

# Capital Markets

Bahrain Bourse records growth heading into 2022

Increasing demand for both green and Islamic bonds

Untapped market potential to support small players

Innovative financing solutions for sustainable projects







Bahrain Bourse has adopted the Global Industry Classification Standards

# Budding growth

The sector continues to bounce back from the impact of the Covid-19 pandemic on global markets

Bahrain Bourse is a member of the Arab Federation of Capital Markets and the World Federation of Exchanges, as well as the Africa & Middle East Depositories Association.

Bahrain's capital markets have navigated challenging times in recent years, as the world has faced the Covid-19 pandemic, high volatility in energy markets and the fallout from Russia's invasion of Ukraine. Despite these challenges, the kingdom continues to exercise an important influence on regional capital markets, attract investors and provide a sound platform for listed companies to raise funds. Indeed, there have been successful bond issuances – both conventional and *sukuk* (Islamic bonds) – backed by further improvements in regulatory and oversight standards, as well as increased digitisation. The capital markets are now looking forward to renewed foreign interest, while a return to economic growth and an enhanced project pipeline bode well for robust gains in the years ahead.

**OVERSIGHT:** The Central Bank of Bahrain (CBB) is the sector's regulatory and supervisory authority, as it is for all financial services in the kingdom. The CBB exercises this authority through its Capital Markets Supervision Directorate (CMSD), with the regulations it enacts stated in Volume 6 of the CBB rulebook. The CMSD also follows international standards, including those of the International Organisation of Securities Commissions. The directorate oversees the kingdom's only licensed stock exchange, the Bahrain Bourse (BHB), a self-regulatory organisation that dates to 2010, when it was established as the successor to the Bahrain Stock Exchange, which was originally set up in 1987.

Other key milestones include the BHB's 2010 restructuring into a closed shareholding company; the upgrade to a Nasdaq OMX trading platform in 2014; the BHB's 2015 listing of the Middle East's first tradeable *sukuk*; the 2016 launch of the Treasury Bills Market; and the 2017 listing of the first real estate investment trusts (REITs) and the BHB's fully owned subsidiary, Bahrain Clear, which is the bourse's central depository, registry, clearing and settlement entity. That year also saw the launch of the Bahrain Investment Market (BIM), a platform for fast-growing, and often new, companies.

**COLLABORATION & STRATEGY:** In July 2021 the BHB adopted the Global Industry Classification Standards (GICS) for its listed companies. The BHB is a member of the Arab Federation of Capital Markets (AFCM), the World Federation of Exchanges, and the Africa & Middle East Depositories Association. For 2022 the BHB has taken on the rotating presidency of the AFCM. In addition, the bourse is a partner exchange member of the Sustainable Stock Exchanges initiative, and in 2020 launched voluntary environmental, social and governance (ESG) reporting guidelines for listed companies and other stakeholders. This saw the percentage of listed companies that file sustainability reports increase from 7% in 2019 to 33% by the end of 2020, with these outfits representing 78% of the BHB's total market capitalisation. The following year the BHB launched the "Investor Relations Best Practice Guide" for listed companies.

The BHB and Bahrain Clear are now linked to the Abu Dhabi Securities Exchange, the region's second-largest bourse, by a cross-border cooperation agreement signed in November 2021. The agreement aims to pave the way for dual listings, exchange-traded funds and fuller, more seamless market access, boosting the depth and breadth of both exchanges.

In January 2022 Bahrain Clear signed a memorandum of understanding with Muqassa, the Saudi securities clearing company owned by the Saudi Tadawul Group. The move is designed to strengthen cross-border cooperation and connectivity, as well as facilitate training and the sharing of expertise.

Mentoring is behind many other BHB initiatives, such as the Capital Markets Apprenticeship Programme, which gives training to selected interns. This dovetails with the Economic Recovery Plan launched in December 2021 and the Financial Services Development Strategy 2022-26, the latter of which highlights job creation in the sector and sets a target of 3000 trainees per year in financial services by the

In 2021 Bahrain Bourse signed multiple agreements and memoranda of understanding with regional stock exchanges and clearing houses.

end of 2024. Boosting financial literacy and awareness of the role capital markets can play in business and entrepreneurship is central to the strategy. It also highlights financial technology (fintech) and regulatory development, including green finance.

**STRUCTURE:** The BHB provides the opportunity to trade shares, mutual funds, bonds and sukuk, REITs and Treasury bills. This can be done via the main market or BIM – which has no market cap requirements and a minimum of BD250,000 (\$663,000) in paid-up-capital – or by listing on the main exchange.

The BHB has two indices, the Bahrain All Share Index (BHBX) and the Bahrain Islamic Index (BIX). Since July 2021, when the BHB reorganised its groupings according to the GICS classifications, the larger former index has been divided into seven sectors. These are: materials, with one company listed in December 2021; industrials, with three companies; consumer discretionary, with five companies; consumer staples, with four companies; financials, with 22 companies; communications, with three; and real estate, also with three. The exchange lists one foreign company, Bank Muscat, and had two closed companies – SICO and United Paper Industries – until the latter delisted in 2021.

The financial services sector is the most well represented, which is reflected in its value. At the end of 2021 the sector had a combined market cap of BD8bn (\$21.3bn), or 74.3% of the total, with materials the next largest, at BD1.14bn (\$3bn). Communications had a market cap of BD1.06bn (\$2.8bn), followed by consumer discretionary (BD180.6m, \$479m); consumer staples (BD146.6m, \$388.8m); industrials (BD145.3m, \$385.3m); and real estate (BD110.7m, \$293.6m).

As of the end of 2021 there were 10 registered brokers on the BHB, with the largest in terms of value traded being SICO, which accounted for 59.6% of the total. Gulf Securities Company was the second largest, with 19.2%, while Mubasher Financial Services was in third place, with 8.3%. The top-two brokers accounted for almost 80% of total trades by value.

**EQUITIES PERFORMANCE:** In 2019 the BHBX climbed some 20.4%, with total market cap reaching BD10.1bn (\$26.9bn) by the end of the year, despite declines in both average share value and volume during the previous 12 months. However, with the spread of Covid-19 and the start of pandemic measures in early 2020, the world's stock exchanges suffered their worst daily falls since the 2008 global financial crisis.

Starting 2020 at 1659.7, the low point for the BHBX was reached in May 2020, after which it hovered around the 1270-point mark until recovery began in August. By the end of 2020 the index was back up at 1489.8, representing a year-on-year decline of 7.5%. The average value of shares traded was down 25.7%, while the average volume increased by 4.5%.

The BIX followed a similar pattern, with a sharp decline followed by a steady, albeit incomplete, recovery. Ending 2019 just above 760 points, the BIX was down 14.5%, at 650.2 points, by the end of 2020.

Total market cap also fell over the year, by 8.5%. Using the sector categorisation used by the BHBX at the time,



The Financial Services Development Strategy 2022-26 supports job creation in the capital markets sector

the banking, investment, and hotels and tourism sectors saw the worst falls, in terms of trading value and volume. Insurance, services and industrials, however, recorded relatively strong performances, with the services segment recording growth of 25.5% on the BHBX.

The government was far from idle during this public health crisis and its unprecedented economic knock-on effects. Two crisis packages were launched: one for \$11.3bn in March 2020 and a second package of \$1.3bn in June 2021. The CBB also slashed its interest rates, starting in March 2020. A repayment holiday for bank loans was instituted, initially for six months, but this was later extended through the end of 2021.

These measures helped businesses stay afloat, while having an impact on listed companies and the BHBX as well. A recovery began in late 2020 and continued into 2021, with the BHBX closing 2021 up 20.6% on the 1797.3 points recorded at the end of 2020. This, in turn, was an increase of 8.2% from its 2019 close, signalling that the losses of the previous two years had been erased. The BIX rose by 15.6% to close out 2021 at 751.7 points – just 10 points shy of where it had started prior to the pandemic. At the same time, market cap rose by 16.6%, from BD9.3bn (\$24.7bn) at the end of 2020 to BD10.8bn (\$28.6bn) at the end of 2021.

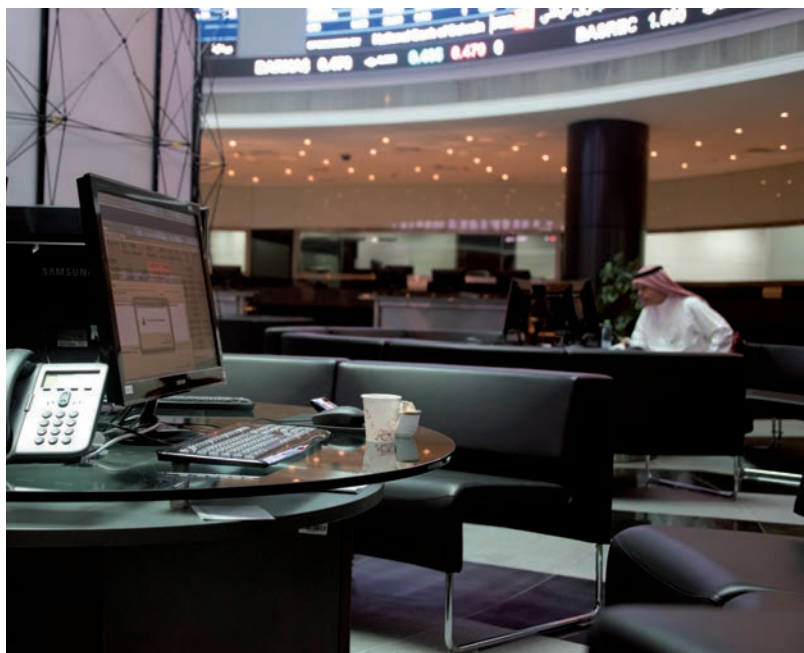
Given that categorisation changed in mid-2021, no direct comparison can be made between sector performances, but companies in areas such as hospitality and tourism continued to see share prices decline, while those in areas of revived economic activity increased. An example of the latter was Aluminium Bahrain (Alba), which benefitted from a worldwide surge in aluminium prices to see its shares go from a BD0.18 (\$0.48) loss in 2020 to a BD0.29 (\$0.76) gain in 2021.

Overall, the number of companies that saw gains in 2021 was the same as the number of those that declined – 18 – while eight remained unchanged. This was an improvement from 2020, when 22 stocks increased and 15 decreased, with five remaining

As of the end of 2021 listed financial services firms had a combined market capitalisation of \$21.3bn, representing some 74.3% of the total on the Bahrain All Share Index.

In 2021 the Bahrain All Share Index's market capitalisation rose by

**16.6%**



As of the end of 2021 there were 10 registered brokers, with the top two accounting for 80% of trades by value

In January 2022 non-Bahrainis accounted for

**26.1%**

of trades by value

unchanged. There were two delistings in 2021, with the total number of listings as of end-2021 at 42. That year most trading occurred in the financial sector, which accounted for 75.6% of total shares traded on the BHB.

In terms of the top companies by market capitalisation, the pandemic period ushered in relatively little change in the league table. Ahli United Bank was at the top both years, with its market cap rising from BD2.8bn (\$7.3bn) at the end of 2020 to BD3.6bn (\$9.4bn) at the end of 2021, while National Bank of Bahrain was second, with its market cap rising from BD1.1bn (\$2.8bn) to BD1.2bn (\$3.3bn) over the same period. Telecoms outfit Bahrain Telecommunications Company was third in 2020, with a market cap of BD997.9m (\$2.65bn), falling to BD969.6m (\$2.57bn) in 2021, while Alba went from fourth place in 2020, with BD728.5m (\$1.9bn), to third place in 2021, with BD1.14bn (\$3bn).

Foreign participation in Bahrain's capital markets was negatively impacted by the pandemic, mirroring a more general move away from emerging markets by international funds. In 2019 trading by non-Bahrainis accounted for 39.7% of the total value traded; this decreased to 25.2% in 2020. It remained steady in 2021, however, ending the year at 25%. There were signs of a pick-up heading into 2022, with 26.1% trades by value accounted for by non-Bahrainis in January.

**NEW LISTINGS:** The BIM saw its first listing – by fintech firm Sprinkle Holding – in December 2019, just before the start of the pandemic. In the years that followed the BIM was characterised by a lack of new listings due to the uncertainties of the pandemic. In December 2021, however, the CBB announced that as part of its development strategy for financial services, it would target the listing of five promising companies on the BIM by 2026.

Looking ahead, the government has stated its aim of reducing its holdings in publicly traded companies. As part of that commitment, Sheikh Khalifa bin Ebrahim Al Khalifa, CEO of the BHB, said in December

2021 that five government-owned companies were targeted to be listed, including some in the logistics sector. Such privatisations and part-privatisations are part of the updated Fiscal Balance Programme (FBP), which seeks to reduce public spending and boost the role of the non-oil private sector in the economy.

**DEBT MARKET PERFORMANCE:** Going into the pandemic, 14 bonds and sukuk, and 34 Treasury bills were listed on the BHB. There were three issuances in 2020: two government development bonds, in May and July for BD300m (\$795.8m) and BD150m (\$397.9m), at 6% and 4.5%, respectively; and a government sukuk in July, for BD125m (\$331.6m), at 4.5%.

In addition to six more government development bonds – two of which were US dollar-denominated, for \$150m and \$200m – several major sovereign issues took place in 2021 as well, motivated by the kingdom's financing needs. Bahrain has been trying to bring the public debt into balance since launching the FBP in 2018; the initial deadline for achieving this was 2022, but the pandemic necessitated a fiscal loosening to tackle the health crisis and its economic impact.

To help finance this, Bahrain issued \$2bn in three bond tranches in January 2021. The package consisted of a \$500m, seven-year tranche, at a rate of 4.25%; \$1bn in 12-year bonds, at 5.25%; and \$500m in 30-year notes, at 6.25%. In November 2021 there was a second bond sale, for \$2bn, with half of this taking the form of a 7.5-year sukuk, at 3.875%, and half in 12.5-year conventional bonds, at 5.625%. In 2021 there were regular 12-month, six-month and three-month Treasury bill issuances, with discount rates varying from a high of 2.71% for January's 12-month Treasury bill, to a low of 1.4% for three-month Treasury bills in October and November.

Going forwards, 2022 will likely see a mixed picture for new sovereign issuances. While the public debt remains significant – at 133% of GDP in 2020 – as oil prices and revenue boomed in the second half of 2021 and into the first quarter of 2022, government finances have improved markedly. At the same time, the government announced a revised FBP in October 2021, which aims to achieve fiscal balance by 2024.

These factors mean that the need for new sovereign bond issuances should decline. The market continued to see some activity, but with the CBB issuing a BD26m (\$69m) short-term *ijara* (leasing) sukuk in March 2022. That month was also the subscription period for the BD150m (\$397.9m) issue of three-year government development bonds, at a rate of 4.2%.

In February 2022 Bahrain-headquartered GFH Financial Group rolled out and seeded a \$100m diversified sukuk fund, bundling together sovereign, quasi-sovereign and corporate sukuk, mainly from the GCC region. This illustrates the growing interest in sukuk, as more Islamic countries pursue their own Islamic finance development agendas, which often include requirements by banks to diversify funding into sharia-compliant products. The CBB *ijara* sukuk issue, for example, was oversubscribed by approximately 366%.

Green bonds and sukuk represent another noteworthy capital markets trends. In October 2021 Bahrain's

Bahrain issued \$2bn in three bond tranches in January 2021. This was followed by a second bond sale, for \$2bn, in November, with half in 7.5-year Islamic bonds, at 3.875%, and half in 12.5-year conventional bonds, at 5.625%.



Gulf International Bank announced a \$625m sustainability-linked syndicated loan, and in January 2022 GFH's infrastructure spin-off fund, Infracorp, disclosed plans to issue a \$800m perpetual green sukuk. The funds raised will be eligible for financing the company's ESG goals, as this trend takes a firmer hold in the region and beyond. The accelerated greening of finance dovetails with the CBB and the BHB's 2020 move to implement voluntary ESG reporting in the kingdom. In June of that year the bourse issued the "ESG Reporting Guide", with third-party reporting methodologies to assist listed companies with integrating sustainable criteria into their business operations and better meet the expectations of investors who are increasingly looking at ESG considerations when making decisions.

**ASSET MANAGERS:** The kingdom's asset-management segment has some strong participants, with three Bahraini asset-management outfits listed in the first-ever *Forbes* list of the top-30 Middle East regional asset managers, issued in December 2020. These three were led by Investcorp, which came second in terms of total assets under management (AUM), after Saudi Arabia's NCB Capital. Investcorp had a total AUM of \$35bn in June 2020. The other two Bahraini asset managers listed by *Forbes* were GFH Financial Group, ranked ninth overall and with a total AUM of \$12bn, and SICO, which ranked 21st, with a total AUM of approximately \$4bn. Many other financial services outlets have asset-management divisions in Bahrain, counting international banks such as Citi and UBS among them.

Within the BHB, there were three mutual funds operating as of the end of 2021, down from nine when the pandemic began. The three remaining mutual funds were the Markaz Arabian Fund, the NBK Gulf Equity Fund and the NBK Qaar Equity Fund.

Delistings in the 2020-22 period included Investcorp, which departed in July 2021 after almost four decades of trading as a public company. Investcorp cited low trading volume and a shareholder preference for private status as the rationale for the move. June 2021 saw SICO delist four of its funds from the BHB – the Khaleej Equity Fund, SICO Kingdom Equity Fund, SICO Gulf Equity Fund and SICO Fixed Income Fund. No reasons were given for this delisting, but investors were reassured that the move would not impact SICO's adherence to regulatory requirements and reporting standards.

This wave of delisting was not exclusive to Bahrain; other GCC and Middle Eastern exchanges witnessed similar activity. Public scrutiny and high accounting standards, along with lower-than-usual trading volumes, have usually been the rationale for these moves, with exchanges in the region hoping that increased activity may draw such funds back in the future.

**OUTLOOK:** Despite uncertain global conditions, the years ahead look likely to be one of continued growth and consolidation for Bahrain's capital markets. Indeed, with oil prices jumping to around \$139 per barrel as of early March and global economic activity in recovery, an improved macroeconomic environment should help to generate activity on the bourse as well. A healthy pipeline of initial public offerings are expected to help



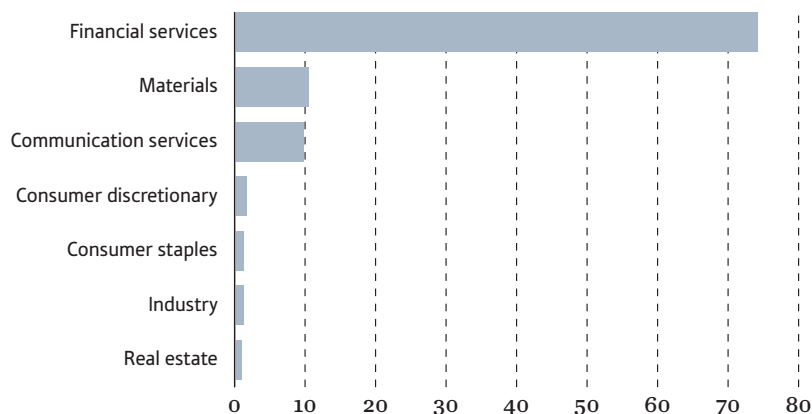
There were three mutual funds in operation as of the end of 2021

establish the foundations for attaining emergin market status. At the same time, the CBB and the BHB's efforts to encourage more companies to list, combined with educational and promotional activities, should serve to deepen and widen the bourse.

An improved macroeconomic climate, in combination with the Bahraini government's continued commitment to pursuing fiscal austerity, may ultimately lead to less activity in the debt market. Nevertheless, the continuing popularity of sukuk, in particular, should see investor appetite for such instruments continue to grow in the coming years. For many companies that work in hospitality, retail and other high-contact services – sectors that were the most heavily impacted by the pandemic – the period ahead offers an opportunity to make up for recent losses. The BHB is one avenue that these companies may be willing to explore in order to refinance and recover. While there is still ground to be made up in Bahrain's capital markets, the year ahead presents the chance to both restore and progress.

An improved economic climate, along with the government's continued commitment to fiscal austerity, may lead to less activity in the debt market.

#### Market capitalisation by sector, 2021 (% of total)



Source: BHB



Sheikh Khalifa bin Ebrahim Al Khalifa

## Five-year plan

Sheikh Khalifa bin Ebrahim Al Khalifa, CEO, Bahrain Bourse, on how capital markets and the wider economy can grow together

**What are the most significant aspects of Bahrain's Economic Recovery Plan for capital markets?**

**SHEIKH KHALIFA:** The Economic Recovery Plan is very broad, and each pillar of the strategy complements other objectives and targets. The plan focuses on developing large infrastructure projects; enhancing the efficiency of commercial procedures; achieving fiscal sustainability and economic stability; and developing priority sectors – namely, oil and gas, tourism, logistics, industry, ICT and financial services.

Under the Financial Services Development Strategy 2022-26, one of the main goals for capital markets is to increase the volume of initial public offerings (IPOs) from both government-related entities (GREs) and private corporate enterprises. The inclusion of Bahrain Bourse in the MSCI Emerging Markets Index is another target, as is facilitating the digital integration of local and international investors by utilising financial technology. The digital onboarding of investors will complement other strategic objectives and help to improve Bahrain's financial sector.

**Which types of hurdles do Bahraini companies typically face when considering an IPO, and how can firms be encouraged to list?**

**SHEIKH KHALIFA:** Liquidity has increased in the market since 2006, and it has become very attractive for many companies to invest in future growth. However, the challenges faced by small and medium-size enterprises (SMEs) are different from those faced by larger companies. After policy changes were introduced for the main market in 2008 to encourage additional listings, the primary challenges for SMEs were related to the fear of being first. Over time, the challenges have evolved and now largely pertain to the cost of listing.

Being a listed company requires more resources due to ongoing obligations, and this has a significant impact on the bottom line of SMEs in particular. This prompted us to launch the Bahrain Investment

Market (BIM) in 2017, which is an equity market that allows smaller companies to float shares under more flexible regulations. Since then, we have continued to develop the rules and frameworks governing SME listings to ensure that all the challenges they face are adequately addressed. The bourse is targeting at least five new listings on the BIM under the Financial Services Development Strategy.

**How can capital markets support the aim to develop \$30bn in strategic infrastructure projects under the Economic Recovery Plan?**

**SHEIKH KHALIFA:** The government is very committed to the development of capital markets, which played a crucial role during the Covid-19 pandemic by supporting GREs. In addition, the government has financed billions of dollars worth of investments through the debt market, illustrating the essential role that capital markets can play in financing strategic projects through both the equity and debt markets. In the future, there will be an IPO for each project. Beyond fundraising, Bahrain Bourse has a key part to play in spreading and managing financial risk for projects.

**To what extent are global trends likely to shape foreign investment flows?**

**SHEIKH KHALIFA:** Morgan Stanley forecast in March 2022 that some \$82bn in foreign capital would flow into Middle East equities this year as the region continues to outperform international stock markets for structural and technical reasons. Higher energy prices have a net-positive impact on our economy, so Bahrain found itself in a strong position to capitalise on events in global markets in the first quarter of the year.

One of our longer-term objectives is to encourage transparent and reliable reporting on environmental, social and governance (ESG) criteria, as well as boost support for investments that incorporate an ESG agenda. This will help companies better manage risk.



The first company listed on the Bahrain Investment Market in 2019

# Growth opportunities

## An underutilised market offers the key to unlocking funding for the kingdom's small and medium-sized players

Launched in 2017, the Bahrain Investment Market (BIM) has so far secured one listing. However, with expectations that the worst of the Covid-19 pandemic may now be over, the financial authorities are intent on breathing new life into the initiative as a means of promoting rapid growth of high-potential small and medium-sized enterprises (SMEs).

**VIBRANT ECOSYSTEM:** The BIM provides an alternative, less-regulated source of financing for growth companies that require support before going public on Bahrain Bourse (BHB) or elsewhere. For example, while the BHB requires listing companies to maintain paid-up capital of some \$10m, the BIM accepts a little more than \$600,000, considerably broadening the access pool, especially as cost has been identified as a primary impediment to SME listings on the BHB.

Support comes in the form of a direct public offering, allowing companies to raise capital without having to bear the expense of hiring an underwriting firm. Instead, potential BIM entrants are allocated a sponsor to assist with meeting the listing criteria before being able to sell securities directly to the public, both domestically and overseas.

Tamkeen, a semi-autonomous government labour support agency, was enlisted to help enterprises meet the regulatory and sponsorship costs. Authorised sponsors include global advisory firm KPMG and its GCC peer Keypoint, as well as law firm Almoayed Chambers and accountancy Grant Thornton.

When the BIM was conceived, Bahrain's start-up ecosystem was thriving – a situation that remains fundamentally unchanged. The kingdom ranked as one of the world's top-five fastest-growing start-up ecosystems among countries with fewer than 1000 start-ups, according to the "2020 Global Start-up Ecosystem Report", which also placed Bahrain among the top 10 in the MENA Ecosystems for Funding rankings for 2020. The report found that Bahrain successfully created some \$164m in ecosystem value over

the 30 months to August 2020, with wage subsidies and a liberal tax regime identified as key growth enablers. Financial technology (fintech), in particular, has been booming, with the number of companies in the space doubling between 2018 and 2022 to about 400, including some valued at more than \$1bn.

Another motivating factor was strong growth in demand to invest in companies in the region, as indicated by a 42% increase in BHB trading volume in 2016. The Bahrain All Share Index continues to perform strongly, closing 2021 up 20.6% on the 1797.3 points recorded at the end of 2020, suggesting that investor appetite for local firms remains robust. Financial services firm Morgan Stanley expects \$82bn in foreign money to flow into Middle Eastern equities in 2022, tracking higher energy and commodity prices, and waning developed market returns.

**ADDRESSING CHALLENGES:** This bodes well for the BIM's continued efforts to attract a higher number of listings. In 2019 Sprinkle Holding, a blockchain-based fintech company, became the first company to make its BIM debut. At the time of the announcement, Sprinkle Holding was listed as a closed company and aimed to raise capital from an initial public offering (IPO) within two years. However, the Covid-19 pandemic hit shortly after Sprinkle Holding's debut was announced, and it is unclear how this may have impacted upon the planned IPO.

In 2017, several years before the pandemic, Bahrain required a \$10bn support package from Saudi Arabia to weather a downturn in oil prices, and the economy was still recovering in 2020, when GDP contracted by 5.8% due to the impact of Covid-19. Things are now on a more stable footing, with GDP recovering to 2.2% growth in 2021 and on course to expand by 3% in 2022, on the back of higher oil prices and the ongoing post-pandemic rebound. Crucially, the government is expected to swing back into fiscal surplus after 14 years of deficit financing.

The Bahrain Investment Market has lower barriers to entry than Bahrain Bourse. For instance, it accepts a little more than \$600,000 of paid-up capital, compared to \$10m.

Some \$82bn in foreign money is forecast to flow into Middle Eastern equities in 2022, tracking higher energy and commodity prices, and waning returns in developed markets.





Small and medium-sized enterprises account for 30% of GDP and 75% of employment in the private sector

The SME Development Board coordinates the efforts of multiple government agencies and helps to cut red tape, improve access to talent and innovative technology, and allocate subsidies.

**SME SECTOR:** Investors should be attracted by an SME sector that is gathering momentum amid considerable government support. SMEs account for almost 30% of GDP and provide employment for 75% of private sector workers. Recognising its importance, in 2017 the government formed the SME Development Board (SDB) to coordinate the efforts of the Ministry of Industry and Commerce, the Bahrain Economic Development Board, Tamkeen and other related agencies. This should help address key challenges by cutting red tape, improving access to talent and innovative technology, and allocating subsidies to address the high cost of technology acquisition. Tamkeen and Bahrain Development Bank (BDB) are cooperating to support SMEs with financing, training and advisory services. Entrepreneurs will also benefit from steps to ensure that SMEs secure 20% of the value of government procurements and a 10% preference on bidding for government services.

The Central Bank of Bahrain (CBB) plans to create a unit in the credit department dedicated to SME financing and is formalising a response to a call for consultation input from its licensee banks in 2021. New regulations on crowdfunding promise to enable the new local platforms, further catalysing start-up and SME growth. The BDB's 2021 move to join the global SME Finance Forum, which aims to expand SME access to finance through knowledge exchange and innovation, also signals ongoing support.

Meanwhile, Bahrain's Economic Recovery Plan (ERP) is set to consolidate growth over the medium term through a series of five-year sector plans. The Financial Services Development Strategy 2022-26, for example, targets increasing the share of financing allocated to SMEs from the domestic financing portfolio to 20%. This will be implemented in phases, rising in 5% increments each year from the target of 5% in 2022. The government recognises that SME growth is vital to meeting several key ERP targets,

including driving a 20% increase in the number of IT start-ups, and broadening the base of Bahraini workers employed in high-value jobs.

**BIM TARGETS:** The ERP aims to encourage at least five companies to list on the BIM. As of June 2022 Sprinkle Holding was the only company to have applied to join. Aside from the pandemic, other contributing factors may include the specification that founders must lock up their shares for two years after listing, and a provision for any issuer to apply to the CBB for transfer to the main board six months after their BIM debut. Some SMEs may consider this a prohibitively short period of time, given that one of the BIM's primary objectives is to avoid the drain on resources required to meet the main board's more stringent and costly regulatory requirements.

While it may well be the case that this fast-track procedure needs to be reviewed for the BIM to find its niche, local banks have indicated it is not just access to finance that is holding SMEs back. Bahrain Islamic Bank has identified knowledge sharing as vital to ensuring that SMEs are aware of the opportunities available, and has hosted joint workshops with Export Bahrain, the government's dedicated support arm for companies selling overseas, to introduce financing options. Efforts by banks and the government to digitise services, with more than 60% of the latter's processes migrated online as of late 2020, are expected to help increase take-up of financing. The CBB is leading regulatory efforts to break down the barriers to accessing financial services. For example, in 2019 the bank issued directives providing a framework for lenders to obtain a licence to offer digital financial advice using artificial intelligence.

While no plans have been announced, it would make sense for the BHB and the SDB to coordinate with local banks and authorised BIM sponsors to move the listing application process online. An investor-facing portal could do the same for those seeking to inject capital. As it stands, potential investors are instructed to contact a broker, with little guidance on how local broker offerings are differentiated.

Nothing is more likely to galvanise interest in the BIM from SMEs and investors than seeing a high-growth company seamlessly receive the additional financing required to achieve region-wide scale. The "Bahrain FinTech Ecosystem Report 2022" suggests fintech will drive a large number of investment exits through to 2024, with real estate and property technology companies providing fertile ground for venture financing. Stakeholders in the BIM could open talks with such companies to gauge their needs.

There is a clear and concerted effort to foster the successful development of the kingdom's SMEs, with substantial progress being made to improve their access to finance. This should cultivate a robust pipeline of firms with high growth potential and generate interest from global investors seeking above-average returns in the MENA region. Whether the BIM becomes the market to connect the two may ultimately depend on efforts to enhance its appeal.

The Financial Services Development Strategy 2022-26 aims to encourage at least five firms to list on the Bahrain Investment Market and boost the share of domestic financing allocated to small and medium-sized enterprises to 20% by 2026.



Blue bonds, which support marine-friendly projects, are gaining pace

# Greenlighting bonds

Markets around the globe are increasingly issuing green and social bonds in an effort to support sustainable growth

Alongside significant political efforts to speed up the energy transition, 2021 was a record-breaking year for green finance, as governments, international institutions and lenders alike sought to support the shift towards renewables. This mirrored developments in generation: new renewable energy capacity reached an all-time high of 290 GW in 2021. Meanwhile, the issuance of green bonds – financial instruments that fund environmentally sustainable projects – was expected to hit a new record of \$500bn that year, according to the Climate Bonds Initiative (CBI). This marks a 46% increase on the 2020 figure of \$270bn, which itself was a record.

The EU's \$14bn issuance of green bonds in October 2021, the largest of its kind to date, was emblematic of the increased appetite for sustainable finance. The money raised is being distributed among member states for clean energy projects and developments to help governments achieve carbon neutrality by 2050. While Europe is a leader in the issuance of green bonds, a number of emerging markets have made significant progress on this front.

For example, in April 2021 Saudi tourism project developer The Red Sea Development Company secured a SR14.1bn (\$3.8bn) green bond from four Saudi banks, with the funds to go towards building 16 renewable energy-powered hotels across the country. Meanwhile, in a sign of the green potential of Islamic finance, in June 2021 Indonesia raised a \$3bn sovereign *sukuk* (Islamic bond) to fund sustainable development projects. Highlighting potential future growth, the CBI predicts that green bond issuances will breach the \$1trn mark in 2023.

**SUSTAINABILITY & BLUE FINANCE:** Although green bonds are the most prominent form of climate-focused finance, the development and expansion of a number of other innovative financial instruments have also supported the shift towards decarbonisation. For example, social bonds, which

raise money for projects with positive social outcomes, and sustainability bonds – a mix of green and social bonds – have grown dramatically since 2020, on the back of attempts to build a sustainable platform for post-pandemic economic growth.

Elsewhere, blue bonds have continued to gain traction in recent years, even though they account for a considerably smaller portion of market share. Similar in their function to green bonds, blue bonds are debt instruments issued to support investment in marine-friendly initiatives and the blue economy. Following the launch of the world's first sovereign blue bond in 2018, when the Seychelles raised \$15m from international investors to help fund the expansion of marine areas and improved governance of the fisheries industry, a number of institutions have launched their own. For instance, in September 2021 the Asian Development Bank issued its first-ever blue bond, a \$151m, 15-year issue that will finance ocean-related projects in Asia and the Pacific.

Meanwhile, in one of the more innovative developments in recent times, in September 2021 Belize launched a debt-for-nature swap as part of a strategy to restructure its sole sovereign bond. Under the proposal, Belize offered to buy back its debt at a significant discount in exchange for increasing efforts to protect its marine environment. While it was not the world's first debt-for-nature swap – Bolivia made the first such deal in 1987 – the development could set a precedent for emerging markets looking to raise funds, particularly given the increasing focus on environmental, social and governance metrics. These tools are especially likely to appeal to island or coastal emerging markets, such as those in Asia Pacific, many of which suffered economically as Covid-19 triggered declines in tourism.

**FUNDING THE TRANSITION:** In addition to funding new, environmentally friendly projects, global financial markets have turned to specific tools designed

An estimated

**\$500bn**

in green bonds were issued globally in 2021

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At the 2021 UN Conference on Climate Change, many leaders pledged to reform global carbon markets

Transition bonds are used to fund a company's transition towards reduced environmental impact or lower carbon emissions. In the first three quarters of 2021 there were 14 transition bond issuances globally, worth some \$5bn.

to ensure a responsible transition towards low-carbon sources of energy. One such instrument is the transition bond. A relatively new class of debt instrument, transition bonds are used to fund a company's transition towards reduced environmental impact or lower carbon emissions. They are often issued in fields that would not normally qualify for green bonds, such as large, carbon-emitting industries like oil and gas, iron and steel, chemicals, aviation and shipping. Although this is still a nascent segment, there were 14 transition bond issuances worth \$5bn in the first nine months of 2021, according to the CBI, accounting for more than half of the \$9.9bn issued since their inception in 2018.

Elsewhere, the COP26 UN Conference on Climate Change, held in Glasgow in November 2021, provided a boost to other transition-related solutions. Amid other emissions-based pledges, world leaders agreed to reform global carbon markets, as well as on a universal set of rules for carbon trading, seen as key tools in the transition towards decarbonisation. Many expect the COP26 developments to lead to a notable increase in climate-friendly investment across lower-income nations.

Also in November 2021, France, Germany, the UK, the US and the EU announced a groundbreaking plan to help fund South Africa's energy transition. With an initial commitment of some \$8.5bn, the partnership aims to save between 1bn and 1.5bn tonnes of emissions over the next 20 years, by accelerating South Africa's shift away from coal and towards low-emission sources of energy.

**FOSSIL FUEL FINANCE:** The increase in demand for sustainable finance has naturally coincided with a broader move away from funding fossil fuel projects. Indeed, on the sidelines of COP26 – where signatories agreed to phase down the use of coal, among a range of other climate-focused policy commitments – 34 countries and four international

finance institutions signed up to a separate pledge to end financing for “unabated” fossil fuel projects in overseas countries by the end of 2022.

This followed similar large-scale commitments that were made by China, Japan and South Korea, while in May 2021 the Asian Development Bank announced that it would no longer fund coal mining or oil and natural gas production and exploration.

In addition to governments and international institutions, a number of banks and major financial services companies – including HSBC, Fidelity International and Ethos – also agreed to end the funding of unabated coal at the Glasgow conference. In doing so, they joined global lenders like Citi, which announced in April 2021 that it would stop financing thermal coal mining, with a view to eliminating its credit exposure entirely by 2030. These examples have highlighted how large financial institutions can play an influential, and at times leading, role in the energy transition. On a similar note, the insurance industry also has the potential to exercise considerable influence in the global shift towards decarbonisation. A notable example of this was seen in July 2021, when 20 of the world's largest insurers and reinsurers – including AXA, Allianz, Aviva, Generali, Munich Re, SCOR, Swiss Re and Zurich – established the Net-Zero Insurance Alliance. These 20 players represent more than 11% of world premium volume globally. The Net-Zero Insurance Alliance, which is a UN-convened body, has the goal of transitioning its members' underwriting portfolios to net-zero greenhouse gas emissions by 2050.

This follows action from some global frontrunners, such as Australian insurance giant Suncorp, which in 2019 announced that it would no longer invest in, finance or insure new thermal coal mines or power plants, and that it would not underwrite any existing thermal coal projects after 2025. The company went a step further in 2020, stating that it would no longer directly finance or insure new oil and gas projects, and that it would completely phase out financing and underwriting for oil and gas exploration or production by 2025.

**COMBATING GREENWASHING:** While broadly welcomed globally, these shifts towards green finance have increased calls for updated and more stringent rules on what constitutes sustainable finance. Although many countries, institutions and stock exchanges have their own rules, there are concerns that a lack of universal guidelines could lead to widespread greenwashing from governments and private corporations alike, particularly in light of the rapid growth in green finance.

To help address the situation and ensure international best practices, in recent years China and the EU have collaborated on developing joint green investment standards, releasing a report in November 2021 that outlined how green investment guidelines could be aligned. While still at an early stage, this type of cooperation is seen as necessary to facilitating the growth of green finance in the future.

The Net-Zero Insurance Alliance, comprising 20 global insurers, aims to transition its members' underwriting portfolios to net-zero greenhouse gas emissions by 2050.