

Bahrain's Pitch for Start-Up Success

by Rad El Treki - r.eltreki@tamimi.com - Manama
Hussain Osman - h.osman@tamimi.com - Manama, Bahrain

April 2018

Since the launch of Bahrain's Labour Fund 12 years ago, and as part of Bahrain's continued move to diversify its economy, the government of Bahrain has placed considerable emphasis on the development of a digital, knowledge-based economy, focusing on SMEs and start-ups as well as seeking to empower eager Bahrain based millennials.

This vision of sustainable development has resulted in a continued raft of holistic legislative changes and developments and initiatives aimed at diversifying means of funding, streamlining administrative procedures, the ease of doing business, and fostering electronic transactions. These include Bahrain taking to the cloud in preparation for the regional boom in data storage and cloud computing – the community initiative bears the name 'Start-Up Bahrain' whereby investors, incubators, entrepreneurs, academic institutions and the Government have come together to help start-ups realize the full potential and gain attainable from the Gulf marketplace. Bahrain has also implemented a regulatory sandbox as a framework and process to facilitate and encourage the development of digital technology. This article sets out some of the key initiatives and changes being implemented in Bahrain to encourage the start-up, scale-up and SME sectors in the country.

The SME Directorate

The Ministry of Industry, Commerce and Tourism has taken the initiative of establishing the SME Directorate (the 'Directorate'), with the task of addressing the stumbling blocks currently facing SMEs in Bahrain, and proposing enabling legislation to assist the development of the sector.

The Directorate has categorized SME companies as per the number of employees and generated revenue in a move that defines the status of each start-up. Note that SMEs form 90% of registered businesses in Bahrain.

Category (Business size)	No. of Employees	Total revenue in BHD (per annum)
Micro	1-5	1- 50,000
Small	6-50	50,001- 1,000,000
Medium	51-100	1,000,001- 3,000,000

The Directorate understands that most SMEs are transforming their ideas into 'protectable' concepts. In a move that demonstrates a modern perspective of appreciating intangible assets, the Directorate is said to be liaising with Bahrain's banking community in pursuit of considering start-up intellectual property as a means for securing much needed loans.

Start-up and Scale-up Incubation and Acceleration Centres

Adhering to the demands of key players in the start-up scene, and closely aligned with the said objectives, the newly established Directorate recently issued Decision (84) 2017 Organising the Activity of Incubators and Accelerators. This decision enables incubation and acceleration centres (in both the private and public sector) to register as licensed centres, and thus ensures that start-ups residing in such licensed incubators or accelerators receive necessary mentoring, coaching and networking opportunities for the duration of their stay. Subject to satisfying the relevant requirements, the resident start-ups are also able to register the licensed incubation/acceleration

centre as their official address for the purposes of their commercial registration. Such licensed incubation/acceleration centres currently include Corporate Hub 9 and the London and Washington owned C5-Accelerate.

On a quasi-governmental level, the month of February 2018 saw another effort by Bahrain to display its commitment to the development of the financial technology sector in Bahrain, in the launch of a FinTech Bay, a 10,000 square feet collegiate working hub. Providing shared workspaces, technology start-up subculture communities and services for entrepreneurs, start-ups, small business and large enterprises, Bahrain FinTech Bay aims to create support tools and features that compete with traditional financial delivery methods. Some international start-ups are already set to take up residency include US-based RobustWealth, Offrbox and Sigma Ratings as well as Jordanian start-up, Labiba.

The start of March 2018 also witnessed the launch of Bahrain's start-up week. Beginning with a large networking platform linking brands and corporates with disruptive technology, products and services, Unbound, an innovation festival organizer, took the opportunity to mark its regional debut and add Bahrain to a calendar that includes destinations such as Singapore, Miami and London. A gaming conference followed in collaboration with Bahrain Polytechnic University brought enthusiasts in close contact with developers and programmers.

The Regulatory Sandbox

Defined as “a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory and financial consequences”, here, and under a hands-off method of supervision administered by the Central Bank of Bahrain ('CBB'), cutting edge financial products and technologies and new modalities of existing tools are put on a pilot scheme in an environment lacking the onerous regulatory burden of normal licensing. Participants that satisfy the criteria set out by the CBB can apply for the relevant license subsequently bearing in mind that they might face early elimination after a defined period of time. The CBB believes that the Regulatory Sandbox allows both existing licensed financial institutions and newcomers to the market to experiment with innovative financial services for a specified period of time in an environment where actual products and services are rendered to customers, but where the risks to said customers and to the local financial system as a whole are clearly defined and mitigated.

Connectivity

A key feature for fostering growth within the start-up community is connectivity. In a remarkable achievement, Bahrain topped the list of Arab countries in the International Telecommunication Union's ICT Development Index for the year 2017. The report infers the country's evident dynamism in information and communication technology which is expected to lead to a digital revolution. Four key developments are at the heart of this revolution: the Internet of Things ('IoT'), cloud computing, big data analytics, and artificial intelligence. Bahrain is now seeing a pull towards big-data. Huawei and VIVA Bahrain have merged the mediums delivering over the top media, voice and data channels into a single, hybrid network architectural concept, possibly making it the first telecom operator globally to deploy a hybrid network function virtualization cloud core network.

Closely connected to this, Batelco, Bahrain's largest telecom operator, has launched an incubator for testing hardware systems in collaboration with the ultra-hands on IoT accelerator, Brinc.

Crowdfunding, Grants & Micro-finance

Crowdfunding regulations (providing both for Islamic and conventional funding) have been put in place by the CBB as an alternative method for raising capital. This method of reaching out to speculators has conventionally been the alternative tool of choice for start-ups substituting

traditional bank financing. Subject to obtaining a license to perform the activity of a lending platform, SMEs with a paid-up capital below BHD 250,000 will be able to receive up to BHD 100,000 annually in funding through these platforms hinging on securing at least 80% of their posted collection targets.

Funding is also available in abundance for entrepreneurs venturing into the field of agriculture. Food supply is a matter of national security and the Government, through the National Initiative for Agricultural Development, has put in place generous schemes and subsidies in order to spur growth within the industry. Agricultural finance made available in the form of tailored-facilities shaped by Bahrain Development Bank and Bank Ebdaa funded the creation of prolific hydroponic farms offering their local harvest in supermarkets today.

New Bankruptcy Law

Bankruptcy codes that are debtor-friendly can be considered to be one of the most powerful tools available to legislators to foster innovation and to motivate entrepreneurs to venture further as they accommodate for when businesses fail.

Consistent with Bahrain's push to encourage innovation, the Bahraini Government has indicated that a new bankruptcy code will be introduced in the near future. Some features that are expected to be addressed in this upcoming piece of legislation include swifter filing procedures and the maintenance of business flow during the filing process with the least amount of hurdles. Start-ups look for creditor collaboration in allowing necessary breathing space while restructuring, with the possibility of receiving new streams of finance as start-ups pull themselves out of a crisis. The high-tech industry is known for being very volatile and prone to multiple failures during its course of development and any new laws should take that into consideration.

Conclusion

The holistic and cohesive approach taken by the Bahraini authorities is succeeding in creating the right legal framework and environment to encourage and stimulate the growth of the start-up, scale-up and SME ecosystems and sectors in Bahrain, and is commensurate with country's long standing commitment to the continued diversification of its economy.

For more information, please contact Rad Eltreki (r.eltreki@tamimi.com) or Hussain Osman (h.osman@tamimi.com)