Ministerial Cabinet. Of the



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remaining economic activities 3% restrict foreign ownership to 49%, while foreign access is prohibited in the other 3%.<sup>6</sup>

3.108. In accordance to the amendments made to the Commercial Register Law in in 2018, the Ministry of Industry, Commerce, and Tourism issued an order in 2018, stipulating the need for all registered companies (new and existing) to disclose their Ultimate Beneficiary. As such, a company must disclose the names of shareholders holding a 5% or more stake or interest. They should indicate the name of the natural person who holds shares in the company natural person on whose behalf a transaction is being conducted (the final beneficiary). The step is in line with global best practices and aims at ensuring compliance to good governance and limiting misuse for illicit purposes, including money laundering (ML), bribery and corruption, insider dealings, tax fraud, terrorist financing (TF), and other illegal activities. The misuse of corporate vehicles could be significantly reduced if information regarding both the legal owner and the beneficial owner, the source of the corporate vehicle's assets, and its activities were readily available to the authorities.

3.109. Measures were implemented to streamline visa procedures, aimed at increasing tourism and business activities. Currently, more than 121 nationalities are able to obtain an electronic visa, with 68 nationalities able to obtain a visa on arrival.

3.110. A national strategy to revive the pearling industry was launched to strengthen and capitalize on Bahrain's historic status as a global pearling centre, providing the necessary services and infrastructure to encourage pearl diving trips for locals and tourists. The strategy also established the Bahrain Institute for Pearls and Gemstones (DANAT), which aims to serve as an international hub for gemological research and expertise.

3.111. "Start Up Bahrain" was launched in 2016, with the aim to stimulate and encourage entrepreneurial culture in the Kingdom. The initiative focuses on six pillars: the start-up community, incubators and accelerators, finance, education, regulation, and corporate partnership.

3.112. A comprehensive strategy for the development of the logistics sector was implemented to ensure Bahrain capitalizes on its strategic location as a logistics hub for the region.

3.113. To achieve that aim the legislative system got Updated including introduction of a new law for the maritime sector in line with national and international requirements. Taking the necessary procedures to join the international and regional conventions and treaties related to the maritime sector and the port sector, and introducing a manual of rules and regulations related to the management of the Bahrain Logistics Zone.

3.114. To further upgrade the services provided at Khalifa Bin Salman Port, private berths, marine navigation and the Bahrain Logistics Zone, the performance of the company operating the Khalifa Bin Salman was reviewed and evaluated to provide high quality port services. The single window system was applied at Khalifa Bin Salman Port. Also, the ship traffic management system and control tower operations got developed and updated. Authorities continuously kept reviewing the tariffs of private ports and berths and ensuring their application, in order to enhance competitiveness at the regional level.

3.115. Development of the infrastructure, logistics and port facilities included deepening the main shipping channel by the end of 2016. Building special warehouses in cooperation with the private sector in the logistics area. Developing the Bahrain Logistics Zone gate and constructing the Security and Customs building.

3.116. Bahrain hosted the first Gulf Gateway Investment forum in 2018, which highlighted significant investment opportunities in vital economic sectors. The inaugural event was attended by more than 850 international investors, business leaders and public sector officials from more than 40 countries and showcased USD 26 billion worth of investment projects.

3.117. Several projects were also discussed at the "Peace to Prosperity" Workshop that was held in Bahrain in 2019 which focused on the role of the private sector in securing the economic outlook of the Middle East with panels and conversations on some key topics including infrastructure

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<sup>6</sup> <https://www.legalaffairs.gov.bh/Media/LegalPDF/RCAB4021.pdf>.

development, supporting the entrepreneurial ecosystem, the importance of women's empowerment, and the need for workforce development.

3.118. Furthermore, Bahrain International Airport's USD 1.1 billion new passenger terminal began operations in January 2021 – marking a new era for the Kingdom of Bahrain's aviation sector. At 207,000 square metres in size, it is roughly quadruple the size of the old terminal. The new, expanded, airport will have the capacity for handling about 14 million passengers per year.

3.119. According to the provisional results of the 2020 Foreign Direct Investment survey issued by the Information and eGovernment Authority and conducted in collaboration with the Central Bank of Bahrain (CBB) and the Economic Development Board (EDB), the inflows of foreign direct investment to Bahrain by end of 2020 amounted to about USD 1,002.83 million, increasing the value of the stocks to USD 31.57 billion by end of 2020. On the other hand, flows decreased during Q4 2020, by 1.7% compared to Q3 2020. In terms of stocks, the financial and insurance activities dominate with about USD 20,724.60 million, a decrease of 3.3% compared to Q3 2020, followed by manufacturing sector stocks which amounted to USD 4,324.37 million, an increase of 0.5% compared to Q3 2020. Kuwait remains the biggest contributor in term of stocks with 28.1% of total. FDI inflows during 2020 were dominated mostly by professional, scientific, and technical activities (USD 981.87 million), construction (USD 393.70 million), and the wholesale and retail sectors (USD 369.83 million). Foreign investment from Luxembourg constituted 65.6%, or USD 658.47 million, of the total inflows, followed by the Cayman Islands with USD 247.52 million (24.6%), and India with USD 181.99 million (18.1%).

3.120. Bahrain was named Global Best to Invest Per Capita in the Mac Conway Awards 2016, 2017 and 2018. Conway's Best to Invest rankings are determined by the level of capital investment in each country, along with performance on key international indices published by organizations such as the World Bank, WEF and UNDP. The rankings also saw EDB included in the list of Top Investment Promotion Agencies (IPAs) for 2018 – one of only four agencies from the region. Selection criteria included access to recent investors, investor confidentiality and after-care services. This recognition reflects Bahrain's outstanding FDI performance. FDI grew by 114% in 2017, marking the highest growth rate in the GCC, and a testament to the bold reforms underway to continue leading the pack as an investment destination.

3.121. Bahrain has started the economic transformation since the sixties of the last century by focusing on key growth sectors and opening them up to competition. The result is that Bahrain is now the region's most diversified economy, with non-oil sectors contributing 81.4% of GDP. At the heart of that success is the understanding that it takes a unified effort by Government, in dialogue with business, to create an environment in which wealth creators can thrive. We call it our Team Bahrain approach. Team Bahrain is about Bahrain's agile Government working together and with the private sector to create bespoke solutions for investors and entrepreneurs looking to base their activities in the Kingdom.

3.122. The Team Bahrain approach applies whether it's a large multinational looking to invest or a startup with a bold idea needing a supportive environment. Amazon Web Services' (AWS) decision last year to base its first Middle East region in Bahrain was evidence of the Team Bahrain philosophy in action. The Kingdom's business-centred approach and ability to make things happen – including the successful introduction of a Cloud First Policy across government – were decisive in AWS's landmark investment, which will deliver enormous benefits to technology- and data-driven businesses across the region. Similarly, numerous branches of the Government worked successfully together to ensure that Mondelez was able to establish its sixth global mega-plant in Bahrain – leading to the adoption of their slogan "Ocean to Oreos". The USD 90 million, 250,000 square metre 'factory of the future' has a capacity of nearly 45,000 tonnes per year and serves as a hub for exports from Bahrain to the World.

### **3.16 Importance of Intellectual Property Rights**

3.123. Bahrain is a Member State Country of several International IPR's treaties and conventions, which administrated by WIPO and WTO International Organizations. Also, Bahrain is continuing to apply, enforce and administrate IP national laws that keep pace with IPR's international treaties and promote Intellectual Property Protections to nationals, inventors, entities, SMEs, and entrepreneurs in Bahrain's local markets.



3.124. In 2020, the Kingdom of Bahrain ranks 79<sup>th</sup> among the 131 economies featured in the Global Innovation Index (GII 2020) on innovation capabilities. Therefore, Bahrain aims to move forward with policies and reforms that focus on utilizing intellectual property rights that enhance the environment for a focused knowledge-based economy which relies on innovative markets and creative outputs.

3.125. The Ministry of Industry, Commerce and Tourism during the period 2020-21, applied several measures to mitigate the impact of COVID-19 on the services for IP rights and enforcement of these IP rights, such impact that can result in unprecedented closures and quarantines, which consequently may affect the filing, applications proceedings, statutory, court-imposed deadlines relating to intellectual property rights. These measures include shifting the applications of patents, designs, trademarks, and infringements complaints to online portal environments.

3.126. The Ministry of Industry, Commerce and Tourism provide intensive efforts for the digital transformation of governmental services and as part of these intensive efforts, shifting all IP services to an online portal environment in the year 2020. In such steps, Bahrain's Industrial Property Rights "IPR" competent authority worked and manage an online shifting project for IPR services in cooperation with the WIPO organization and e-commerce government authority.

3.127. Bahrain has focused on education and awareness of industrial property rights to public and private sectors for the past years. Bahrain applies several efforts on the scope of the understanding of the importance of Industrial property rights. The IPR competent authority in the Ministry of Industry, Commerce, & Tourism in Bahrain adopt and continue providing lectures, seminars, trainings, and workshops for the students, inventors, trade entities, SMEs, and entrepreneurs.

3.128. Bahrain aims to enhance the national intellectual property laws to keep pace with the cycle of emerging technologies and raising the base of innovation in different sectors. These initiatives of enhancing IP national laws are in progress. The last updates are on the scope of trademarks: In 2016, the Government implemented the Trademark Law of the Gulf Cooperation Council States (No. 6 of 2014), which stipulates a set of provisions that apply uniformly across the GCC regarding the prosecution and enforcement of trademark rights.

3.129. Furthermore, in the scope of Patents, in 2018, the Government implemented the Decision (No. 101 of 2018) Issuing the Executive Regulations for Law No. 1 of 2004 Concerning Patents and Utility Models related to implement regulations for Patent and utility models. Also, the Government implemented Decision No. 102 of 2018 determining the categories of fees payable for the registration of patents and utility models related to patents and utility models registration official fees.

3.130. Bahrain as a member State, based on Bahrain's IP national laws and civil law, the national judicial authorities adopt effective provisional measures against infringements of Intellectual Property rights that include fair and equitable civil and administrative procedures. The Ministry of Industry, Commerce and Tourism in Bahrain established Trade Inspection Directorate specialize in the inspections of trade violations in the local market. Accordingly, Bahrain expands its efforts against trade violations and IP infringements against trademarks, patents, and industrial designs in local markets.

### **3.17 Skilled Human Resource Development**

3.131. Bahrain in 2015, under the guidance of the His Royal Highness Crown Prince, Deputy Supreme Commander and Prime Minister, started a fellowship programme meant to further bolstering national skills and capabilities to support the Kingdom's programme of sustainable development. The significant amount of applications to the fellowship programme reflected the commitment of Bahraini youth to further develop their skill sets and to capitalize on opportunities that facilitate the development of their performance. The fellowship programme became at the forefront of government development programmes and contributes to increasing the proficiency of the national workforce through improving the leadership and analytical skills of the fellows.

3.132. Now Bahrain is at the sixth intake of the Prime Minister's Fellowship Programme, which highlights the importance of investing in the Kingdom's citizens to secure sustainable economic development. The youth of Bahrain play a significant role towards realizing the goals of the Kingdom's comprehensive development. Advancing the capabilities of government employees is a

central goal that will be continued throughout all strategic development plans in Bahrain. The achievements of Bahrainis across various government agencies became visible, and support will continue to be provided to further enhance the capabilities of Bahrainis, which contribute towards the Government's overall development.

3.133. Participants are selected following a rigorous evaluation process and take part in a yearlong programme, which aims to further hone their professional development and leadership skills across areas of public service. The Fellowship's administrators are committed to modernize the programme's initiatives and ensure the returning fellows apply the knowledge they have retained during the program upon their return to their workplaces.

## 4 GROWTH SECTORS

### 4.1 Economy

4.1. The structure of the Bahraini economy has been transformed by a rapid process of economic diversification since the turn of the century. While the share of the hydrocarbons sector (crude oil and natural gas) more than halved in relative terms from 43.6% to 18.6% of GDP between 2000 and 2020, all other sectors with the exception of real estate have shown an increasing contribution to Bahrain's GDP.

4.2. In terms of each sector's contribution to GDP during 2020, the Financial Services sector remains the largest non-oil sector, contributing 17.9% to the GDP, followed by the manufacturing sector (14.3%) and the government services sector (12.9%).

**Table 1: Compound annual growth rate GDP, 2010-20**

	Year 2010	Year 2020	CAGR %	2010 share of GDP (%)	2020 share of GDP (%)
<b>Real GDP (USD million)</b>	<b>25,713.28</b>	<b>32,793.76</b>	<b>2.5%</b>	<b>100.0%</b>	<b>100.0%</b>
Crude oil and natural gas	5,429.47	6,105.71	1.2%	21.1%	18.6%
Non-oil sector	20,283.81	26,688.05	2.8%	78.9%	81.4%
Manufacturing	3,714.18	4,669.26	2.3%	14.5%	14.3%
Construction	1,914.30	2,491.47	2.7%	7.4%	7.6%
Trade	1,201.86	1,418.10	1.7%	4.7%	4.3%
Hotel & Rest.	693.05	482.71	-3.6%	2.7%	1.5%
Trans. & Comm.	1,720.98	1,809.99	0.5%	6.7%	5.5%
Social & Pers. Serv.	1,176.37	1,891.14	4.9%	4.6%	5.8%
Real Est. & Bus. Act.	1,591.47	1,739.95	0.9%	6.2%	5.3%
Finance	4,511.50	5,875.43	2.7%	17.5%	17.9%
Government	2,697.71	4,218.10	4.6%	10.5%	12.9%
Other	1,052.71	2,081.52	7.1%	4.1%	6.3%

4.3. According to preliminary GDP results for Q1 2021, Bahrain's economy witnessed growth in nominal terms of 0.3% on an annual basis and 1.5% on a quarterly basis, while real GDP registered a drop of 2.1% on an annual basis and remained consistent on a quarterly basis with a slight drop of 0.1% compared to the previous quarter. Sector performance in Q1 2021 reflected signs of recovery with the ongoing efforts to counter the effects of the pandemic, especially with the extension of various support initiatives under the Stimulus Package and the successful vaccination campaign run by the Kingdom. The transport and communications sector led the way in terms of quarterly growth, with a 6.5% nominal growth and 8.2% real growth. By contrast, the hotels and restaurants sector is still hampered by the effects of the pandemic registering the biggest annually decline.

### 4.2 Financial services

4.4. The financial services sector is one of Bahrain's strongest assets. Not only does it contribute heavily to the country's GDP, but it is also one of the most important employers in the economy, providing around 13,737 jobs, with the highest average wage of any sector.

4.5. In 2020, the financial sector represented 17.9% of real GDP. There is a growing market demand for financial services and products, particularly for Islamic financial instruments. The Bahrain

Financial Harbour and the Bahrain World Trade Centre, and Bahrain Bay along are some of the witnessed projects that have successfully developed since 2005.

4.6. Bahrain is currently home to 370 financial institutions (as of December 2020), with total Banking Assets of USD 207.4 billion at December 2020.

4.7. Bahrain has become host to the largest number of Islamic banks in the world, as well as a growing support industry. There are 46 Islamic financial institutions, which includes banks, insurance companies and investment funds.

4.8. Insurance is a well-developed industry in Bahrain (11 foreign insurance firms, 22 locally incorporated insurance firms.), and has an important growth potential.

4.9. As part of the Central Bank of Bahrain's ongoing initiatives towards financial digital transformation in the Kingdom and developments in digital financial services, the CBB established a dedicated Fintech & Innovation Unit to ensure that best services are provided to individual and corporate customers in the financial services sector by encouraging an agile regulatory framework that fosters FinTech and innovation.

4.10. This follows the CBB's other initiatives, which include introducing a Regulatory Sandbox that will allow startups, FinTech firms and licensees to provide innovative banking and financial solutions, in addition to the issuance of a host of new regulations such as but not limited to, crowdfunding regulations, open banking regulations, cryptoasset regulations for both conventional and Sharia-compliant services.

4.11. The CBB's FinTech & Innovation Unit is also responsible for the approval process to participate in the Regulatory Sandbox, supervision of authorized Sandbox companies' testing progress, monitoring technical and regulatory developments in the FinTech field, both regionally and internationally, to lead on strategic FinTech initiatives and to work closely with all stakeholders within the FinTech ecosystem in the Kingdom and to collaborate with regulators regionally and internationally to share experiences and learnings and to embark on cross-border trials.

4.12. FinHub 973, by the Central Bank of Bahrain (CBB), is the region's first cross-border, digital innovation platform that connects and facilitates collaboration between financial institutions and FinTech's under the supervision of the central bank. Powered by Fintech Galaxy, FinHub 973 enables local and global fintech's to connect seamlessly with Bahrain's financial institutions for exploring, testing, and prototyping on a centralised digital sandbox. FinHub973 integrates the technical testing and validation of digital solutions with the regulatory framework of the CBB. The platform also showcases qualified FinTech's for collaboration, procurement, partnerships, and investment within Bahrain's ecosystem, while also interfacing with regulatory authorities to facilitate quicker and easier regulatory testing and supporting business scalability.

4.13. The Global Financial Innovation Network (GFIN) was formerly launched in January 2019 by an international group of financial regulators and related organisations, including the Financial Conduct Authority (FCA). This built on the FCA's early 2018 proposal to create a global sandbox. The GFIN is a network of 60 organizations committed to supporting financial innovation in the interests of consumers. The CBB is a member of the 'Co-ordination Group' within GFIN, which is the highest tier of membership.

4.14. The GFIN seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. This includes a pilot for firms wishing to test innovative products, services, or business models across more than one jurisdiction. It also aims to create a new framework for cooperation between financial services regulators on innovation related topics, sharing different experiences and approaches.

4.15. Bahrain is recognized as the global leader in Islamic finance, ranking 1<sup>st</sup> in MENA and 2<sup>nd</sup> globally for Islamic finance development (ICD 2019). We set the benchmark early for Islamic banking regulation by establishing the Bahrain Islamic Bank in 1978, and have nurtured the concepts, rules, and standards of Shari'a banking compliance in Islamic banks ever since. In this way, we are able to cater to the needs of both mainstream Islamic finance and the new breed of FinTech entrepreneurs

who offer Shari'a-compliant products. Our continued focus on innovation and customer service has made Bahrain a top destination for Islamic finance development.

4.16. Bahrain has the highest concentration of Islamic finance institutions in the region: 10 wholesale Islamic banks and 6 retail Islamic banks. A highly connected ecosystem, our expertise spans every area of Islamic financing, from asset management and Sukuk issuance to Shari'a-compliant insurance and reinsurance.

4.17. Bahrain, currently home to 6 Takaful firms and 2 Retakaful firms, is the ideal jurisdiction for the industry. The Central Bank of Bahrain has also implemented the new Takaful model which enhances solvency status assessment of these firms. Total Islamic banking assets held in Bahrain stood at USD 31.6 billion in 2020, making it one of the region's largest Islamic finance and banking markets. The Central Bank of Bahrain is continuously implementing new initiatives and policy tools to further develop Bahrain's standing in Islamic finance, most recently: a new Takaful model and a new Shari'a-compliant Wakalah investment tool.

4.18. Bahrain is home to several international financial institutions, for example American Express Middle East, HSBC, Citibank, BNP Paribas, Standard Chartered, State Bank of India, among others.

4.19. FinTech, the intersection of finance and technology, is experiencing unprecedented industry growth across the globe, none more so than in the Middle East. At the heart of this digital transformation, Bahrain is continually evolving its long-established financial services ecosystem to unlock opportunities for FinTech ventures and global financial institutions with a digital agenda. Bahrain is home to MENA's leading FinTech hub, Bahrain FinTech Bay, which provides facilities including dedicated coworking, innovation labs, advisory services, and collaboration platforms.

4.20. The transformation of Bahrain's FinTech ecosystem has been driven by unmatched regulatory reform, paving the way for emerging industries including crowdfunding, InsurTech, robo-advice and crypto-asset platforms. The Central Bank of Bahrain is continuously reforming policies to enhance the activity, funding, quality, and competitiveness of financial sector services.

4.21. In 2016, The Central Bank of Bahrain pioneered a regulatory sandbox that allows FinTech firms and digitally focused financial institutions around the world to test new products and services in Bahrain. Since its inception, the sandbox has nurtured a number of innovative FinTech businesses, including the Middle East's first licensed cryptocurrency exchange Rain.

4.22. The Central Bank of Bahrain introduced crowdfunding regulation to enable the establishment and growth of equity, debt-based and Shariah-compliant crowdfunding activity.

4.23. Bahrain's highly connected economy and young, digitally adept population make it the perfect testbed for financial tech startups and scale-ups to launch, gain funding and expand into regional and even global markets.

### **4.3 Customs**

4.24. The vital role played by Customs Affairs at the Ministry of Interior in controlling and managing customs outlets is considered one of the mainstays in facilitating international trade, protecting society and preventing smuggling in its various forms, and an essential supporter in the economy by supplementing the state budget with revenues, especially after the implementation of the selective tax and the value-added tax, which increased the duties of Customs Affairs in the collection of these taxes.

4.25. The local, regional, and international developments make it imperative for Customs Affairs to take into account in its procedures these developments within a strategic plan capable of dealing with them through modern technologies and optimal use of resources to move through them at a steady pace towards progress and prosperity. Therefore, the strategy of Customs Affairs 2017-2020 was a confident start for the better.

4.26. This strategy contributed to the provision and development of distinguished customs services at the regional level by facilitating the movement of legitimate travel and trade and enhancing the security of the Kingdom of Bahrain, where Customs Affairs was keen in its objectives to develop

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institutional work and enhance the resources of Customs Affairs and partnership with Customers and partners to keep pace with the requirements of customs work.

4.27. Given the importance of continuing the development and in order for Customs Affairs to be able to establish an integrated institution that works at all levels to carry out the tasks, it considered in its strategy 2021-2024 continuity to face the biggest challenge in how to implement the concepts of facilitating the movement of legitimate travel and trade on the one hand, and enhancing security and protecting Society on the other hand, as it was keen to continue work on removing barriers and simplifying and developing customs security procedures through "Align, Reinforcement, and Build."

4.28. The 2021-2024 strategy emphasizes the consistency of the work of customs affairs with Bahrain Economic Vision 2030 the foundations of government work and the policies of the World Customs Organization, preserving the gains and achievements made by customs affairs, and continuing to build and invest in human and technical resources as they are the basis of work to keep pace with developments and continue implementing duties and tasks.

4.29. In order to further facilitate trade, Customs Affairs launched the "Authorized Economic Operator (AEO)" programme whereby a certificate is granted by Customs Affairs to the entities that meet the conditions and requirements for this programme in order to conform to international customs regulations or to equivalent adopted standards of supply chain security. The economic operator includes importers, exporters, manufacturers, brokers, transportation companies, ports, airports, ports operators, warehouses and distributors.<sup>7</sup>

4.30. Implementing Customs pre-clearance at the border to save time through allowing importers to complete the customs procedures and the payments of customs duties and taxes prior to the arrival of the goods and speed up the release of the goods within a short time.

4.31. Signing more than 10 Service level agreements (SLA's) with other government authorities (OGAs) to expedite clearance aims of developing the efficacy services provided to both parties and the clients, by clarifying the terms and conditions of exchanging responsibilities and experiences on customs laws and other relevant laws.

#### **4.4 Manufacturing**

4.32. Bahrain have worked hard to set the ground for the development of its industrial sector, providing a lot of services and incentives to attract industries to set up.

4.33. Providing a ONE-STOP-SHOP electronic services to industrial licensee which enables them to get the approvals of Ministry of Industry, Commerce and Tourism (MOICT) along with other entities necessary approvals. Complete the review of the criteria for granting industrial licences within the Common Regularity Industrial Law and focusing on the utilization of machinery and complete production lines with minimal human interference.

4.34. Bahrain launched the Industrial Services System ([www.Industry.bh](http://www.Industry.bh)) in 2016 which provides the main industrial services for the industrial licensee. It has facilitated providing the services to them and increased the customer satisfaction.

4.35. Continuous enhancements and development of the Industrial Services system to enable the investors to complete and process all related operations. Some industrial establishments have been expanding by increasing their production capacity and introducing new lines of productions through their applications to add new products and increase the production capacity.

4.36. MOICT has granted a number of industrial licences to investors in aluminium, food and pharmaceutical sectors. During COVID-19 pandemic, new licences and approvals for expansion has been granted to investors to produce essential products such as hand sanitizers and masks.

4.37. In order to enhance competitiveness of national industry, contribute to the growth of national export, duty exemption is granted to all industries having industrial licence from MOICT and it covers all industrial inputs used for their immediate industrial production such as machineries, equipment's,

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<sup>7</sup> <https://www.bahraincustoms.gov.bh/en/authorized-economic-operator>.

parts, raw materials, semi-manufactured materials, finished materials and packing materials, in accordance to the GCC Law of the Amended Rules for Exempting Industry Inputs from customs duties in the GCC countries.

4.38. Bahrain Launched and implemented "Made in Bahrain" initiative in early 2020, which is a verified trademark that is granted to national licensed and registered factories wishing to obtain it with condition of the local content of its products is not less than 35%, to stimulating the Bahraini industry by supporting national products and to enhance consumer confidence in the national product.

4.39. "In line with the Government of Bahrain's efforts to combat the coronavirus pandemic, MOICT has licensed number of factories to manufacture essential health and safety products such as hand sanitizers and masks. That is to ensure that the market is supplied with enough quantities that enables citizens and residents to take all precautionary measures to prevent the spread of the virus. In addition, duty exemptions were granted to all licensed factories on importing machineries, equipment's, parts, raw materials, semi-manufactured materials, finished materials and packing materials, as well as exempting all businesses from industrial land rental fees for three months from April 2020, and renewing it for the most effected sectors for another three months starting July 2021."

#### **4.5 Education**

4.40. Investment in education is growing quickly in Bahrain, making it a valuable opportunity for international education companies looking to tap into the GCC market. The Kingdom has an unrivalled commitment to educational excellence, with the region's longest-established education system which celebrated its century in 2019. Combined with our dynamic economy and pro-business stance, the Kingdom offers significant opportunities for investing in education, particularly in specialised higher education and executive training.

4.41. Private provision of education has grown rapidly. Employment in private sector education increased by 20% between 2008-2012, and real output of the sector increased by 69% over the same period. While government output still constitutes the majority of real GDP output, private sector share of education service output has risen from 36% to 42% in the five-year period.

4.42. Education in Bahrain is in high demand and requires further investments and resources to support its growth. In Bahrain, education investors and providers have access to high-quality opportunities, both domestically and regionally, and can also benefit from savings when it comes to taxes. The education sector is exempt from value added tax (VAT).

#### **4.6 Healthcare**

4.43. Aligned with Economic Vision 2030 of His Majesty the King, the Ministry of Health (MOH) is committed to work as unified governmental system to ensure Sustainability, Competitiveness, and fairness in providing health care services. Ministry of Health adopted Fourth Industrial Revolution technologies and opened the way for investments in the health sector.

4.44. MOH managed through these factors to set new health strategies and policies to keep up with latest global technologies, which helped in the development of health and therapeutic services by the serious follow-up of latest technologies in medical device industry. As it worked through 2030 Economic Vision to adopt developed E-Systems to enhance the performance of medical and nursing professionals and raise the quality of health services provided to patients.

4.45. The commitment to 2030 economic vision is evident in the private sector and experienced medical corporations inside and outside the kingdom, as MOH is keen on the involvement of private sector in health field through its donations and provision of high-tech medical devices in addition to the establishment of major health projects to strengthen the community partnership between the two sectors.

4.46. National Health Regulatory Authority (NHRA) launched an online professional licensing and registration system as part of its continued efforts to streamline its day-to-day process.



4.47. **HEALTH CAPITA:** The biggest impact of digital transformation in the healthcare sector can be seen in Health Capita. This comprehensive healthcare platform uses cutting edge technology to shift healthcare services from a curative, to a more preventative, mindset. This Bahrain-based company began with a focus on the local market but has already expanded to Saudi Arabia, Kuwait, and Malaysia. Health Capita uses Cloud-based medical records with separate patient/ physician access and scheduling technologies and has put diet consultations in place to tackle lifestyle related diseases.

4.48. **BAHRAIN GENOME PROJECT:** The digital transformation of the Healthcare sector has acted as a springboard in the development of life-saving advances. The Bahrain Genome Project is a Ministry of Health initiative born from a clear goal: to elevate Bahrain's medical understanding by establishing a specialist, world-class centre for genetic analysis in the Kingdom. The centre will use cutting edge scientific innovations to prevent genetic, intractable, and deadly diseases. A database analysing the DNA of Bahrain's population will be set up and used for early detection and diagnosis to lower the risk of contracting such diseases. The centre is also working on the identification and prevention of genetic diseases as well as developing more effective cures.

4.49. Telemedicine is the practice of doctors treating their patients remotely. Technology has allowed physicians all over the world to diagnose and treat their patients without being physically present, for example via video conference, for a more convenient and efficient experience. Bahrain has implemented regulations governing the practice of telemedicine in 2019 to maintain their leading role in the regional healthcare industry. Doctori, an online platform that connects patients and doctors via video calls for non-urgent medical advice, became Bahrain's first licensed telemedicine platform.

#### **4.7 ICT**

4.50. A compact and highly connected ecosystem brings together a diverse range of IT companies in Bahrain within the areas of IT services, IT distribution, IT consultancy, data management systems, software development and customer support centres. Ranked first in MENA for ICT readiness by the World Economic Forum, Bahrain offers the most competitive and affordable environment for technology and innovation businesses in the region.

4.51. Cloud traffic is growing faster in MENA than anywhere else in the world at 41% year over year. As the first Gulf country to adopt a nation-wide 'cloud-first' policy, Bahrain is ideally placed to take advantage of the ICT opportunities this trend is creating in areas such as business services outsourcing, cybersecurity, digital entertainment, gaming and e-commerce.

4.52. Bahrain offers internet bandwidth to connect to regional nodes in MENA, Europe, the Americas, Asia, and Australia. With strong market conditions created by high mobile penetration, the roll-out of commercial 5G and a business-friendly regulatory environment, Bahrain offers an ideal testbed for communication technology companies looking to take advantage of a region undergoing rapid digital transformation and technological advances.

4.53. Bahrain provides Superior internet and networking capabilities; 4 Submarine fibre optics systems, 2 Terrestrial dark fibre systems; Bahrain offers nationwide high-speed 5G network. As a pioneer within the region, Bahrain is ready for more ICT and communication technology companies and help them prosper.

4.54. "Telecommunication services in Bahrain generated USD 1,216.93 million in 2020 compared to USD 1,183.23 million in 2019, an increase of around 3%; Telecommunication sector revenues represent 3.5% of the GDP as of 2020; the proportion of mobile revenue to total retail revenue slightly decreased to reach 45% in 2020, compared to 47% in 2019. Between 2019 and 2020, total retail revenue increased by 1% while reported wholesale revenue decreased by 0.1%. Other revenue increased by 8% for the same period."

4.55. There were 2,922 employees are working in the telecommunication sector as of 2020. The sector achieves high degree of Bahrainization, 73% of the employees in the sector are Bahrainis in 2019. Females represent 32% of employees in the telecom sector.

4.56. In 2017, the Government of Bahrain contracted with Amazon Web Services (AWS) on a strategic level to introduce and benefit from deploying infrastructure as well as services in the AWS cloud. In 2019, AWS Middle East (Bahrain) Region was launched consisting of three Availability Zones in order to attract more public/private customers from the GCC region, to enable developers, startups, and enterprises, as well as government, education, and nonprofit organizations, to run applications and serve end users across the Middle East with low latency. Bahrain's sovereign wealth fund "Mumtalakat" has become the first government organisation to migrate cloud services to AWS's new datacentres in the country.

#### **4.8 Real Estate**

4.57. The Real Estate Regulatory Authority (RERA) was officially formed with the issuance of Royal Decree 69/2017. RERA will deliver on the vision of His Royal Highness Prince Salman bin Hamad bin Isa Al Khalifa the Crown Prince and Prime Minister to deliver effective and fair regulation in the real estate market, promote economic growth and investment in Bahrain.

4.58. The central role of RERA is to ensure that the real estate industry in Bahrain is aligned to international best practice standards and to deliver a professional service in a cost-effective and transparent manner.

4.59. RERA works closely with Government and industry stakeholders to oversee the development of a National Real Estate Policy supported by a national five-year sector strategy and plan to bolster the real estate sector, improve consumer protection and streamline real estate services.

4.60. Regulation in the real estate sector reflects the high priority the Government is placing on the real estate sector in Bahrain. Therefore Law No. 27 of 2017 with respect to regulation of the real estate sector in Bahrain will help deliver on a national plan for the organization of the sector through the development of a general strategy and policy to achieve the objectives of RERA. The Law No. 27 of 2017 officially came into effect on 1 March 2018.

4.61. To develop a safe, transparent, and sustainable real estate sector, in a way that encourages investment attraction and the development of innovative real estate projects, enhances the professional competence of real estate professionals, and seeks to preserve the rights of all stakeholders in light of these changes and current challenges.

4.62. RERA prepared the "National Real Estate Sector Plan 2021-2024", which includes many important elements as it consists of 5 pillars, 17 priorities for actions and 21 initiatives that will be implemented over a period of four years.

4.63. Noting that the five pillars are (leading in service innovation - supporting and enabling real estate development projects and launching incentive packages for real estate developers - providing accurate, updated, and reliable information - achieving sustainability - promoting disclosure and transparency).

#### **4.9 Tourism**

4.64. Bahrain aims to strengthen and develop regional and international tourism through promoting the uniqueness of the Kingdom of Bahrain with offer both rich historical offerings and modern city life.

4.65. A new tourism strategy in 2015 was launched by the Bahrain Tourism and Exhibition Authority (BTEA) aimed at developing tourist attractions, increasing the number of events and activities, easing access to Bahrain through all entry ports (sea, land, and air), and providing quality accommodation for tourists. It was termed as the "4A's" as it was made up of four pillars: Awareness, Attraction, Access, Accommodations, and was launched with the slogan "BAHRAIN, OURS YOURS". By the end of 2019 tourism contribution to GDP rose from (3.4%) (2015) to (6.9%).

4.66. Construction work of the BTEA's new exhibition and convention centre is currently under way. The new centre is located next to Bahrain International Circuit where Formula-1 races are hosted and is currently being built on a 309,000 square meter of land, where the building will be constructed on 149,000 square meters of the total land area. The exhibition and convention centre will include



10 exhibition halls totaling 95,000 square meters equipped with the latest services necessary to host international events and exhibitions and the main convention centre with an area of 4,500 m<sup>2</sup>. of 4,500 square meters, will be equipped with the most advanced means of display, and a capacity for approximately 4,000 people, in addition to halls of various uses in medium and small spaces, along with dedicated areas for retail and events.

## **5 TRADE POLICY**

### **5.1 Introduction**

5.1. Being a traditional free market economy, and liberal trading country, Bahrain maintains a profound interest in its trade expansion and its investment growth. Accordingly, Bahrain's trade policy objectives are to ensure a fair and predictable international trading environment; allowing liberal access to international markets for its exports and minimize impediments to the flow of imports.

5.2. These goals are pursued through the sustained maintenance and enlargement of Bahrain's adherence and engagement with its trading partners multilaterally, regionally, and bilaterally. This would also contribute to the attainment of the long-term objectives of Bahrain's Economic Vision 2030, which aims for attaining sustainable development by moving towards economic diversification to increase economic viability; raise productivity levels and enhance Bahraini competitiveness as a knowledge-based economy.

5.3. At a very top level we strive to achieve our business-friendly aspiration by continuously working to reduce red-tape and creating an environment that makes it as easy as possible to invest and grow your business.

5.4. Bahrain has a liberal business environment – that offers 100% foreign ownership, coupled with comparatively lower operating costs as currently the cost of running a business in Bahrain is approximately comparatively 30% lower than other regional centres.

5.5. Import trade enjoys duty-free entry for basic raw materials, industrial inputs, and spare parts.

5.6. Bahrain's trading environment is stable and transparent. There are no import restrictions except for patrimonial heritage, environmental, health or security considerations.

5.7. There is a continuous discussion between the different government entities and the private sector whereby consultations are undertaken on how to improve and develop the services provided to further enhance the development of Bahrain's economy which stems from the firm belief that the Government is a regulatory entity and that the economy is driven by the private sector.

### **5.2 Bahrain and the Region**

#### **5.2.1 GCC Membership**

5.8. Bahrain as a member of the Cooperation Council for the Arab States of the Gulf (GCC), works with the rest of the GCC member countries to facilitate intra-GCC trade and investment as well as developing unified trade and economic related laws, most recently the GCC Unified Consumer Protection Law and the law amending the Law Regulating the GCC Patent Office that was approved by the GCC Supreme Council in its meeting in Al'Ula in January 2021.

5.9. The GCC countries are evaluating the feasibility impacts of negotiating Free Trade Agreements (FTA) with other countries and regions in order to finalize the priorities of negotiations in this regard.

5.10. The GCC has concluded a Free Trade Agreement (FTA) with Singapore, which came into force on 1 of September 2013. Bahrain and GCC signed the European Free Trade Association (EFTA), which came into force on 1 July 2015, according to Law No. (7) 2012. In active negotiations with 6 countries for new FTA'S.

### 5.2.2 GAFTA membership

5.11. Bahrain is a founding member of the Greater Arab Free Trade Area (GAFTA), which was signed on 19 February 1997 and entered into force on 1 January 1998. Currently the Arab league is in discussions about setting the concept of the Arab Customs Union.

### 5.3 Bilaterals

5.12. Bahrain enjoys a number of bilateral agreements and MOUs with brotherly and friendly countries including an FTA with the United States, 35 agreements for the protection and promotion of investment, four entered into force during the review period, 41 avoidance of double taxation agreements<sup>8</sup> were also signed during the review period, along with food security-related MOUs.

5.13. Additionally, there are high-level joint committees with a number of countries which facilitates on-going discussions between both sides on different range of subjects including the encouragement and facilitation of bilateral trade and investment.

### 5.4 Bahrain and the WTO

5.14. Bahrain is a founding Member of the WTO and is fully applying the trade facilitation agreement 2 years ahead of the planned timeline which was notified to the Secretariat of the WTO.

5.15. The Kingdom of Bahrain was one of the first member of the WTO, which ratifies the Trade Facilitation Agreement (TFA). Bahrain notified all the measures under category (A, B, C) to the WTO. Kingdom of Bahrain has notified 32 measures under Category A, 12 measures under category B, and 2 measures under category C.

5.16. Bahrain is actively participating in the various WTO negotiations and positively engages in discussions with the WTO Members.

5.17. As a small economy, Bahrain endorses the application of the Special and Differential Treatment for developing and small economy countries and values the fairness and objectivity of WTO's Dispute Settlement Body.

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<sup>8</sup> Algeria, Austria, Barbados, Belarus, Belgium, Bermuda, Brunei, Bulgaria, China, Czech Republic, Egypt, Estonia, France, Georgia, Hungary, Iran, Ireland, Isle man, Jordan, Lebanon, Luxembourg, Malaysia, Malta, Morocco, Mexico, Netherlands, Pakistan, Philippines, Republic of Korea, Seychelles, Sudan, Singapore, Sri Lanka, Switzerland, Syria, Thailand, Turkey, Turkmenistan, United Kingdom, Uzbekistan, Yemen.

## **ANNEX I: TRADE RELATED TECHNICAL ASSISTANCE**

Bahrain's technical assistance requirements include the following areas:

1. Enhancing Aid for Trade related technical and institutional support, within the WTO and other relevant international institutions and funds.
  2. Supply-chain infrastructure enhancement, and adjustment needs support.
  3. IPR institutional upgrading, and HRD.
  4. Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Standards institutional upgrading, notifications, awareness and HRD.
  5. Multilateral Trade Negotiations (MTN) and FTAs Negotiating Skills upgrading, and HRD.
  6. Export promotion technical and institutional support.
  7. Trade capacity building, and competitiveness enhancement, awareness, and networking.
  8. Enhancing institutional capacity and export potential for SMEs, as well as in negotiations and implementation of trade in goods and services agreements.
  9. Development of competition policy and legislation.
  10. Ensuring Bahrain's participation in national, regional, and international HRD and training programmes for government, parliamentarians, and private sector, whether at WTO or other relevant agencies.
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