

# NARRATIVE REPORT ON BAHRAIN



## PART 1: NARRATIVE REPORT

Bahrain is ranked 81<sup>st</sup> in the 2020 Financial Secrecy Index. It has a secrecy score of almost 62 out of 100, though it accounts for only a small share of the global market for offshore financial services, 0.02 per cent. Bahrain is nominally a constitutional monarchy, though the ruling Al Khalifa family has been accused of dictatorial tendencies, and Bahrain has seen its fair share of political repression.

### Overview

Bahrain has made up for its lack of major oil reserves in part by building an offshore financial centre, though the kingdom announced in 2018 that it had discovered a massive oil and gas field, though it is still unclear how many of its 80 billion barrels can be recovered and 10 to 20 trillion cubic feet of natural gas can be recovered.<sup>1</sup> Being an island in the Persian Gulf has influenced its history as a trading centre, which in turn was a foundation upon which offshore finance has been built. Bahrain is an “island of hospitality” to banks and businesses, as author Geoffrey Jones put it ([p424](#)).<sup>2</sup>

The financial sector today is the largest employer in Bahrain, contributing over 25 per cent of GDP and employing some 14,000 people.

Bahrain is one of the biggest global centres for Islamic finance and hosts the largest concentration of Islamic finance institutions in the Middle East. This sector is growing fast, with total assets in the Islamic banking sector rising from US \$1.9 billion in 2000 to US\$25.7 billion by September 2016, with total Bahraini banking sector assets of \$192.7 billion, [according to the Central Bank of Bahrain](#).<sup>3</sup> Bahrain’s was named the world’s fastest growing financial centre in 2008 by the City of London Corporation’s Global Financial Centres Index, though its rate of growth has subsequently slowed.

There is no corporate income tax, personal income tax or capital gains tax in Bahrain (the country implemented a value-added tax in 2019<sup>4</sup>), and Bahrain has a wide network of tax treaties with a number of developing countries, despite there being [no good commercial reasons](#) for countries to sign treaties with zero-tax corporate havens.<sup>5</sup>

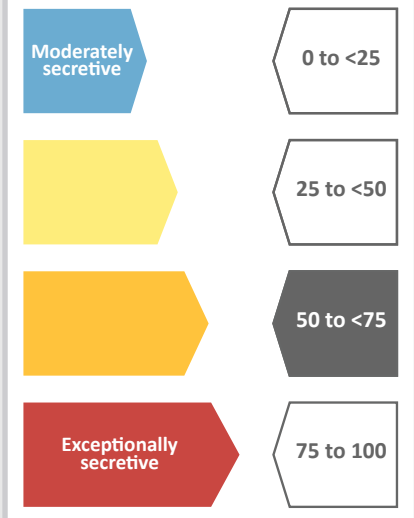
Bahrain’s financial sector caters mostly to the Middle East, although there is a significant Indian and Pakistani presence, based on old trading relationships, and a smaller North African customer base.

### How Bahrain became a secrecy jurisdiction

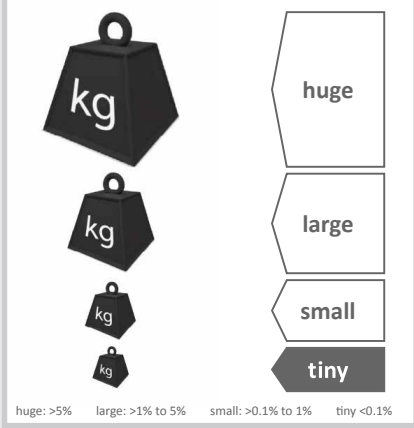
Bahrain first emerged as a major regional and offshore financial centre in the 1970s. It set up the Bahrain Monetary Authority in 1973, and in January of that year [the Swiss bank UBS](#),<sup>6</sup> whose business model has long relied heavily on secrecy, opened a representative office. In 1975 Bahrain began allowing banks to be registered as “offshore banking units” [modelled on](#) similar facilities in Singapore.<sup>7</sup> These were set up as branches of international commercial banks and exempted from foreign-exchange controls, cash reserve requirements, taxes on interest paid to depositors and banking income taxes. Offshore banking units were also exempt from requirements that banks should be majority-

**Rank: 81 of 133**

**How Secretive?** **62**



**How big?** **0.02%**



*Bahrain accounts for 0.02 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.*

The ranking is based on a combination of its secrecy score and scale weighting.  
 Full data is available here: <http://www.financialsecrecyindex.com/database>  
 To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.  
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owned by Bahrainis.

The OPEC oil price shocks of the 1970s [boosted](#) the overall market sharply, and the 1970s and 1980s saw a rapid growth of offshore banking activity as Bahrain took advantage of the boom in Eurodollar lending to the major petroleum exporters of the region.<sup>8</sup> Among well-known [financial institutions operating in Bahrain](#),<sup>9</sup> Norwich Union (Bermuda) opened insurance offices in 1979; followed by Sumitomo in 1980; and Deutsche Bank AG in 1982. Bahrain's first Islamic lender, the Bahrain Islamic Bank, [started operations](#) in 1978.<sup>10</sup>

The outbreak of the Lebanese civil war in 1975 and subsequent terrorist activity displaced a lot of regional banking activity to Bahrain in this period, helping it overtake Beirut as the banking and financial hub of the Middle East. Much of that business stayed in Bahrain, even after Lebanon stabilised.

By the mid-1980s, however, as oil prices fell and international lending to oil producers shrank, the number of new banking and insurance licenses dwindled sharply. Bahrain-based offshore banks had been heavy lenders to developing countries, and for a period the sector as a whole suffered net outflows. It also became rather more regionally-focused. Whereas [in 1980](#),<sup>11</sup> 53 per cent of all offshore banking units came from Europe or North America and just 21 per cent from the Arab world, by 1986 these proportions had changed to 44 per cent and 32 per cent. Now Middle Eastern clients are by far the largest customers.

Bahrain, like many secrecy jurisdictions, has had its share of scandals. Most intriguing, perhaps, was an episode in 1991 amid investigations into the corruption-plagued Bank of Credit and Commerce International (BCCI), whose shareholders were reported to include members of the Bahraini ruling family. According to the US investigators Peter Truell and Larry Gurwin ([p368-40](#)),<sup>12</sup> the little-known US oil firm Harken Energy was granted a then highly prospective Bahraini oil concession in 1990, to great surprise and consternation in oil industry circles. This concession was awarded just two weeks after BCCI obtained a lenient plea bargain arrangement in the US. Harken Energy counted the family of US President George HW Bush (and future President George W. Bush) as major shareholders. A White House spokesman at the time said, "There is no conflict of interest, or even the appearance of a conflict of interest, in these business arrangements."

In the face of these scandals and difficulties, and

confronted with falling oil production, Bahrain found a lucrative niche in Islamic banking. Reflecting its pioneering role and its growing influence in the field, Bahrain was chosen to host the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), set up in 1991. Bahrain was also chosen to host the first Islamic index, the Dow Jones Islamic Market Index, [in 1999](#).<sup>13</sup> It began to host other Islamic institutions, including the [International Islamic Financial Market](#) (set up in 2002),<sup>14</sup> the [General Council for Islamic Banks and Financial Institutions](#) (2001),<sup>15</sup> and the [Islamic International Rating Agency](#) (2005).<sup>16</sup>

Meanwhile, offshore financial business began to take off again in the early 2000s as oil prices started to reverse their decline. Bahrain's own oil production fell sharply at this time. The mineral sector's contribution to GDP fell from over 40 per cent in 2000 to under 20 per cent by 2012, though the massive new oil and gas field could reverse that decline if it can be exploited economically. As offshore financial business grew again, more recent newcomers to the sector have included Liechtenstein's LGT Bank in 2005, Allianz and Lazard, which set up investment operations in 2008, and trust services provider Elian Fiduciary Services (Jersey) Ltd.

Major [anti-government protests](#) in 2011, violently quelled by security forces,<sup>17</sup> caused banking assets to shrink [by some 15 per cent](#),<sup>18</sup> and some international banks [relocated](#) their operations, principally to Dubai.<sup>19</sup> A degree of political stability has since been restored and banking jitters have subsided somewhat, but the [underlying tensions](#) between the Sunni-led ruling class and the largely Shiite Muslim population remain unresolved, and demands for a new citizen-state relationship have not been even partially realised.<sup>20</sup> Indeed, Bahrain's courts in recent years disbanded its leading opposition parties, accusing them of supporting terrorism.<sup>21</sup>

To date the government has been buffered to a fair degree by oil revenues and economic support from Saudi Arabia and other Gulf states, which are politically allied to the Bahraini government. These links have encouraged regional banking activity.

Financial sector activity has recovered somewhat, but concerns about political stability are likely to curb any excessive enthusiasm for Bahrain as a financial centre. In light of these developments, it seems that Bahrain has made a high level of secrecy a selling point to differentiate it from others. In October 2014 the OECD Global Forum announced that Bahrain was one of only five jurisdictions (alongside the

Cook Islands, Nauru, Panama and Vanuatu) holding out against the OECD-led new global standards on exchange of information and that it had not even indicated a timeline for committing.

But finally, the international pressure had an effect, and in June 2017 [Bahrain signed up](#) to the Common Reporting standard to begin sharing tax information in 2018.<sup>22</sup>

Bahrain's weak secrecy score reflects inadequacies across the range of indicators used in the Financial Secrecy Index. Not only does Bahrain not take adequate steps to curtail banking secrecy, it does not require company financial information to be disclosed, has not joined the Inclusive Framework on Base Erosion and Profit Shifting with its (albeit limited) country-by-country reporting requirements, and is only partially cooperative with international anti-money laundering initiatives. It has particularly weak scores for knowledge of beneficial ownership and the efficiency of tax regulation and anti-money laundering. It also suffers from [concerns about financial regulation](#),<sup>23</sup> [money laundering](#)<sup>24</sup> and [governance](#) more generally.<sup>25</sup> Bahrain's secrecy has practical manifestations too. The campaign group [Bahrain Watch has documented](#) more than 200 instances since 2011 when foreign journalists and NGOs have been refused entry to Bahrain.<sup>26</sup>

## Endnotes

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- 7 <http://countrystudies.us/persian-gulf-states/40.htm>; 29.01.2020.
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- 11 [https://books.google.de/books?id=iE-igJWcqjhYC&pg=PA413&dq=bahrain+history+off-shore+banking&hl=en&sa=X&ei=VZVIVe3kB6e-qyWP\\_t4OQBg&ved=0CD8Q6AEwAg#v=one-page&q=bahrain%20history%20offshore%20banking&f=false](https://books.google.de/books?id=iE-igJWcqjhYC&pg=PA413&dq=bahrain+history+off-shore+banking&hl=en&sa=X&ei=VZVIVe3kB6e-qyWP_t4OQBg&ved=0CD8Q6AEwAg#v=one-page&q=bahrain%20history%20offshore%20banking&f=false); 29.01.2020.
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- 13 [https://www.ifa.com/articles/Islamic\\_Index\\_Tracks\\_Value\\_through\\_Morality/](https://www.ifa.com/articles/Islamic_Index_Tracks_Value_through_Morality/); 29.01.2020.
- 14 [http://www.iifm.net/about\\_iifm/corporate-profile](http://www.iifm.net/about_iifm/corporate-profile); 29.01.2020.
- 15 <http://cibafi.org/>; 29.01.2020.

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## PART 2: SECRECY SCORE

### OWNERSHIP REGISTRATION

- 47 1. Banking Secrecy
- 38 2. Trust and Foundations Register
- 0 3. Recorded Company Ownership
- 50 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

### LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 75 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

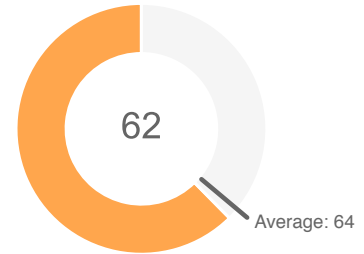
### INTEGRITY OF TAX AND FINANCIAL REGULATION

- 100 11. Tax Administration Capacity
- 100 12. Consistent Personal Income Tax
- 100 13. Avoids Promoting Tax Evasion
- 75 14. Tax Court Secrecy
- 50 15. Harmful Structures
- 30 16. Public Statistics

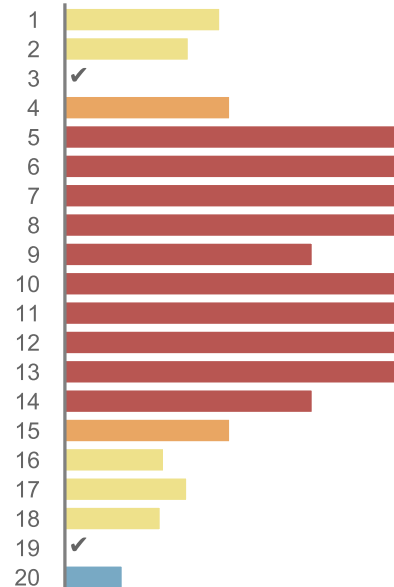
### INTERNATIONAL STANDARDS AND COOPERATION

- 37 17. Anti-Money Laundering
- 29 18. Automatic Information Exchange
- 0 19. Bilateral Treaties
- 18 20. International Legal Cooperation

### Secrecy Score



### Key Financial Secrecy Indicators



### Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.