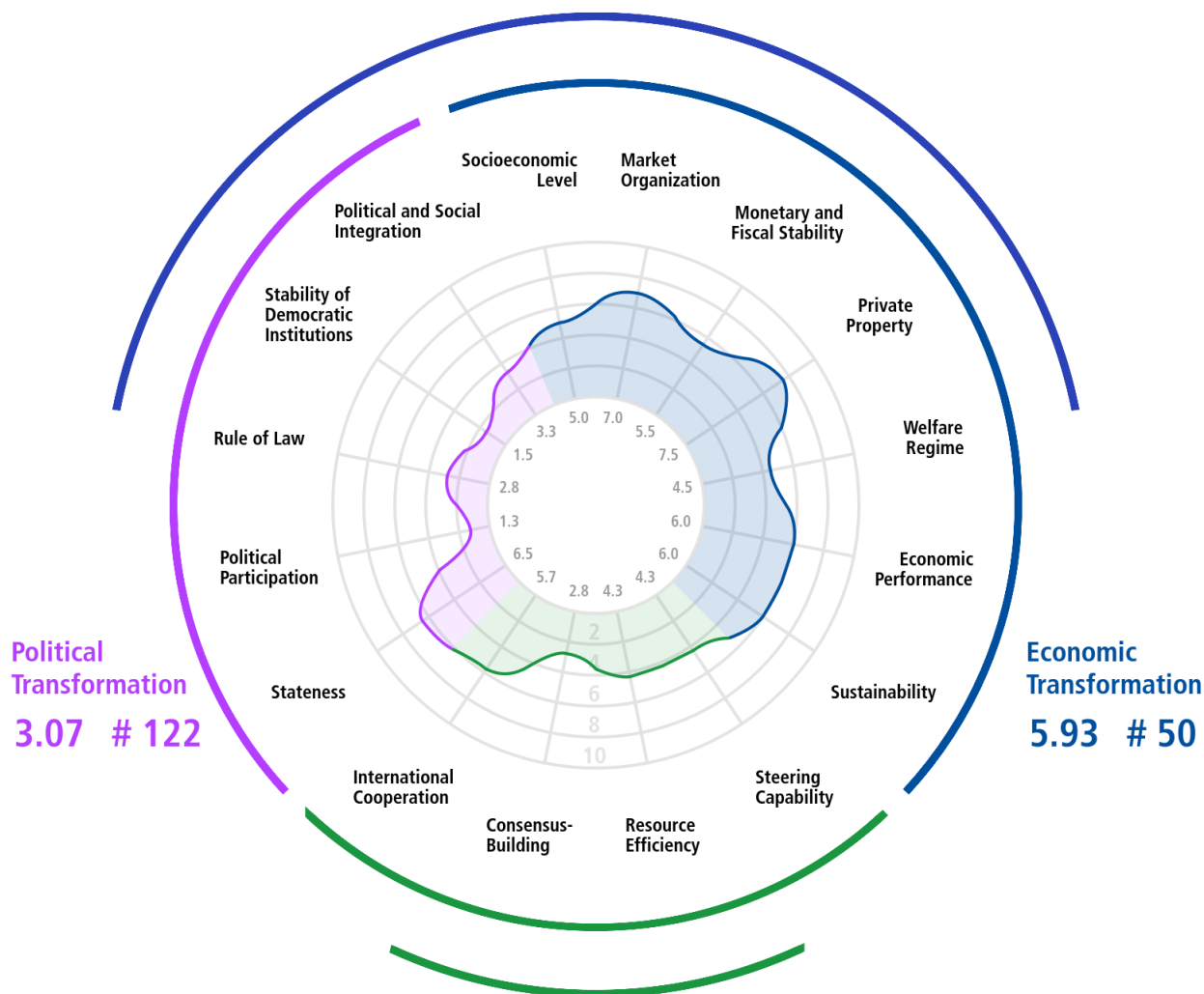


# Bahrain

## Status Index

**4.50 # 92**

on 1-10 scale out of 137



**Political Transformation**  
**3.07 # 122**

**Economic Transformation**  
**5.93 # 50**

## Governance Index

**3.73 # 109**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Claudia Härterich**

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>1.7</b>	HDI	<b>0.852</b>	GDP p.c., PPP \$	<b>43181</b>
Pop. growth <sup>1</sup>	% p.a.	<b>3.6</b>	HDI rank of 189	<b>42</b>	Gini Index	-
Life expectancy	years	<b>77.3</b>	UN Education Index	<b>0.769</b>	Poverty <sup>3</sup>	% -
Urban population	%	<b>89.5</b>	Gender inequality <sup>2</sup>	<b>0.212</b>	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Bahrain's authoritarian regime continued to crack down on dissidents and increasingly restricted the freedom of expression as security services intensified their surveillance of social media in the review period. Torture in police custody and politically motivated trials against regime opponents are still widespread, while thousands are believed to be imprisoned for political reasons. Authorities made further use of controversial tools such as the revocation of citizenship to punish dissidents and predominantly Shi'ite citizens. Activists continued to rally abroad against Bahrain's human rights abuses, while imprisoned detainees launched hunger strikes in Bahraini prisons to protest abuses and the lack of adequate treatment in detention. Authorities executed three men in 2019, and thereby further undermined prospects for reconciliation.

However, the kingdom's domestic conflict intensity slightly eased in the review period. Authorities reinstated the citizenship of almost 700 people who had had their nationality revoked, while human rights defender Nabeel Rajab and other prisoners were released under the alternative penalty law. In 2019, restrictions of the annual Shi'ite Ashura celebrations were lifted, while the king expanded pardoning schemes for prisoners in 2020. The 2020 death of Khalifa bin Salman al Khalifa, the world's longest-serving prime minister (in office since 1971), is considered a partial shake-up of the regime's internal balance of power. As King Hamad replaced Khalifa bin Salman, a figurehead of the regime's hardliners, with the reformist crown prince, tensions between the regime and the opposition could ease if the reformers manage to consolidate power. However, the overall democratic transition did not improve, as the regime did not formulate any outspoken roadmap toward such transition despite the former prime minister's death.

Regional tensions also eased in the review period, as Bahrain restored ties to Qatar and normalized relations with Israel alongside the United Arab Emirates (UAE), Sudan and Morocco. While the rapprochement of Bahrain and its Gulf Cooperation Council (GCC) allies with Qatar might facilitate a temporary de-escalation with Qatar's ally Iran, the normalization of

relations with Israel is estimated to boost regional trade and economic cooperation and strengthen Bahrain's geopolitical importance.

The COVID-19 pandemic thwarted Bahrain's economic reform program, which was launched prior to the crisis and aimed at reducing the budget deficit by imposing austerity measures. The government's health-sector response was relatively quick and comprehensive, although authorities were criticized for restricting civil rights by imposing heavy penalties and mandatory rules deemed disproportionate. Although COVID-19 strongly affected the low-income strata of society and migrant workers, authorities expanded social protection schemes for foreign workers and legalized thousands of Bangladeshi nationals in 2020. The fiscal and economic repercussions of the crisis heavily affected Bahrain's macroeconomic performance, further illustrating the state's vulnerability to external shocks. However, Bahrain's geopolitical importance allowed the regime to quickly raise external support to mitigate the fiscal impacts of the crisis.

## History and Characteristics of Transformation

Since their conquest of the archipelago in 1783, the Al Khalifa family has established dynastic and absolute rule in Bahrain. From the outset, this led to a deeply antagonistic relationship between the Sunni ruling family and their supporters, on the one side, and the large majority of the population, who see themselves as native Shi'a (Baharna), on the other. The British played a crucial role in institutionalizing minority Sunni rule, propping up the pro-British Al Khalifa monarchy. In 1820, Bahrain became a protectorate of the British empire. During that period, police forces were recruited from British India. The strategy of importing foreign mercenaries to control local dissent and maintain Al Khalifa rule in the country has continued to the present day, as Bahrain has expanded its use of foreign mercenaries from predominantly Sunni countries over the past decade (an unknown number of mercenaries from Yemen, Jordan, Syria and Pakistan are integrated into Bahrain's security apparatus) and continued to encourage foreigners to join Bahrain's security forces during the period under review.

After British forces withdrew from the Gulf in 1971, the monarchy's dependence on external military support to defend itself against internal uprisings and hostile neighbors such as Iran translated into a close alliance with the United States and the United Kingdom. The U.S. Fifth Fleet is stationed in Bahrain, and a British navy base established in 2016 was expanded in 2018 to include a naval support facility.

The monarchy's dependence on external support is heightened by Bahrain's geopolitical location. The country's population is small (1.5 million in 2019, of which 55% are migrant workers), and its natural resources (oil, aluminum and natural gas) are limited. The only land access to Bahrain is via the King Fahd Causeway, which connects the country with Saudi Arabia. Bahrain shares its only significant oil field, Abu Safah, with Saudi Arabia, whose state-controlled company ARAMCO heads the exploitation and extraction. Rents from the kingdom's

natural wealth have been heavily invested in modern infrastructure and welfare programs, such as free education and medical treatment for its citizens. Bahrain remains highly dependent on its oil revenues, as its economic diversification efforts have stalled.

The Bahraini and Saudi monarchies share an interest in Sunni hegemony in the region; this has become more pronounced since the 1979 Revolution in Iran, given the latter country's equally hegemonic Shi'a ambitions. Saudi Arabia is interested in maintaining the status quo in Bahrain to prevent Iran from gaining influence on the Arab peninsula. Saudi Arabia was the driving force behind the Gulf Cooperation Council's (GCC) 2011 military intervention in Bahrain. Saudi and UAE forces entered the country to support the regime in dispersing pro-democracy protests and to maintain Al Khalifa rule. As tensions between the Sunni rulers and the Shi'a opposition continue to this day, Riyadh has sustained the deployment of an unknown number of troops in Bahrain.

In the meantime, the power struggle between Saudi Arabia and Iran in the region has translated into extensive cooperation between Bahrain and its Western allies and the GCC. The kingdom has been increasingly involved in proxy conflicts. In 2014, Bahrain joined the U.S.-led coalition against the so-called Islamic State (IS) group in Iraq and Syria, and in 2015, joined the Saudi-led war in Yemen. In 2017, Bahrain also joined the Saudi-launched initiative to isolate Qatar.

The political and economic transformation of Bahrain over the past 20 years is strongly linked to the current king, Hamad bin Isa al Khalifa, who came to power in 1999 and quickly introduced a comprehensive reform of the political system, including cautious democratization in response to the civil unrest of the 1990s. This approach was formalized with the approval of the National Action Charter in a 2001 referendum and the establishment of a constitutional kingdom. The 2002 constitution reintroduced a parliamentary system for the first time since the 1970s, though the newly created National Assembly only holds limited authority. This semi-democratic reform included the legalization of political societies (*de facto* parties) and liberalization efforts, but increasingly turned into a masquerade. Over the years, public dissatisfaction mounted and culminated in the mass uprising on February 14, 2011 (the 10th anniversary of the referendum). This revolt challenged the political progress made over the past decade and paved the way for the restoration of an oppressive political system and the ongoing crackdown against the Shi'ite opposition.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

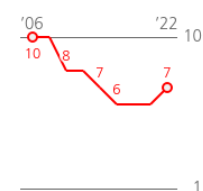
Bahrain's monopoly on the use of force faces challenges due to the significant discontent and minor civil unrest in Shi'i-majority villages and towns. During the review period, peaceful small-scale marches were staged in marginalized rural areas with a Shi'i majority. However, the overall number of anti-government protests further declined during the period, corresponding to the general trend of decreasing public mobilization among opposition forces in recent years. Noteworthy protests occurred on the anniversaries of the 2011 uprising in 2019 and 2020, after the announcement of the normalization of relations with Israel, and on the sixth anniversary of the arrest of imprisoned opposition figure Ali Salman in December 2020. Additionally, clashes erupted after the execution of three men in 2019, resulting in one protester's death.

While those protests only partially challenge state control, a series of bomb attacks in 2017 offered a more serious threat to the government's ability to maintain security. However, no terrorist attack has occurred since. Nevertheless, Bahrain maintained the deployment of foreign military personnel in the country, including American and British troops and security forces from Saudi Arabia and the UAE, and has continued to integrate mercenaries from Arab countries into its security apparatus, which raises doubts about the regime's ability to maintain control without external support. Bahrain's ruling class appears to be able to maintain control only due to the deployment of foreign troops. In the review period, volunteer programs for civilians to join Bahrain's Ministry of Interior and the military were signed into law. While the right to serve in the army's reserve force is exclusively reserved to Bahraini nationals, local and foreign civilians alike are encouraged to serve in Bahrain's police forces.

Question  
Score

Monopoly on the  
use of force

7



Questioning the nation-state is not common in Bahrain, although large parts of society challenge the political order and call for the democratization of the state. The presence of two national narratives – a Sunni narrative dating back to the Al Khalifa’s conquest of Bahrain in 1783 and a Shi’a narrative – undermines the legitimacy of the royal family, which is primarily contested in Shi’i communities. The dominant political role of the royal family, and political, economic and social inequality, most notably between Sunni and Shi’ites, remain major catalysts for popular discontent. Partly due to governmental repression, moderate voices among the Shi’i opposition become weaker, while more radical forces are on the rise, including ultra-conservative Sunnis.

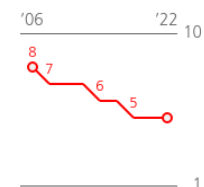
Meanwhile, discourses about national identities are inconsistent and sectarian identities do not solely reflect religious affiliations. The conflict between privileged Sunnis and marginalized Shi’ites is predominantly shaped by the politically motivated discrimination against Shi’ites. Thus, the royal family’s strategy to preserve its power translates into a controversial policy regarding citizenship and naturalization. The government encourages foreign Sunnis to immigrate and allows Arab nationals to apply for citizenship after 15 years of residence and non-Arab foreigners after 25 years of residence. At the same time, the state continues to revoke the citizenship of Shi’ites, which undermines their ties to the state, deepens rifts within society and violates international law.

Between 2012 and 2021, at least 990 Bahrainis, the vast majority of whom have been Shi’ites, were stripped of their citizenship. The legal basis for this practice is the 2014 amendment to the 1963 Citizenship Law, which allows authorities to revoke citizenship when a person “causes harm to the interests of the kingdom.” A 2019 amendment of the law restricts the power to strip Bahrainis off their nationality to the cabinet and bars the king and the judiciary from doing so. In practice, however, citizenship revocations appear to have only a symbolic impact, as most revocations issued since 2012 were handed down by courts or the king. After King Hamad reinstated the citizenship of 551 people in 2019, a court restored the nationality of another 147 people only months later, leaving about 300 people rendered stateless.

Bahrain’s constitution stipulates freedom of religion and conscience but declares Islam the religion of the state and Shariah as a principal source of law. Non-Muslims are relatively free to exercise their religion and the government allows freedom of worship. Non-Muslim and Muslim groups must register with the government. There are 19 non-Muslim groups registered in Bahrain, including Christian churches and Hindu and Sikh groups. In 2019, the first Jewish prayer service in over 70 years was held in a Manama synagogue, while the construction of Bahrain’s third Catholic church is scheduled to be completed in 2021. Although the state does not in principle discriminate between Sunni and Shi’a Islam (religious affiliations are not explicitly mentioned in official documents, including birth

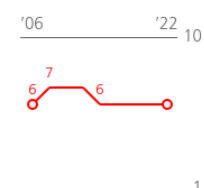
#### State identity

5



#### No interference of religious dogmas

6



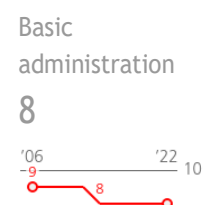
certificates), the country's society as well as its political, social and economic spheres are divided on sectarian grounds. Shi'ite Muslims, in particular, are subjected to state interference and face restrictions regarding the exercise of their religion. The government maintains supervision of religious text books and preaching, and monitors mosques and prayer halls. There is no systematic interference at Shi'i places of worship, but authorities regularly intervene on suspicions of political activity, arresting or summoning religious figures and restricting Ashura festivities.

In 2019, however, restrictions for Ashura were lifted for the first time in years. Authorities deployed social service police rather than riot police, who abstained from using violent means for crowd control, while government officials held meetings with religious figures and the heads of prayer halls prior to the celebrations. However, Bahrain continued to systematically discriminate against Shi'ites in a vast array of areas, including employment, access to services, political and judicial representation, the rights to freedom of speech and expression, promotion and representation in the security apparatus, and in religious matters (e.g., mosque construction). In 2020, a Shi'i mosque in Hamad town was closed down. Meanwhile, imprisoned Shi'ites still face substantial restrictions regarding the exercise of their religion, such as limited access to religious books. Prior restrictions in commemorating Ashura were slightly eased in the review period, though not in all retention facilities.

Basic infrastructure for a nationwide supply of water, sanitation and electricity is well-established. Access to improved sanitation facilities stood at 99% in 2015, while 100% of the population had access to improved drinking water sources, according to World Bank data. Administrative civil functions (e.g., school-level education, primary and secondary health care, communication infrastructure) are well-developed.

Bahrain features the region's highest internet and social media penetration rates, reaching 99% in 2019, according to governmental surveys. Bahrain is currently upgrading its internet infrastructure, and featured 5G network coverage of 95% in 2020. However, villages, towns and disadvantaged neighborhoods in Manama, which are predominantly inhabited by Shi'ites, suffer from less developed infrastructure, as do rural areas.

In the review period, the government continued to upgrade infrastructure, but focused on megaprojects in the transportation sector instead of tackling imbalances in basic services between urban and rural areas. A new passenger terminal at Bahrain International Airport opened in January 2021 as part of an overall airport modernization program. Additionally, the government revealed the blueprint for a \$2 billion metro network, featuring four lines stretching over 109 kilometers. The network is estimated to be operational in 2055. However, the project's first stage, including 20 stations and two lines, is scheduled to be inaugurated in 2027.





The government continued to tackle the housing shortage, with a government program in cooperation with the private sector slated to build 40,000 housing units. The construction and distribution of housing slots in two projects (the East Hidd Town expansion and the Sitra project, each featuring 5,000 units) advanced in the period under review.

Moreover, Bahrain increasingly pushed for the digitalization of services, further incentivized by the COVID-19 pandemic.

## 2 | Political Participation

Since 2002, Bahrain has held parliamentary and municipal elections every four years. All Bahraini women and men above the age of 20, and any citizen of a GCC state who owns property or is a resident in Bahrain, is eligible to vote. The most recent elections were in 2018, for the three municipal councils and the lower house of parliament, the Council of Representatives (CoR; Majlis al-Nuwwab, sometimes also called the Council of Deputies). However, these clearly illustrated that elections are neither free nor fair. No steps were taken during the review period to tackle the electoral system's deficiencies. The electoral system remains flawed, while the government undermined the election's legitimacy by extensively interfering in the electoral process. In 2016 and 2017, authorities dissolved two major opposition parties (al-Wefaq and Wa'ad) and barred their members from running for office. In 2018, the king ratified an amendment to the Exercise of Political Rights Law, which bans "leaders and members of dissolved political organizations" and "persons previously convicted to a prison sentence of six months or more" from competing in elections, as noted critically by Human Rights Watch.

Prior to the 2014 elections, authorities had reduced the number of electoral districts for the CoR elections from five to four, further decreasing the likelihood of Shi'ite candidates winning a seat due to increased gerrymandering of districts in favor of the Sunni electorate. In the 2018 run-up, authorities rejected at least five candidates, claiming that they had been former al-Wefaq members, and removed thousands of names from voter lists, asserting that those had not participated in previous elections. The High Election Commission, assigned to monitor the vote, is far from independent, as it operates under the authority of the minister of justice, a member of the royal family. The system also makes use of "general" polling stations unconnected to districts, which increases the risk of manipulation. During the 2018 election, reports indicated further violations, including vote-buying, voter intimidation and government pressure on the voting intentions of public sector workers and military personnel. The official turnout rate of 67%, a 14% increase compared to 2014, is not credible.

Free and fair elections

2

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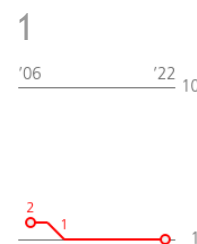


Despite a partial shake-up of the CoR in 2018, the chamber remains a rubber-stamp parliament. Only three out of 23 members of parliament, seeking re-election, were able to regain their seats. Independents won 34 out of the 40 seats in total, while party-affiliated politicians won six seats. Thus, political societies doubled their outcome. Al-Minbar, the political arm of Bahrain's Muslim Brotherhood, lost its only seat. The ultra-conservative Salafist al-Asalah Society won an additional seat and has now three seats in the CoR. The Democratic Progressive Tribune, an al-Wefaq ally, won two seats and the pro-governmental National Unity Assembly one. As the king also re-appointed all 40 members of the Consultative Council (Majlis al-Shura), the parliament's upper house, both chambers of parliament were reassembled in 2018, but their impact on the government's performance and executive policies is limited. Authorities nevertheless continued to advertise participation in elections as a kind of training course for candidates, campaign managers and election observers, and a parliamentary simulation for youth was organized in the review period.

Bahrain's legislative system is composed of two chambers: the elected lower house of parliament (the Council of Representatives, CoR) and the upper house (the Consultative Council), which is entirely appointed by the king. The Consultative Council was established as a subordinate body in 1992 with advisory competences, but was designated as parliament's upper house in the 2002 constitution, which additionally created the CoR, whose members are elected in a popular vote. Together, the CoR and the Consultative Council (40 members each) constitute the bicameral National Assembly. A constitutional amendment in 2012 transferred power within the National Assembly toward the CoR and declared the elected body to be the presiding chamber of parliament.

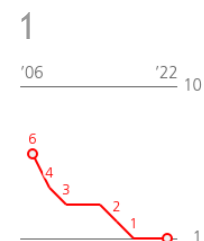
However, the CoR has only limited power regarding legislation and government oversight, as both chambers can only vote on draft laws proposed by the government. Both chambers can amend, approve or reject draft legislations and propose laws to the government, but are barred from voting on legislations drafted without the government's approval. The CoR has the power to submit written questions (information requests with limited accountability of the government) to the cabinet and to call ministers for interpellations. For the removal of a minister through a vote of no-confidence, a two-thirds majority in the CoR is required. The chamber does not have the authority to raise the subject of confidence in the prime minister but can declare its "non-cooperation" with him by a two-thirds majority. In this case, the king has to decide if he sacks the prime minister or dissolves the CoR. Final authority regarding legislation is exclusively held by the king, who holds veto powers. The CoR is not designed to counterbalance the power of the government or the king.

Effective power to govern



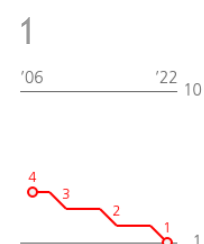
Bahrain's constitution provides for the right to assemble and the right to establish associations as long as they do not violate the official religion or public order. But in reality, freedom of assembly and association is heavily restricted. The 1989 Law of Associations allows authorities to monitor and control NGO funding, while the involvement of such organizations in politics is strictly prohibited. Religious associations exist, but NGOs affiliated to Shi'a clerics are under government pressure. The 1973 Public Gatherings Law and its 2013 amendment prohibits public gatherings of more than five people without a permit and bans "protests, rallies, gatherings or sit-ins in Manama," which turned the city into a de jure protest-free zone. Authorities continue to arrest, prosecute and sentence protesters on such charges, but increasingly refer to the Anti-Terrorism Law and its 2015 amendment in trials of people, arrested during protests. During the review period, there were no authorized protests, but authorities dispersed several small-scale marches. Assembly rights were further restricted after the COVID-19 pandemic's onset. Although Bahrain abstained from announcing lockdowns or curfews during the pandemic, authorities banned gatherings of more than five people in public and imposed fines and prison sentences of up to three years for violations. While these restrictions on gatherings are expected to remain in place indefinitely, other restrictions – such as the closing of mosques and prayer halls, quarantine rules for people arriving in Bahrain, and obligatory COVID-19 tests for newly arriving people – were lifted gradually throughout 2020 but were reintroduced in January 2021.

#### Association / assembly rights



Freedom of the press and scientific research and freedom of expression in speech and writing is guaranteed by the constitution. The freedom of postal, telegraphic, telephonic and electronic communication is "safeguarded" and its confidentiality guaranteed. The censorship of communication is prohibited in principle. In reality, however, the government systematically uses vaguely worded legislation to restrict and crack down on the freedom of speech and freedom of the press, monitors online content, and prosecutes people for criticizing authorities. The Press Law allows the state to prosecute anyone who criticizes or insults the king or threatens national security. The government expanded its oversight of electronic media in 2016, and since 2019, authorities have increasingly widened online surveillance and the prosecution of free speech in social media.

#### Freedom of expression



After the Ministry of Interior publicly threatened those who criticize the regime online in 2018, the ministry declared in 2019 that it will prosecute people for following Twitter accounts it deems "inciting." Twitter itself was harshly critical of the announcement, as Bahrain is the first country that has threatened to prosecute people for simply following accounts. In the review period, authorities continued to arrest, summon or sentence people for exercising their free speech online. In March 2019, the leader of the banned Wa'ad society, Ibrahim Sherif, was sentenced to six months in prison for tweets calling on Sudan's President Omar al-Bashir to step down. In 2020, Bahraini lawyer Abdullah al-Shamlawi, who had defended

opposition figures such as Ali Salman, was sentenced to eight months in prison for “inciting hatred against a religious sect” and “misusing a telecommunication device.” However, all charges were later dropped.

Meanwhile, freedom of the press is significantly restricted. After authorities closed down the last remaining independent newspaper in 2017 (al-Wasat), Bahrain’s media is entirely composed of state-controlled or pro-regime outlets. As of December 2020, six journalists were in detention in Bahrain, while authorities had continued to refuse entry to representatives of human rights organizations and foreign journalists. In 2020, Bahrain dropped two ranks in Reporter Without Borders’ press freedom index and is now listed at 169th place out of 180 countries. In April 2020, imprisoned journalist Mahmoud al-Jaziri was put in solitary confinement after he publicly contradicted authorities’ claim to have taken COVID-19 preventive measures in prisons by replacing family visits with video calls, asserting that no equipment for such calls had been installed.

In addition, several activists and opposition figures remain detained on charges related to free speech online. However, prominent human rights defender Nabeel Rajab was released under the “alternative penalty law” in June 2020, and has to serve his remaining sentence in a rehabilitation program in the Social Affairs Department. He was sentenced to prison terms in two trials on charges including “disseminating false news.” Authorities also continued to prosecute family members of human rights activists. In 2020, authorities released the mother-in-law of London-based activist Sayed Ahmed al-Wadaei after she had served a three-year prison sentence. However, his brother-in-law remains detained, and faces a potential decade-long prison term.

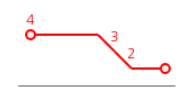
### 3 | Rule of Law

Bahrain’s constitution claims the system of government is based on a separation of legislative, executive and judicial authorities, but in reality, there is no separation of power. The king holds extensive legislative, executive and judicial power and appoints the prime minister, his deputies, judges and all members of the lower house of parliament. He is also the commander-in-chief of the armed forces, can call for a referendum, dissolve the Council of Representatives and call for early elections. The king can effectively rule by decree. The parliament does not have the authority to hold the king or the prime minister accountable but enjoys limited tools to express its disagreement with the cabinet or question individual ministers. The government is also highly dependent on the king, although the prime minister can propose cabinet members. But their approval falls under the king’s authority. The cabinet is traditionally largely composed of members of the royal family who hold key posts in the government. After the death of long-serving Prime Minister Khalifa

Separation of powers

2

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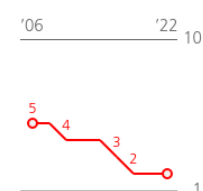
bin Salman on November 11, 2020, the king appointed his son, Crown Prince Salman bin Hamad, as his successor, as the king has the formal power to decide on such appointments alone.

During the COVID-19 pandemic, Bahrain did not declare a state of emergency or pass laws further restricting the role of parliament or the judiciary. Both chambers of parliament held sessions and committee meetings remotely.

The judiciary system in Bahrain is neither independent nor free, although the constitution stipulates otherwise. All judges, including the members of the Constitutional Court, are directly appointed by the king, who additionally chairs the High Judicial Council and therefore has authority over administrative matters of the judiciary. No approval of judges by the parliament or any other branch of government is required. Once a judge is appointed, accountability is largely limited, as the law does not allow for the impeachment of judges. In 2017, the king ratified a constitutional amendment that grants military courts the authority to try civilians “accused of threatening the security of the state.” The amendment further downgraded the rule of law in Bahrain, as defendants in military court enjoy fewer guarantees for a fair trial than is the case in civilian courts. Both military and civilian courts continued to regularly issue controversial sentences against activists, journalists, human rights defenders and opposition figures during the review period, including embracing mass trials, illustrating that the judiciary largely acts on behalf of the regime. Members of the royal family are also represented in the judiciary, and although officials have repeatedly lost court cases, the royal family de facto enjoys impunity.

Independent judiciary

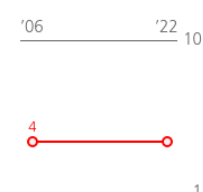
2



Adequate, consistent and transparent procedures to efficiently prosecute abuses of office are largely absent in Bahrain, especially regarding torture, ill-treatment and other violations by security forces. While oversight mechanisms as recommended by the Bahrain Independent Commission of Inquiry (BICI) were installed in 2011 (in particular the Interior Ministry’s Ombudsman Office and the Special Investigations Unit), prison guards and other security officials are not held accountable for crimes. Aside from a few first-instance convictions of low-ranking police officials who were later acquitted or given light sentences on appeal, those mechanisms failed to effectively investigate and prosecute office abuses by Bahrain’s security forces. In the period under review, the Special Investigations Unit referred one member of the security forces to a military court over alleged offenses, while the unit itself continued to question defendants, suspects and witnesses linked to complaints received by the department. No security official was found guilty by a court for crimes or violations of the law during the review period. However, the Ministry of Interior charged 12 police officials, including two officers, of beating inmates in Jaw Prison in 2019.

Prosecution of office abuse

4



Authorities continued to prosecute the misuse of power in the review period occasionally and selectively. However, only low-level officials were affected by such investigations. In 2019, the Nationality, Passports and Residence Affairs Department said that four individuals had been arrested over alleged bribery and misuse of power charges, while the Ministry of Interior confirmed that a police official and a civilian employed by the ministry were among those arrested. Meanwhile, Bahrain's Civil Service Council suspended seven officials from the tourism authorities in 2019 after they had submitted a letter to the crown prince accusing the minister of industry, trade and tourism of abuse of power. An investigation into the accusations was reportedly launched, though without leading to tangible results. Reports in the Spanish press in 2020 about an alleged payment of \$1.9 million by King Hamad to Spain's former king, Juan Carlos I, did not lead to any investigation in Bahrain. Hence, Bahrain's overall performance regarding the prosecution of office abuses remains flawed, as high-ranking officials, the security apparatus and the royal family are not investigated properly.

Bahrain's constitution provides for equality of citizens "before the law in public rights and duties," prohibits discrimination based on sex, origin, language, religion or creed, and explicitly forbids "physical or mental torture" and "undignified treatment." However, authorities systematically violate those stipulations. Physical and psychological torture and mistreatment during investigations or in detention is widespread, while officials regularly refuse defendants or detainees access to lawyers or medical care. Prisoners staged several hunger strikes during the review period, calling for adequate health care, the right to exercise their religion and an end to politically motivated solitary confinement for prisoners of conscience. Human rights groups continue to accuse authorities of arbitrarily denying prisoners access to health care and withholding medication as a form of punishment for political activities.

Meanwhile, women and migrant workers face de jure and de facto discrimination in political, economic and social matters. The 2009 Family Law only regulated personal status matters in Sunni Shariah courts and left Shi'ite women in legal limbo as Shi'a courts continued to rule on a case-by-case basis. The 2017 Personal Status Law also covers Shi'ite courts and is a limited improvement. However, women still face unequal rights regarding personal status matters such as divorce. A 2018 amendment to the labor law introduced a de jure improvement, as the legislation now bans discrimination based on sex, origin, language or creed; criminalizes sexual harassment at workplaces "by reference, speech, act or by any other means"; and imposes fines for violations. The constitution and the Labor Law grant the right to strike and to form trade unions, though with significant restrictions. Collective bargaining and the establishment of trade unions in the public sector or the oil and gas industry are illegal. Unions are barred from political activities and are forced to affiliate with one of the kingdom's two trade union federations (General Federation of Bahrain Trade Union or Bahrain Free Trade

Civil rights



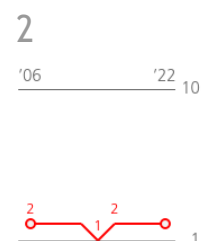
Union Federation). Although trade unions were vibrant and active civic actors ahead of and during the 2011 uprising, they have pursued a less confrontational approach ever since, due to repression and mass firings after the 2011 general strikes. After fishermen staged a protest in 2019, arguing they were unable to sustain themselves due to fishing restrictions, authorities arrested several protesters and referred them to prosecutors. Migrant workers continue to be subjected to forced labor, low payment, abuse and exploitation, and lack access to social insurance.

Since the beginning of the COVID-19 outbreak, unions have increasingly lobbied for migrant workers' rights, calling on authorities to ensure that migrants are protected and receive access to housing, health care and information. In May 2020, the government announced an amnesty scheme for undocumented migrants, and started the process of legalizing 40,000 Bangladeshi nationals. The scheme is a significant improvement but does not cover all those in need. Meanwhile, Bahrain's COVID-19 response has been heavily criticized for disproportionately restricting civil rights, as authorities imposed heavy penalties for violating the ban on gatherings and mandatory quarantine rules. The latter imposed considerable surveillance on people in self-isolation at home, using a COVID-19 app and a mandatory electronic bracelet that generated privacy concerns, as information gathered by the app could also be used for political purposes.

#### 4 | Stability of Democratic Institutions

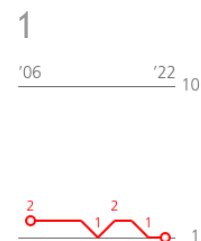
Bahrain is a constitutional monarchy as stipulated in the 2002 constitution and its 2012 amendment, but the king holds absolute power. The kingdom's administrative structure is composed of a central government, four governorates and 12 municipalities, but remains largely centralized as neither the governorates nor the municipalities enjoy essential autonomy from the central government. The elected lower house of parliament (CoR) and the three municipal councils representing the 12 municipalities only have limited authority over the government and no power to hold the king or the prime minister accountable. Although the CoR has some power over individual ministers, its ability to perform is very limited as the king appoints all 40 members of the upper house of parliament, the Consultative Council. This makes it impossible for the CoR to win a vote in a joint session with the Consultative Council within the National Assembly, which only convenes when a disagreement between both chambers occurs (e.g., the Consultative Council approves a law but the CoR rejects it). Thus, draft laws can be formally sent back to the cabinet, but in reality, the king repeatedly intervenes, and demands that the government and the CoR negotiate matters. This procedure has caused repeated frictions between the cabinet and the CoR. However, if negotiations fail, the king can rule by decree, which downgrades the CoR to a mere rubber-stamp body.

Performance of democratic institutions



The legitimacy of Bahrain's semi-democratic institutions has been substantially undermined both among the Shi'ite opposition and the ruling class. Although elections were held in 2018, the political environment prior to the vote clearly indicated that Bahrain's democratic institutions are not capable of absorbing and channeling political confrontations. The crackdown on opposition forces representing the Shi'ite majority and the liberal or left-wing strata of society illustrated that the regime has abandoned policies aimed at a political reconciliation within the framework of the country's democratic institutions. However, the regime continues to claim that it is committed to the semi-democratic model and encourages society to participate in the electoral process. Although the acceptance of Bahrain's democratic institutions has strongly declined in large parts of the Shi'ite communities, most political societies – including those that are banned – continue to lobby for democratic reforms and call for a reconciliation with the regime. While Bahrain's COVID-19 response was drafted and executed by the king and the government, members of parliament publicly suggested amendments to some of the coronavirus measures. However, the extent to which these proposals were taken into account by the government is unclear.

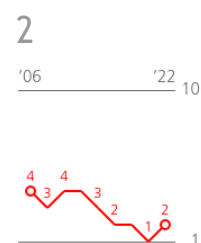
Commitment to democratic institutions



## 5 | Political and Social Integration

Bahrain's legal system imposes broad restrictions on political interest groups, and political parties are banned by law. However, so-called political societies, which de facto operate as parties, are legal and allowed to form parliamentary blocks, hold internal elections and campaign publicly. Electoral meetings cannot be held at places of worship, universities or public institutions, and simultaneous membership in societies and engagement in any kind of religious preaching, guidance or speech is banned by law. Political societies based on sectarian, ethnic or geographic bases are prohibited. However, religious affiliations play an important role for many of Bahrain's political societies.

Party system



The kingdom's party system features a broad variety of societies but their ability to operate is limited. In 2016, the largest opposition party with a predominantly Shi'ite voter base, the al-Wefaq National Islamic Society, was banned, its assets liquidated and officials prosecuted. In 2017, the secular National Democratic Action Society (Wa'ad) was dissolved and its assets seized on charges of supporting terrorism.

The crackdown against al-Wefaq and Wa'ad was a significant blow for Bahrain's party system, as it further undermined the legitimacy and credibility of elections. In 2019, al-Minbar elected a new leadership slate, although the government, alongside Saudi Arabia, the UAE and Egypt, had deemed the Muslim Brotherhood to be a terrorist organization. Bahrain appears not to consider al-Minbar a threat, and thus allows it to operate within the legal framework for political societies.

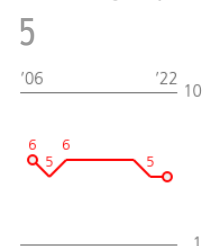


As of 2019, the party system was largely composed of small conservative Sunni societies such as the moderate Arab-Islamic Wasat Society, the Islamic Shura Society or the National Islamic Platform Society (al-Minbar), the political arm of Bahrain's Muslim Brotherhood. Increasingly significant in the country's party landscape are the nationalist and pro-government National Unity Assembly, formed in 2011, the ultra-conservative Salafist al-Asalah Society and the Democratic Progressive Tribune, an al-Wefaq ally. All three parties won seats in the 2018 elections, albeit on a very low level: only six out of 40 seats were filled by party-affiliated deputies in total.

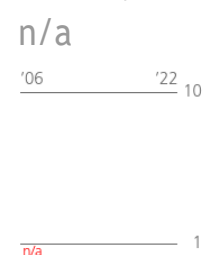
Given the authoritarian style of rule in Bahrain, the kingdom hosts a comparatively large variety of civil society organizations, such as charities, women's rights groups and cultural clubs. The number of political societies (de facto parties) and trade unions is remarkable, although the crackdown against opposition parties has significantly decreased their capability to operate. Human rights groups critical of the government mainly operate from abroad. Trade unions have adopted a less confrontational approach since 2011 due to the authoritarian rollback, but turned toward a more outspoken approach during the COVID-19 crisis, persistently calling authorities to expand social safety nets and protect workers' rights. Bahrain's Muslim Brotherhood remains a major interest group, with a political arm, the al-Minbar society, as well as active charities. Shi'ite communities, however, face significant restrictions regarding the right to civic organization. The ability of civic groups to mediate between society and the ruling class is therefore seriously hampered.

Reliable data such as opinion surveys or polling on public approval or rejection of democratic norms and procedures are not available in Bahrain. The voter turnout rate in the 2018 elections could have been an indicator for citizens' approval of the current state of Bahrain's semi-democratic system. But the official turnout rate of 67% is not credible, due to the systematic exclusion of opposition groups representing the country's Shi'ites from the formal political sphere. The banned al-Wefaq claimed that the voter turnout did not exceed 30%. Al-Wefaq's call to boycott the 2018 election is another indication of a decline in popular support for the current political system. Thus, it is difficult to make an overall assessment of the society's approval of the semi-democratic system. As Bahrain's COVID-19 response was exclusively drafted and executed by the king and the government, the parliament's political impact and public visibility additionally decreased in 2020.

Interest groups



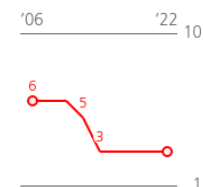
Approval of democracy



Bahrain's society is divided along sectarian and religious-affiliation lines, a fact that has been accelerated by the government's politically motivated marginalization of Shi'ites. The Sunni strata of society enjoy more support from authorities, while communities and neighborhoods predominantly inhabited by Shi'ites rely more on informal and autonomous self-organization. The crackdown against the Shi'i opposition prior to the review period included the closure of civil society organizations such as religious charities. Existing formal and informal non-governmental social safety nets were thereby dismantled, increasing the need for the autonomous self-organized sphere to fill the gap. COVID-19 and Bahrain's fiscal and economic crisis prior to the pandemic further amplified this trend. Due to the informality of these networks, it is difficult to assess their evolution.

Social capital

3



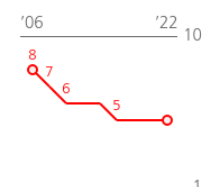
## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Although Bahrain's natural resources provide for a relatively high overall living standard, vast parts of the population are fundamentally excluded from society and the kingdom's wealth, especially women, Shi'ites and migrant workers. According to the Gender Inequality Index, Bahrain maintained a stable but low ranking (0.212 in 2019), indicating only slight ups and downs since 2011. The country's Human Development Index score rose persistently during the past decade but dropped slightly to 0.852 in 2018. Although there is no reliable data about Bahrain's poverty rate and the extent of relative inequality, the unequal distribution of wealth remains a major concern. Significant socioeconomic barriers exist for both Shi'ites and women. Women have far less access to management positions in the public and private sectors, and face discrimination regarding wages and representation in the labor market, politics and the judiciary. The government also grants Sunni Bahrainis preferential treatment in the public sector and in politics, while Shi'ites face considerable discrimination regarding access to public jobs. In 2019, the outlawed al-Wefaq criticized the government for excluding thousands of Bahrainis belonging to the Ja'fari school of Shi'a Islam from employment within the educational sector. Instead of employing Shi'ites, authorities had systematically recruited teachers from Saudi Arabia and Egypt, al-Wefaq claimed. Meanwhile, the COVID-19 pandemic disproportionately affected already marginalized Shi'i communities and migrant workers, which further increased socioeconomic barriers for both groups and amplified the inequalities already prevalent in Bahrain's society.

Question  
ScoreSocioeconomic  
barriers

5



Economic indicators		2017	2018	2019	2020
GDP	\$ M	35473.8	37652.5	38474.5	-
GDP growth	%	4.3	1.7	2.0	<b>-5.8</b>
Inflation (CPI)	%	1.4	2.1	1.0	<b>-2.3</b>
Unemployment	%	1.4	1.5	1.6	<b>4.1</b>
Foreign direct investment	% of GDP	1.5	0.3	2.4	-
Export growth	%	3.7	3.6	0.3	-
Import growth	%	7.6	5.7	-5.6	-
Current account balance	\$ M	-1599.8	-2434.6	-	-
Public debt	% of GDP	88.1	95.0	102.1	<b>129.7</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	16.6	16.4	15.8	-
Public education spending	% of GDP	2.3	-	-	-
Public health spending	% of GDP	2.8	2.4	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.3	4.1	4.1	<b>4.1</b>

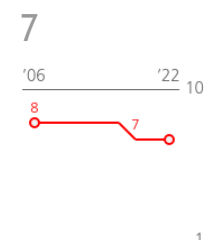
Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

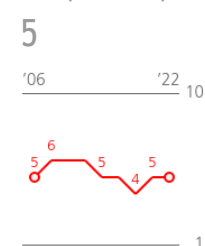
Bahrain features a relatively small market, and its economy is largely dependent on the hydrocarbon sector as oil revenues accounted for more than 80% of state income in fiscal year 2019/2020. Due to the government's dependence on oil revenues, the oil and gas sector and other key industries (e.g., aluminum) remain strongly protected. Other relevant sectors of the economy (e.g., the finance, banking, tourism, real estate and ICT sectors) have attracted significant foreign investment in the past decade and are well-regulated. Bahrain is generally keen to attract foreign direct investment and allows 100% foreign ownership in numerous sectors. Entry and exit barriers for goods and services are low, and Bahrain has maintained a currency convertibility regime without limitations since 1973. The World Bank's 2020 Doing Business Report indicates a slight improvement regarding procedures, duration and costs of setting up commercial businesses in the kingdom. Starting a business in Bahrain takes an average of 8.3 days and six procedures, including permits, with costs reaching 1% of per capita gross national income, according to the World Bank. Meanwhile, the informal sector remains significant and is estimated to make up of about one-third of Bahrain's total labor force. While the vast majority of informal workers are migrants, the public sector also features informal jobs, as temporary work contracts in nurseries and kindergartens are considered informal due to the absence of insurance coverage for temporary jobs.

Despite a well-regulated business environment, Bahrain lacks a comprehensive framework for competition, as well as regulations to prevent monopolization and cartels. Since 2018, however, the government has increasingly tackled the absence of relevant legislations in line with the country's Economic Vision 2030 and has ratified several laws to boost foreign investment and improve the business environment. Regulations relevant for competition are already embedded in existing laws such as the Consumer Protection Law and the Commercial Code. However, in 2018, the government also adopted a Personal Data Protection Law (intended to facilitate effective data transfer across borders), a Competition Law (aimed at preventing monopolies and anti-competitive behavior) and a Bankruptcy Law (setting rules for bankruptcies in line with Chapter 11 insolvency rules in the United States). These laws do not provide for an independent competition authority. While the public body designated to oversee the implementation of the Competition Law had not yet been set up as of January 2021, the government gave the Consumer Protection Directorate within the Ministry of Industry, Commerce and Tourism temporary authority to enforce the law.

### Market organization



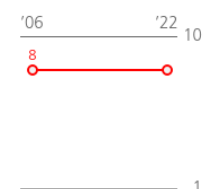
### Competition policy



Bahrain has largely liberalized its foreign trade policies since the country joined the WTO in 1995 and the GCC's Unified Customs Union in 2003 (entering into force in 2015), which eliminated tariffs for GCC members on numerous items, mainly food and medical products, and lowered duties on all other goods to only 5%. The simple average most-favored nation tariff applied was 4.8% in 2019, while Bahrain imported goods and services worth \$14.8 billion (\$1.9 billion of agricultural goods and \$12.9 billion of non-agricultural products), up from \$11.6 billion in 2016. Significant import barriers are applied only on tobacco (100%) and alcoholic beverages (125%). In 2018, the UAE was by far Bahrain's largest trading partner, followed by Saudi Arabia, the EU, Japan and the United States. The kingdom's trade policy features free trade agreements (FTA) with the European Free Trade Association and Singapore, while the most significant agreement remains the bilateral FTA with the United States, which entered into force in 2006. In January 2021, Bahrain and the United States signed a memorandum of understanding aimed at establishing an American free trade zone in Bahrain.

Liberalization of foreign trade

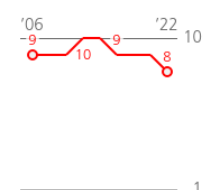
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The banking sector remains a pillar of Bahrain's non-oil economy. The country maintained its reputation as a reliable regional hub for banking and finance businesses as assets held by the banking sector continued to grow prior to the COVID-19 crisis. The pandemic severely affected Bahrain's banking sector, though only temporarily, as the industry's performance stabilized in late 2020. The central bank's (CBB) total assets declined sharply during 2020 (falling from BHD 3.27 billion in the first quarter to BHD 2.86 billion in the third quarter); by the third quarter of 2020, they had reached their 2019 level, CBB data indicates.

Banking system

8



The net foreign assets held by retail banks plunged from BHD -979 million in late 2019 to BHD -1.57 billion in the first quarter of 2020, increasing to BHD -1.32 billion in the third quarter of 2020, according to the CBB. The market capitalization at Bahrain's stock exchange fell significantly from almost \$27 billion in 2019 to \$21.1 billion in the second quarter of 2020. However, the sector recovered slightly in late 2020, to \$23.7 billion as of September 2020. The GCC remains by far Bahrain's most important geographical area regarding assets, liabilities and foreign currency deposits, as Saudi Arabia, the UAE and Kuwait continue to use Bahraini banks for regional and international business transactions.

Bahraini authorities were eager to address the repercussions of the COVID-19 pandemic in the banking sector and emulated the U.S. Federal Reserve's interest rate cuts in 2020 to respond to the crisis. The one-week deposit facility rate was cut in two steps from 2.25% to 1%, the overnight deposit rate from 2.0% to 0.75%, and the overnight lending rate from 4.0% to 2.45%, according to the IMF's COVID-19 policy response database. Other measures to support Bahrain's banking sector and its clients included a reduction in the cash reserve ratio for retail banks from 5% to 3%; a relaxation of loan-to-value ratios for residential mortgages; a cap on debit-

card fees; and a request that banks offer a six-month deferral of repayments without interest or penalty, and that they refrain from blocking customers' accounts in case of coronavirus-related unemployment. The loan deferral was subsequently expanded through the first six months of 2021, according to the IMF.

## 8 | Monetary and fiscal stability

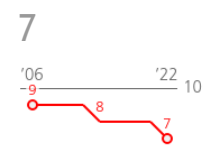
The central bank, established by royal decree in 2006 to replace the Bahrain Monetary Agency, oversees Bahrain's monetary policy. It is "administratively and financially independent," according to the Financial Institutions Law, but its Board of Directors is entirely appointed by the king. The central bank's independence in terms of its oversight functions over banking and the financial markets is, therefore, limited.

Bahrain's exchange-rate policy is predictable and reliable, as the Bahraini dinar has been officially pegged to the U.S. dollar with a static rate of \$1 to BHD 0.376 since 2001, after an informal peg at the same rate had been in place since 1980. However, the COVID-19 crisis led to an outright collapse in the country's foreign exchange reserves, threatening Bahrain's ability to sustain the currency peg. After Bahrain raised \$2 billion in a successful sale of dollar-denominated bonds in May 2020, reserves increased to more stable levels, ensuring Bahrain's capability to maintain its overall monetary policy. The dinar's exchange rates to the euro and the British pound fluctuated in the first half of 2020, but stabilized in mid-2020, regaining rates similar to pre-crisis levels.

Bahrain's inflation rate decreased from 2.1% in 2018 to 1% in 2019, but turned negative in 2020, according to World Bank data, featuring deflation of up to -3.6% between March and November 2020. Estimations predict inflation rates to surpass 2% in 2021 and later, though due to the pandemic it remains uncertain whether declining price levels in sectors such as Bahrain's tourism industry will go up significantly any time soon. Meanwhile, the kingdom's real effective exchange rate continued to rise, and reached a new peak of 111.9 on the index in 2019 after figures of 109.3 in 2018 and 110.2 in 2017. The figure has increased constantly since 2011, indicating struggling economic competitiveness.

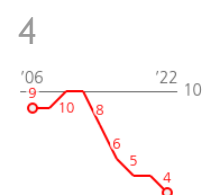
The COVID-19 crisis and its economic repercussions unequivocally illustrated Bahrain's exceptionally high and structural vulnerability to external shocks. The temporary but sharp decline in oil prices in early 2020 seriously affected Bahrain's fiscal stability. However, due to the country's geopolitical importance for its GCC allies and Western partners, the government quickly attracted external support that mitigated fiscal repercussions of the pandemic, in particular related to the substantial drop in foreign reserves. Prior to the crisis, Bahrain already faced considerable macroeconomic challenges, and had adopted austerity measures to cut the budget deficit and improve macroeconomic indicators. A \$10 billion aid

### Monetary stability



1

### Fiscal stability



1

package granted by Saudi Arabia, Kuwait and the UAE was finalized in 2018, supporting Manama's fiscal consolidation program. Bahrain's GCC allies are likely to continue their fiscal support for the kingdom due to its geopolitical importance. However, the extent to which the GCC states are able to provide further medium-term loans, deposits and other fiscal assistance remains uncertain.

Prior to the pandemic, Bahrain's deficit had been rising consistently. The deficit reached an all-time high of \$2.4 billion in 2018, following a shortfall of \$1.6 billion in 2017, but shrunk back to \$794 million in 2019 with the help of financial aid provided by Bahrain's GCC allies. A budgetary deficit of \$2.77 billion was forecast for 2020, mainly caused by the COVID-19 crisis. Meanwhile, overall public debt increased to 103.4% of GDP in 2019, up from 95% in 2018, 44.4% in 2015 and only 29.7% in 2010. This figure is expected to surge significantly again in 2020 and 2021. After Bahrain's foreign reserves rose to \$3.67 billion in 2019, the first significant increase since 2014, reserves dropped substantially in the first months of 2020, illustrating the kingdom's vulnerability to external shocks. Foreign reserves stood at \$3.43 billion in February 2020, sharply declined to \$772 million in April, and then gradually recovered over the course of the year, reaching \$1.88 billion in September 2020. Bahrain's additional spending during the COVID-19 crisis reached \$2 billion until December 31, 2020, \$0.5 billion of which was spent for health care, according to the IMF's fiscal monitor database.

The government had already tackled structural distortions in Bahrain's overall economic model prior to the pandemic and is expected to continue implementing austerity measures to reduce the budget deficit and reform public spending. Significant cuts in subsidies for water and electricity ahead of the pandemic were effectively halted in 2020, as the government covered water and electricity bills for individuals and companies as a part of its COVID-19 crisis response packages. The government is expected to continue to cut subsidies once the pandemic eases, although authorities had slowed down the subsidy reform program in 2019 due to fears of popular unrest. Meanwhile, public expenditure reforms (e.g., increasing state revenues by imposing new taxes such as the VAT, introduced in 2019) are likewise expected to be pushed forward after the crisis.

## 9 | Private Property

Property rights are well-regulated and well-defined in Bahrain. GCC nationals and companies enjoy the same ownership rights as Bahrainis and are allowed to purchase and own real estate and land without significant limitations, while the authority of sale and allocation of public land is solely held by the king. Therefore, the procedures for privatizing public land remain opaque. Non-GCC nationals are permitted to own real estate, but only in specific areas, high-rise commercial and residential units, and property related to tourism, banking, financial, health care or

Property rights

8



training projects. The government allows 100% foreign ownership of companies in certain sectors, and the establishment of representative offices and local branches of foreign companies without the need to present a local sponsor. Meanwhile, the kingdom increasingly promotes foreign investment in its real estate sector. In 2018, it launched the Bahrain Real Estate Investment Exhibition (BREIX) and the 2019 Bahrain International Property Exhibition (BIPEX) to boost the country's real estate market. The 2020 BREIX edition was canceled due to the pandemic.

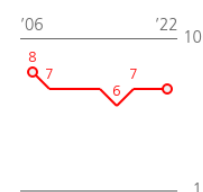
The oil and gas sector and affiliated industries are dominated by state-controlled companies, while joint ventures and other private investments in the petroleum sector are permitted only under production-sharing agreements with the state-controlled Bahrain Petroleum Company (BAPCO). However, sectors such as tourism, banking, finance, real estate, trade, telecommunications and health care are open to private and foreign investors. An amendment to the 2001 Commercial Companies Law further improved the business environment in the non-oil sector and allowed 100% foreign ownership in various sectors of the economy, including manufacturing, mining and water supply. In March 2020, the government set up a multi-billion-dollar stimulus package as part of its COVID-19 response that featured temporary assistance schemes for private companies, effective for three months. Among the provisions, the government paid the salaries of Bahraini workers in the private sector; paid electricity and water bills for Bahraini entrepreneurs and companies; exempted commercial, industrial and tourism entities from certain fees and rent payments; and provided liquidity assistance to small- and medium-sized enterprises (SMEs). Additional stimulus schemes launched in mid and late 2020 provided aid only to those sectors most affected by the pandemic.

## 10 | Welfare Regime

Bahrain's oil revenues have allowed the state to establish a comprehensive welfare regime for its citizens that includes free education and health care as well as vast subsidy schemes for fuel, food and other commodities. The kingdom's public social insurance system dates back to the 1970s and covers citizens employed in Bahrain or any GCC country. It features old-age and disability pensions, death and funeral grants, and insurance programs covering unemployment and work injuries, though with restrictions for foreign workers. The life expectancy at birth in Bahrain has risen steadily for years, and stood at 77.2 years in 2018, up from 75.8 in 2008. Public expenditure on health decreased from 3.2% of GDP in 2015 to 2.8% in 2017. However, the government had launched reforms of the public health care system's spending schemes aimed at limiting public expenditure and externalizing costs to foreigners. In 2018, King Hamad ratified a new Health Insurance Law, which makes it obligatory for foreign workers, visitors and tourists to sign up for the national insurance program and pay premiums during the duration of their stay. Bahraini citizens and expatriate migrants working as housemaids, drivers, gardeners and nurses are covered by the state.

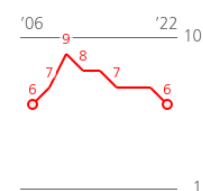
Private enterprise

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Social safety nets

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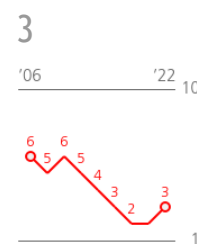


Prior to the COVID-19 crisis, the government had increasingly tackled its budget deficit by adopting austerity measures, with substantial socioeconomic effects for low-income strata of society. In 2018, subsidies on commodities such as fuel, electricity, water and meat were reduced, though further subsidy cuts were postponed in 2019 due to the government's fear of socioeconomically motivated unrest. The state continues to tackle the housing shortage in the low- and middle-income segment, though government housing programs are far behind schedule. In 2018, the Ministry of Housing had expanded eligibility criteria for applicants of the housing program Mazaya, which subsidizes the purchase of housing units in cooperation with private banks and real estate developers. Although the program's impact on the housing shortage in marginalized neighborhoods has been low, the program was expanded in 2020 (1,665 of the program's total 6,485 beneficiaries were approved in 2020 alone). Meanwhile, Bahrain's early retirement program was heavily criticized by trade unions during the review period, as the government adopted a law allowing for the use of the National Unemployment Program's surplus to fund the retirement scheme, with the aim reducing the public wage bill. Bahraini pension funds remain under severe pressure and are expected to be depleted in the 2030s if no further reform steps are taken. The annual increase in pensions was halted in 2021, but is scheduled to be paid in 2022, though only for low-income retirees.

During the COVID-19 pandemic, Bahrain took several significant measures to mitigate the socioeconomic effects of the crisis, including paying the salaries of insured Bahrainis in the private sector, paying the water and electricity bills of all Bahraini subscribers, and cutting work-permit fees for foreign workers. Although the salary subsidies were limited to those private sector jobs deemed most affected by the pandemic, about 100,000 Bahraini nationals benefited from the scheme in 2020. Additionally, tourist facilities were exempted from tourism fees.

Bahrain's constitution guarantees the equality of its citizens, explicitly prohibits discrimination and stipulates that citizens are "equal in the assumption of public posts." However, women and Shi'ites are disadvantaged regarding access to education and employment in the public and private sectors. Shi'ites continue to have restricted access to public posts, predominantly occupy lower-level public offices and are largely excluded from the security services, which are almost entirely composed of local Sunnis or Sunni mercenaries. The integration of women in the country's educational system is well-developed. The Gender Parity Index for gross enrollment displays parity between girls and boys in primary and secondary education, and a large advantage for girls in tertiary education. Bahrain's total literacy rate continues to increase, reaching 97.5% in 2018. However, the literacy rate among women is still lower than that of men (98.8% among men and 94.9% among women as of 2010). The gap continued to shrink during the review period. Additionally, women remain largely underrepresented in management positions in both the private and public sector, made up only 19.8% of the total labor force in

Equal opportunity



2020 (constantly and gradually down from 21.7% in 2014) and accounted for 74% of those registered as unemployed in 2019. Women are not adequately represented in Bahrain's political institutions, and only hold minor posts in the cabinet. However, after the 2018 elections, the total representation of women across both chambers of parliament increased to 18%.

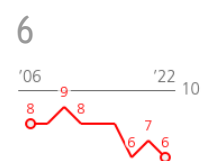
Foreign workers face considerable discrimination in Bahrain, de facto and de jure. Under the kafala system, which requires migrant workers to have a local sponsor to handle their visa and legal affairs, migrant workers have been subjected to excessive working hours, exploitation, the withholding of passports and salaries, and abusive recruitment fees. Migrant workers also receive considerably lower salaries than Bahrainis. The kingdom has a minimum wage of BHD 300 per month, though the regulation is not properly applied in the case of foreign workers (more than 60% of foreign workers earn less than BHD 200 per month). In 2017, Bahrain introduced the so-called Flexi-Permit to partially dismantle the kafala system. The scheme was set up to allow irregular migrants to formalize their status by granting workers the right to sponsor themselves and work for several employers. But workers in professions such as health, education and engineering are excluded, while formally employed regular foreign workers are not allowed to apply. The program's impact thus remains limited (only 25,000 foreign workers had been granted the permit as of 2020), while Bahraini trade union increasingly criticized the scheme in 2020, as permit holders are not provided with adequate social protection such as health care.

Despite the significant lack of equal opportunity for foreign workers, Bahraini authorities adopted several measures in 2020 aimed at mitigating socioeconomic repercussions of the COVID-19 pandemic for migrant workers. In May 2020, Bahrain's government announced its intention to legalize the status of over 40,000 Bangladeshi migrants under an amnesty scheme. Although this step substantially improved the legal status of undocumented workers, many remain without formal status and corresponding social protection. In addition, the government canceled monthly work-permit fees and fees related to renewing work permits, and cut fees for the Flexi-Permit by 60% to 80%.

## 11 | Economic Performance

The structural decline in global oil prices since 2014, the corresponding decrease in Bahrain's oil revenues and the COVID-19 crisis all posed significant challenges to Bahrain's economic performance in the period under review. Although some indicators are expected to improve once the pandemic and its economic repercussions ease, Bahrain is expected to struggle macroeconomically in the upcoming years, partly due to the regime's failure to increase non-oil revenues and the stagnating diversification of its economy.

Output strength



Bahrain's GDP reached a new all-time high of \$38.8 billion in 2019. However, GDP per capita has continued to decrease since its all-time record of \$51,494 in 2013. In 2019, it dropped slightly compared to the previous year to \$46,892. The GDP per capita growth rate was -2.6% in 2019, confirming recent trends, as the figure has been negative since 2016. World Bank data indicates an unemployment rate of 0.8% in 2020, slightly down from 0.7% the previous year. However, official unemployment rates are challenged by Bahraini trade unions, who claim that the real figures are significantly higher.

The current account balance reached a record deficit of \$2.43 billion in 2018 after a shortfall of \$1.6 billion in 2017, but the gap shrunk to \$794 million in 2019 due to financial aid provided by Bahrain's GCC allies. A budgetary deficit of \$2.77 billion was estimated for 2020, mainly caused by the COVID-19 crisis. Bahrain's latest budget surplus was generated in 2014, illustrating the economy's dependence on the global oil price level. Public debt levels rose considerably during the review period, reaching 103.4% of GDP in 2019, up from 95% in 2018, 44.4% in 2014 and 21.4% in 2009. The COVID-19 crisis is expected to further accelerate this trend. The kingdom's inflation rate decreased from 2.1% in 2018 to 1% in 2019, then turned negative in 2020, according to World Bank data, with deflation of up to -3.6% in some months of 2020. Projections predict that inflation rates will surpass 2% in 2021 and later. In 2019, foreign direct investment (FDI) went up significantly for the first time in years, reaching 2.4% of GDP, up from only 0.3% in 2018 and 1.5% in 2017.

## 12 | Sustainability

Environmental issues like pollution, soil contamination and biodiversity depletion remain a major challenge in Bahrain. The government's overall performance in terms of executing and harmonizing environmental policies, protection measures and legal instruments remains weak. Overloaded sewage stations continue to empty vast amounts of wastewater into the sea. Although authorities have regularly imposed temporary bans on shrimp fishing, fish stocks have declined dramatically over the years. Authorities have intensified efforts to implement the shrimp fishing ban and have repeatedly seized illegally caught shrimps. However, the government was not able to provide fishermen (about 450 Bahraini families live on shrimp fishing) with adequate compensation or incentives to turn toward alternative businesses.

Nevertheless, the government continued to push the industry to adopt more sustainable policies in terms of environmental standards, most notably regarding renewable energy. In 2016, the government announced that renewable energy would account for 5% of the total energy mix by 2025 and 10% by 2035, with an energy efficiency target of 6% by 2025. In the review period, the government

Environmental  
policy

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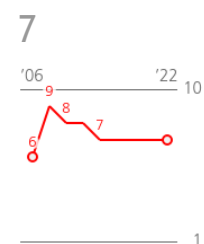


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installed solar panels on 535 government buildings and intends to equip new residential units and infrastructure projects with solar panels in the upcoming years. Several private companies already operate small solar power plants, and Bahrain opened its first solar panel assembly plant in 2017. A new photovoltaic plant was installed at a Bahraini petroleum company in 2019, while a tender for a 100-megawatt solar power plant was awarded to Saudi and European companies the same year. Additionally, the Supreme Council for the Environment has banned the import of certain plastic products that do not comply with local sales specifications and prohibited the production of non-biodegradable plastic in 2019. The government claims that those policies are motivated by the 2016 Paris Climate Accord, which Bahrain has ratified. However, this state-sponsored slow transition toward renewable energy and a more environmentally friendly policy is primarily fiscally oriented, as the government is struggling to deal with declining oil prices.

Bahrain's educational system is well-established, and features nationwide primary and secondary public schools, and private institutions, primarily in tertiary education. The literacy rate stood at 97.5% in 2018, according to World Bank data. The kingdom's public educational system is considered to provide a reasonable level of education in regional comparison but is mediocre by international standards. The 2019 U.N. Education Index assigned the country a score of 0.769. Bahrain spent only 2.3% of GDP on education in 2017 (down from 2.7% in 2016), the lowest such level in 20 years. It spent 0.1% of GDP for research and development in 2014. Public universities and research institutions continue to lack funding and expertise. Large parts of society are effectively excluded from private education, which provides a better-quality tertiary education, as fees for private universities and schools are high and not affordable for vast parts of society. Discrimination against Shi'ites in public education continues, affecting the award of scholarships in more lucrative and prestigious fields. Due to the COVID-19 pandemic, the Ministry of Education increased its efforts to provide for e-learning; in 2020, it distributed 10,000 laptops to public school students from families in need, and 2,500 laptops to the University of Bahrain. High school, graduation and good conduct certificates are now distributed electronically, and Bahrain expanded the use of e-learning portals to facilitate compliance with COVID-19 social-distancing regulations.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

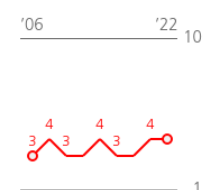
Bahrain's structural constraints are fundamentally limited to political and economic matters, which are mostly, but not exclusively, determined by the kingdom's geographical location and its natural wealth. The island state is heavily dependent on its GCC neighbors, in particular Saudi Arabia and the UAE. The only land access is via the King Fahd Causeway, connecting it to Saudi Arabia, with whom it shares its only significant oil field, Abu Safah. The state-controlled Saudi oil company ARAMCO heads its exploitation and extraction, which further increases Manama's dependence on Riyadh. Manama will not be able to pursue independent, self-determined foreign and regional policies any time soon due to Saudi Arabia's extensive interference in Bahrain's internal affairs. Against this background, Manama remains tied to Riyadh's confrontational regional policy regarding Iran. However, the lifting of the Qatar blockade in late 2020 considerably eased regional tensions, while the normalization of relations with Israel further strengthened Bahrain's role as a well-positioned proxy for Saudi Arabia. The normalization deal is expected to increase Bahrain's regional economic cooperation and trade, while improving the medium- and long-term outlook regarding external political support and foreign investments.

Bahrain's dependence on oil revenues and its rentier-state model are further constraints on the regime's ability to maneuver, as the low oil price continues to challenge the government's ability to maintain fiscal stability. Due to the stagnating economic diversification and the effects of COVID-19, the government's rent-seeking attitude is expected to be further accelerated as the kingdom is forced to quickly raise new sources for state revenues to mitigate the pandemic's economic repercussions.

Meanwhile, Bahrain's relatively small population and territory, its well-developed infrastructure, and the autocratic decision-making style within the kingdom's elite circles allowed it to respond swiftly to the health crisis. However, this further consolidated the authoritarian characteristics of the regime and hinders the country's transformation toward a more democratic model. As of January 2021, Bahrain had witnessed 375 deaths and a fatality rate of 0.37% of total cases, while the economy contracted 5.4% in 2020. By mid-January 2021, more than 143,000 people had been vaccinated. At that time, the country had one of the world's highest vaccination rates.

Structural  
constraints

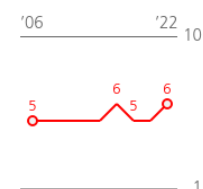
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Civil society traditions in Bahrain are considered mediocre by international comparison. Although the kingdom hosts a large variety of civic organizations such as associations, charities, cultural clubs, unions and political societies (de facto parties), a long-term presence of civic engagement is only recorded in very few domains. Independent trade unions have their roots in the struggle of Bahraini workers in the 1930s, while the history of religious charities and networks dates back to the nineteenth century. However, today's civil society's performance is bounded by the polarized political environment. Human rights organizations critical of the regime mainly operate from abroad, while Bahrain's trade union scene witnessed a partial shake-up in the review period. In 2019, four unions withdrew from the Bahrain Free Trade Union Federation due to its weak and pro-regime performance and alleged threats to union leaders by its leadership. This could potentially reinforce the power of its rival, the General Federation of Bahrain Trade Union (GFBTU), which gained substantial public attention after turning toward a more outspoken policy during the review period. The free federation was established in 2012 after the regime had increasingly targeted the GFBTU; its goal was to split unions and thereby weaken the GFBTU.

#### Civil society traditions

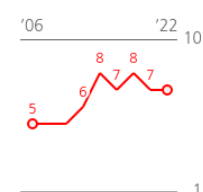
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The tension between the regime and the Shi'i opposition remains Bahrain's major political and socioeconomic conflict. Governmental repression against opposition groups and activists, along with constraints on the freedom of speech, continues to threaten the fragile social cohesion, further polarize the political sphere and widen rifts in society along sectarian, religious and socioeconomic cleavages. The Shi'i opposition is increasingly marginalized in the formal political sphere, though it continues to call occasionally for protests and lobbies for political reform and reconciliation with the ruling class. Since 2018, tensions between the opposition and the regime have eased on the surface. But although the confrontation between the pro-democracy opposition and the regime is not expected to translate into any significant popular mobilization of regime opponents any time soon, the government's ongoing crackdown against the opposition is still planting the seeds for further popular unrest in the medium term.

#### Conflict intensity

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A series of bomb attacks shifted the conflict toward more violent means in 2017, but no such attack has occurred since. However, authorities continued to arrest, prosecute and sentence opposition figures and citizens to prison terms based on flimsy and politically motivated charges in the review period. While several opposition leaders, journalists and activists and their relatives were prosecuted on the basis of biased accusations, a Bahraini court also sentenced 51 defendants to prison terms between five years and life in jail in 2020 on terrorism-related charges, finding them guilty of receiving directives from Iran's Revolutionary Guard Corps (IRGC) and of performing military training in Iran and Iraq. In addition, authorities increasingly targeted women and female activists prior to and during the review period, particularly after the king reinstated the National Security Agency's (NSA) arrest powers in 2017. The NSA in particular is accused of engaging in abuses

against women and severe violations of international law, including coercive interrogations without legal representation, physical and sexual abuses, rape and death threats, and forcing women in police custody to sign coerced confessions.

## II. Governance Performance

### 14 | Steering Capability

Bahrain's regime is generally able to set and maintain strategic priorities and long-term goals, most notably regarding the economic development and the overall political status quo. The regime's key figures agree in principle on sustaining the monarchy under the leadership of the Al Khalifa clan, though by different means and policies. All relevant fractions of the ruling elite share an essential interest in maintaining their economic and political privileges and avoiding any destabilization of the country. Despite the internal disagreement about the political transformation, the regime increasingly prioritized tackling the structural fiscal and economic crisis prior to COVID-19 and is able to agree on economic policies that are considered effective in maintaining the status quo. Bahrain's Economic Vision 2030, launched in 2008, remains the most comprehensive policy scheme aimed at diversifying the economy by modernizing infrastructure and stimulating the private sector. Although the government has gradually adopted corresponding measures over the years, the COVID-19 pandemic might undermine the scheme's implementation in the medium term.

Meanwhile, COVID-19 and its economic repercussions further consolidated the elite's ability to close ranks in order to steer the country's crisis response regarding overall economic priorities and policies, while continuing to monopolize political power. However, the pandemic further undermined Bahrain's economic transition, as the crisis amplified the elite's rent-seeking attitude.

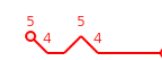
Meanwhile, the death of Prime Minister Khalifa bin Salman Al Khalifa in 2020 is considered a partial shake-up of the regime's internal balance of power and could potentially fuel realignments of the regime's different factions. The 84-year-old former prime minister, who had served in office since 1971, was a key figure among the regime's hardliners, but had been gradually marginalized in the review period due to his medical condition prior to his death. King Hamad replaced him with his closest ally within the regime, his son and Bahrain's first deputy prime minister, Crown Prince Salman bin Hamad Al Khalifa, a leading representative of the regime's reformist wing. Therefore, the regime's reformers are expected to gain ground in the upcoming years, as they now occupy Bahrain's two most powerful formal offices. The overall division of power between reformists and hardliners is

Question  
Score

Prioritization

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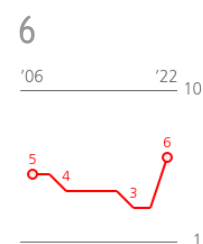
not expected to be challenged, though a shift of power from the regime's hardliners toward its reformist wing is likely to materialize gradually. This dynamic might pave the way for the government to pursue a less confrontational approach regarding Bahrain's Shi'i opposition, though the extent to which the reformers were able and willing to reconcile with the opposition even prior to possible COVID-19-related socioeconomic tensions was unclear.

Despite low oil prices and depleting resources, Bahrain continues its attempt to expand its oil rent and revenues from oil-related industries, a policy clearly in line with the regime's priority of increasing income solely controlled by the regime. A modernization program for the Sitra oil refinery, launched in 2018, is scheduled to be completed in 2022. The \$6 billion project will increase output by 42% and is BAPCO's biggest investment program in its history. In addition, Bahrain launched the construction of an LNG terminal, including an offshore floating storage unit in cooperation with the private sector, aimed at strengthening the country's gas export and import infrastructure. As these projects clearly indicate, the regime continues to prioritize the oil and gas sector over non-oil businesses, though at the same time it remains committed to diversifying the economy and turning the kingdom's Economic Vision 2030 into reality. In order to achieve this long-term goal, the government continued to increase investments in infrastructure projects (e.g., the new airport terminal and a metro network) in the review period, with the goal of increasing tourism revenues and attracting other private businesses and FDI. The COVID-19 pandemic slowed these projects, but they are expected to be implemented at a pace similar to pre-pandemic levels once the COVID-19 crisis eases.

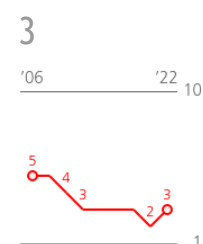
Bahrain's regime is neither willing nor able to adopt sustainable long-term policies that would consistently democratize the political system or comprehensively reform the rentier-state economy. The government had pushed for a partial economic diversification in recent years and has continuously claimed that upgrading the non-oil sector is a top priority regarding the country's medium-term development. However, the overall rent-seeking attitude of the state and the ruling class is not expected to turn into a serious commitment to economic and socioeconomic reform. Additionally, the COVID-19 pandemic could have devastating effects for Bahrain's economic diversification, as the regime is expected to prioritize the oil sector in the upcoming years in order to expand oil rents and stabilize state revenues.

On the political level, the democratic transformation is stagnating. The regime continues to crack down on the Shi'i opposition, freedom of expression and assembly, and has exploited legal provisions for political purposes. Furthermore, Bahraini oversight bodies, in particular the Interior Ministry's Ombudsman Office and the Special Investigations Unit, are neither independent nor effective in their ability to investigate credible accusations of torture, ill-treatment, violations of international law and abuses of power by Bahrain's security services. At the same

#### Implementation



#### Policy learning





time, the regime’s official human rights body, the National Institute for Human Rights (NIHR), continued to systematically whitewash the regime’s human rights record in the review period. After scabies outbreaks in two detention centers in 2019 and 2020, inmates staged a hunger strike to protest the bad hygienic conditions and the lack of medical care; the NIHR downplayed the emergency as a spread of “allergies,” even after the institute itself had cautiously suggested improving sanitation infrastructure in prisons in 2016. Additionally, the NIHR has rejected reports about human rights violations in Bahrain and has instead framed the kingdom as “a model for political reform” that respects human rights.

However, authorities have started procedures for the legalization of more than 40,000 Bangladeshi workers amid the COVID-19 crisis and, thereby, responded to calls to expand the social protection accorded to migrant workers. In 2020, the government also set up a new specialized prosecution unit designed to prosecute trafficking in persons and legal violations regarding forced labor or withholding wages. While the establishment of such unit is a step in the right direction, it is uncertain whether the unit will be able to properly investigate corresponding crimes and thereby effectively tackle the widespread exploitation and abuse of migrant workers.

## 15 | Resource Efficiency

In a typical rentier-state manner, state bureaucracy in Bahrain is inefficient and bloated, with the regime using extensive public employment as a tool to co-opt large parts of society by distributing a share of the country’s wealth to its citizen. Wages in the public sector remain relatively high compared to the private sector. However, the government is increasingly forced to limit expenditures due to the decline in oil revenues, the rising budget deficit and pressure by external actors such as Bahrain’s GCC allies.

The early retirement program is to date the most significant project with regard to limiting the public wage bill, though its implementation has triggered increasing resistance by parliament and trade unions. As of 2019, more than 8,000 state employees had applied for the retirement program (around 62% of whom were from the ministries of education and health alone), which aims at decreasing the number of public employees to 40,000 and reducing the number of foreign workers in the public sector. In the review period, however, the government announced it would fund a police museum, expand the kingdom’s share at the World Bank, and exempt the army and police forces from customs duty taxes. This triggered opposition in parliament, as the regime continued to adopt austerity measures. Thus, Bahrain’s budget spending is only partially in line with the government’s need to increase efficiency.

Efficient use of assets

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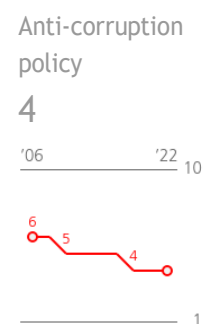
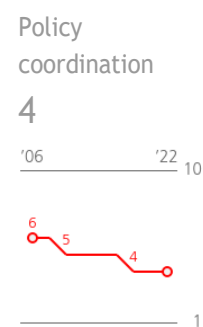
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Meanwhile, the government started investigating the surge in water and electricity bills, as the increases did not correspond to the subsidy cuts applied on water and electricity since 2018. In 2019, authorities confirmed that the rise in billing errors was caused by faulty, newly installed smart meters and promised to fix the issue.

Bahrain also restructured all government departments by royal decree in a process lasting through 2020, in line with the regime's goal to foster efficiency and reduce expenses. After the adoption of a cloud-first policy in 2017, the Information and e-Government Authority additionally transferred government websites to Amazon's cloud services, and in 2020, shifted about 14,000 government email accounts at 45 state entities to Microsoft's cloud infrastructure in order to decrease public expenses.

The coordination of policies and objectives within the ruling class effectively materializes behind closed doors, as regime hardliners and reformers barely clash in public. Policies related to the state's expenses for economic projects or the welfare program are largely dependent on Bahrain's oil revenues, and are therefore more likely to be implemented without tensions when global oil prices are high. As oil revenues have substantially declined since 2015, conflicts about the state's spending priorities are increasing, further accelerated by the COVID-19 pandemic. It remains uncertain whether the death of Bahrain's former prime minister will facilitate or hinder an improvement of internal policy coordination between the regime's different wings. However, as Bahrain's reformers now occupy the two key posts of political power (the crown and the prime minister's office) in the kingdom, a smoother coordination of policies between the executive branches of government is expected. Disputes between the government and the lower house of parliament continued on a mediocre level in the period under review, most notably affecting draft laws and policy decisions related to the austerity program. As the COVID-19 crisis accelerated socioeconomic hardship in Bahrain, further frictions between parliament and government are expected until the crisis eases.

The investigation and prosecution of matters such as embezzlement or money-laundering is not adequately executed in Bahrain. Embezzlement in the public sector remains widespread, but the ruling elite, including the royal family, enjoys de facto impunity. Although the law provides significant criminal penalties for corruption, law enforcement is weak and high-ranking officials are rarely convicted. Financial disclosure by officials is not required. Moreover, the budgets of several government entities (e.g., the army) are nontransparent, and procedures for the privatization of public land and public procurement are opaque. The National Audit Office (responsible for monitoring and combating government corruption), established in 2002, has repeatedly revealed fiscal violations among state entities, but lacks the power to adequately investigate corruption, and only tackles issues of secondary impact.



In 2020, the king signed into law an amendment to the 2001 decree that regulates the prohibition and combat of money-laundering, terrorist financing and crimes related to financial disclosure. The amendment establishes a prosecutorial unit (the Financial Crimes and Money-Laundering Prosecution Office) tasked with tackling financial crimes (e.g., embezzlement, bribery, appropriation and squandering of public funds, money-laundering, office abuse). Additionally, the king established a Financial Disclosure Examination Authority in 2020, tasked with receiving and examining complaints, but the body has only limited authority.

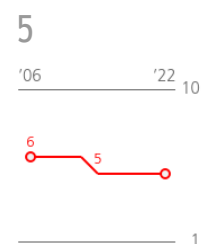
A potential setback for the state's inconsistent anti-corruption efforts is the restructuring of Bahraini ministries. In 2020, the National Center for Cybersecurity was subordinated to the Ministry of Interior, and now reports to the minister. The center was previously affiliated with the General Directorate of Anti-Corruption and Economic and Electronic Security. It may now shift its priorities toward investigating free speech online instead of financial crimes, given the Ministry of Interior's recent expansion into prosecuting free speech in social media.

## 16 | Consensus-Building

Bahrain's regime does not intend to transform the political system toward a democratic order. The regime's reformist wing, led by the king and the crown prince, believes in the positive impact of a partial democratization and liberalization of the political system in order to maintain social cohesion, and absorb and channel tensions within the opposition. But its opponents within the ruling elite rigidly refuse any concession that would make the political order more democratic and inclusive. The death of Bahrain's long-serving prime minister in 2020 is considered a significant setback for the regime's hardliner faction, as he was replaced by the crown prince. However, it remains unlikely that the regime's reformist wing will initiate any considerable political liberalization similar to the early 2000s any time soon, as the COVID-19 pandemic has increased threats to social cohesion and expanded social injustices. Therefore, short-term improvements regarding the adoption of democratic reforms are unlikely to materialize, but the crown prince's promotion might lead to a deescalating approach toward the Shi'i opposition.

Both regime fractions rhetorically agree on transforming the country into a market economy but maintain a substantial rent-seeking attitude. The rentier-state characteristics of the kingdom, most notably concerning Bahrain's natural oil resources, constitute a serious obstacle for a successful transformation toward a market economy. However, due to the economic crisis and the economic and fiscal repercussions of the COVID-19 pandemic, the kingdom gradually made progress in terms of liberalizing the economy. This development, however, is expected to remain limited to particular sectors of the economy, as the pandemic has pressed the government to increase state revenues quickly, which in turn is expected to translate into even more distinct rent-seeking.

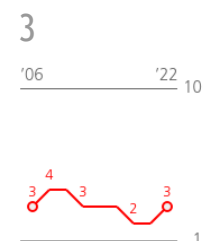
Consensus on goals



The regime's hardliners used their advantageous position within the ruling class prior to the review period to substantially revoke achievements of the liberalization and reconciliation process, introduced in 2002. However, the death of their figurehead, former Prime Minister Khalifa bin Salman bin Khalifa, in late 2020 is considered a setback for the so-called Khawalids. Although they still hold substantial political power and key offices in the government, Khalifa's replacement by the crown prince, the regime's reformist wing's leading figure, is expected to translate into increasing political influence for the reformers. However, due to the economic crisis, which has been further accelerated by the COVID-19 pandemic, along with discontent linked to its socioeconomic repercussions, the reformers are unlikely to push for any quick political liberalization, or any public or immediate confrontation with the Khawalids. The latter group still holds significant power, especially within the kingdom's security forces. The threat to Bahrain's democratic transition by notorious anti-democratic actors in the medium term has, nevertheless, partly decreased, partly due to the absence of any armed attack on infrastructure or gatherings since a series of terror attacks hit the kingdom in 2017.

Due to imbalances between the regime's two major fractions, Bahrain's leadership unable to successfully mediate in the kingdom's cleavage-based conflicts. Although the Khawalids were gradually thwarted in their escalating approach toward the Shi'i opposition in the review period, at least compared to previous years, the regime was not able to significantly deescalate tensions within society, and most notably between the ruling class and opposition forces representing the kingdom's Shi'i majority. The government's crackdown against opposition forces and on the freedom of expression continued in 2019 and 2020, though to a lesser extent than in previous periods. Although Bahrain's sociopolitical polarization is widely portrayed as a sectarian and religious tug-of-war between privileged Sunni strata of society and marginalized Shi'a, the conflict runs deeper and is predominantly shaped by a politically motivated discrimination against Shi'ites. The royal family's strategy to preserve its political power continues to feature controversial policies such as the revocation of the citizenship of Shi'ites and the naturalization of Sunni immigrants, which further widens rifts in society and escalates cleavage-based conflicts. Against this background, it is unlikely that the shift in political power toward the regime's reformers will translate into any substantial political liberalization. However, minor steps toward reconciliation are expected to materialize once the COVID-19 pandemic eases.

Anti-democratic actors



Cleavage / conflict management



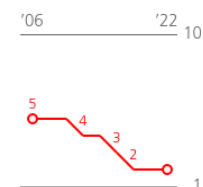
Prior to 2011, informal meetings between state officials and opposition figures were regularly held to maintain a minimum of dialogue with the kingdom's political societies (de facto parties). After the 2011 revolt, King Hamad launched the "national dialogue," an informal and temporary exchange platform with opposition parties, NGOs and journalists, aiming at absorbing popular discontent, although major opposition forces were excluded. Today there are no institutionalized mechanisms aimed at including civil society in political decision-making. During the COVID-19 pandemic, authorities executed a top-down crisis response. Civic actors were neither involved in the policymaking nor encouraged or permitted to monitor the regime's performance. However, trade unions outspokenly called on authorities to address the socioeconomic repercussions of the crisis and played a crucial role in pressuring the government to expand social safety nets and access to health care for workers and migrant workers in particular.

Despite the recent death of Prime Minister Khalifa bin Salman, the figurehead of the regime's hardliners, reconciliation efforts by Bahrain's reformists remain stalled. Authorities continued to crack down on the Shi'i opposition and liberal activists, while attacking the freedom of expression. This widened rifts between the ruling elite and the opposition. The impact of the Bahrain Independent Commission of Inquiry (BICI), set up after the 2011 uprising, proved to be only transitory as the regime had gradually revoked all significant reforms implemented after the revolt. Misconduct by security officers, including torture and ill-treatment of civilians, is not adequately investigated and prosecuted by authorities. Furthermore, Bahraini courts play a major role in the crackdown against the opposition, as they continued to regularly issue controversial verdicts against dissidents, including death sentences. A seven-year-long moratorium on the death penalty was revoked in 2017 when authorities executed three men for the first time in years. In 2019, three more men were executed in Bahrain, two of whom had been sentenced to death in a mass trial against 56 defendants marred by serious violations of due process for the alleged killing of a police officer. Since 2011, at least 36 death sentences have been issued by Bahraini courts. Eight people remained on death row as of 2020. Thereby, prospects for adequate political reconciliation in Bahrain remain limited.

However, authorities increasingly pardoned prisoners and expanded the use of the alternative penalty law in the review period. This latter program turns prison sentences into non-custodial sentences such as house arrest or mandatory participation in rehabilitation programs, to be served in government services. In 2019, at least 530 people, including 80 juveniles, were handed alternative sentences under the law, while 269 prisoners were pardoned. In 2020, an additional 585 inmates were given alternative sentences, while the king responded to the COVID-19 pandemic by pardoning 1,486 prisoners – the biggest pardoning action since 2011.

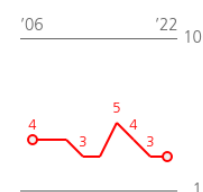
#### Civil society participation

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#### Reconciliation

3



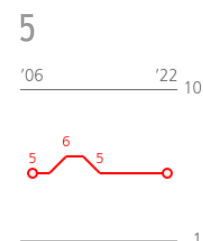
## 17 | International Cooperation

Bahrain's leadership is strongly dependent on external support, most notably by its GCC allies and Western partners who continue to back the regime with financial and fiscal aid, but also security assistance in the form of arms and equipment deliveries. However, rent-seeking by the ruling elite and Bahrain's rentier-state model remain major obstacles for the implementation of development schemes such as the Economic Vision 2030, which aims at diversifying the economy. Corresponding support in expanding non-oil revenues and liberalizing the economy as a whole, however, is hampered by the country's rentier-state model, while the regime is not likely to make any substantial commitment to a comprehensive economic reform. The regime's long-term development goals are, hence, only rhetorically crucial for Bahrain's elites, as their primary goal remains preserving their own political power. Additionally, the COVID-19 pandemic could have devastating effects for economic diversification, as the regime is expected to prioritize the oil sector in the upcoming years so as to expand oil rents and stabilize state revenues. Bahraini authorities have received consultancy assistance from international partners such as the World Bank and the private sector on fiscal and economic reforms and have made significant use of the given advice.

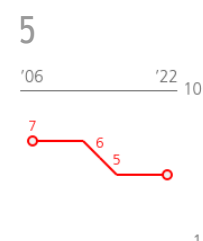
Bahrain is considered a credible partner regarding economic cooperation and regional alliances, especially for its GCC allies, the United States and the United Kingdom. Against this background, the U.S. and the U.K. maintained their economic cooperation with Bahrain and continued to approve arms sales to the kingdom in the review period. After the U.S. approved \$150 million in funds for the refurbishment of a Bahraini frigate in 2019, an arms deal for the purchase of a Patriot Missile Defense System worth \$2.5 billion and weapons for Bahrain's F-16 fighter fleet worth \$750 million was approved the same year. Washington additionally continues to train Bahraini security forces in counter-terrorism tactics. Bahrain and the U.S. also signed a memorandum of understanding on cyber security, aimed at facilitating further training for Bahraini police. In 2020, Bahrain purchased naval military equipment in Turkey and received a patrol vessel built by BAE Systems in Britain.

Bahrain is committed to trade agreements (e.g., the bilateral U.S.-Bahrain Free Trade Agreement) and portrays itself as a credible stakeholder in international organizations. After the U.N. General Assembly approved Bahrain's request for a seat on the U.N. Human Rights Council in 2018, the government announced its intention to apply for the presidency of the council for the upcoming term, though this triggered significant opposition from human rights organizations due to Bahrain's disastrous human rights record. U.K.-based human rights groups and activists continued to lobby against Britain's police cooperation with Bahrain, accusing the government in London of being complicit in severe human rights violations in Bahrain. A protest by activists at Bahrain's embassy in London

Effective use of support



Credibility



triggered substantial public attention in 2019, while U.K. Home Secretary Priti Patel was heavily criticized in 2020 after visiting a police station in Bahrain known for being the venue of recent police abuses. Hence, Bahrain cannot be considered a credible partner regarding human rights and monitoring attempts by international organizations.

Meanwhile, Bahrain's support and funding for international sports events and investments in sports clubs in Europe triggered significant public outrage in the review period. Human rights organizations increasingly criticized Formula One for overlooking human rights abuses in Bahrain, and outspokenly called on the organizing body of Bahrain's annual F1 race to adopt a human rights policy. Since 2011, Bahraini dissidents have regularly used the occasion of the annual F1 race in Bahrain to stage protests around the event, while authorities have responded to these actions with reprisals. In 2020, a letter signed by 18 human rights groups (including Amnesty International and Human Rights Watch) accused F1 of being complicit in Bahrain's "sports-washing" policy.

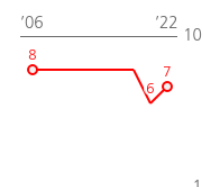
Bahraini officials also continued to invest in other sports events, maintaining their sponsorship for a cycling team and buying stakes in the Spanish Cordoba football club in 2019 and the French team Paris FC in 2020. Due to heavy public pressure, the Royal Windsor Horse Show, the largest outdoor horse show in the U.K., adopted a human rights policy in January 2021 after the event's organizers were criticized for receiving funding from Bahrain's royal family. In 2017, family members of activists who protested against the regime during the show were arrested on dubious charges.

Although Bahrain's sports-washing strategy significantly backfired, as various investments repeatedly made headlines in the review period, Salman bin Ibrahim Al Khalifa was re-elected to another four-year term as FIFA's vice president and as the president of the Asian Football Confederation (AFC) in 2019, although AFC and FIFA statutes require its leaders to "promote and protect human rights."

The tensions between Saudi Arabia and Iran continue to affect alliances in the region and remain key for Bahrain's overall cooperation with neighboring states. The easing tensions between the GCC and Iran's ally Qatar, as well as Bahrain's normalization of relations with Israel, however, paved the way for significant improvements in regional cooperation, on a political level as well as regarding economic and trade relations. In 2017, Bahrain and its GCC allies Saudi Arabia, Kuwait and the UAE had cut ties to Qatar and imposed a blockade over the island country. After restoring relations and lifting the blockade in January 2021, Bahrain and its GCC allies re-opened their air space to Qatari planes, while Bahrain additionally restored mutual fishing rights with Qatar. Since 2017, Bahrain and Qatar repeatedly criticized each other for violating fishing rights, each arresting the other country's fishermen for fishing in allegedly territorial waters.

Regional  
cooperation

7



The normalization of the kingdom's relations with Israel is a big step forward for Bahrain's regional cooperation. Although the move was also made with the goal of countering Iran's influence in the region, the deal is expected to significantly boost regional trade and economic cooperation and might pave the way for a substantial upgrade of Bahrain's geopolitical importance. As Saudi Arabia only expanded its cooperation with Israel in the review period, but did not yet normalize diplomatic relations, Riyadh might use Bahrain as a proxy for its informal ties to Israel, at least in the medium term. This might be accompanied by further investments in Bahrain, which could strengthen the kingdom's economic outlook.



## Strategic Outlook

Despite the easing of Bahrain's crackdown against the opposition, authorities continued to arrest, prosecute and sentence opposition figures and dissidents on dubious charges, and increasingly restricted freedom of expression. The execution of three men in 2019 and the widespread torture and abuse of suspects and prisoners during the review period illustrate that the regime persistently continued to pursue a hardline approach in dealing with dissent. Therefore, any comprehensive reconciliation with the Shi'i opposition and other regime opponents is unlikely to materialize any time soon. However, the appointment of the reformist crown prince as Bahrain's new prime minister might pave the way for a de-escalation of the conflict between the regime and the Shi'i opposition in the medium term, though only if the COVID-19 crisis does not fuel significant popular unrest or escalate socioeconomic inequalities. Furthermore, the crown prince's promotion is expected to gradually strengthen the reformers in the regime, though without challenging the hard-liners' grip on power in general.

Meanwhile, the restoration of ties between Bahrain and its GCC allies and Qatar relaxed regional tensions, but it is not expected that this will facilitate reconciliation between the Saudi-led bloc and Iran any time soon. Hence, the conflict between Riyadh and Teheran will continue to shape Bahrain's foreign policy both on a regional and international level. While Bahrain celebrates the 50th anniversary of its independence in 2021, the kingdom's normalization of relations with Israel is expected to boost the kingdom's trade and economic cooperation in the region, and attract foreign investments, which could further help the government to mitigate the repercussions of the COVID-19 crisis. As the kingdom's efforts to engage in economic diversification have stagnated for years, the pandemic will further increase rent-seeking attitudes among Bahrain's ruling class and favor the oil industry over non-oil businesses. Given Bahrain's relatively small population, the kingdom is expected to manage the health crisis better than other countries in the region, particularly since vaccinations had already started in late 2020. However, the pandemic's socioeconomic and fiscal consequences remain a major challenge for authorities, as the austerity program had already intensified social discontent prior to the health crisis. Due to the kingdom's geopolitical importance, authorities quickly managed to raise external support to tackle the drop in foreign reserves. Macroeconomic factors will nevertheless constrain the kingdom's economic performance in the medium term.