

NARRATIVE REPORT ON BAHRAIN



PART 1: TELLING THE STORY

Overview

Bahrain is ranked at ninth position on the 2015 Financial Secrecy Index. It has a high secrecy score of 74 out of 100, though it accounts for only a small share of the global market for offshore financial services. 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.

Lacking any major remaining oil reserves, Bahrain has made up for this in part by building up an offshore financial centre. 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: an “island of hospitality” to banks and businesses, as author Geoffrey Jones put it ([p424](#)).

The financial sector today is the largest employer in Bahrain, contributing to over 25 percent 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\$1.9bn in 2000 to US\$25.4bn by November 2014, out of total banking sector assets of \$189bn, according to the [Central Bank of Bahrain](#). Bahrain’s was named the world’s fastest growing financial centre in 2008 by the City of London Corporation’s Global Financial Centres Index 2008, though its rate of growth has subsequently slowed.

There is no corporate income tax, personal income tax or capital gains tax in Bahrain, and Bahrain has quite 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.

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 to a lesser extent a North African customer base.

How Bahrain became a secrecy Jurisdiction

Bahrain first emerged as a major regional and offshore financial centre in the 1970s. As a first step, it set up of the Bahrain Monetary Authority in 1973; in January of that same year [the Swiss bank UBS](#), whose business model has long relied heavily on

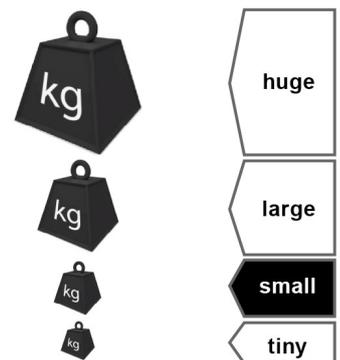
Rank: 9

Chart 1 - How Secretive?

74
Secrecy Score



Chart 2 - How Big?



Bahrain accounts for slightly over 0.16 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Read more
 → Full data
 → Bahrain on TJN Blog
 → Full Methodology

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secrecy, opened a representative office. In 1975 Bahrain began allowing banks to be registered as 'Offshore Banking Units', [modeled on](#) similar facilities in Singapore. These were set up as branches of international commercial banks, 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 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. Among well-known [financial institutions operating in Bahrain](#), Norwich Union (Bermuda) opened insurance offices in 1979; they were followed by Sumitomo in 1980; and Deutsche Bank A.G. in 1982. Bahrain's first Islamic lender, the Bahrain Islamic Bank, [started operations](#) in 1979.

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 licences 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](#), 53 percent of all offshore banking units came from Europe or North America and just 21 percent from the Arab world; these proportions had changed to 44 percent and 32 percent in just six years; 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 U.S. investigators Peter Truell and Larry Gurwin ([p368-40](#)), the little-known U.S. 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 United States. Harken Energy counted the family of U.S. Presidents George W. and George H.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 Organisation 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](#). It [began to host](#) other Islamic institutions, including the International Islamic Financial Market (set up in 2001); the General Council for Islamic Banks and Financial Institutions (also 2001), and the Islamic International Rating Agency (2005).

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 minerals sector's contribution to GDP fell from over 40 percent in 2000 to under 20 percent by 2012. 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, along with trust services provider Elian Fiduciary Services (Jersey) Ltd.

Major [anti-government protests](#) in 2011, violently quelled by security forces, caused banking assets to shrink [by some 15 percent](#),

and some international banks [relocated](#) their operations, principally to Dubai. 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 Shi-ite Muslim population remain unresolved, and demands for a new citizen-state relationship have not been even partially realised. As one commentator [puts it](#):

“The country’s poor track record for human rights and societal issues may pose a problem to would-be expats, fueled by cultural differences by immigrants from other regions.”

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) which had not committed to the OECD-led new global standards on exchange of information and had not even indicated a timeline for doing so. Being in the company of such notoriously secretive and sleazy jurisdictions should be a source of considerable concern for financial businesses that operate from Bahrain.

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, it has chosen to not participate in automatic information exchange processes, 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](#), [money laundering](#), and [governance](#) more generally.

Read more

- [Full data for Bahrain](#)
- [Bahrain on TJN Blog](#)
- [Full Methodology](#)

PART 2: BAHRAIN'S SECRECY SCORE

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Bahrain

- 1  **Banking Secrecy:** Does the jurisdiction have banking secrecy?
Bahrain partly curtails banking secrecy
- 2  **Trust and Foundations Register:** Is there a public register of trusts/foundations, or are trusts/foundations prevented?
Bahrain partly discloses or prevents trusts and private foundations
- 3  **Recorded Company Ownership:** Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?
Bahrain does not maintain company ownership details in official records

KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Bahrain

- 4  **Public Company Ownership:** Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US\$10/€10?
Bahrain does not require that company ownership details are publicly available online
- 5  **Public Company Accounts:** Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US\$10/€10?
Bahrain does not require that company accounts be available on public record
- 6  **Country-by-Country Reporting:** Are all companies required to publish country-by-country financial reports?
Bahrain does not require public country-by-country financial reporting by companies

EFFICIENCY OF TAX AND FINANCIAL REGULATION – Bahrain

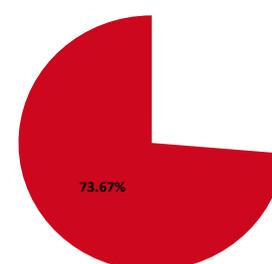
- 7  **Fit for Information Exchange:** Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?
Bahrain does not require resident paying agents to tell the domestic tax authorities about payments to non-residents
- 8  **Efficiency of Tax Administration:** Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?
Bahrain does not use appropriate tools for efficiently analysing tax related information
- 9  **Avoids Promoting Tax Evasion:** Does the jurisdiction grant unilateral tax credits for foreign tax payments?
Bahrain does not avoid promoting tax evasion via a tax credit system
- 10  **Harmful Legal Vehicles:** Does the jurisdiction allow cell companies and trusts with flee clauses?
Bahrain partly allows harmful legal vehicles

INTERNATIONAL STANDARDS AND COOPERATION – Bahrain

- 11  **Anti-Money Laundering:** Does the jurisdiction comply with the FATF recommendations?
Bahrain partly complies with international anti-money laundering standards
- 12  **Automatic Information Exchange:** Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?
Bahrain does not participate in Automatic Information Exchange
- 13  **Bilateral Treaties:** Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?
As of 31 May, 2015, Bahrain had less than 53 tax information sharing agreements complying with basic OECD requirements
- 14  **International Transparency Commitments:** Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?
Bahrain has ratified less than five of the most relevant international treaties relating to financial transparency
- 15  **International Judicial Cooperation:** Does the jurisdiction cooperate with other states on money laundering and other criminal issues?
Bahrain partly cooperates with other states on money laundering and other criminal issues

Secrecy Score

Bahrain - Secrecy Score



Bahrain KFSI-Assessment



Notes and Sources

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

The secrecy score of 74 per cent for Bahrain has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, [here](#).

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Bahrain is available here: <http://www.financialsecrecyindex.com/database/menu.xml>

All background data for all countries can be found on the Financial Secrecy Index website: <http://www.financialsecrecyindex.com>