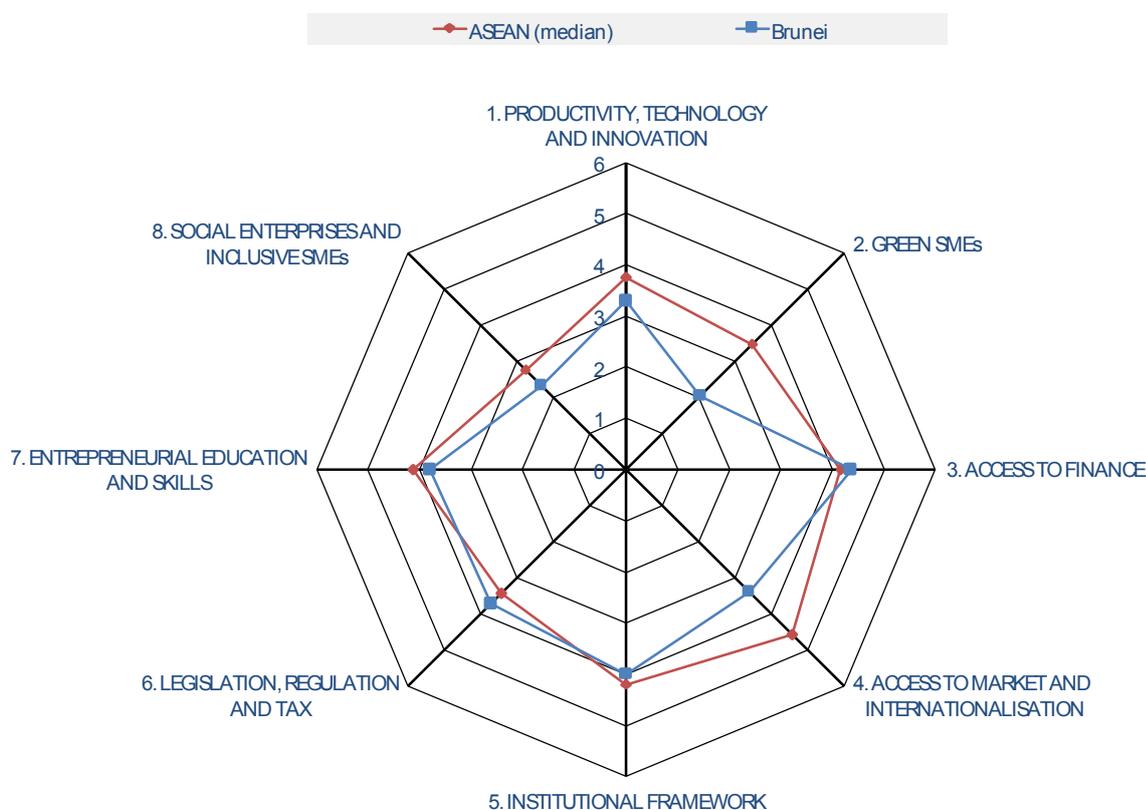


## Chapter 12. Brunei Darussalam

*Brunei Darussalam has accelerated its SME policy since the recent slowdown in global oil prices. It is beginning to adopt the “service delivery” approach to SME policy, providing services to help SMEs to increase their competitiveness. In line with its diversification objectives, the country has identified a number of priority sectors for targeted support. It is still in the early phase of developing SME policies, but it is advancing rapidly.*

Figure 12.1. 2018 SME policy index scores for Brunei Darussalam



## Overview

### *Economic structure and development priorities*

#### *Economic structure*

Brunei Darussalam is the smallest and the second highest-income country in ASEAN. Its wealth comes predominantly from crude oil and natural gas production, which generates more than 60% of GDP and around 90% of merchandise exports.<sup>1</sup> Japan and South Korea are the principal importers of Bruneian mineral fuels, particularly liquefied natural gas, for which long-term supply contracts are in place.<sup>2</sup> With a population of only around 423 000 people (ASEC, 2017<sub>[1]</sub>) and the second smallest territory after Singapore, Brunei Darussalam boasts a gross national income per capita of Intl\$ 83 170 in purchasing power parity (World Bank, 2016<sub>[2]</sub>). A substantial share of the population works in the public sector, which employed 47.7% of the country's labour force in 2014 (ILO, 2017<sub>[3]</sub>). This is predominantly financed through earnings from the oil and gas sector, which accounted for 89% of government revenue between 2012 and 2016 (IMF, 2016<sub>[4]</sub>). Brunei's major oil producer, Brunei Shell Petroleum (BSP), and its major operators were the country's largest employers after the government, providing jobs to 2.3% of the labour force.

The government has been exploring ways to diversify the country's economy since the 1980s. In the 1970s, the government managed to build up substantial foreign currency reserves and investment holdings through a combination of increased revenue from petroleum exports and a moderation of public spending. These investment holdings include assets such as a cattle ranch in Australia, which supplies all of Brunei Darussalam's beef, and a stake in the Indonesian cement industry to counteract shortages of cement and other construction materials. Through these investments, the government has managed to secure its citizens' access to many consumer goods and to keep prices low. These foreign holdings are thought to amount to around USD 40 billion in assets (SWFI, 2017<sup>[5]</sup>).

Brunei Darussalam's overseas investments and oil and gas revenue have traditionally helped to finance robust government expenditure. In 2015 and 2016, government spending ran into a negative balance,<sup>3</sup> and this trend is expected to continue over the medium term (IMF, 2017<sup>[6]</sup>), risking a deterioration of the country's investment holdings and making it more vulnerable to petroleum price fluctuations. Government revenue has been badly hit by falling world oil prices over recent years. GDP growth declined at an average annualised rate of 1.3% between 2012 and 2016, making Brunei Darussalam the only Southeast Asian country to record four straight years of economic recession. A muted recovery is expected over the medium term amid renewed optimism in oil and gas prices, with year-on-year GDP growth of 0.5% forecast between 2018 and 2022 (OECD, 2018<sup>[7]</sup>). Yet diversification measures will become increasingly important, particularly as oil and gas fields begin to age.

**Table 12.1. Brunei Darussalam: Main macroeconomic indicators, 2012-2016**

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	0.9	-2.1	-2.3	-0.6	-2.5
Inflation	Percent, average	0.5	0.4	-0.2	-0.4	-0.7
Government balance	Percent of GDP	15.7	13.0	3.6	-14.5	-21.5
Current account balance	Percent of GDP	29.8	20.9	30.7	16.7	15.5
Export of goods and services	Percent of GDP	70.2	68.0	68.7	52.2	49.6
Imports of goods and services	Percent of GDP	35.5	42.9	30.7	32.7	37.7
Net FDI (inflows)	Percent of GDP	4.5	4.3	3.3	1.3	-1.3
External debt stocks	Percent of GNI	-	-	-	-	-
Gross reserves	Percent of external debt	-	-	-	-	-
Domestic credit to the private sector	Percent of GDP	28.0	31.2	33.2	41.4	44.3
Unemployment	Percent of total labour force	5.0	6.3	7.0	6.9	6.5
GDP per capita	PPP (constant 2011 int\$)	81 994	79 070	76 089	74 600	71 789

Source: World Bank (2017) World Development Indicators; IMF (2017) World Economic Outlook.

Brunei Darussalam's population is well educated, with an adult literacy rate of 96% in 2011 and gross enrolment rates of more than 90% at both primary and secondary levels (UNESCO, 2016<sup>[8]</sup>). The country has a high level of human development, ranking 30<sup>th</sup> in the world in the UN's Human Development Index (UNDP, 2017<sup>[9]</sup>). One of the principal challenges for the government moving forward will be to encourage more citizens to enter the non-oil-and-gas private sector and to engage in entrepreneurial activity. Oil and gas revenues have generated high wage levels for the country's citizens, notably also in the public sector, despite rather low underlying labour productivity: Brunei Darussalam is the only ASEAN country where labour productivity per worker seems to have declined

since 2000 (APO, 2015<sub>[10]</sub>).<sup>4</sup> These conditions have traditionally discouraged entrepreneurial activity and decreased the international competitiveness of the private sector. Yet Brunei Darussalam has a relatively young population, and the country's two largest employers have been unable to provide a sufficient supply of jobs over recent years, with those aged 15-24 classified as NEET (not in employment, education or training) amounting to 17% in 2017 (ILO, 2017<sub>[3]</sub>).<sup>5</sup> The country benefits from close proximity to very large markets. With strong certification standards and a healthy banking sector, it is particularly well positioned to provide these markets with Islamic products and services such as halal food and Sharia-compliant banking and finance.

While the dominance of the public sector will need to be rebalanced over the long term, the lack of critical mass in private-sector activity may require the government to play a catalysing role. Investments could be encouraged and capacities built through public-private partnerships (where the private sector provides expertise and technologies, and the public sector provides financing) and through measures to stimulate research and development (R&D) activities (OECD, 2013<sub>[11]</sub>). Policies and programmes could also be put in place to build skills and encourage risk-taking among young people, for instance measures to increase educational attainment at tertiary level. Gross enrolment in tertiary education is low in Brunei Darussalam, amounting to 30.8% in 2015, compared to 45.9% in Thailand and 42.4% in Malaysia (UNESCO, 2016<sub>[8]</sub>). In addition to diversifying the economy away from oil and gas, such measures will be critical for reducing the public-sector wage bill.

### *Reform priorities*

Brunei Darussalam just completed its Tenth National Development Plan 2012-17 (NDP10), the second medium-term development plan under the national long-term development plan, known as Wawasan Brunei 2035, or Vision Brunei 2035. Wawasan Brunei 2035 aims to enhance the skills and quality of life of the population and to build a dynamic and sustainable economy. To achieve these goals, it emphasises accelerated economic growth through productivity enhancement, and the development of education and skills as a way to realise high productivity.

Consistent with the long-term goals, NDP10's theme was "knowledge and innovation, increased productivity and accelerated economic growth". The plan aimed to increase economic growth and resilience through the country's human capital. To provide a better enabling environment, it targeted improvements to the institutional environment (both governance mechanisms and the business environment); improvements in infrastructure; greater investment in R&D, education and training (particularly in STEM subjects); and strengthened links between industry and schools. To create a more conducive business environment, it placed special emphasis on enhancing the ease of starting a business, supporting internationalisation and strengthening intellectual property (IP) rights.

To achieve the goals of Wawasan Brunei 2035, the country is also implementing a diversification strategy focusing on five industry clusters where the country could develop a competitive advantage: *i*) halal products; *ii*) innovative technology and creative industry; *iii*) business services; *iv*) tourism; and *v*) downstream oil and gas.

## *Private sector development and enterprise structure*

### *Business environment trends*

Brunei Darussalam boasts high literacy levels, a comprehensive health care system, a stable macroeconomic framework and a robust legal framework for accessing and extending credit (WEF, 2017<sub>[12]</sub>; World Bank, 2017<sub>[13]</sub>).<sup>6</sup> Yet private-sector activity may be challenged by low productivity levels outside the oil and gas sector, a rather high level of government bureaucracy and the difficulty of enticing the local labour force away from highly paid and stable public-sector employment (WEF, 2017<sub>[12]</sub>; World Bank, 2017<sub>[13]</sub>). Brunei Darussalam also has some restrictions in place concerning the hiring of foreign workers for highly-skilled jobs. Since the last assessment in 2014, the country has enacted a number of reforms to attract foreign direct investment (FDI) into new sectors and stimulate private-sector activity, and this includes measures to speed up the hiring of foreign workers. In 2016, the Foreign Worker License was introduced to replace the Labour Quota License. This makes the process of hiring foreign workers faster but also comes with new rules designed to safeguard Bruneian jobs.<sup>7</sup> Other measures to attract FDI and stimulate private-sector activity include the enactment of new laws such as the Competition Order of 2015, a bigger push for SME development (through new institutions and instruments) and a package of incentives for foreign investors that are covered by the state budget for fiscal year 2017/18. These measures constitute a core component of the Brunei Darussalam's diversification strategy, which has been ramped up in response to the country's recent economic downturn. Going forward, Bruneian enterprises may face challenges that stem from the country's limited market size, rather high regulatory barriers to trading across borders, and its currency peg to the Singaporean dollar, which results in a costly exchange rate. Addressing these challenges will be important to enhance the competitiveness of Bruneian enterprises.

### *SME sector*

An estimated 5 342 enterprises were operating in Brunei Darussalam in 2015, of which MSMEs accounted for 96.5%. Of these small enterprises were the most common, accounting for an estimated 42.9% (JPKE, 2016<sub>[14]</sub>).

MSMEs in Brunei Darussalam appear to provide a much lower structural contribution to the broader economy than MSMEs in other ASEAN countries. They accounted for 54.5% of employment and 34.8% of gross business revenue in 2015. Small enterprises accounted for a particularly small share: despite representing 42.9% of enterprises, they accounted for only 19.0% of employment and 10.2% of gross business revenue (JPKE, 2016<sub>[14]</sub>).

Bruneian MSMEs were concentrated in the wholesale and retail trade sector (34.7% in 2010), manufacturing (12.6%) and construction (12.0%) in 2010 (JPKE, 2011<sub>[15]</sub>).<sup>8</sup> Geographically, they are concentrated around the capital, with the Brunei-Muara district accounting for 75.4% of MSMEs (4 089 in total) in 2010.<sup>9</sup> Brunei-Muara is the country's most urbanised district, home to 69.3% of the population, and therefore the high share of MSMEs is not remarkable. In the Tutong and Temburong districts, small enterprises represented a higher share of total enterprises (79.6% and 77% respectively) and medium-sized enterprises a lower share than in other districts in 2010. Temburong is relatively isolated due to a lack of transport links and the fact that commuters must go through four immigration checkpoints to reach other parts of the country, and this may explain the dominance of small enterprises.<sup>10</sup> The government has started a BND 1.6 billion

(Bruneian dollars) project to build a bridge that would link Temburong with Brunei-Muara in order to ease the connectivity constraints. The bridge is scheduled to be completed by November 2019.

### *SME policy*

A concrete MSME policy is relatively new in Brunei Darussalam, and has really only come into play over the past five years, precipitated by a fall in global oil prices and several years of economic recession. Over the past few years, two new bodies have been created to improve the business environment. The first, the FDI Action and Support Centre (FAST) was established in November 2015 as a government entity under the Prime Minister's Office to facilitate FDI. The second, Darussalam Enterprise (DARe), was established in 2016 as a statutory body to develop domestic enterprise, particularly SMEs. Previously, programmes and grants for MSMEs were administered by different agencies and co-ordinated to some extent by the Brunei Economic Development Board (BEDB).

### *2018 ASPI results*

#### *Strengthening the institutional, regulatory and operational environment (Dimensions 5 and 6)*

Brunei Darussalam has taken important steps to enhance the institutional and regulatory environment for small-scale enterprise activity over the past five years. It has created a statutory body responsible for enterprise development (DARe) and has developed new initiatives to increase formalisation. It has significantly enhanced the ease of company registration, decreasing the time required to register a limited liability company from 104.5 days in 2014 to 12.5 days as of 2017. Many initiatives in this area have been conducted in reference to the World Bank's *Doing Business* indicators since 2011, when an Ease of Doing Business Steering Committee was established within the Energy and Industry Department of the Prime Minister's Office (EIDPMO) (now the Ministry of Energy, Manpower and Industry, or MEMI), the main institution responsible for private-sector development. Going forward, more could be done to build on the country's reform momentum. It would be beneficial to develop a strategic vision for SME development, with a more thorough understanding of the policy scope, and to institutionalise good regulatory practices such as public-private consultations and regulatory impact analysis (RIA). The country is currently scored at the mid-level stage in this area, with 4.01 for its institutional framework and 3.69 for legislation, regulation and tax, but its score could be significantly increased via a few "quick win" measures.

#### *Framework for strategic planning, design and coordination of SME policy*

One of the main bodies responsible for setting the broad private-sector development agenda and co-ordinating interventions is the MEMI (EIDPMO at the time of information gathering and validation). The MEMI oversees a broad range of policy interventions related to industry, energy, and labour, including science and technology matters. It aims to promote capacity development and the growth of local industries and firms of all sizes (including MSMEs and cooperatives), as well as to stimulate technology and knowledge transfer and to generate further capital investment through FDI. Its overarching objective is to forge a pro-business environment in Brunei Darussalam through inter-agency collaboration, aspiring to reach a "top 20" position in the World Bank's *Doing Business*

assessment. As a small city-state with under half a million people, Brunei Darussalam has a less challenging task of co-ordinating SME policies and programmes than other AMS, and therefore no other inter-ministerial co-ordination body is in place. As the successor institution to EIDPMO, MEMI is likely to maintain close links with the Prime Minister's Office, which would provide its activities (including SME-related interventions) with high-level endorsement. Measures that ultimately foster private-sector, and especially SME, development are a strategic priority for most government ministries and agencies operating in the country.

The main body responsible for implementing MSME policy, with a particular focus on entrepreneurship, is DARE. As a statutory body under the Darussalam Enterprise Order 2016, it is given operational autonomy, which allows it to take independent decisions on hiring and operational structure. In practice, however, it remains linked with the MEMI (EIDPMO at the time of information gathering and validation), under whose strategy DARE's activities are still governed. The board has nine members: four from the public sector (the Minister of Energy, Manpower and Industry, the Deputy Minister of Finance, the Permanent Secretary for Energy and Industry and the CEO of DARE) and five from the private sector (many of whom come from engineering and construction companies).

At the time of assessment, there was no MSME strategy in place, though one was subsequently adopted in February 2018. Prior to adoption of the strategy, DARE activities fell under the broader EIDPMO (now the MEMI) strategy, and six activity areas were defined to promote MSME development: *i)* access to finance; *ii)* access to industrial spaces and facilities; *iii)* access to training; *iv)* access to markets; *v)* access to support services; and *vi)* MSME promotion.

Data on MSMEs operating in the country is limited. The Department of Economic Planning and Development (JPKE) collects MSME data every five years through its Economic Census of Enterprises (ECE). The census collects data on MSME employment, revenue, expenditure, inventory and fixed assets. However, the only statistics currently available are from the 2011 ECE (and refer to 2010), as the 2016 ECE is still being processed. The 2016 data will become publicly available once processing is completed. To cover the gap and inform policymaking, the government launched an Annual Census of Enterprises (ACE) in 2015 to provide basic data on enterprise dynamics for each year that is not covered by the comprehensive ECE. However, only aggregated data for the 2015 ACE (conducted in 2014) are currently available. The 2017 ACE is being processed by JPKE.

### *Scope of SME policy*

There is currently no legal or official SME definition in Brunei Darussalam, though DARE is in the process of elaborating one. For now, the commonly accepted classification of firm size, elaborated by JPKE, is by number of employees and disaggregates micro, small and medium-sized firms (Table 12.2). In this definition, the upper threshold for classification as a medium-sized enterprise is relatively low compared to many OECD countries (where an upper threshold of 200 employees is common), potentially excluding some enterprises that would normally be classified as an SME from development policies and programmes.

**Table 12.2. Brunei Darussalam's SME definition**

Size classification	Number of employees
Micro	1-4
Small	6-19
Medium	20-99

Despite measures to increase the ease of company registration, the number of informal enterprises operating in the country has increased in recent years, and these enterprises may fall outside the scope of SME policy. The government is working to increase formality via outreach and training measures. Measures to tackle the informal economy are currently at an infancy stage, and therefore a strategic approach has not yet been developed and few monitoring and evaluation mechanisms are in place.

#### *Development of legislation and regulatory policies affecting SMEs*

Good regulatory practices are undertaken to some extent in Brunei Darussalam as part of an ordinary process in the development of regulations and policies, but these practices could be implemented in a more systematic or structured way. Public-private consultations take place informally and on an ad hoc basis. The MEMI meets with representatives of the country's private sector every Wednesday morning to conduct an informal dialogue, and conducts a formal dialogue when legislation is up for review. However, MSMEs do not commonly participate in these discussions. The public is generally not informed that a consultation will take place and is not told of the meeting's outcome. The same observation holds for RIA. Some sections of the civil service conduct RIA for the development of certain regulations, but work is ongoing to improve the structure and scope of these assessments. Assessments are conducted based on private sector demand and are reported to senior officials, and there is no formal requirement to examine the impact of regulatory change on MSMEs or to conduct a post-implementation review.

Brunei Darussalam established its Ease of Doing Business Committee within EIDPMO (now MEMI) to improve the country's business environment and attract investment. The committee is chaired by the Minister of Energy, Manpower and Industry, who reports to the Crown Prince. It comprises around 40 members from across the government, including representatives of the ministries of Finance, Development and Health, the Land Department and the Monetary Authority of Brunei Darussalam (AMBD), which is the country's central bank. It meets every month to identify areas for reform based on the World Bank's *Doing Business* indicators, to develop action plans for improving performance in priority areas and to report on progress. Many of the country's business environment reforms are now indexed to its rankings in this report.

#### *Company registration and ease of filing tax*

Starting a business in Brunei Darussalam currently takes 12.5 days, costs 1.1% of per capita income on average and involves 5.5 procedures. The sultanate has made substantial strides in this area since 2015, when registering a business was highly burdensome, typically taking 104.5 days, costing 10.4% of income per capita and involving 18 procedures (World Bank, 2017<sup>[13]</sup>; World Bank, 2014<sup>[16]</sup>). Company registration alone now takes just one day and can be completed online.

To start a business, an individual must undertake the following steps: *i)* search and reserve a company name; *ii)* submit incorporation documents and pay registration fees (at the Registry of Companies within the Ministry of Finance); *iii)* get share certificates stamped at the Ministry of Finance; *iv)* make a company seal or stamp (at a seal-making shop); and *v)* register for the Employees Provident Fund. Since 2015, the first and second steps can be performed online. The third and fifth stages account for the bulk of the time required to register a company, at seven and three days respectively (all others take one day), and they are the only two stages with associated costs. Since an amendment to the Companies Act (Chapter 39) in 2014, however, only industrial companies are obliged to pay a registration fee, at a flat rate of BND 300 (World Bank, 2017<sub>[13]</sub>). Companies can now utilise a single identification number. They can register as a sole proprietor or partnership, or incorporate as a private company, a public company or a foreign company. A Ministry of Finance how-to guide has been prepared on company registration, and information can also be sought from the country's business support centres.

Corporate income tax is sought only from private limited companies. Sole proprietors or partnerships are not obliged to pay this tax. To comply with tax regulations, private limited companies must make 15 payments, taking 64.2 hours per year and amounting to 8% of total profits. While the country's tax rate is low, the time required to file taxes is rather high, particularly for corporate income tax, which takes 43 hours. The highest number of payments are made to the employer-paid Employee Provident Fund (the *Tabung Amanah Pekerja*, or TAP), which requires 11 payments, taking 22 hours.

### *E-governance facilities*

Corporate income tax can be paid online via the System for Tax Administration and Revenue Services (STARS). Pension contributions can be paid online, via e-Amanah, but not other forms of social security. The country has an electronic signature in place that is integrated with other services of e-government. Through e-Darussalam Account, a single nationwide digital authentication key, Bruneian citizens, permanent residents and expatriates that have an employment pass or work permit can access a range of government services such as paying tax, transferring land titles, applying for licenses (for instance to access electricity or construction permits, to export or to attend international trade fairs), registering with the country's job centre or renewing a driving license.

### *Facilitating SME access to finance (Dimension 3)*

Brunei Darussalam is somewhat of an anomaly in the area of access to finance. It has an excellent legal environment for getting credit, ranking 2<sup>nd</sup> globally for ease of getting credit in the *Doing Business* report (World Bank, 2017<sub>[13]</sub>). But this is not reflected in its financial market development: the country was ranked 87<sup>th</sup> for this pillar in the 2017-18 Global Competitiveness Index (WEF, 2017<sub>[12]</sub>). The economy still has a relatively low level of financial intermediation, though it has increased since the last assessment, partially as a result of activities undertaken by the AMBD.<sup>11</sup> Domestic credit to the private sector, a proxy measure, stood at 44.3% of GDP in 2016, relative to 31.2% in 2013. Much of this growth has been driven through Islamic banks, which surpassed conventional banks in terms of market share in 2015 and today account for around 52.8% of total financial system assets.<sup>12</sup> The development of Sharia-compliant financial services is one of the diversification strategies of the current government and a range of measures to support financial sector development have been implemented over the past few years.<sup>13</sup> Overall, Brunei Darussalam scores 4.38 in this dimension, with its score significantly helped by recent measures to improve the framework conditions for extending credit.

### *Legal, regulatory and institutional framework*

Important work has been conducted by the AMBD since the last assessment to improve the legal, regulatory and institutional environment for accessing finance. In 2012, a public credit registry began operations as a unit under the Regulatory and Supervision Department of the AMBD and pursuant to Section 42A of the AMBD Order (2010). The registry supplies credit information to all licensed banks and finance companies operating in Brunei Darussalam and to the country's Islamic Trust Fund. In 2014, it was enhanced through the creation of a self-inquiry and dispute resolution service, which allows citizens to check and request modification of an inaccurate credit history. Credit registry coverage has increased from 56.6% of the adult population in 2014 to 73.4% by 2018. In 2016, the country also upgraded its framework for secured transactions, enacting a Secured Transactions Order and establishing a centralised movable assets registry. The country is now ranked as having one of the strongest creditor rights frameworks globally. It still faces some issues in enforcing contracts. Recent measures to address this include the introduction in 2016 of the Insolvency Order, under the purview of the Ministry of Finance, which seeks to improve rules for mediation and rehabilitation. It currently applies only to limited private companies, but steps are being taken to extend the order to cover sole proprietors.

In terms of equity financing, there is currently no stock market in Brunei Darussalam – unsurprising given the country's small domestic market. Few Bruneian companies have sought public listing to date, and in 2017 Bank Islam Brunei Darussalam (BIBD) was the first Bruneian company to announce that it would be raising funds via an IPO, either on the MYX (Malaysia), the SGX (Singapore) or the LSE (UK). Since 2015, however, the Ministry of Finance has been looking into the establishment of a stock exchange in the country, and as a first step has been drafting its rules. To date, the listing rules for publicly traded corporations have been outlined, and a payment and settlement system, including an automated clearinghouse, has been set up. According to AMBD, the bourse's initial focus will likely be on equities, followed by both conventional and Islamic bonds. There are currently less than a dozen domestic companies that could potentially be listed, coming from the financial, health care, telecommunications and energy sectors. Concerns have been raised that the exchange may initially struggle with limited liquidity and depth given the small size of the domestic market. However, the government regards the exchange as an area in which Brunei Darussalam can be competitive, and it will seek to draw investors and companies from abroad. It is currently taking steps to enhance corporate governance and financial reporting standards, including among family-owned firms that may need to improve their financial reporting before they could consider a listing.

### *Sources of external finance for MSMEs*

Formal external finance, including for SMEs, is mainly provided by banks (World Bank, 2016<sup>[21]</sup>). The main instrument in place to increase bank lending to MSMEs is a subsidy programme, known as the Micro Financing Scheme (MFS), which is co-managed by DARE and BIBD. This programme offers loans of up to BND 15 000 to Bruneian MSMEs (firms with up to 100 employees), with no collateral required and a low interest rate. This scheme, in place since 2016, has financed 59 companies with loans totalling more than BND 560 000. Little monitoring and evaluation seems to have been conducted on the scheme's performance, although DARE and local banks conduct some monitoring of repayment patterns via a dedicated SME Financing Committee that meets every 4-6 weeks. Other instruments that are more market friendly, such as credit lines or guarantees

extended to a number of partner banks, may also create a greater multiplier effect. There is currently no export financing scheme in place for SMEs.

In terms of asset-based financing instruments, factoring is not currently offered in Brunei Darussalam, and other asset-backed lending instruments, such as leasing or trade and purchase order finance, are offered, but at relatively low volume, particularly to MSMEs. This may change over coming years as recent reforms to the secured transaction framework begin to take hold. Some private leasing companies have also begun to create dedicated MSME lending facilities. For instance, Pak Brunei Darussalam Investment Company Ltd. set up a dedicated SME Division in 2012.

Equity financing, particularly early- and risk-stage financing, is likewise relatively scarce in Brunei Darussalam, mainly due to limited demand. The development of a private equity/venture capital (PE/VC) industry in the country has predominantly been led by the government, which partnered with private-sector investors in 2014 to form both a VC fund, Seri Venture Capital, and a private equity fund, the SBI Islamic Fund (Brunei). Seri Venture Capital was formed through a partnership between the Brunei Economic Development Board, ChinaRock Capital and Soon Loo, a Bruneian investor and now CEO of the BEDB. The SBI Islamic Fund (Brunei) was formed as a joint venture between Brunei Darussalam's Ministry of Finance and Japan's Strategic Business Innovator (SBI) Holdings. The SBI Islamic Fund (Brunei) has operated two Sharia funds to date. The first amounted to USD 75 million, while the second will amount to around USD 60 million, with the Ministry of Finance and SBI each contributing USD 25 million and the remainder coming from the Islamic Development Bank. However the fund predominantly targets investment opportunities in Indonesia rather than in Brunei Darussalam. Seri Venture Capital is more targeted at growing domestic companies and helping them to internationalise, and has made several big deals in this area, though there is limited publicly available information on its activity. Overall, however, few Bruneian MSMEs receive PE/VC funding, and this is partially due to a lack of scalable business ideas and capacity to realise them. Crowdfunding and business angel facilities are not currently available in the country.

#### *Enhancing access to market and internationalisation (Dimension 4)*

Brunei Darussalam is increasingly aware of the need to shift its sights overseas since its domestic market poses limited growth opportunities for local businesses. It is committed to helping local small and medium enterprises expand beyond domestic borders through innovations in e-commerce, trade facilitation and the establishment of DARE. Its Dimension 4 score stands at 3.41.

#### *Export promotion*

The responsibility for promoting local businesses to expand their market overseas falls under several agencies including the MEMI, DARE and the Ministry of Foreign Affairs and Trade (MOFAT). To implement one of the objectives of its foreign trade policy, which is to advance Wawasan Brunei 2035's goal of becoming a dynamic and sustainable economy, the Trade Promotion Section of MOFAT facilitates the participation of local firms in international trade exhibitions. In these endeavours it co-operates with other countries within region-based collaborations such as the ASEAN-Japan Centre, ASEAN-Korea Centre, and ASEAN-China Centre. It also supports business missions overseas.

DARE was established in January 2016 to facilitate SME access to regional and global markets and to support local enterprises from start-up to the growth stage. It takes a

unified approach to encouraging the growth of local enterprises, with the private sector and its industry representatives driving the growth. In May 2017, DARE launched a new initiative, Made in Brunei (Wong, 2017a<sub>[17]</sub>), which supports local SMEs to market their goods and services in the country's largest local supermarkets and hotels (via high-end displays), and via an e-commerce platform (<https://unexpectedtreasures.com.bn>) and in-flight brochures on Royal Brunei flights. DARE also runs an Industry Business Academy (IBA) to support SMEs in developing more sophisticated products and capturing a wider market. The academy's intensive six-month development and learning programme aims to increase small enterprises' skills and knowledge for starting, running and expanding a business. Subjects are designed for businesses that want to expand and export, and cater to specific SME needs at different maturity levels. Another of DARE's capacity building activities for small businesses is the Start-up Bootcamp programme, which incubates start-ups for 100 days and provides intensive mentoring to help SMEs grow their businesses. The body works closely with MOFAT in implementing activities and initiatives to facilitate and empower local SMEs to expand overseas and take advantage of Brunei Darussalam's free trade agreements (FTAs) with other countries.

### *Integration into GVCs*

Brunei Darussalam does not yet have any defined strategies specifically for integrating SMEs into global value chains (GVCs). However, there is growing awareness of the need to help SMEs link with larger enterprises and multinational corporations (MNCs). In DARE's IBA, for instance, the general curriculum on SME skills enhancement for starting, running and expanding a business is coupled with a special topic that tackles SME opportunities to integrate into GVCs.

Other initiatives to promote SME integration into GVCs have emerged spontaneously. For example, Semaun Marine Resources Sdn Bhd, a quasi-government entity engaged in fish and shrimp hatchery, invited Golden Corporation Sdn Bhd, an FDI company from Taiwan, to develop the Multi-Purpose Marine Resources Processing and Business Centre in Tutong district. Since then, Golden Corporation has been strengthening the partnership with local SMEs engaged in the supply of raw seafood products (Wong, 2017b<sub>[18]</sub>). Business matching between SMEs and larger companies or MNCs is also being pursued during international trade exhibitions such as the ASEAN Food Festivals and the ASEAN SME Showcase and Conference.

### *Use of e-commerce*

Brunei Darussalam has the highest internet and social media penetration in Southeast Asia, with internet penetration at 86% (We Are Social, 2018<sub>[19]</sub>), and it has progressively developed a strong legal foundation for e-commerce activities. In 2000, it enacted the Electronic Transactions Act, based on the United Nations Commission on International Trade Law (UNCITRAL)'s Model Law on Electronic Commerce and the Singapore Electronic Transactions Act, and in 2011 it enacted the Consumer Protection (Fair Trading) Order to further support commercial transactions. More specific laws on e-commerce activities are now being considered.

Brunei Darussalam has organised capacity-building activities to promote the use of e-commerce by SMEs. In April 2017, DARE co-operated with DHgate.com, a leading e-commerce company from China, and Universiti Brunei Darussalam (UBD) to launch an e-commerce bootcamp, the Asia Pacific Economic Co-operation Cross-Border E-Commerce Training, under the APEC Business Advisory Council. DHgate.com has also

encouraged Bruneian SMEs to sell their products to potential buyers overseas via its digital marketplace.

Other initiatives involve logistical and e-payment support. In 2017, through the National Chamber of Commerce and Industry Brunei Darussalam (NCCIBD), the Cottage and Youth Initiative Programme launched an e-commerce platform called Cube Junction. Cube Junction allows SMEs to sell their products by linking them with foreign logistics service providers. Its e-commerce and social network platform for SME products is regulated by NCCIBD. It features a fast and secure payment gateway and logistics support through partnerships with AFL Hong Kong; an international logistics service provider; and Kargolink Indonesia, a fully integrated air, sea and land freight forwarding company. Since 2016, local SMEs have also been accepting online credit card payments through the Brunei Darussalam Online Payment Solution from Baiduri Bank. In 2017, Baiduri Bank launched another e-payment innovation called MerchantSuite service that allows very small businesses and individual sellers to issue invoices and receive payments online without setting up a website (Imhof, 2017<sup>[20]</sup>). Many small businesses in Brunei Darussalam also utilise popular social media platforms such as Facebook and Instagram to market their products, given the high use of social media in the country.

### *Quality standards*

Local regulations and certifications are governed by various ministries and agencies. The Ministry of Health develops national food safety requirements; the Department of Agriculture and Agrifood, under the Ministry of Primary Resources and Tourism, regulates food labelling and shelf-life requirements; and the Authority of Building and Construction Industry, under the Ministry of Development, regulates requirements for the construction industry. Known for its strong halal certification mechanism, Brunei Darussalam governs its halal requirements through its Ministry of Religious Affairs.

The National Standards Centre (NSC) under the MEMI (EIDPMO at the time of information gathering and validation) is the overall authority on matters pertaining to standards and conformance and is responsible for ensuring that these are in line with international standards. The NSC acts as the secretariat for the National Standards Council, which is responsible for overseeing the development of standards in collaboration with MSMEs as well as various agencies and other stakeholders. To date, 121 national standards documents have been developed and published.

The NSC supports the country's MSMEs to ensure that their systems and products comply with national and international standards. Its services include the MSMEs Standards Facilitation Programme, which aims to help MSMEs meet industry requirements, increase their productivity and add value to their products and services through conformance with quality standards. Participating MSMEs have the opportunity to attend training on becoming eligible for international certification, such as the Good Manufacturing Practices, the Hazard Analysis and Critical Control Points and the International Organisation for Standardisation (ISO) certificates. The NSC also conducts awareness programmes and dialogues in the area of standards and quality.

### *Trade facilitation*

Brunei Darussalam garnered moderate scores for the “information availability” and “formalities-procedures” indicators in the OECD Trade Facilitation Indicators used in this 2018 ASPI<sup>14</sup>. While basic infrastructure is in place, the country continues to improve on initiatives that will facilitate trading across borders. The Brunei Darussalam National

Single Window (BDNSW), run by the Royal Customs and Excise Department, allows for the electronic submission and exchange of trade information and documents between different government agencies. Since 1 September 2017, BDNSW has been shifting away from a cash payment system by creating an online payment facility, run in collaboration with Baiduri Bank and BIBD. Through the BDNSW website, traders can easily access basic procedures and guidelines on exporting and importing.

In addition, Brunei Darussalam has also set up the Brunei Darussalam National Trade Repository (BDNTR), which contains essential information for cross-border trading such as tariff nomenclature, preferential tariffs, rules of origin, non-tariff measures, national trade and customs laws and rules, procedures and documentary requirements, as well as a list of authorised traders. On 2 September 2017, Brunei Darussalam launched an Authorised Economic Operator (AEO) programme, called the Sutera Lane Merchant Scheme (SLMS), in order to facilitate trade. A pre-launch workshop was held in May 2017 to ensure that the SLMS programme was aligned and compatible with international standards (Asia Customs & Trade, 2017<sup>[21]</sup>).

However, the country does not yet have a comprehensive and targeted programme in place to support the use of trade facilities by SMEs. Facilities tend to be created for all enterprises alike, and therefore may not address SME-specific barriers. The new SLMS programme, for instance, not only does not include any specific provisions for SMEs, but in fact imposes criteria that may hinder start-ups and SMEs from taking advantage of its benefits. For example, it stipulates that operators must have engaged in import and export activities for a minimum of three years and have a minimum trade value of BND 1 million one year before the date of application. Activities targeted at SMEs tend to take the form of ad hoc workshops. For example, a trade facilitation workshop targeting SMEs operating in the agro-food sector was held in July 2017 by the ASEAN-Korea Centre, in collaboration with MOFAT, DARE and MEMI. To solicit assistance in areas of need, SMEs can access relevant government bodies through DARE's Business Support Centre (BSC), as well as the businessBN online portal (<http://business.gov.bn/>).

### *Boosting productivity, innovation and adoption of new technologies (Dimension 1 and 2)*

Brunei Darussalam has ramped up policies and programmes over the past few years to enhance productivity, innovation and the adoption of new technologies, as reflected in its Dimension 1 score of 3.37, and there is potential to advance rapidly. However, it is still at an early stage of developing greening policies and programmes. While the country has a number of environmental policies in place, its Dimension 2 score of 2.04 reflects the fact that few of these policies or programmes specifically focus on the needs of SMEs and that few instruments are provided to support SMEs in greening their operations.

#### *Productivity measures*

The Ministry of Primary Resources and Tourism leads policy development and implementation of productivity enhancement programmes and policies. NDP10 emphasised productivity enhancement as a key focus. This is carried out through education and skills development in areas such as science and technology, engineering, security, economy, business, entrepreneurship, health and agro-food, including the societal, cultural, religious and environmental aspects. Research and innovation are being encouraged to increase productivity among businesses and to help attract FDI.

Consultations with the private sector on productivity enhancement policies are conducted regularly. However, invitation is limited to the ten highest valued companies for each sector or to companies that contribute 90% to industry value added. On the research side, the Centre for Strategic and Policy Studies (CSPS), Brunei Darussalam's leading think tank for policy analysis, was consulted in developing productivity policy. CSPS conducts several productivity forums with the private sector that involve SMEs. The government allotted 14.2% of its BND 700 million national development plan budget for productivity enhancement programmes. Included in the plan was a non-oil industrial development strategy that aimed to widen opportunities for SMEs. At the national level, while there have been estimates of total factor productivity, only labour productivity is officially being collected. The existing SME productivity data date back to 2010 and do not reflect the effect of more recent SME productivity enhancement programmes. Other statistics are focused on specific sectors such as tourism. However, there are plans to introduce other measurement methods to be used according to sector under each economic cluster (logistics, manufacturing, mining, etc.).

### *Business development services*

The government has made considerable efforts regarding the provision of business development services (BDS) to SMEs. This is in line with NDP10, which refers to entrepreneurship and business development strategy under Point 32. At the time of this assessment, the EIDPMO (now MEMI) was the main policy-making body for BDS, with DARE in charge of implementing most activities. To date, DARE has established a dedicated one-stop shop, the BSC; the iCentre start-up incubation programme; the IBA; and the Start-up Bootcamp Acceleration Programme, which provides training and advice on business management, business linkage, networking and access to finance. The programmes have helped several companies to obtain finance from angel investors. Although still at an early stage and small in scale, the activities indicate a positive shift and government willingness to develop a new class of start-ups.

The country has also implemented business-plan competitions and links to private-sector initiatives and investors. One example is LiveWIRE Brunei, an organisation under Brunei Shell Petroleum that aims to develop local entrepreneurs.

### *Productive agglomerations and clusters enhancement*

Cluster development involves several institutions and cluster development plans have been developed for several economic sectors. Brunei Darussalam has identified several priority industry-linked programmes within the IBA to cater to specific industries, such as food manufacturing and aquaculture.

Brunei Darussalam's score of 92% in ERIA FIL rate in 2014 is slightly above the ASEAN average. From 2011 to 2014, its FIL score increased by 74%, the second highest increase rise in the region. As a reflection of the country's efforts to attract foreign investors, 26 industrial sites have been identified since 2014, and nine of these sites are already in place. The industrial sites include the iCentre, a knowledge hub, a technology park and a bio-innovation corridor, among others. Incentives to support the industrial sites are limited to general business incentives such as start-up grants, financing, training programmes and the provision of industrial space and facilities. In terms of attracting foreign investment, it should be noted that Brunei Darussalam is the only ASEAN country where taxes are not levied on personal income, payroll, goods and services, and capital gains. The country offers an attractive 18.5% corporate income tax rate for

investors and corporations, one of the lowest in the region. Brunei Darussalam permits 100% foreign ownership of companies set up in the country. An FDI-SME linkage initiative exists, but on an ad hoc basis with no specific budget allocation and no monitoring process in place.

### *Technological innovation*

Technological innovation in Brunei Darussalam is largely concentrated within major firms operating in the oil and gas sector. Although science, technology and innovation is one of NDP10's key themes, there are currently no dedicated innovation policies or programmes in place for MSMEs. The main body responsible for implementing innovation policy is the Brunei Research Council (BRC), an intergovernmental council that was re-established in 2011 with the mandate of promoting innovation policy research that could contribute to national development as a whole. The BRC is tasked with formulating policies to promote R&D, in accordance with the goals of Wawasan Brunei 2035. This includes the allocation of funding for national R&D activities through the BRC Grant Scheme. The Industrial Research Fund is also available for eligible MSMEs. The BRC's policy direction is set by its secretariat, which falls under the purview of the JPKE and which also administers the BRC's funds. The government has prioritised digital innovation in particular, and a National ICT White Paper has been developed, as well as a Digital Strategy Division within the EIDPMO (subsequently the Digital Nation Division within the MEMI).

On the intellectual property side, Brunei Darussalam fully complies with all international treaties and conventions. The Brunei Darussalam Intellectual Property Office (BruIPO) was set up on 1 June 2013 in an effort to restructure the national IP administration. Currently, BruIPO is responsible for the registration of patents, trademarks, industrial designs and protection of plant varieties.

Although initiatives exist to promote innovation, such as the Crown Prince Creative, Innovative Product and Technological Advancement Award (CIPTA), few have a particular focus on SMEs or would-be entrepreneurs. The country does not have a single portal for companies wishing to find out about initiatives to promote innovation.

The government funds infrastructure development and services. The BRC Fund was allocated BND 200 million under NDP10 to encourage R&D and innovation. This fund is used by local research institutions and agencies. It also funds joint industrial research projects between these bodies and FDI companies via the Brunei Research Incentive Scheme (BRISc), which is managed via BEDB. The iCentre and Academia Universiti Brunei Darussalam (UBD) also collaborate to commercialise innovations by the university's researchers.

The government has pushed for the creation of a country-wide infrastructure to promote innovation, though it is not clear how many SMEs could benefit from it. The Brunei Darussalam Bio Innovation Corridor and the Anggerek Desa Technology Park provide space for companies as well as some business support services. DARE provides co-working space for entrepreneurs at the iCentre, which also acts as an incubator for start-up companies and provides business development programmes.

### *Environmental policies targeting SMEs*

Brunei Darussalam has environmental policies aimed at the economy in general, which may impact some SMEs, but the country lacks policies that specifically promote the

greening of SMEs. However, NDP10 does call for ensuring a clean and healthy environment and for supporting sustainable and environmentally friendly growth and development. It also calls for specific measures such as environmental assessments, pollution control, hazardous chemical waste control, solid waste management and air quality control.

#### *Incentives and instruments for green SMEs*

The government regulates pollution through its Pollution Control Guidelines (2002), which set limits on emissions, effluent and discharges from different industrial activities. It has made efforts to improve environmental performance by requiring the use of Best Available Technologies in some applications. However, the real-world impact on environmental performance is unclear, and specifically its impact on the environmental performance of SMEs. Environmental Impact Assessment (EIA) guidelines, which relate to the National Development Plan, set out the types of projects across different economic sectors that require EIAs.<sup>15</sup> However, these assessments are more likely to focus on large-scale projects than on those undertaken by SMEs. The government also encourages the use of environmental management systems through Environmental Protection and Management Order 2016, but this order does not specifically target SMEs.

#### *Stimulating entrepreneurship and human capital development (Dimensions 7 and 8)*

Brunei Darussalam has taken substantial steps towards formulating and implementing a more entrepreneurship-oriented education system. To improve entrepreneurial skills, the country has managed to link its formal education system's entrepreneurship thrust with real businesses. Its score of 4.06 indicates that Brunei Darussalam is moving towards creating an ecosystem in which entrepreneurship will thrive. It performs less well on measures related to social and inclusive entrepreneurship, with an overall score of 2.33, but this is arguably due to the fact that the country provides substantial social support to its citizens, and that interventions may thus be less needed in this policy area.

#### *Entrepreneurial education*

Entrepreneurial competencies have been incorporated into Brunei Darussalam's national education system, known as the National Education System for the 21<sup>st</sup> Century (SPN21). This system integrates entrepreneurship as a general competency alongside citizenship skills, thinking skills and digital literacy.

Brunei Darussalam has both a broad framework for entrepreneurial education and a specific curriculum. Its framework, known as the National Entrepreneurship Agenda (NEA), was developed in 2014 by the Ministry of Education and the Universiti Brunei Darussalam (UBD). It is designed to support Wawasan Brunei 2035 by creating and supporting high-growth entrepreneurs who could drive job creation and economic growth in the country. It encompasses all levels of education, from kindergarten to the university level. One of the main initiatives under the NEA is Success Weekends, a programme for primary and secondary students under the Entrepreneurship Village initiative. Conducted over the course of a weekend, the programme exposes students to entrepreneurial challenges and games as well as to basic communication, teamwork and business skills. The programme, which is facilitated by established Bruneian entrepreneurs, also aims to nurture an entrepreneurial mindset among teachers.

Aside from programmes implemented under the SEA, Brunei Darussalam has a number of other programmes in place such as the Junior Achievement (JA) programme. This programme was officially launched in 2016<sup>16</sup> in primary and secondary schools as well as sixth form centres across the country. These programmes offer experiential learning in a variety of topics, including financial literacy, work readiness and entrepreneurship. In addition, a number of initiatives fall under the Brunei Darussalam Entrepreneurship Education Scheme (BEES). The BEES programme was launched in 2011 to develop and nurture enterprising attitudes and skills among students in secondary education. An upgraded version, BEES 2.0, was introduced in November 2016 (UDB, 2016<sub>[22]</sub>). Its three-year strategic programme has been implemented with a different theme each year: Entrepreneurial Mindset on Pitching in 2016; Entrepreneurial Mindset on Innovation in 2017; and Entrepreneurial Mindset on Sustainability in 2018. UDB has also developed and implemented a curriculum called GenNEXT, which seeks to overcome national concerns about unemployment by creating quality graduates with innovation and entrepreneurial skills.

### *Entrepreneurial skills*

The NEA also has a form of entrepreneurial education designed to increase the public's skills and knowledge. Through its Community Incubation Programme, participants learn basic entrepreneurship concepts such as business strategies, business models and effective communication. The programme ends with a Venture Showcase event where participants present their business plans and ideas to a group of potential customers, investors and business partners. Through a link to the Success Weekend Programme for secondary level students, successful entrepreneurs from the Community Incubation Programme share their experiences in order to nurture the students' entrepreneurial mindset.

DARE's activities to promote and facilitate entrepreneurship include the IBA, the Start-up Bootcamp and the Micro Bootcamp Programme, which focuses on bringing early-stage businesses to the ideation stage. The Start-up Bootcamp includes a 100-Day Accelerator Programme, which focuses on supporting the development of high-growth, high-potential start-ups. In April 2017, Brunei Darussalam also commenced an apprenticeship programme called I-RDY to deal with the mismatch between qualifications of graduates and job requirements (Idris, 2017<sub>[23]</sub>). The programme assists fresh graduates for a maximum of three years through capacity building and allowances in order to improve their marketability and employability.

### *Social entrepreneurship*

Social entrepreneurship is a relatively new concept in Brunei Darussalam, and there is still no formal definition of a social enterprise. However, the Legislative Council is currently exploring ways to promote entrepreneurship in general. A number of social entrepreneurs have been supported under broader entrepreneurship programmes. For instance "Tarbiyyah," which offers early-stage Islamic education, and the "Blood Code Application System," a solution for blood donation management, participated in DARE's Startup Bootcamp, during its first cycle between October 2016 and January 2017. In addition, the Pusat Bahagia (Special Education) centre, an initiative of the Community Development Department under the Ministry of Culture, Youth and Sports (MCYS), supports social entrepreneurship through a number of initiatives such as awareness-raising activities and capacity-building support, though these are limited to persons with disabilities and are organised on an ad hoc basis. Although small in scale, these activities have supported social entrepreneurs to become financially sustainable in the areas of

woodworking for furniture, bakery and cookery, tailoring and craftsmanship development.

### *Inclusive entrepreneurship*

Brunei Darussalam has no dedicated strategy on the promotion of women's entrepreneurship, but elements promoting women's economic participation are highlighted as priority. The Special Committee on Women and Family Institution, which brings together several ministries, was established to recommend policies, legislation and action plans and to ensure close co-operation among relevant stakeholders from government and non-government organisations. The committee makes reference to empowering women to be more economically active and refers to entrepreneurial development for this target group. There is also a Women Business Council, which is a non-governmental organisation registered under the Registrar of Societies. Women can benefit from the training provided by DARE and other organisations, but there are very few dedicated initiatives apart from ad hoc capacity-building activities and microfinance lending.

The MCYS is the central body for policies related to youth, including entrepreneurship activities. The Youth Development Centre under MCYS promotes entrepreneurship through business start-up programmes such as the Youth Self-Reliant Programme (*Program Belia Berdikari*), and it also implements activities in partnership with initiatives such as LIVEWire Brunei and JA. DARE also conducts similar activities in this area. Its Micro Business Bootcamp aims to provide unemployed youths with the skills and drive to become entrepreneurs. Specifically, it provides participants with: *i*) a physical bootcamp and entrepreneurship training; *ii*) guidance and monitoring; and *iii*) funding to kick start their business.

Brunei Darussalam established a Special Committee on Persons with Disabilities and the Elderly in 2008 under the purview of the National Council on Social Issues. The committee has formulated a National Plan of Action on Persons with Disabilities and the Elderly to promote and protect their rights and to enhance their full participation and inclusive development in society. However, the plan does not have a specific focus on promotion of entrepreneurship among persons with disabilities (PWD). In terms of implementation, the Employment Training Centre for PWD provides mentoring support and training in areas such as access to finance. Under the Old Age and Disability Pensions Act (1954), PWD in Brunei Darussalam are ensured access to microcredit finance facilities without the need for collateral or a guarantor. The Pusat Bahagia (Special Education) centre also provides skills training and development for persons with disabilities. To date, it has helped a number of PWD entrepreneurs to become financially sustainable in the areas of woodworking for furniture, bakery and cookery, tailoring and craftsmanship development.

## **The way forward**

### ***Strengthening the institutional, regulatory and operational environment***

Brunei Darussalam has made significant strides to improve the country's business environment and support the development of domestic enterprises, particularly MSMEs. Moving forward, more could be done to foster a more strategic, systematic and sequenced approach to MSME support and regulatory reform. For instance, the government could consider the following actions:

*Institutional framework for SME policy*

- **Develop an official MSME definition.** The formulation of a clear and robust MSME definition is the bedrock of MSME policy, as it defines the scope of all future policies and programmes. DARE could work with other stakeholders, both locally and potentially from other AMS, to create an apt MSME definition for the country. This may result in amendments to thresholds and could include an indicator of company value alongside employment. After elaboration, work will be needed to socialise the definition through the public administration.

*Legislation, regulation and tax*

- **Systematise the use of good regulatory practices.** Brunei Darussalam's current good regulatory practices could be more structured and systematic in the review and development of major laws and regulations affecting MSMEs. At present, RIAs do not consider the specific impacts of regulations on MSMEs.
- **Further streamline corporate income-tax filing procedures.** Corporate income tax can be paid online, but the time required to file this tax is rather high, taking 43 hours. Further streamlining would increase the ease of doing business in the country.

*Facilitating SME access to finance*

Brunei Darussalam's legal framework is very conducive to supplying credit, and its banks are well capitalised. Yet there are few targeted programmes to meet the financing needs of MSMEs, partially due to limited demand. To increase the range of instruments available to MSMEs, and the demand for them, Brunei Darussalam could:

- **Survey licensed banks to ascertain their willingness to lend to MSMEs.** Access-to-finance programmes for MSMEs mainly take the form of grants or loans that are co-managed between the government and one commercial bank. While some monitoring of repayment patterns is conducted, little monitoring and evaluation seems to be conducted on other metrics of performance, such as the additionality of such schemes. A survey might suggest that providing guarantees to a few licensed banks could ensure a more efficient allocation of credit and encourage competition.

*Enhancing access to market and internationalisation*

While Brunei Darussalam has shown commitment to improve its trade facilitation system and strategic framework to promote the internationalisation of local SMEs, stronger reforms might level up those initiatives in certain areas:

- **Integrate support for SMEs in trade facilitation system development.** Optimising the system's benefits for local SMEs is particularly important since Brunei Darussalam's AEO programme, the SLMS programme, imposes criteria such as minimum trade value that are potentially difficult for SMEs to comply with. Alternatively, the country could develop a special AEO programme for local SMEs to give them more help and support when trading across borders.
- **Develop a strategic policy to promote SME integration into GVCs.** Embedding GVC integration as a topic in business incubation and training sessions is not sufficient for assimilating local SMEs into GVCs. While such

capacity building is important, local SMEs might also need specific financial assistance or business linking mechanisms in order to establish and develop supply-chain relationships with larger domestic firms that export and with MNCs. Strategic actions, like embedding local SMEs in SEZs where MNCs are operating, or developing knowledge and technology transfer programmes that link SMEs and MNCs, should help SMEs to acquire the skills and business linkages necessary to participate in GVCs.

- **Develop mechanisms to broaden the outreach of DARE's programmes.** The Industry Business Academy and the Start-up Bootcamp programme offer holistic capacity building by leveraging SMEs' capacities to export. Spreading the programmes to reach as many local SMEs as possible, especially outside urban areas, is important to strengthen the programmes' effectiveness.

### *Boosting productivity, innovation and adoption of new technologies*

Policies and programmes to boost productivity, innovation and the adoption of new technologies have been ramped up over recent years, but gaps remain in private-sector collaboration, targeting, and monitoring and evaluation. To build on previous work in this area, Brunei Darussalam could:

#### *Productivity, technology and innovation*

- **Further develop an ecosystem of players and dedicated instruments.** Brunei Darussalam could build on international practices and involve private consultants, especially for SMEs in the growth phase. Instruments like voucher schemes could be very useful for developing knowledge and helping companies to get customised support in the aim of enhancing productivity.
- **Collaborate more extensively with the private sector.** This could be of benefit when developing and implementing incentives for SMEs. Closer collaboration could be achieved by involving the private sector in the provision of services at technology park sites or through the co-creation of business support programmes. The private sector could also be further represented in consultative and co-ordination bodies.
- **Further develop monitoring and evaluation schemes.** Brunei Darussalam has started developing policies promoting innovation, productivity and BDS relatively recently. Promoting monitoring and evaluation could help give policy makers a better understanding of the impact of the programmes and measures. Dedicated SME-related key performance indicators would make it easier to see which incentives are used by SMEs, and by how many.

#### *Environmental policies and SMEs*

- **Further mainstream the greening of SMEs within existing policies.** Actions to support greener SMEs could be delineated from broader actions to support better environmental performance for the economy as a whole. Concrete policy with targets and timelines would be valuable.
- **Further develop instruments and incentives for greening.** Once policies are in place around SME greening, incentives and instruments of support can be

deployed. This includes making environmental management systems more accessible to SMEs.

- **Develop a central focal point to co-ordinate SME greening.** A central focal point would help to co-ordinate the introduction of new programmes and would provide SMEs with better understanding of the options available for support.

### *Stimulating entrepreneurship and human capital development*

#### *Entrepreneurial education and skills*

Brunei Darussalam has implemented notable reforms for promoting entrepreneurial education and skills enhancement under the DARE initiatives. The country could consider the following actions to strengthen its reforms:

- **Install sound and transparent monitoring and mechanisms.** This is important as the country moves towards a stronger entrepreneurship ecosystem and develops a national entrepreneurial education system. Such mechanisms should include clear milestones for measuring the programmes' effectiveness in order to provide a strong basis for ongoing reform.
- **Engage more universities in the entrepreneurial learning network.** Universiti Brunei Darussalam has led the way in designing and implementing the country's entrepreneurial education system. Engaging more universities in the network would expand policy design and research in this area.
- **Develop a mechanism for feeding university research into policy design.** The government could develop a mechanism to embed background studies by universities in support of its policy design for entrepreneurial education. This would not just ensure greater research input into future policy design, but would also increase the universities' research capacities and reputations.

#### *Social and inclusive entrepreneurship*

- **Develop a clear definition or set of criteria for social enterprise.** The lack of a legal definition of a social enterprise could be a source of confusion and lead to misperceptions. Developing a clear definition or criteria would make it possible to avoid confusion and would simplify the task of raising awareness.
- **Explore collaboration with the private sector.** Brunei Darussalam has a number of well-developed enterprises that might be interested in supporting or investing in social enterprises or promoting entrepreneurship among selected target groups. By developing closer links with the private sector, it might also be possible to leverage government resources and develop a supporting ecosystem around the concept of inclusive entrepreneurship.
- **Further integrate the needs of the target groups into policies.** The government could consider developing strategies focused on women's entrepreneurship or entrepreneurial support for PWD like those it has deployed for youth. The specific needs of these groups, such as access to finance, specialised training facilities and delivery methods, should be analysed and integrated into the action plan.

## Notes

<sup>1</sup> Oil and gas mining accounted for 73.9% of industry gross value added (GVA) in 2016, while the manufacture of liquefied natural gas and methanol accounted for 17.9%. The two accounted for 41.7% and 10.7% of overall GVA respectively. Government services, largely financed through oil revenue and investment earnings, accounted for 12.9% of overall GVA. Mineral fuels (SITC rev.4 product categories 32-35) accounted for 88% of total merchandise trade in 2016 (JPKE data, 2017).

<sup>2</sup> These contracts traditionally ran for 20 years, but when several expired in 2013, new contracts were renegotiated that run for ten years and are due to expire in 2023.

<sup>3</sup> A negative government balance has been avoided for some time: a run has not been seen since 1988-1999, with a negative government balance only posted in 2002 during the interim period (IMF data).

<sup>4</sup> These estimates are based on the APO's index of labour productivity per worker (base year=2000). In 2015 Brunei Darussalam's estimated labour productivity per worker stood at 0.84 against this index. This compares to 1.28 in Singapore, 1.60 in Thailand and 2.40 in Lao PDR.

<sup>5</sup> And the rate is higher among women (19%) than men (15%).

<sup>6</sup> It ranked second in the world on this indicator ("ease of getting credit") in the World Bank's 2018 *Doing Business* report.

<sup>7</sup> Companies applying for a Foreign Worker License will now undergo inspection after issuance of the license instead of before, as was the case under the Labour Quota License. However the new license brings new employment rules, including the addition of a local-to-foreign-worker ratio.

<sup>8</sup> The last date for which data segmenting business activity by firm size is available.

<sup>9</sup> Data on the geographic spread of MSMEs in Brunei Darussalam was provided by CSPS, based on data from the Economic Census 2011.

<sup>10</sup> These factors may constrain the ability of local enterprises to scale, and residents may be more reliant on local (small) enterprises to provide them with goods and services.

<sup>11</sup> The AMBD has recently taken a number of actions to spur the growth of credit in Brunei Darussalam. These include: *i*) increasing financial institutions' (FIs) personal financing cap from 40% to 60%; *ii*) increasing FIs' total debt service ratio (TDSR) limit from 60% to 70% for instruments extended to purchase or construct immovable property such as residential buildings; *iii*) increasing the flexibility of TDSR limits for fully secured financing facilities secured by cash or fixed deposits; and *iv*) allowing FIs to set their own TDSR policy for individuals with net monthly income of BND 10 000 and above.

<sup>12</sup> Or 64.0% of total banking assets (data based on unaudited 2017 figures provided by AMBD).

<sup>13</sup> For instance, the creation of the country's credit registry in 2012 has allowed for subsequent liberalisation measures, such as the deregulation in May 2017 of lending interest rates and some deposit interest rates. The creation of the credit registry and other enhancements to the country's financial system have enabled banks and other FIs to conduct more comprehensive credit risk management.

<sup>14</sup> Four sets of indicators from the 2017 OECD TFIs are used for the 2018 ASPI: Information Availability; Fees and Charges; Formalities-documents; and Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Brunei Darussalam scored 1.15 for Information Availability, 1.9 for Fees and Charges, 1.5 for Formalities-documents, and 1.2 for Formalities-procedures indicators.

<sup>15</sup> The latest and most comprehensive list is included in Schedule 1 of the Environmental Protection and Management Order 2016. Activities listed here are required to submit a Written Notification in order to ensure mitigation measures and procedures to protect the environment are in place.

<sup>16</sup> But JA programmes have been piloted since 2012.

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