

Acknowledging the Value of Micro and Small Enterprise as Economic Engine

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ABSTRACT

Brunei Darussalam is a rich country and the per capita income is one of the highest in Asia. However, the economy is heavily dependent on the oil and gas sector, although the contribution of this sector to the country's GDP has slowly declined. The economic diversification has moved slowly. Although Brunei Darussalam has a high per capita income, the number of Bruneians receiving assistance from various agencies has also increased. In fact, the number of applicants has increased dramatically over the years. This worrying trend has resulted in the government paying more attention to the problem of poverty and recognized the importance of micro-small enterprises in Brunei. This paper will look at the roles of micro and small businesses in creating value to the economy. The value can be seen from the contribution of micro and small enterprises to the economic sectors, employment, investments, services, schemes and assistances provided by government and non-government organizations to help the poor and needy in Brunei Darussalam. Skill training and microfinance will be suggested as solution.

Key Words: Economy, Brunei Darussalam, Poverty, Microfinance. Micro and Small Enterprises
JEL Classification: E01, E24, I32, I38, P46.

INTRODUCTION

Brunei Darussalam is a small sultanate with size of 5,765 square kilometers and the total population was estimated to be 422,700 in 2011. The population annual growth rate was reported about 2.0% in 2011. Brunei also has a young population where 57% are in the 20-54 working age group, 34% are below 19 years old.³ The people of Brunei Darussalam enjoy free education, which is provided through government schools and institutions. The government has a school feeding scheme whereby meals for students are given to rural schools and light meals for students in the urban areas. Students who come from economically disadvantaged families but are not eligible for hostel accommodation and who stay more than five kilometers from school, are provided with free transport to and from school.

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³ *Brunei Darussalam Key Indicators, 2011*
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Medical and healthcare services are also provided free of charge at the government hospitals, health centers and health clinics throughout the country. Patients who require specialized treatment are sent abroad and health expenses for Brunei citizens are borne by the government.

Brunei Darussalam also has a national housing scheme for citizens. The first development of the national housing scheme was initiated under the 3rd National Development Plan, 1975-1979.⁴ The cost of houses under this scheme ranged from as low as \$62,880 to about \$100,000 per unit.⁵ The size of the land lot was 0.25 acres. Now the size has been reduced to 0.16 acres and will be reduced further to 0.125 acres due to the shortage of land available for the housing scheme (Abdul Rahman, 2005). Another on-going government housing project is the Landless Indigenous Citizens Housing Scheme (LICS), which has eight sites in different parts of the country. In addition, the Sultan Haji Hassanal Bolkiah Foundation also provides housing for eligible citizens.

As a small rich country, that able to provide free education, health services and low cost land and housing scheme to the population, it is important to examine the sustainability of the economy of Brunei Darussalam in terms of source of economic growth, per capita income, economic activities and role of Micro and Small Enterprises (MSEs). The definition of the micro and small enterprises in Brunei Darussalam is based on the number of employees whereby, micro enterprise is having 1 to 5 employees and small enterprise is having 6 to 50 employees.⁶ Businesses with 51 to 100 employees are categorized as medium enterprises⁷. MSEs are made up 96% of total establishments in the private sector of Brunei Darussalam economy in 2010.⁸ MSEs are recognized as important segment in economic diversifying programs valued from the government policies and facilities provided to encourage their development.

The remaining discussion of this paper will be divided into four sections. Section 2 will examine the economic background of Brunei Darussalam, the poverty and assistances provided by government and non-government organizations to the poor and needy. This will be followed by looking at the government policies related to the growth of the economy especially to encourage economic diversification through micro, small and medium enterprises such as monetary policy, financing policy and development policy in section 3. Section 4 will highlight the value of micro and small businesses through their contributions to the economy. This paper will be ended with conclusions and some recommendations in the last section.

ECONOMIC BACKGROUND

The government of Brunei Darussalam realized that the economy should be diversified in order to be sustainable and growing in the long-term. Brunei Darussalam's economy was heavily dependent on oil and gas since independence in 1984. Oil and gas production, which is the main component of the mining sector, contributed 73% (BND\$6,417 million) to the total GDP in 1985. It decreased to 57% (BND\$3,649 million) in 1990 and 42% (BND\$2,843 million) in 1995. It increased again to 57% in 2000, 66% in 2005 and 68% in 2011 (BND\$13,923 million). The changes in the contribution of oil and gas sector to the GDP were influenced by the changes in the price of crude oil. However, generally the contribution of oil and gas sector to the economy is around two third of total GDP.⁹ The contribution of oil and gas industry to the GDP at constant price data (base year 2000) have shown a stable contribution at about 58% from year 1989 until year 2000. It started declining after that to 54% in 2005 and in 2011 reducing further to 46%.¹⁰

On the other hand, the contribution of non-oil and gas sector to the GDP is increasing gradually since independent from 27% (BND\$2,370 million) in 1985 to 43% (1990 - 2000). However, it was declining again to 34% in 2005 and 32% (BND\$6,565.6 million) in 2011, at current price. It seems more stable at constant price at 34% - 43% from 1985 - 2000 and increased to 46% in 2011.

The GDP by kind of economic activities' year 2000 onwards data, gave more details information. There are few industries where micro and small businesses normally involved such as agriculture; vegetables and fruit production, livestock and poultry, forestry, fishery, Manufacturing of wearing apparel and textile, wholesale and retail trade, water transport, domestic services and other

⁴ *National Development Plan, 1996-2000*, Department of Economic Planning and Development, Prime Ministers Office. Brunei Darussalam.

⁵ The housing project tender was given to United Engineers (Singapore) Pte. Ltd

⁶ 2011, Directory of outstanding ASEAN SMEs, Jakarta, ASEAN Secretariat.

⁷ Ministry of Industry and Primary Resources, Brunei Darussalam.

⁸ Brunei Darussalam Statistical Year Book 2010.

⁹ Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

¹⁰ Ibid

private services. The contribution of these industries to the non-oil and gas sector was about 19% in year 2000, 20% in 2005 and decline a little bit to 18% in 2011. Although the contribution was declining in percentage, it was increasing in value from BND\$844.6 million in 2000 to BND\$1,041.5 million in 2005 and increased further to BND\$1,164.7 million in 2011, at constant prices. Manufacturing of wearing apparel and textile data was influenced by textile industry which was categories as big company until 2005. However, the contribution of this sector was declining drastically after 2005 due to changes in external trade. Therefore, the figure for 2011 was more reflecting the contribution of MSE to the non-oil and gas industry which shown increasing trend especially in wholesaling and retailing activities.¹¹

The government sector contribution to total GDP was increasing from 15% (BND\$1,586.2 million) to 16% (BND\$1,816.5 million) in 2005 and increased further to 20.4% (BND\$2,468.9 million) in 2011.¹² While, financial industry contribution was around 7% to 8% of non-oil and gas sector, from year 2000 until 2011. The value is increasing from BND\$322.7 million in 2000 to BND\$417.364 million in 2005 and increased to BND\$496.9 million in 2011. However, banks do not fond of giving loan to small businesses due to high risks and high cost (Islam et al, 2002). Therefore Microfinance is very important for the small businesses especially micro businesses run by the low income people who have no property to be put as collateral to the traditional banks.

GDP growth and GDP Per Capita - The growth of the Gross Domestic Product (GDP) has been inconsistent for a period of time. During the early 1990s, Brunei's economy showed some signs of weakness, especially after the Asian financial crisis. However, in 2007, Brunei Darussalam's nominal GDP was BND\$18.5 billion and had been increasing to 20.6 in 2011. On the other hand, the real GDP growth rate was fluctuating from (1.9%), to (1.8%) and up again to 2.6% in the year 2008, 2009 and 2010 respectively per annum and 2.2% in 2011.¹³

The GDP growth has influenced the GDP per capita growth rate. The GDP per capita of Brunei Darussalam is one of the highest in Asia. The GDP per capita at current prices was around BND\$47.3 thousand in 2007, which was 47% higher than the GDP per capita during the year 2000 (around BND\$32,000). This figure was increasing to around BND\$51.3 thousand in 2008 and decreasing to BND\$40.7 thousand in 2010. The inflation rate had an impact on the GDP per capita growth rate at constant prices. The GDP per capita at constant prices actually declined during the period from 2007 to 2010.¹⁴

The slow growth rate of GDP and GDP per capita has had an impact on the government total revenue. The total government revenue was declining from BND\$11,378 million (April 2008 – Mac 2009) to BND\$6,392.9 million (April 2009 – Mac 2010) but increased to BND\$9,134.9 (April 2010 – Mac 2011). This cause the budget balance also fluctuated from BND\$5,403.4 (2008) to -BND\$245.9 (2009) and increased back to BND\$2,956.4 (2010).¹⁵

The government's concern led to some plans actions to rent out a few public owned properties to private sector to operate which named as Public Private Partnership project. The first project is National Park. National Park under the authority of the Forestry Department was rented out to a private company in November 2008. Now it is known as Ulu Ulu National Park Resort.

Income distribution - The total mean and median income per household in BD in 2005 were BND\$4,661 and BND\$3,640 respectively. Distribution by income class showed that the largest proportion of household was 14.4 % - \$3000 - \$3999, 10.5% (4000 – 4999), 9.2% (5000 – 5999). Above 10,000 was 7.1%.¹⁶ The income below \$500 was 3.1% and 500 – 999 (5.2%), 1000-1499 (7.0%). 5472 families in Brunei are under poverty. This consists of 27,360 poor people in poverty (Masli, 2011). The average number of family members is about 6 members in a family.¹⁷ Therefore, household with 1000-1499 income will have BND\$208 per person (BND\$1249 divided by 6 persons).

¹¹ Ibid.

¹² Brunei Darussalam Key Indicators 2011, Department of Statistics, Department of Economic Planning and Development, Prime Minister's Office.

¹³ Brunei Darussalam Key Indicators, 2011, Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

¹⁴ Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

¹⁵ Brunei Darussalam Key Indicators 2011, Department of Statistics, Department of Economic Planning and Development, Prime Minister's Office.

¹⁶ Summary Tables of Household Expenditure Survey Brunei Darussalam, 2005, Department of Statistics, Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

¹⁷ Brunei Darussalam Report, Beijing Declaration and Platform for Action, High-level Intergovernmental Meeting to Review Implementation of the Beijing Platform and Action and Its Regional and Global Outcomes, 2009.

External Trade - Crude petroleum is the major domestic export commodity of Brunei Darussalam, followed by gas and garments. The export of crude oil in 2008 was 53.2% of the country's total export and it decreased slightly to 47.7% in 2009 and increased again to 50% in 2010. The export of gas contributed 44.6% to total exports in 2008 and it remained more or less at the same rate of 44.6% in 2010 while the export of garments decreased from 0.5% in 2008 to 0.07% in 2010.¹⁸ Brunei's garment industry until now has been the country's second contributor to the state's revenue after oil and gas industry, with total export recorded at B\$400 to \$500 million in 2003 to 2004. It had brought in an abundance of benefits to the Sultanate and generated economic growth with the mushrooming of SME businesses to support this industry. However, the contribution of garments to the total export is gradually declining after 2004 (Anon, 2012). The production was declining from \$121 million in 2007 to \$56.7 million in 2008 (No, 2010). In 2007 the exports of garments was contributing 1.5%. This contribution was declining to 0.81% in 2008 and 0.54% in 2009.¹⁹

Inflation - The inflation in Brunei Darussalam after the independent has shown high rate at 46.4% in 1985 (base year 1977). It gradually increased to 58% in 1990. The highest component was food, clothing and footwear.²⁰ This inflation rate has been relatively low over the past two decades. In 1995, the inflation rate was about 6% (base year 1990), which was mainly caused by the increase in import duties, especially for motor vehicles. In 2002, the rate decreased to 2.3% due to a downward revision in import duties of cars. However, in 2005, the rate increased again due to a rise in the price of oil.²¹ The inflation rate of CPI for the year 2010 decreased to 0.4% compared to 1.0% in 2009 and 2.1% in 2008.²²

The index of food and non-alcoholic beverages has increased over the last few years. This increase has been driven by the rise in almost all sub-group indices, in particular rice and cereal products, dairy products, eggs, cooking oil and fats. This was due to the increase in the price of oil and bio-fuels.²³ Inflation in food prices has become a global phenomenon since 2007. Brunei Darussalam has not been able to completely shield herself from the global food crisis as food was the third highest component of import of Brunei Darussalam (15%) in 2010 after machinery and transport which comprised 35% and followed by manufactured goods at 20%. The increase in the prices of food has had a very significant impact on the population, especially the lowest income group, the poor and needy.

Employment - Based on the Brunei Darussalam Statistical Yearbook 2010, the 2001 census showed that of a total of 146,254 employees, 54,865 (35%) were working in the public sector and 91,389 (65%) were in the private sector. It also showed that out of 107,322 people employed in the private sector during 2006, 69% were foreign workers, while the remaining 31% were locals and permanent residents. Most of the foreign workers were employed in construction (35%), and mining (other than petroleum and gas), quarrying and manufacturing (18%). Large percentages of local and permanent resident workers were employed in the financial, insurance and commercial sectors.

Unemployment - The number of active jobseekers registered with the Labor Department decreased from 7,300 (4%) in 2006 to 6,300 (3.4%) in 2007 but it increased again to 7,000 (3.7%) in 2008. However, the number was kept on decreasing in 2009, 2010 and 2011. In 2011 the number was drop to 3,200 people. There has been a declining rate of unemployment to 1.7% in 2011. The rate of unemployment among females was higher than for males, 3.8% and 2.9% for 2009 and 2010 respectively compared to 3.0% and 2.4% for males during the same period.²⁴

Rate of wages of the lowest income earners - Based on the Brunei Darussalam Statistical Year Book 2010, the lowest wage earners are those in the construction sector.²⁵ They are laborers, bricklayers, and masons, amongst others. Working for seven hours per day and seven days a week, a laborer earns an average wage of \$483.00 per month, a bricklayer \$594.00 per month and a mason \$621.00 per month. Another sector of low wage receivers is vehicle drivers who earn an average of \$554.00 per month.²⁶ Almost all of the employees in the construction sector are foreigners. The construction workers live in quarters built at the construction site. These workers are willing to accept small wages, a poor standard of living, and distance from family due to Brunei's high currency

¹⁸ Brunei Darussalam Key Indicators, 2011, Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

¹⁹ Brunei Darussalam Statistical Year Book 2010, Department of Economic Planning and Development.

²⁰ Department of Economic Planning and Development, Prime Minister's Office, Brunei Darussalam.

²¹ Brunei Darussalam Long-term Development Plan, 2007.

²² The Brunei Darussalam Statistical Yearbook 2010 Consumer Price Index (CPI).

²³ Brunei Economic Bulletin, September 2008.

²⁴ Brunei Darussalam Statistical Year Book 2010.

²⁵ Excluding domestic sector.

²⁶ Brunei Darussalam Statistical Year Book 2010.

exchange rate compared to their own countries' currencies. Statistics have shown that not many Bruneians want to work in construction sector due to low wages. A monthly income of BND\$300.00 to BND\$500.00 received for working seven days a week may be sufficient to support a single person but it is certainly not enough to support a family staying in Brunei Darussalam.

Long-term development plan - Brunei Darussalam's vision is that by 2035, it will be recognized globally for the accomplishments of its well-educated and highly skilled people, its quality of life and its dynamic and sustainable economy.²⁷ One of the strategies in achieving the long-term development plan is the social security strategy. The policy directions under this strategy are first, to provide an economically sustainable social system for those who are least able to cater for themselves, second, to strengthen the programs that could help to foster the spirit of entrepreneurship and self-reliance among the Bruneian and third, to provide opportunities for workers in the private sector to enjoy a similar sense of security as those in the public sector.

The country's vision is to achieve zero poverty level by year 2035 (Othman, 2008). Per capita income in 1994 (ten years after independence) was BND\$23,502 which rose to BND\$47,964 in 2006. Based on this data, the poverty level should be brought down (ibid). In order to cater the poverty, government introduced several social security programs such as pensions, the Employees Trust Fund or Tabung Amanah Pekerja (TAP) in 1993,²⁸ and the retirement age. With the introduction of TAP, the gratuity pension system has been abolished except for certain sectors such as the army and police. Under the new TAP scheme employees only receive a lump sum amount of savings at the end of their employment. This scheme has had a deep impact on the lower income people after retirement. Realizing the effect of these changes, another new pension scheme was declared to accompany the existing Employees' Trust Fund (TAP). The scheme entitled Supplemental Contributory Pension (SCP) started by 1st January 2010 (Anon, 2011). The SCP involves mandatory contributions by both employers and employees. The mandatory retirement age was extended by five years to reach 60 years old.

Poverty in Brunei Darussalam – Absolute or extreme poverty is defined as the inability to purchase the very basics of daily necessities. By using this definition, there is no extreme poverty in Brunei Darussalam but there is relative poverty. Every member of the population in this country has access to a safe water supply. Services like health and education are provided free by the government. Welfare assistance is also given to various categories of the population. However, relative poverty happens when a household earns less than 50 percent of the average income of the population (Rosli, 2007).

Data on poverty can be referred to the number of *zakat* recipients and welfare assistance recipients. There was a drastic increase in the number of *zakat* recipients since 2004. The total number of *zakat* recipients increased considerably from 3,347 persons in 2003 to 13,298 persons in 2004.²⁹ This drastic increase was due to changes in the format of assessment. Before year 2004, priority of assistance (especially annual assistance) was given to the breadwinners and up to four children. However, since 2004, the policy has changed where all the dependents are included as recipients. During 2009, *zakat* recipients increased to about 16,378.³⁰ However, the total number of *zakat* recipients drops to 13,404 in 2010. This was due to batches of *zakat* recipients were given a lump sum amount of *zakat* fund which cover for certain number of years according to their needs and then they would be declared rich. The number of *zakat* recipients is not the absolute indicator of poverty because some of the poor and needy get assistances from Department of Welfare. Nevertheless, as disclosed in the Seventh Legislative Council meeting in 2012, there are 5,472 families (27,360 people) who are living in poverty in Brunei Darussalam (Thien, 2011).

Assistance provided for the poor and needy - There are various kinds of assistances provided by government and non-government organizations for the poor and needy and vulnerable people in this country. Each of these organizations provides assistances for direct consumption as well as capital for income generating activities of micro businesses run by the poor and needy.

The Community Development Department (JAPEM) under the Ministry of Culture, Youth and Sport has administered social welfare programs since 1954 (Anon, 2011). The number of poor and needy receiving assistance from JAPEM has increased every year. The total number was 3,871 in 2002, which increased to 4,115 in 2006 and increased further to 4,601 in 2009.³¹ The number was decreasing in 2010 due to coordination between JAPEM and MUIB. Those received assistance of *zakat* would not

²⁷ Brunei Darussalam Long-term Development Plan, 2007

²⁸ Laws of Brunei, Chapter 167

²⁹ MUIB

³⁰ The Brunei Times, 26th September 2008

³¹ JAPEM

be accepted by JAPEM. JAPEM also governs the pensions and allowances for different categories of recipients under the Old Age Pension and Disabled Act, 1954. As part of the poverty reduction framework, JAPEM has also introduced the Empowerment program to its welfare recipients. It provides a microfinance scheme maximum amount of \$3,000 without interest or service charge as well as no collateral or guarantor required. In addition, there is no fixed repayment period.

Brunei Economic Development Board (BEDB) offers grants to the youths who aspire to run their own businesses. It is targeted at under-privileged youth, particularly those who have low education levels, were previously involved in drug-related activities, come from low-income families, or are victims of abuse and/or neglect. Grants will be supplied in the form of purchasing fixture and fittings up to BND\$2,000 for each participating young entrepreneur with potential of additional BND\$2000 for expansion. The grant scheme is given with no requirement for guarantor, collateral and repayment. As of 2010, 38 new small businesses have been formed (Anon, 2011).

The Islamic Religious Council of Brunei Darussalam (MUIB) - is given the authority to collect and distribute the *zakat* fund. Besides the monthly disbursement for the poor and needy, MUIB is also giving assistance in the form of capital for the selected recipients to start micro businesses. From 2001 until 2008, 47 persons received different forms of capital assistance amounted at about \$309,000. This amount is very small compared to the potential of this approach in uplifting the poor and needy from poverty. Furthermore, the cost of funding the capital for business is lower in long term compared to monthly assistances. For example, a boat and the engine which cost \$23,000 can be used for up to seven years is cheaper than assistance valued at \$500 per month for seven years (Abdullah, 2012). *Empowerment of Zakat Recipients Program* is another separate program aims to provide training for the poor and needy to get skills so that they will have the opportunity to get jobs with the attachment employer or start their own business.

The Sultan Haji Hassanal Bolkiah Foundation (YSHHB) - The Welfare division provides assistance to the poor and needy, the disabled and victims of natural disasters, amongst others. It also provides assistance to youths to gain skills and to patients who are not eligible for free health services from the government. Other assistances are in the forms of housing schemes and capital for income-generating activities.

GOVERNMENT'S POLICIES AND MEASURES TO ENCOURAGE THE DEVELOPMENT OF MSE AND SME

In this section, we will argue that both MSEs and SMEs play an important role in the economy. However, both face many problems and challenges in growing and staying sustainable. To promote the growth of MSEs, there needs to be business opportunities whether agricultural based or non-agricultural based, an availability and strength of local financial services including the microfinance institutions, as well as a micro-leasing company and other non-financial service providers to support the needs of MSEs. Business development services are also needed, including entrepreneurship training, management and planning advice, market information and access, and assistance in making loan applications. Apart from these development services, related infrastructure such as good quality rural roads to link MSEs to markets, water, electricity and communication networks are also needed (IFAD, 2007).

To enhance opportunities for supplementing income and reducing unemployment, the Brunei Government has laid emphasis on SMEs development as a strategy to foster economic growth and, hence, alleviate poverty. The government's concern on economic diversifications has led to the provision of some facilities to encourage the growth of SMEs. Among the policies set up by the government are financial policy, fiscal policy, economic development policy, agricultural policy, and human resources development.

Financing Policy for SMEs

Microcredit Financing scheme (MFS) – The purpose of this scheme is to assist local entrepreneurs to start and expand small scale business activities. It is eligible for any type of business activity. The maximum amount of financing is BND\$50,000 with profit rate of 4% and maximum tenure of 5 years. A grace period of 3 to 12 months is also given before repayment starts. However, collateral is required in the form of either personal guarantor, monthly deposit, company's fixed assets and other guarantees. Eligible expenses that can be considered for this financing include working capital, capital assets or expenditures, purchases of machineries, equipment and other capital assets excluding purchase of land. The facilities provided under this scheme are term financing, overdraft, letter of credit and banker's

guarantee. Since it started in 2001 until 2012, Microcredit Financing Scheme (MFS) has been given to total 602 small businesses, valued at BND\$12.35 million. Most of the clients of MFS are involved in contract and tender project (26%), food processing, food services and restaurant (23%), boutique and tailoring (15%), retails (10%) and others such as agriculture, fisheries, manufacturing, saloon, education services, and professional services.

Enterprise Facilitation Scheme (EFS) - The objective of this scheme is to assist SMEs to expand and develop their business activities and build their capacity to export. The maximum amount is BND\$5 million with 4% profit rate and 10 years period of tenure. The grace period is 3 – 12 months. The facilities include fixed loan, overdraft, letter of credit, and banker's guarantee. The collaterals required are in the form of property, fixed deposit, banker's guarantee, company's fixed assets, personal guarantor and other guarantees. This facility is eligible for working capital, capital assets or expenditures and purchases for machineries, equipment and other capital asset excluding purchase of land. Since it started in 1999 until 2012, ERS has been given to a total of 205 companies, valued at BND\$97.36 million. The clients are mostly in the sectors of agriculture (28%), fisheries (32%), manufacturing (28%), and others such as tourism, construction, and information and communication technology.

Export Refinancing Scheme (ERS) – It provides the registered and certified exporters with short term financing before and after delivery. The pre-shipment facility helps exporters to finance the purchase of items such as raw materials and general costs. In contrast, the post-shipment facility helps to defray expenses of delivery. The amount is BND\$50,000 to BND\$150,000 at 4% profit rate. Collateral is required in the form of letter of credit adopted by BIBD and purchase order.

Enterprise Expansion Program (EEP) Financing – This financing by BEDB is to assist SMEs to expand their businesses through increasing their productivity and to groom future promising local enterprises to export and expand overseas. The company or business must be already in operation for at least two years. The facility is to be used for purchasing or upgrading machinery or equipment. Maximum financing amount per business is BND\$15,000 with no profit margin. Financing tenure is up to 36 months and the grace period is not more than 3 months. The collateral will be the machinery and equipment to be financed.

Village Enterprise Financial Grant – This grant scheme provided by BEDB aims to assist in the development and commercialization of village products to support the 'One village, One Product' initiative under the Ministry of Home Affairs. The project must be endorsed by the District Office or Ministry of Home Affairs. The products or services have commercial value and availability of raw materials from natural resources. Maximum amount of grant is BND\$50,000 to be used for purchasing equipment, machinery or tools, engagement of external expertise and for expenses of training and skills upgrading. This grant has no requirement for guarantor, collateral and repayment.

Development Policy

Promotion - The government helps the MSEs to promote their product locally as well as abroad through participation of MSEs in various exhibitions, seminars or trade missions with the view to support the development of exportable local products. The Ministry of Industry and Primary Resources (MIPR) provides sponsorship to eligible SMEs for booth and registration expenses, cost of advertisement in show directory, costs of ticket or accommodation during overseas exhibition participation (for one person per company), shipment of exhibit materials (not more than 150 kg per company), and cost of interpreter service.

Agriculture - There are also several projects implemented by the government to enhance the development of agricultural activities in the rural areas. Agricultural areas are leased to farmers at minimal fees under a scheme called 'Ladang Berkelompok'; seeds and fertilizers are supplied at subsidized prices; and market outlets are provided for villagers to sell their products.

Entrepreneur Development Centre (EDC) - The government provides facilities to enhance the development and growth of SMEs, such as the provision of financial and infrastructure assistance, entrepreneurship training, industrial incentive, technology improvement and other services and facilities through this centre. In addition, the one-stop agency under the Brunei Industrial Development Authority provides administrative support in the implementation of the industrial development program and trade requirement.

The National Standards Centre at the Ministry of Industry and Primary Resources provides services such as certification, consultation, factory visits, standards awareness program, library, quality management, as well as testing and metrology collaboration lab services. The centre aims to encourage local entrepreneurs to venture into the international market through regionally and internationally recognized standards and help local products meet the required market standards (Shahminan, 2010).

Part of the service is creating an official "Made in Brunei" logo that will help locally-made products form a unifying identity. They also plan to provide a GS1 barcode for local products which would allow the products to be scanned with barcode readers in other countries (Shen, 2011).

Halal Certification - The Ministry of Industry and Primary Resources (MIPR) has allocated 400 hectares for Halal Park and Hub. It aims for halal research, development, and halal processing and production. More promotional activities need to be done as not many investors know about Brunei's halal certification process. Thus, the development of the Halal Park is very slow, even though there are trillion dollar potential business opportunities available in the halal industry globally (Kasim, 2012). Halal certification is also introduced through BIMP-EAGA activities (Anon, 2012). The BIMP-EAGA comprises Brunei, Kalimantan and Sulawesi in Indonesia; the federal states of Sabah and Sarawak and the federal territory of Labuan in Eastern Malaysia; and the islands of Mindanao and Palawan in the Philippines. This should be an opportunity for Brunei, which neither has the land nor the manpower to manufacture halal foods on a large-scale, as it can capitalize on local products by processing raw materials from the sub-region and packaging them under the halal certification. BIMP-EAGA is seen as the food basket of other Asian countries such as Korea and China, both of which are experts in the food processing industry. Brunei's geographical location makes it ideal to act as the central hub for BIMP-EAGA activities. MSMEs will be encouraged to participate and take advantage of all facilities provided.

Taxation policy

Laws of Brunei, CAP. 97, Investment Incentives Act (B.L.R.O. 1/1984), make a provision for encouraging the establishment and development in Brunei Darussalam's industrial and other economic enterprises, for economic expansion and for incidental and related purposes. The incentive provided is relief from Corporate Income Tax and Import Duties on Raw Materials and machinery for up to eight (8) years to the industries which are given a Pioneer Status. It is in the public interest to encourage the development (including development for export) or establishment of the industry in Brunei Darussalam by the making of a statutory order declaring the industry to be a pioneer industry, and all products of the industry to be pioneer products. A pioneer company would also be relieved from the payment of the whole or any part of

any customs duty which may be payable on any machinery, equipment, component parts and accessories including prefabricated factory or building structures to be installed as necessary part or parts of the factory.

Private limited companies in Brunei Darussalam are also given a relief in corporate taxes as amendments made to the Income Tax Act since 2007. Some of them include the reduction of corporate tax rates for small and medium enterprises (SMEs) from 30 per cent to 20 per cent; the exemption of tax for the first \$100,000 worth of income for newly set-up companies in the first three years of business; and the introduction of tax thresholds with further reduced tax rates (No, 2012). In 2008, the corporate tax amount was reduced from 27.5 per cent and has been steadily reduced until 2012 to 20 per cent. Another amendment made in 2008 includes tax incentives, such as zakat as tax deductible expenses. In 2010, MOF introduced further tax incentives in the form of a further deduction to the Supplemental Contributory Pension (SCP) trust fund. In 2011, a fixed tax of one per cent on approved exports was introduced.

The amendments in 2011 also involved the introduction of a tax credit for Employees Trust Fund or Tabung Amanah Pekerja (TAP) contributions, fresh investments on new plants and machineries which can be carried forward for up to two years, and a limit on tax credit which does not allow the credit to exceed 50 per cent of the total tax payable in one year (ibid). Other tax exemptions in Brunei Darussalam are Personal Income Tax, Sales Tax, Payroll Tax, Capital Gains Tax, Export Tax and Manufacturing Tax.

Economic Value of Micro and Small Enterprises

The importance of Micro and Small Enterprises (MSE) and Small and Medium Enterprises (SME) have never been denied by any country, especially in underdeveloped and developing countries. These enterprises are considered by various researchers, such as Islam et al. (2002), Nirza Dinhuca and Charbel Jose (2011), and Raiyani (2009), to be essential for the economic development. In Brunei Darussalam, the government's economic diversification policy emphasizes on the development of Small and Medium Enterprises (SME) including micro enterprises.

Number of economic establishments – Data from the Department of Economic Planning and Development has estimated that in 1994, SMEs in Brunei will constitute 98% of all business establishments, and contribute about 92% to total employment in the private sector. About 39% of the SMEs are in manufacturing and construction, 32% in the services sector, including 23.5% in trading and wholesale activities, while the rest are in primary production activities.³² The latest data show that the total number of active businesses registered with the Labour Department was 8,955 in 2009, which has declined to 8787 businesses in 2010. However, the number of micro businesses with 1 to 5 employees has increased from 4673 to 4734 in the respective years. Small businesses that employ 6 to 50 workers also showed an increase from 1801 to 1904 in the same years. Micro enterprises alone were 52% (2009) and 54% (2010) of the total business establishments in the private sector. Both micro and small businesses contribute about 96%.³³ It is clearly shown that the number of micro and small entrepreneur businesses in Brunei is increasing from year to year. The development programs that were provided by the government and other private agencies showed some positive effect in terms of giving opportunities to start a business. It has resulted in an increase in the number of establishments, especially the micro businesses.

Economic diversifications – The SMEs have been seen as the major players in the industrial development in Brunei Darussalam and have the potential to contribute to the diversification of the economy. The data on the number of establishments by sectors in 2010 show that Micro businesses with 1-5 workers were many in agriculture, forestry and fisheries (81% of the total establishments in this sector); manufacturing (63%) wholesale and retail sales and workshop (54%); transportation and storage (60%); administrative and support services (50%) and other services (74%).³⁴

Contribution to employment - The data on the number of employees in the private sector by major industries based on the 2002 census is used to estimate the contribution of MSE in providing jobs in the economy.³⁵ The businesses with 1 to 5 employees made up 52% (4673 workers) of the total number of registered businesses in 2009. Assuming the average number of employees is 3 per establishment, the total number of jobs created by micro businesses was 14,019 (11.6% out of 121,158).

In addition, Micro and Small entrepreneur businesses help **productive use of savings**. One of the most important contributions to Brunei Darussalam's businesses is the additional formation of capital which it introduces to local companies. About 76 percent of the businesses in Brunei including micro, small and medium businesses finance their capital from personal savings, family and relatives. As a result of this, with the use of their own personal saving, young entrepreneurs are being more innovative and creative in generating income, which will indirectly help to develop the Brunei Economy (Islam, et al., 2002).

The **import substitution** -- international experience shows that local SMEs have a major role to play in effecting import substitution by competing with these imported products. This is because most of the goods in Brunei are imported from other countries. Thus, the establishment of micro, small and medium enterprises will help the consumer and customer to look for other alternative. Hence, customers will have many varieties to choose from (ibid).

Contribution to Halal Park – The Brunei Halal brand as an established company has a plan to involve the local SMEs. The company's future plans to bring local small and medium enterprises on board will also be made easier with incubation facilities provided at the Agro Technology Park within the Halal Park area. One of the challenges that the SMEs are currently facing is to get the halal certification. The incubators within the park would help these SMEs. Once SMEs acquire certification and are able to get their products on board, the Brunei Halal brand will then be able to export them (Too, 2012).

CONCLUSION

Brunei Darussalam's economy is still heavily dependent on the petroleum sector, although the contribution of the oil and gas sector to the country's GDP is slowly declining. The rate of economic diversification is also very slow. Although Brunei Darussalam has a high per capita income, the number of Bruneians receiving assistance from various agencies is also increasing. In fact, the number of applicants has increased dramatically over the years. This worrying trend has resulted in the

³² http://www.bruneidirecthys.net/about_brunei/small_medium.html

³³ Brunei Darussalam Statistical year book 2010.

³⁴ 2002 Economic Census, Department of Economic Planning and Development, Prime Minister's Office.

³⁵ Brunei Darussalam Statistical Year Book, 2011

government paying more attention to the problem of poverty in Brunei as well as the issue of unemployment. The issue of unemployment must be addressed by providing Bruneian people with skills and encouraging an entrepreneurial spirit rather than an attitude of expecting assistance. Brunei Darussalam's government recognizes the potential of MSEs in the strategies for economic diversification policy. This can be seen from various policies, schemes, initiatives and programs provided for the growth of MSEs. Some of MSEs are struggling to survive and some potential entrepreneurs need financial assistance and skills in managing small businesses. The poor or low income groups can enhance their lives by being involved in micro economic activities. It is recommended that the government agencies be more proactive in providing effective skills training to the low income people. Microfinance without collateral and minimum charges is needed to encourage low income people to get involved in microenterprises. The amount of capital provided must be enough for the proposed businesses. This help can be packaged to include financing, skills training, links with SMEs, promotion and marketing facilities, consultation services, and proper monitoring.

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