



## รายงานวิจัยฉบับสมบูรณ์

โครงการศึกษาและสร้างผู้เชี่ยวชาญเฉพาะพื้นที่ประเทศบรูไน ดารุสซาลาม:

กรณีศึกษาธุรกิจอาหารฮาลาลและธนาคารอิสลาม

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กุมภาพันธ์ 2562



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## บทสรุปสำหรับผู้บริหาร (Executive Summary)

### กรณีศึกษาธุรกิจอาหารฮาลาลและธนาคารอิสลาม

Brunei Darussalam has depended on oil and gas industry heavily for decades. Recently, with the fluctuation of oil price, the country is trying to diversify the economy. As one of the predominant Muslim nation in Southeast Asian, Brunei Darussalam utilizes her experiences and expertise in halal related matters as part of her efforts to diversify her economy. To tap in and be competitive in global halal market, Brunei Darussalam must capture the niche market, e.g., pharmaceutical and cosmetic. Brunei Halal Brand is created as a mean to be part of global halal food chain while Brunei Halal Label and Certification are the key in providing add-on value and trust to products producing domestically, internationally, and for re-exporting. In term of Islamic Banking and Finance, Brunei Darussalam has one of a success stories in running Islamic Bank and aspires to be one of the Islamic financial and banking hubs in the region. Converting from conventional bank, Bank Islam Brunei Darussalam (BIBD) has grown to acquire more than 40 percent of market share and emerges as the strongest player in the Brunei Darussalam's banking industry.

This research is part of an area study on ASEAN. The purposes of this research study are to build body of knowledge and develop researchers who have expertise in Brunei Darussalam, a small but prosperous country with unique opportunities for Thailand, to explore the possibilities and opportunities in Halal's industry, particularly how to obtain Brunei Halal Certificate and its application process in order to export Thai products to global halal market, to examine Islamic banking system and Islamic bank in Brunei Darussalam so as to compare with Islamic bank in Thailand to propose best practices and guideline for further policy formulation.

This study reviews the literature on Brunei Darussalam's country profiles and history, legal and regulatory framework that relevant to doing business in the country, regulations and process related to halal matters and halal certification application

process, Islamic banking and financial sector in the country, and Islamic banks in Brunei Darussalam. Another part of data is obtained from interviews and visits to the following organizations: Autoriti Monetari Brunei Darussalam (AMBD), Brunei Economic Development Board (BEDB), Darussalam Enterprise (DARe), Ghanim International Cooperation, Centre of Islamic Banking, Finance, and Management (CIBFM), and Halal Food Control Division of Ministry of Religious Affairs. This is followed by an analysis of regulatory framework, regulatory bodies, other institutional components, and institutional settings to find out the process and best practices offered by related institutions in Brunei Darussalam.

After reviewing relevant literatures and interviewing with authorities, people, and institutions that are responsible for halal label and halal certification as well as Islamic banking, it was found that Brunei Darussalam is unique country with a blend of long-established Malay heritage together with a strong sense of belonging to the monarchy and Islam. Brunei itself is a mix of conservative yet moderate Islamic country, with inherited culture have been tolerated as long as it is not clash with Islamic teaching. As a predominantly Muslim country, the government sees it as an obligation to ensure the ‘halalness’ of anything for human consumption.

Halal market is one of the biggest markets in the world. At present, the number of Muslim populations around the globe accounts for approximately 1.8 billion. Most of them lives in Southeast Asia, Middle East, and North America. Muslim population is expected to reach two fifth of the world population soon. It can be said that opportunities for foods and products that are Shariah compliance are immense.

Brunei Halal is an official Halal certification issued by Ministry of Religious Affairs and supported by Ministry of Energy and Industry. It is the only certification in the world that the government directly audit the applied entities and the auditing process acts independently from any commercial entities. Brunei Halal accreditation system is widely known as one of the most stringent Halal certification mechanisms. Brunei

government works on increasing Brunei Halal recognition along with its stringency so as to become a premium Halal Certification. The Brunei Halal accreditation starts at the sources to ensure the integrity of the products and unfaltering compliance with set rules governing the sourcing of raw materials, manufacturing process, logistics, and distribution. This certificate is issued through the Halal Food Control Section of the Department of Shariah Affairs, Ministry of Religious Affairs which is the only authority that delivers the halal certification in the country. The halal certification process takes 45 days and valid for 3 years.

As for the Halal Brand, the government established Brunei Wafirah Holdings Sdn Bhd as owner of the Brunei Halal Brand. Later, Ghanim International Food Cooperation Sdn Bhd was set up as a joint venture between Wafirah and Brunei Global Islamic Investment, and Kerry FDA Limited, a Hong Kong-based logistics firm (Brunei Halal, 2012). The main function of Ghanim International is to capture global halal food chain through manufacturing joint venture and partnerships in creating premium halal products. By creating a trusted halal brand, Brunei Halal hopes to be part of global halal market.

As for Islamic Banking, Brunei Darussalam has political and social stability as well as economic framework aligns to Islamic Teaching and principle. The country has a strong legal infrastructure for Islamic Finance. Legislations that are currently in place are Syariah Financial Supervisory Board Order, 2006; Islamic Banking Order, 2008; Perbadanan Tabung Amanah Islam Brunei Act, Chapter 163; Takaful Order, 2008; International Insurance and Takaful Order, 2002; Securities Markets Order, 2013; Finance Companies Act (Chap. 89); and Pawnbrokers Order, 2002. AMBD during the interview, exposed their long-term plans to develop more laws and legislation for the industry in the next few years as stated in the newly released White Paper.

Brunei Darussalam also has a strong Syariah governance framework with a two-tier Syariah governance structure comprising of a centralized Syariah Financial

Supervisory Board (SFSB) and an internal Syariah Advisory Body within each Islamic Financial Institution. These board and body will only be filled by experts in related fields with proven experience in the industry. Thanks to sufficient knowledge in Islamic banking and finance concept, Sharia Advisory Board of each banks has come up with some of the most innovative products on the market, majority catering for domestic market demands. This ensures the Islamic banks stay ahead or at least at par with the conventional ones in products and services being offered.

Human capital development is key to the growth and expansion of the industry. Through multilateral partnerships of interest groups and key players in the industry, human capital growth can be ensured as well as to create quality workforce and quality leaders to lead this industry. For example, AMBD have its training arm called Centre for Islamic Banking, Finance and Management, whereby, its main task is to provide monthly tailored trainings to individuals working for the industry. The main Islamic university, Sultan Sharif Ali Islamic University (UNISSA) also works with the industry players to come up with programs relate to the industry in bachelor, master and PhD level. This will make sure steady supply of quality workforce to join the industry. National university, University of Brunei Darussalam (UBD) also inked MOUs to provide training courses for the bank's employees. On the government side, Brunei governments continue to support and give scholarship to talented individuals to pursue Islamic related studies at renowned international universities such as University Al Azhar in Egypt and International Islamic University of Malaysia.

The Islamic Finance industry in Brunei Darussalam has also been very active in knowledge building and knowledge sharing such as actively participating in conferences, for example, the Brunei Darussalam Islamic Investment Summit 2017, as well as the recently launched Islamic Finance website and Application so as to facilitate and familiarize the customers with Islamic banking and finance. Both banks have a strong mission and vision of what they envisioned to be. This translated to what

both banks have achieved for the past 25 years and rapid growth of the industry directly contributed by both banks as key players and related agencies and subsidiaries.

Finally, Transparency is key in any businesses. Both BIBD and TAIB cross check their internal audit with the appointed international audit companies (KPMG and Deloitte). This will ensure increase efficiency in matters related to transparency.



## บทคัดย่อ

ประเทศบรูไน ดารุสซาลามเป็นประเทศสมาชิกอาเซียนที่ประชากรส่วนใหญ่นับถือศาสนาอิสลาม รัฐบาลบรูไน ดารุสซาลามปัจจุบันตระหนักถึงข้อจำกัดและปัญหาในแง่ของเศรษฐกิจของประเทศที่ผูกติดกับทรัพยากรน้ำมันและก๊าซธรรมชาติ จึงเริ่มนโยบายความหลากหลายทางเศรษฐกิจ (Economic Diversification) ขึ้น อุตสาหกรรมอาหารฮาลาลเป็นอุตสาหกรรมหนึ่งที่รัฐบาลให้การส่งเสริมและสนับสนุนเป็นพิเศษ เนื่องจากเห็นโอกาสทางเศรษฐกิจในตลาดอุตสาหกรรมฮาลาลของโลกที่กำลังขยายตัวอย่างรวดเร็วในปัจจุบัน ดังนั้น ประเทศบรูไนจึงต้องการอาศัยประสบการณ์และความรู้ความสามารถในด้านที่เกี่ยวกับฮาลาลเป็นส่วนหนึ่งของกลยุทธ์เข้าสู่ตลาดฮาลาลโลก อีกด้านหนึ่ง ในฐานะที่ประชาชนส่วนใหญ่นับถือศาสนาอิสลาม รัฐบาลมีพันธกิจที่จะทำให้ทุกสิ่งทุกอย่างที่ประชาชนในประเทศบริโภคได้แก่ อาหาร เครื่องดื่ม เภสัชภัณฑ์ ยา และผลิตภัณฑ์จากเนื้อสัตว์ถูกต้องตามหลักศาสนาอิสลาม ประเทศบรูไน ดารุสซาลามจึงมีความพยายามเป็นอย่างมากในการสร้างกฎหมายและกฎเกณฑ์ในการกำกับดูแลอาหารและเครื่องดื่มที่บริโภคกันในประเทศผ่านการให้ Halal Certificate และ Halal Label ขณะเดียวกัน รัฐบาลมีมาตรการเพื่อให้มั่นใจได้ว่า ผลิตภัณฑ์ทุกประเภทที่นำเข้ามาจากประเทศอื่น ไม่ว่าจะเป็นไปเป็นลักษณะของการเป็นวัตถุดิบหรือแปรรูปมาแล้ว จะต้องเป็นผลิตภัณฑ์ฮาลาลมาตั้งแต่เป็นวัตถุดิบ แปรรูป และกิจกรรมหลังการแปรรูป โดยทุกกระบวนการเป็นไปอย่างเคร่งครัด ทำให้ Brunei Halal Certificate และ Halal Label เป็นที่สนใจของบริษัทผู้ประกอบการอุตสาหกรรมแปรรูปและส่งออกอาหาร บรูไน ดารุสซาลามมีกลยุทธ์ในการพัฒนาอุตสาหกรรมฮาลาล เช่น Halal Brand และ Halal Industries ในกรณีที่สร้างมูลค่าเพิ่มและด้านเทคโนโลยีชีวภาพ ในแต่ละกลยุทธ์ บรูไนไม่เพียงแต่เป็นผู้ริเริ่มในตลาดเฉพาะ (niche market) ทั้งสองตลาดในอุตสาหกรรมฮาลาลโลกเท่านั้น บรูไนยังมุ่งเน้นไปยังคุณภาพของผลิตภัณฑ์และบริการ ดังนั้น กรณีศึกษาธุรกิจอาหารฮาลาลบรูไนนี้จะเป็นการศึกษาถึงลักษณะเฉพาะของกลยุทธ์ฮาลาลและแนวปฏิบัติที่เชื่อว่าดีที่สุดที่ใช้ในประเทศ

อุตสาหกรรมฮาลาลไม่ได้จำกัดอยู่แต่เพียงการบริโภคฮาลาล (อาหาร เครื่องดื่ม ยารักษาโรค และอื่นๆ) แต่ยังรวมไปถึงการบริการ ในส่วนของภาคบริการนั้น ประเทศบรูไน ดารุสซาลามถือเป็นประเทศที่มีความโดดเด่นและศักยภาพในภาคการบริการด้านการเงินและการธนาคารในภูมิภาค แม้ประเทศจะมีขนาดเล็ก และจำนวนลูกค้าของธนาคารอิสลามจะไม่มาก ธนาคารอิสลามของประเทศบรูไนมีกลยุทธ์ทางการตลาดที่สำคัญและเหมาะสมกับภูมิเศรษฐกิจ นั่นคือ กลยุทธ์การตลาดที่สนองตอบต่อความต้องการของผู้บริโภคเป็นหลัก (consumer-based market strategy) ที่ประสบ

ความสำเร็จเป็นอย่างมาก ประเทศบรูไน ดารุสซาลามมีสถาบันทางการเงินที่ประกอบกิจการในลักษณะธนาคารเต็มรูปแบบอยู่เพียงแห่งเดียว ได้แก่ Bank Islam Brunei Darussalam หรือ BIBD ซึ่งธนาคารอิสลามในประเทศบรูไนเป็นตัวอย่างที่ดีที่แสดงให้เห็นว่า ตลาดขนาดเล็กไม่ได้เป็นอุปสรรคต่อการขยายตัวของภาคการเงินและการธนาคาร ประเด็นที่น่าสนใจที่สุดคือ ความต้องการและความสำเร็จด้านผลิตภัณฑ์และบริการทางการเงินและการธนาคารตามหลักศาสนาอิสลามจะสูงมากจนอยู่ในระดับที่ธนาคารทั่วไปจะต้องปรับตัวให้เข้ากับธุรกิจหรือเลิกดำเนินการในประเทศธนาคารอิสลามในประเทศบรูไน ดารุสซาลาม จึงเป็นกรณีศึกษาที่ดีและมีประโยชน์ต่อการดำเนินการของธนาคารอิสลามในประเทศไทย

**คำสำคัญ:** Brunei Halal strategy, Global halal industry, Brunei Darussalam, Thailand

## Abstract

Brunei Darussalam as one of the predominant Muslim nation in Southeast Asia wants to seize opportunities handed upon by rapid growth of global halal industry. Brunei wants to capitalize on its experience and expertise in Halal related matters as part of its global halal business strategy. As a predominantly Muslim country, the government sees it as an obligation to ensure the ‘halalness’ of anything for human consumption including food, beverages, pharmaceuticals, medicine and meat products. In doing so, Brunei Darussalam put an extra effort in establishing related laws and regulation to regulate domestic food and beverages through Halal Certificate and Halal Labels. Simultaneously, the government make sure all products coming in the country (may it be raw or processed) can be ensured of its halal status from its original state, processing and post processing activities. Due to its stringent process, the Brunei Halal Certificate and Halal Label attracted plenty of international food manufacturing and processing companies to adopt its measures in order for them to penetrate the lucrative global Halal market. Brunei also pursues other strategies to develop its halal industry such as the Brunei Halal Brand strategy and Halal industries (value added and bio technology). In each strategy, Brunei pursues not only to pioneer certain niche market in global halal industry, the country also put extra emphasis on the quality of products and services being delivered. Therefore, this research provides a closer look at the uniqueness of Brunei Darussalam’s halal strategy as well as some exposure to the best practices develop there and can be adopted from Brunei Darussalam.

Halal industry here does not limit to only halal consumption (food, beverages, pharmaceuticals etc) but it also includes services. In term of services, Brunei Darussalam is an up and coming Islamic banking and finance player in regional level. Its unique approach of consumer-based market strategy with no less but plenty of aspiring success stories garnered plenty of interests.

With only one Islamic Bank (Bank Islam Brunei Darussalam, BIBD), Brunei Darussalam has proven that small market doesn't mean the industry to take off. What interesting here is, the demand for Sharia compliant banking and financial services is so strong that it forces the conventional banks to either adapt to the situation or shutter their businesses. Therefore, Islamic banking and finance case studies from Brunei Darussalam can provide an insight that may become valuable to Thailand.

**Keywords:** Brunei Halal strategy, Global halal industry, Brunei Darussalam, Thailand

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## บทนำ

บรูไน ดารุสซาลาม (Negara Brunei Darussalam) เป็นประเทศสมาชิกอาเซียนที่มีขนาดเล็กแต่มั่งคั่ง ร่ำรวยด้วยทรัพยากรธรรมชาติแห่งหนึ่งของโลก รายได้หลักของประเทศมาจากการค้าน้ำมันและก๊าซธรรมชาติ ซึ่งบรูไนส่งออกประมาณสองในสามของปริมาณที่ผลิตในประเทศ คิดเป็นมูลค่ามากกว่าร้อยละ 90 ของการส่งออกสินค้า (Merchandise Exports) ทั้งหมด ทำให้เศรษฐกิจของบรูไนขึ้นอยู่กับปริมาณน้ำมันดิบและก๊าซธรรมชาติที่เหลืออยู่ รวมถึงราคาที่ผันผวนในตลาดโลก รัฐบาลได้ตระหนักว่า การเติบโตทางเศรษฐกิจของบรูไนในลักษณะนี้เป็นการเติบโตที่ไม่ยั่งยืน บรูไนจึงเริ่มแผนกิจกรรมทางเศรษฐกิจจากที่ขึ้นอยู่กับทรัพยากรพลังงานเพียงอย่างเดียว เข้าสู่การทำกิจกรรมทางเศรษฐกิจรูปแบบอื่นๆ โดยเริ่มต้นจากแผนพัฒนาแห่งชาติ (National Development Plan หรือ NDP) ฉบับที่ 1 ตั้งแต่ ค.ศ. 1960 (พ.ศ. 2503) และยิ่งเพิ่มความสำคัญขึ้นในช่วงวิกฤตเศรษฐกิจในเอเชีย ค.ศ. 1997 (พ.ศ. 2540) ที่สร้างผลกระทบทางเศรษฐกิจอย่างมากกับบรูไน ปัจจุบันบรูไนยังให้ความสำคัญกับการกระจายกิจกรรมทางเศรษฐกิจและการลงทุนมากยิ่งขึ้นไปอีก เนื่องจากการผันผวนของราคาน้ำมันในตลาดโลก ซึ่งหากการผันผวนในลักษณะนี้เกิดขึ้นต่อไป จะส่งผลกระทบต่อประเทศในระยะยาวอย่างแน่นอน

จากรายงาน Trade Policy Review 2015 โดยองค์การการค้าโลก (World Trade Organization: WTO) เศรษฐกิจประเทศบรูไนเติบโตในอัตราเฉลี่ยร้อยละ 0.2 ต่อปีในช่วง ค.ศ. 2008-2013 (พ.ศ. 2551-2556) โดยมีสาเหตุหลักมาจากการลดการผลิตน้ำมันดิบและก๊าซธรรมชาติลง เพราะต้องเปลี่ยนแท่นขุดเจาะน้ำมัน ปัจจุบันเศรษฐกิจของประเทศเติบโตร้อยละ 3.6 ในช่วงเดือนธันวาคม ค.ศ. 2015 ถึง มกราคม ค.ศ. 2016 เมื่อบรูไนกลับมาผลิตน้ำมันดิบและก๊าซธรรมชาติในระดับปกติอีกครั้ง ขณะเดียวกันผลผลิตในภาคอื่นๆ กลับลดลงจนถึงระดับติดลบ (ลดลงจากร้อยละ 0.6 เป็นติดลบร้อยละ 1.9) เนื่องจากการหดตัวของภาคเกษตร ป่าไม้ ประมง (ติดลบร้อยละ 15.1 จากร้อยละ 2.5 ในไตรมาส 4 ค.ศ. 2015) และภาคบริการ (ติดลบร้อยละ 0.7 จากร้อยละ 1.1 ในไตรมาส 4 เช่นกัน) Department of Economic Planning and Development ของประเทศบรูไนรายงานอัตราการเติบโตเฉลี่ยของผลิตภัณฑ์มวลรวมภายในประเทศ (GDP) ของประเทศอยู่ที่ร้อยละ 0.31 จาก ค.ศ. 2004-2015<sup>1</sup>

ปัจจุบัน รัฐบาลบรูไนตระหนักถึงข้อจำกัดและปัญหาในแง่ของเศรษฐกิจของประเทศที่ผูกติดอยู่กับทรัพยากรน้ำมันและก๊าซธรรมชาติ จึงเริ่มนโยบายการกระจายความหลากหลายทางเศรษฐกิจ (Economic Diversification) ขึ้น เพื่อส่งเสริมให้ภาคเอกชนมีส่วนร่วมในการพัฒนาประเทศมากขึ้น

<sup>1</sup> อ้างถึงจากเว็บไซต์ Trading Economics สืบค้นวันที่ 31 ตุลาคม พ.ศ. 2559

อย่างไรก็ตาม สัดส่วนของภาครัฐต่อภาคเอกชนยังอยู่ในระดับที่แตกต่างกันมาก โดยรัฐถือครองสัดส่วนกิจกรรมทางเศรษฐกิจอยู่ร้อยละ 90 ขณะที่เอกชนมีส่วนร่วมในกิจกรรมทางเศรษฐกิจเพียงร้อยละ 10 เท่านั้น ประชาชนส่วนใหญ่ของประเทศบรูไนจึงนิยมรับราชการ ส่วนงานบริการด้านอื่นๆ งานก่อสร้างและอื่นๆ รัฐบาลจะจ้างชาวต่างชาติมาทำแทบทั้งสิ้น ทำให้ประเทศบรูไนกำลังประสบปัญหาขาดแคลนแรงงานที่มีฝีมือหรือผู้ชำนาญงานที่เป็นชาวบรูไน

ทั้งนี้ นอกจากอุตสาหกรรมพลังงานแล้ว อุตสาหกรรมที่รัฐบาลส่งเสริมและสนับสนุนคือ อุตสาหกรรมอาหารฮาลาล เวชภัณฑ์ยา (Pharmaceutical) อุตสาหกรรมทอผ้าและสิ่งทอ เซรามิกและเฟอร์นิเจอร์

เมื่อ ค.ศ. 2008 (พ.ศ. 2551) รัฐบาลบรูไนประกาศแผนพัฒนาประเทศในระยะยาวขึ้นเป็นฉบับแรก เพื่อใช้ควบคู่ไปกับแผนพัฒนายาระยะสั้นที่ออกมาทุกๆ 5 ปี แผนพัฒนาฉบับนี้ชื่อ National Vision 2035 หรือ วิสัยทัศน์แห่งชาติ ปี 2035 โดยเน้นการพัฒนาจากประเทศที่มีระบบเศรษฐกิจที่พึ่งพาน้ำมันไปเป็นระบบเศรษฐกิจที่มีความหลากหลายมากขึ้น และตั้งเป้าหมายอัตราการเติบโตของผลิตภัณฑ์มวลรวมภายในประเทศที่แท้จริง (Real GDP Growth Rate) ไว้ที่ประมาณร้อยละ 5-6 ต่อปี

ในส่วนของการปกครอง ประเทศบรูไนมีระบบการปกครองแบบสมบูรณาญาสิทธิราชย์ โดยมีองค์สุลต่านเป็นผู้มีอำนาจเด็ดขาดเพียงผู้เดียว การปกครองเป็นไปตามระบอบอิสลาม ซึ่งเริ่มต้นในรัชสมัยของสุลต่านอะวัง อะลัก เบอตาตาร์ หรือสุลต่านมูฮัมหมัดซาห์ เมื่อ ค.ศ. 1368 ถือเป็นจุดเริ่มต้นของรัฐอิสลามในบรูไน ซึ่งจากการศึกษาของ Max Weber นักสังคมวิทยาและนักมานุษยวิทยาผู้ศึกษาเกี่ยวกับระบบวัฒนธรรมของประชาชนชาวบรูไน พบว่า อิสลามเป็นระบบวัฒนธรรมที่บรูไนนำมาไปประยุกต์ใช้กับระบบอุตสาหกรรมและเทคโนโลยีสมัยใหม่ อีกทั้งยังเป็นหนึ่งในอุดมการณ์หลักของประเทศ ซึ่งได้แก่ มลายู อิสลาม พระมหากษัตริย์ หรือ Melayu Islam Beraja (MIB) อันเป็นปรัชญาที่ปลูกฝังให้ชาวบรูไนยึดมั่นในจิตใจและเป็นอุดมการณ์ในการใช้ชีวิต และเป็นยุทธศาสตร์หลักสำหรับความเปลี่ยนแปลงทางสังคมและเศรษฐกิจของบรูไน

เนื่องจากวัฒนธรรมอิสลามนั้นเป็นหนึ่งในอุดมการณ์หลักของประเทศ ทำให้มาตรฐานในการผลิตสินค้าและบริการจะยึดตามหลักศาสนาอิสลามอย่างเคร่งครัด โดยเฉพาะอุตสาหกรรมการผลิตสินค้าและอาหารฮาลาล (Halal Products) ซึ่งมาตรฐานและตราสัญลักษณ์ฮาลาลบรูไน (Brunei Halal Brand) ได้รับการยอมรับว่า เป็นที่น่าเชื่อถือและเป็นที่ยอมรับมากที่สุดในโลก

มาตรฐานและตราสัญลักษณ์ฮาลาลบรูไน (Brunei Halal Brand) นั้นเริ่มต้นขึ้นในเดือนกรกฎาคม ค.ศ. 2009 (พ.ศ. 2552) เป็นโครงการที่อนุญาตให้ผู้ผลิตในประเทศบรูไนและจากประเทศอื่นๆ ใช้เครื่องหมายการค้า Brunei Halal ที่จัดได้ว่าเป็นเครื่องหมายการค้าที่ได้รับการยอมรับมากที่สุดในโลก จนถือได้ว่าเป็นเครื่องหมายการค้า Halal ของโลกในการเข้าสู่ตลาดผู้บริโภคสินค้าและอาหารฮาลาลที่สำคัญและมีขนาดใหญ่ของโลก เนื่องจากประชากรที่นับถือศาสนาอิสลามนั้นมีอยู่ประมาณร้อยละ 23 ของจำนวนประชากรโลกทั้งหมด หรือประมาณ 1.8 พันล้านคน ทำให้ตลาดสินค้าและอาหารฮาลาลกลายเป็นตลาดที่มีความน่าสนใจและจัดว่ามีขนาดใหญ่ที่สุดในโลก มีมูลค่ากว่าหลายพันล้านดอลลาร์สหรัฐ ทั้งยังมีอัตราการเจริญเติบโตของประชากรที่นับถือศาสนาอิสลามเพิ่มขึ้นประมาณร้อยละ 3 ต่อปี ซึ่งหากอัตราการเจริญเติบโตยังคงอยู่ในระดับนี้ คาดว่าใน ค.ศ. 2030 จะมีประชากรที่นับถือศาสนาอิสลามสูงถึง 2.2 พันล้านคน

ตลาดที่ใหญ่ที่สุดของสินค้าและอาหารฮาลาลนั้นอยู่ที่ภูมิภาคเอเชียแปซิฟิกและเอเชียตะวันออกกลาง (Middle East) ซึ่งเป็นพื้นที่ที่ประชาชนชาวมุสลิมกว่าครึ่งของโลกอาศัยอยู่ ในส่วนของภูมิภาคเอเชียใต้และเอเชียแปซิฟิกนั้น คาดว่าใน ค.ศ. 2030 จะมีประชากรชาวมุสลิมกว่า 1.3 พันล้านคน ซึ่งประเทศที่มีชาวมุสลิมอาศัยอยู่มากที่สุดในโลกมีอยู่ 4 ประเทศที่อยู่ในภูมิภาคนี้ ได้แก่ อินโดนีเซีย ปากีสถาน อินเดีย และบังกลาเทศ คาดว่า ตลาดอาหารและสินค้าฮาลาลจะกลายเป็นตลาดเฉพาะกลุ่ม (Niche Market) ที่น่าสนใจสำหรับประเทศผู้ผลิตอาหารอย่างประเทศไทย

จากที่กล่าวข้างต้น บรูไนเป็นประเทศที่มีความน่าสนใจ เป็นประเทศที่มีโอกาสให้กับประเทศไทย โดยเฉพาะในด้านการผลิตสินค้าและอาหารฮาลาลภายใต้ Brunei Halal ไทยและบรูไนต่างเป็นประเทศที่มีความสัมพันธ์อันดีต่อกัน ประเทศไทยจึงควรศึกษาเกี่ยวกับประเทศบรูไนในเชิงลึก เพื่อให้มีความเข้าใจประเทศและประชาชนบรูไนอย่างถูกต้อง รวมถึงแสวงหาโอกาสและวิธีการด้านการลงทุนการผลิตสินค้าและอาหารโดยใช้เครื่องหมายการค้า Brunei Halal รวมทั้งการดำเนินงานด้านการเงินการธนาคารตามหลักศาสนาอิสลาม เพื่อใช้ในการกำหนดยุทธศาสตร์การค้าการลงทุนของประเทศต่อไป

## Chapter 1

### Country Profile of Brunei Darussalam

Negara Brunei Darussalam is a small, yet a wealthy country located literally at the heart of Southeast Asia. The country's GDP, per capita GDP, and the Human Development Index (HDI) are among the top in the world. According to 2016 World Bank Report, Brunei Darussalam had the GDP of US\$ 11,401 million; the average per capita income is US\$ 26,940 per year and the HDI stand at 30<sup>th</sup> place in the world, 2<sup>nd</sup> in ASEAN, and the 1<sup>st</sup> among the Islamic countries (United Nations Development Programme, 2016)

#### 1. Geography and Climate

Brunei Darussalam, or Brunei, the Abode of Peace is located on North west coast of Borneo Island in Southeast Asia. Borneo, the world's third largest island, is a Portuguese rendition of the word Brunei itself. Literally located at the heart of Southeast Asia itself, Brunei has a long history as an important trading hub and once a thriving thalassocratic emporium that rules the whole Borneo Island and parts of the Philippines. Brunei coastline is facing the South China Sea thus Brunei have the rights to Exclusive Economic Zone and one of the claimants to the South China Sea territorial dispute.

Figure 1-1 Geography of  
Brunei Darussalam



Source: Worldatlas.com



The size of the country is 5,675 KM Sq, about the same size as the State of Delaware in the US. The country share border with Malaysian States of Sarawak and Sabah and literally divided into 2 different parts. First half contains Belait, Tutong and Brunei Muara districts and Temburong in the other half. The former is where most Bruneian stays while the latter is under occupied and preserved as a pristine national forest reserve and eco tourism activities. The capital city is Bandar Seri Begawan, the administrative center for the country as well as the hub for culture and national events. In each district, there are plenty of small towns such as Kuala Belait and Seria for Belait District, Pekan Tutong for Tutong and Bangar in Temburong. Currently, the population stands at 443,593 inhabitants spread across all four districts (July 2017). Brunei coexist well with other faiths such as different sect of Buddhism, Hinduism and animism.

Brunei is strategically located within the Brunei Bay, and have a proper 161 KM coastline for smooth transshipment. Ships to and fro passing the South China Sea easily can pass Brunei Port at Muara before continuing their journey. Manila, Singapore, Kuching, Kota Kinabalu, Phnom Penh and Ho Chi Minh city are all within 1,500 KM radius from Brunei while the rest of Southeast and East Asia is easily within reached in about 2,500 KM radius. In short, it is about 2-3 hours away for most ASEAN cities. The country enjoys equatorial climate with a generally high rainfall. The average temperature is 28 degree Celsius with high humidity all year round.

Administratively, Brunei is divided into four main districts namely Temburong located in the east side of the country, and Brunei -Muara, Tutong, & Belait are in the west side of the country.

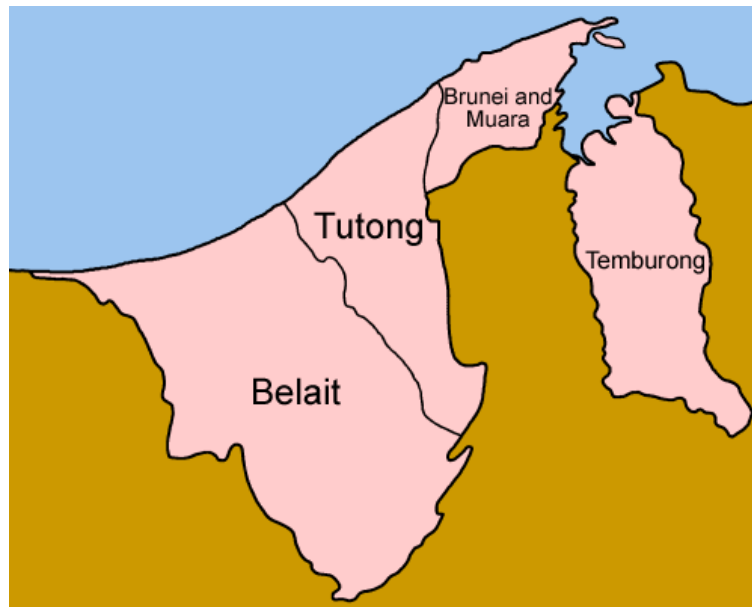
**Table 1-1 District, Size, and Number of Population**

District	Capital	Size (Km <sup>2</sup> )	Number of Population (Census, 2016)
Brunei- Muara	Bandar Seri Begawan	570	292,705
Belait	Kuala Belait	2,727	69,992
Tutong	Tutong	1,166	49,438

District	Capital	Size (Km <sup>2</sup> )	Number of Population (Census, 2016)
Temburong	Bangar	1,306	10,543

Source: Author's compilation

Figure 1-2 Map of Districts of Brunei



Source: Districts of Brunei, Wikipedia.org

The capital city of Brunei Darussalam is Bandar Seri Begawan. The capital city formerly known as Bandar Brunei (Brunei Town), was renamed in 1970 in recognition of the late Sutan Omar Ali Saifuddien's service in modernizing Brunei since 1950's. Located in the Brunei-Maura district, despite being the smallest district; it has a long history as the heart of Brunei civilization proven at least for 600 years. Due to such fact, a lot of artifacts and archaeology area attributes to Brunei was found in the district, making it the cradle of Brunei civilization. It is here, the largest above water settlements or water village is located. Today, the city is the heart of economic and social activities where most of government agencies are. The city itself have no central CBD, rather its CBDs scattered around the belts of the city, creating a mix of unique retail, commercial and lifestyle hubs for Bruneians. Renowned hubs such as Gadong, Kiulap, Delima, Jaya Setia, Tanjong Bunut for example creates rivalled each other as an up and coming

entertainment and commercial hubs in the capital city. Apart from that key monuments and places of interest also located within the city for example Istana Nurul Iman, Sultan Omar Ali Mosques, Jame' Asr Hassanil Bolkiah Mosque, Prime Minister's Office and many more.

Kuala Belait or KB is the second most important district and the second most populous city in the country. KB used to be a mere fishing area; however, these days the city has become more important as it is the nearest city to the Malaysian city of Miri and Brunei's Rasau Oil Field, making it a city where Bruneian flocks on their way to Malaysia and where workers from Oil and Gas companies live. Different from other city in Brunei, the British put extra measures in shaping and developing the city. Due to prudent developments policies and managements, the city host some of the largests companies related to the Oil and Gas Industries such as Schlumberger, Total EVP, Halliburton Brunei, VAM alongside with prominent local pioneers such as Mashhor, SC Tubulars, Jasra Harison among others. Key components to oil rig maintenance and construction also located here, as Brunei Shell take advantage of its wide body Belait River to transport the rig to the sea.

Another important city is Seria, located about half an hour from KB. This town was built to accommodate growing interest in the nearby oil fields. Along the side of the roads leading to Seria, there are a lot of installations related to the hydrocarbon industry, the notable one will be the 'nodding donkey'. Seria actually does not have any meaning, rather an acronym for Southeast Researved Industrial Area as coined by the British in the past. Brunei Shell headquarter located in this area and acquired a large area to accommodate its staffs. To protect the oil fields, the largest Gurkha battalion in Southeast Asia is located here, providing vital protection to the oil related interest. To accommodate the foreign expats wrking here, foreign commercial companies allowed to set up here with special permission from the government. Not far from Seria, the liquefied natural gas plant can be found. Once the largest LNG plant in Southeast Asia, this plant provides vital transshipment facilities for both the oil and

LNG by products through buoyed pipelines allowing the by products to be transported into the ship.

## **2. Natural Resources**

The country is blessed with plenty of natural resources. Apart from the known Oil and Gas, the country also abundant with carbonate rock, coal and Kaolin. Only coal was exploited out of the three sedimentary substances, although the country no longer promote coal mining activities. The country also boasts some fine sand and gravel, silica sand, which was found to be made of good quality and can be used for making glass. As Brunei located in Borneo, the type of forest exist in Brunei is that of rainforest. Therefore, some rare and oldest species of trees can be found in Brunei. Brunei government is committed to protect its forest, therefore the government forbid timber trade apart from that of for domestic production. To date, 80% of the country is covered with primary forest, with 60% never touched by any human and 41% is protected forest.

## **3. Socio-Demographic**

Bruneians is essentially part of the Proto Malay family. They have their own unique cultures, distinct language, customs and beliefs as opposed to the Malaysian counterparts. The ‘Rakyat jati’ or ‘Natives citizens’ are composed of the 7 races that are recognized by the constitution namely Brunei Malays, Kedayan, Belait, Tutong, Dusun, Bisaya and Murut. Malay custom and traditions are prevalent in many aspects of the society. Although each race has their own language, common lingua franca would be either Brunei Malay or English and all race considers themselves as Malay. Most Bruneian speak Malay Baku & English well thanks to their bilingual education system. As Islam is the main religion, the native’s culture has blend in with Islamic teachings as long as it did not have element that against the religion itself. Apart from living with their own community unique culture, Bruneians observed the national philosophy of Malay Muslim Monarchy (MIB). Said to be the embodiment of ‘calak

Brunei (Brunei's identity and Civilisation) itself, MIB have been streamlined in the process of modernization and identity building for the country. The ideology has become the ultimate Bruneian way of life which blend Malay heritage with deep faith in Islamic teachings under a unique monarchy system.

### 3.1 Population

From the recent census in 2016, Brunei Darussalam has a total population of 422, 678. There are 216, 832 male and 205, 846 female population. Among them, 324, 472 are Bruneian and 33,816 are Permanent Residents. The majority of them are in the 15-64-year age group (303, 618 population) follow by 0-14-year age group (94,239 population). More than half has Brunei-Malay heritage comprising 7 races – Belait, Bisaya, Brunei, Dusun, Kedayan, Murut, and Tutong.

The highest population density district is Brunei-Maura (292, 705) follow by Belait (69,992) Tutong (49,438) and Temburong (10,543)

### 3.2 Education and Healthcare

Brunei Darussalam is considered as having a 'very high' human development index, according to Asian Development Bank report in 2017. The report said, Brunei has scored well in education and healthcare and progressing well to fulfill the Sustainable Development Goal. There are about 443 students as opposed to 44 teachers in one school, about 15 students per class, providing an excellent learning environment and interactions between students and teachers. Brunei Darussalam have a bilingual education system and the 21st Century Education Policy seek to create a highly educated and skilled citizen that is recognized around the world. Brunei provide free education to its citizen from Pre School up to the university. As for healthcare, Brunei continue to ensure its citizen have access to healthcare at minimum cost possible. For the treatments that is yet to be available in the country, the government set aside some funds for these patients to seek medical attention abroad. Brunei have hospitals, clinics and health centres all over the country and have specialist hospital at Jerudong Park Medical Centre.

### 3.3 Language

Malay and English are official languages of Brunei Darussalam. Since Brunei was formerly a British protectorate, the government services can be access in either languages. Due to the Brunei bilingual education, most of Bruneian can communicate in English fairly well. Other languages spoken there include Malay-Baku, Brunei Malay, Chinese, Indian, and other native languages such as Tutong, Dusun, Murut, Bisaya and Kedayan. There are fear that native languages will die out due to lack of interest to learn and utilize the language such as what happened to Belait ethnic language.

### 3.4 Religious

Islam is the official state religion of Brunei. 80% of people in Brunei are Sunni Islam, 7% is Buddhist, 3% is Christian, and less than 1% are other faith and believes including Hindu, animism etc. Other religions are free to practice their faith in private capacity. Due to an increase in Islamic branding in Brunei due to the introduction of Sharia Panel code in 2013, other aspects of celebration that deemed as non-Islamic is banned from the public display.

### 3.5 Culture

Brunei culture is predominantly Malay. Having said that, there are not much different from that of the Malaysian counterpart, Brunei cultures observably are the mixture of Malay heritage and Islamic faith. For example, the way the people behave as can be observed from greetings and communication is a blend of Islamic practice in greeting and Malay principle of seniority and appropriateness. In term of lifestyle, Islam has greater influence in moulding the kind of culture permissible in Islam together with a mix of other cultures such as wedding ceremony, death rites, passage of rites etc. For example, Brunei Malay wedding is actually derived from Hindu culture practices with adaptation to the Muslim belief. Therefore, as long as those practices does not contradict with the teaching of Islam, such practices can continue to coexist in Brunei cultures. Apart from that, due to its monarchic tradition, a full display of a

rich and grandeur Brunei Malay cultures can be seen during Royal ceremonies. Ceremony such as Royal Wedding ceremony shown to full extent on how Brunei culture looks like in the past and reinvigorate with modern adaptation.

#### **4. Government and Administration**

Brunei is an Absolute Monarchy headed by His Majesty and Yang Di Pertuan of Brunei Darussalam. His Majesty currently hold the portfolios as Prime Minister, Minister of Defence, Minister of Foreign Affairs and Trade as well as Minister of Finance. In his capacity as both head of government and head of state, His Majesty is advised and assisted by 5 councils namely Council of Succession, Privy Council, Council of Ministers, Religious Council and the Legislative Council. There are currently 13 Ministries running on behalf of His Majesty's government namely Prime Minister's Office, Ministry of Finance & Economy, Ministry of Defence, Ministry of Foreign Affairs and Trade, Ministry of Home Affairs, Ministry of Education, Ministry of Primary Resources and Tourism, Ministry of Development, Ministry of Culture, Youth and Sports, Ministry of Health, Ministry of Religious Affairs, Ministry of Communications & Ministry of Energy, Manpower and Industry.

#### **5. Brunei's International Relations with Other Countries**

Brunei Darussalam has been very pragmatic in its international relations with the world community. Despite its small size, its voice and standings matter as one of the recognized sovereign states. In this context, Brunei foreign policy shaped by guiding principles such as mutual respect for the territorial integrity, sovereignty, independence and national identity of all nations and recognise the equality of all nations large and small (MOFA, 2018). Brunei also firmly believe in to the principle of non-interference in the internal affairs of other nations. While doing so, she advocates peaceful settlement of disputes and keen on cooperation for mutual benefit. Brunei Darussalam keen on following her foreign policy based on friendship, mutual respect and peaceful co-existence.

Brunei Darussalam is a member to many key international organizations such as the Commonwealth (1<sup>st</sup> January 1984), ASEAN (7<sup>th</sup> January 1984), United Nations (21<sup>st</sup> September 2018), Organisation of Islamic Cooperation (January 1984), Non-Aligned Movement (September 1992), Asia Pacific Economic Cooperation (APEC) (1989) among others. Brunei not only active in participating in these organisations, she also chaired the session such as APEC Summit in 2000 and ASEAN Summit and related summits in 2013. With ASEAN in particular, His Majesty as the only longest serving leader among ASEAN Leaders become the reference point for the Association in many meetings and summits (BorneoBulletin, 2018). Brunei Darussalam also initiated some initiatives for the youths particularly the Hassanal Bolkiah Football Tournament Trophy and US-Brunei English Language Enrichment Project for ASEAN. Apart from that, Brunei active in supporting other fellow ASEAN members in time of need through donations and aids.

In a related note, Brunei- Thailand relations have been warm and friendly. Both Monarchies enjoyed cordial relation with each other, shown from repeated visits to one another. Both governments also have a long history of importing 2 rice varieties from Thailand namely Hom Mali and Siamese Rice. Recently, this cooperation is upgraded with Brunei expressing interest to develop the agricultural industry with assistance from Thai counterpart. Recently, both governments agree to enhance health cooperation that will help both countries to learn and grow together in term of medical expertise and best practices. The relations between the two countries also extended to the people, with about 3,000 Thais working in Brunei while there are a surge in the number of Bruneians spend their holiday in Thailand (RoyalThaiEmbassy, 2018). Exchanges happening at university and government levels also happens, bringing the two countries closer together in term of understanding of each other cultures. In 2015, the two countries recorded a total trade of US\$815 Million. Thailand normally exports auto parts and accessories, rice, cement, sugar, iron and steel products among others to Brunei Darussalam. Vice versa, Brunei export mainly crude oil to Thailand.



## 6. Economy

Brunei Darussalam's economy is dominated by the petrochemical industry. The country is heavily dependent on revenues from crude oil and natural gas for income as it accounts for approximately 65% of GDP and 95% of exports. The oil and gas sector primarily concern with petroleum, petroleum refining including methanol and liquefied natural gas activities. Normally, these products are sent for export to Japan, South Korea, United States, Australia and New Zealand. Brunei Darussalam is the third largest oil producer in Southeast Asia and it produced 163,000 barrels per day. It is also the fourth largest producer of liquefied natural gas in the world. The government realized the need to diversify the economy due to the non-renewable nature of oil and gas and set forth for various programs to kick start these initiatives such as bringing in foreign direct investments, foster domestic starts up and entrepreneur and to enhance the public sector performance. Through the synergic cooperation of government agencies such as Brunei Economic Development Board, Darussalam Enterprise, private sector and interested parties, Brunei has been trying to tap in Halal industry, Technology and creative industry, business services, tourism and downstream oil and gas activities.

Apart from the revenue from the oil and gas sector, Brunei Darussalam also receives income from rents, royalties, corporate tax and dividends. As for non-oil industry, Brunei have a booming construction industry due to 2 mega projects (Temburong Bridge and Pulau Muara Besar Aroma Crackers plant). Other than that, agriculture and forestry products as well as fishery slowly carving its own share in the economy. Brunei's Banking sector also contribute some share in the economy, with quite a sizeable profit year after year. Human resources are central to the successful transformation of Brunei Darussalam into a diversified industrial economy. As in most developing nations, there is a shortage of skilled workforce in the country. Therefore, greater emphasis is placed upon education. The main areas of interest in human resources development are managerial and industrial skills, with emphasis on entrepreneurial skills as well as vocational and technical training. The country recorded \$11.96 billion income at official exchange rate (2017 est.).

## 7. Quick Facts on Brunei Darussalam Trade Agreements

### 7.1 Free Trade Areas

#### 7.1.1 ASEAN

- ASEAN – Australia New Zealand FTA
- ASEAN – China FTA
- ASEAN – India FTA
- ASEAN – Japan FTA
- ASEAN – Republic of Korea FTA

#### 7.1.2 Bilateral

- Brunei – Japan Economic Partnership Agreement

#### 7.1.3 Plurilateral

- Agreement with Chile, New Zealand, and Singapore (Trans Pacific Strategic Economic Partnership or P4)

### 7.2 Investment Treaties

- 7.2.1 Brunei Darussalam is a signatory to the ASEAN Comprehensive Investment Agreement (ACIA) with Federal Republic of Germany, Sultanate of Oman, Republic of Korea, People’s Republic of China, Ukraine, Republic of India, and Kingdom of Bahrain
- 7.2.2 Brunei Darussalam is a signatory to the ASEAN Agreement on the Protection and Promotion of Investment with all ASEAN countries.

## **8. Modern Brunei History: 1950 – Present and M.I.B (Melayu, Islam, and Berja)**

Brunei Darussalam, or Brunei, the Abode of Peace is known for its tranquility for hundreds of years. The Word ‘Darussalam’, according to local folklore, were given by the 3rd Sultan of Brunei, believe to be an Arab from the Arabian Peninsula descendant. Brunei’s history goes all the way to 1368 AD when the first Sultan converts to Islam in supposedly Temasek or modern-day Singapore (Asbol, 2011). From that point on, Brunei as an Islamic kingdom is an undisputed fact and that Islamic facets of Brunei still can be observed in the 21st Century Brunei. In this brief Islamic history of Brunei, it will go down memory lane to about 6 decades ago, when the state is undergoing a rapid transformation and the state is laying down the framework for what it has become in the 21st Century. The focus of this brief history would be the dawn of Islamic state, the molding of a Malay race steep in Islamic values and creation of a unique Islamic polity in the heart of Southeast Asia.

### **8.1 Transformation of a backwater Brunei into a Modern State**

Most historian agreed, the start of Sultan Omar Ali Saifuddien’s reign (1950-1967) as the start of modern Brunei, as he sought to transform Brunei on par with neighbouring country. Devastated by the Second World War, Brunei was a backwater polity with limited infrastructure and amenities. People’s livelihood largely depends on raw foods they acquired from the forest or the sea. Foods imports was so rare it become a precious commodity (Vienne, 2015). The country only has one hospital and few schools; all of them made up of temporary huts with no other facilities. Realising the harsh state, Sultan Omar Ali Saifuddien set foot on a journey to transform Brunei into a modern state. Acquiring funds through the Legislative Council, the fund is appropriated for a series of 5 years national development plan that will help to rebuild the infrastructure of the country as well as to lift up the standard of living of the people. A plan was in place to resettle the people from living in Kampong Ayer (above

water on the Brunei River) to dry land (Sindhu, 1997). This is to lower the fire and health hazard link to such living conditions as well as to provide a comprehensive community ready for a new Brunei. Brunei's roads quadruples in few years, electricity was introduced to the town dwellers and access to clean water was given to the town folks. Municipal boards were set up to laid out plan for towns across the country as well as to maintain the beauty and cleanliness of the new townships. Hospital sprang out across four district and the service is given free to all Bruneians. Therefore, Sultan Omar Ali Saifuddien was given the nickname 'Architect of Modern Brunei' for his service in transforming Brunei.

Not only that, he set out on other affairs of state such as negotiating with the British for a self-rule and Constitution for Brunei, setting Brunei as a truly Bruneian Malay State and later on giving a generous welfare for the benefit of Bruneians. There was a time, he tried to introduce semi democracy which failed miserably and later on, became one of his reason to abdicate early in favour of his son. In his efforts to write a constitution for Brunei, it takes longer than other commonwealth partners due to his insistence to protect the rights of the Sultan, the Malays, Malay language, Brunei Culture and Islam to be clearly state and enshrined in the constitution (Hussainmiya, 2000). Hence, when the constitution was promulgated in September 1959, all the aforementioned elements becomes the key in what to be the kind of government going to have and what kind of state it aspires to be. The Executive seat will be occupied the His Majesty the Sultan and to be advised by 5 councils of state namely Privy Council, Council of Succession, Legislative Council, Council of Religious Affairs and Council of Ministers. His Majesty is the supreme leader of the Islamic faith and holds power to monitor and propagate Islam.

Due to an election provision in the constitution, there is a need for the Brunei government to be clear what the criteria to be a Bruneian citizen is. The Nationality Act was announced and passed in 1961 limiting only 7 races to be recognized as Bruneian citizen. Contrary to the Malaysian counterpart, whereby a Malay must be a

Muslim, in Brunei, it is not necessary for any of the 7 races to be a Muslim. This happened due to a long history of multiculturalism existed since the time of Brunei as an emporium. With this citizenship, Bruneians entitled to many kinds of privileges such as free education and healthcare, pensions to widow, old age, person with disability and tuberculosis patients; which dubbed Brunei as a welfare state whereby the state taking care of their citizen from cradle to grave. This is one of the reasons for the sharp improvements in people's standard of living and way of life.

In line with the provision laid by the British in order to give Brunei a self-rule, Brunei is expected to introduce a gradual shift into democracy. The first election was held in January 1962, resulted in a landslide victory of Brunei People's Party (Partai Rakyat Brunei). The party announced some controversial motions for the upcoming session of the legislative council including the creation of a federation made up of Sarawak, Brunei and North Borneo and gain independence for Brunei the next year (Hussainmiya and Tarling, 2011). Sultan Omar Ali Saifuddien's refusal to accept their motions and suspend the opening of legislative council cause a rift between the party and the palace, which ultimately erupted into an armed rebellion on 8th December 1958. With the help of the British, the rebellion was crush in days and the party ultimately banned. This event earmarked an important change in Brunei, as it ends the hope for democracy to flourish in the country, increase the grip of the Royal family, and forever change the course of Brunei modern history. Brunei opted out of the Malaysian Federation plan, passed a resolution to suspend articles related to election in the constitution and the country gets a new Sultan, as Sultan Omar Ali Saifuddien abdicated in favour of his son in October 1967.

## **8.2 The Return of Golden Age of Brunei Darussalam**

His Majesty Sultan Haji Hassanal Bolkiah Muizzadien Waddaulah's reign often associated with the modern-day Golden Age for the country. Since ascended the throne, his majesty continues the policies of his father and continue shaping the

country and the people according to ‘calak’ (identity) of Brunei and Islam. This in line with his Independence Day speech to “...will forever remain a Malay Islamic Monarchy which is independent, sovereign and democratic founded on justice, trust and freedom...” (Yunos, 2016). Since then, Malay Islamic Monarchy have become the national philosophy that guides all actions related to the country. In simple term, an independent Brunei will always be a Muslim country, that is proud with its Malay heritage and guide by the benevolent monarchy for the sake of everyone. Such a unique blend of 3 elements that characterize Brunei helps in shaping Brunei’s course up to this day. In His Majesty’s reign, Islam is upholding to the highest possible place in any agenda and instill to become part of Brunei way of life. For example, Brunei dedicated a ministry to facilitate religious affairs such as Zakat, Islamic jurisprudence, hajj and many more. Not only that, the office of Mufti (similar to Syeikhul Islam in some countries) elevated to the ministerial post and have jurisdiction across many sectors in Bruneian governments (Aziz, 2017). The rate of conversion to Islam have been increasing, with Islamic Da’wah Centre plays a vital role in guiding the new converts. On top of that, policy wise, the country has been alcohol free since 1990 and any acts of gambling and usury is treated to jail terms.

In recent years, Brunei has been very serious in introducing Islamic elements institutions and policy to fulfill its fardhu kifayah obligations. For example, with the initiatives of His Majesty, Brunei start to have her own Islamic bank in 1991, together with Islamic services such as Hajj and non-interest loans (Salma, 2003). Islamic & Arabic education becomes the priority of His Majesty Governments, with the establishment of few more Arabic schools and the establishment of Sultan Haji Hassanal Bolkihah Tahfiz Alquran Institute that gives birth to notable Al Hafiz (the one who memorise Al quran) (Asbol, 2006). Fast forward to the 21st century, it becomes a annual practice to have an Islamic elements in celebrating His Majesty birthday for example hosting Al Quran ceremony and Knowledge Exhibitions. Not only that, economic wise, the country tries to tap into global halal market by coming in her own Brunei Halal brand and certification which is known for its strict requirement. On top of that, recently,

Brunei is trying to sell her Islamic heritage as part of tourism products. In doing so, the country can utilize her experience and expertise in Islamic related fields to become part of the sector that can help to diversify her economy.

In term of way of living, Bruneian are very much comfortable with the Islamic aspects of their life. Bruneian, as any other race in the world, continue to have the time of their life thanks to high income per capita and considerably high standard of living which helps Brunei and to become affluent despite increasingly becoming more Islamic. As stressed by His Majesty, Islamic aspect have become one with Bruneian way of life and it is inseparable, which makes Malay Islamic Monarchy a perfect match for one another. Having said that, Brunei as a Malay Muslim country continue to balance each elements of the national philosophy in order to truly get the most out of it.

## 9. Chapter Summary

In short, Brunei Darussalam is unique country to immerse oneself in. A blend of long-established Malay heritage together with a strong sense of belonging to the monarchy and Islam helps to glue the whole society together. Brunei itself is a mix of conservative yet moderate Islamic country, with inherited culture have been tolerated as long as it is not clash with Islamic teaching. In the end, a good word to sum up about Brunei is the name of the country itself, Brunei Darussalam, the abode of peace, with the grace of Allah Subhanahuwa Ta'ala.

## Chapter 2

### Trade, Investment Policies, Relevant Laws and Regulations

#### 1. Investment and Business Opportunities

Brunei Darussalam has abundant of reasons for interested parties to invest and set up their business in the Country. The key advantages can be summarized into 4 main factors, first its strategic location and connectivity, second, access to key markets, third, its renowned socio-political stability and a business-friendly environment. On top of that, Brunei Government have specified 5 key sectors for development, taking into consideration of the aforementioned key advantage and Brunei's unique blend of Islamic and Malay culture. The key sectors are Halal industry, Technology and Creative industry, Business services, Tourism and downstream oil and gas activities. Apart from that, Brunei welcomes any kind of investments in other sector as well such as in manufacturing, food, pharmaceuticals, petrochemicals, renewable energy, service sector, fishery, aquaculture and agriculture.

##### 1.1 Key Advantages of Brunei Darussalam

Brunei is keen to utilize its niche and expertise to develop a sustainable and competitive economy. The country will capitalize in its strength as a strong Islamic nation and long renowned expertise in hydrocarbon industry as well as to cash in its highly educated and skilled citizen.

##### 1.1.1 Strategic Location and Connectivity

Brunei Darussalam literally is at the heart of Southeast Asia. The country is facing the South China Sea, one of the busiest shipping lanes in the world. Southeast Asia itself is an emerging hub, with combined economies produces USD 2,555 Trillion



in GDP, larger than India, making the region an economic power just behind the US, China and the European Union. Brunei's also contribute about 0.45% to the total GDP of the grouping, which have 10 economies with a combined population of 600 million people. Its strategic and central locations makes it a prime choice for doing business. The country has a sound infrastructure and stable rule of law. With such location, it provides excellent and stable venue for investors hoping to spread their wing into Southeast Asia.

Brunei is actually 2-3 hours flights away to major ASEAN cities and another 16 hours away to major Asian Cities. The national carrier fly daily to many regional and international hubs and have code share agreements with Malaysia Airlines, Air Asia, Cebu Pacific, Thai Airways, Singapore Airlines and Philippines Airlines. The Muara seaport service 13 major shipping lines and connected to 15 other international seaports around the region. It also served as a transshipment hub for BIMP -EAGA<sup>1</sup> and East Asia. The country's road spanning about 2,000KM is always in good condition, ready for inroad delivery of goods and products. As for network connectivity, the country is connected to plenty of regional network hub such as Asia-America Gateway (AAG), Southeast Asia -Middle East- Western Europe Cable (SEA-ME-WE3), the Southeast Asia -Japan Cable (SJC) and Labuan-Brunei Cable (LBC).

### **1.1.2 Access to Key Markets**

Brunei Darussalam is member to many international organizations and have multiple trade agreements with international organisations and friendly nations. Currently, Brunei join FTAs under the purview of ASEAN and have 2 FTAs with other nations. The FTAs in force are as the following: ASEAN Free Trade Area (AFTA), ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), ASEAN-China Free Trade Area (ACFTA), ASEAN-India Free Trade Agreement (AIFTA), ASEAN-Japan Comprehensive Economic Partnership (AJCEP), ASEAN-Korea Free Trade Agreement (AKFTA), Brunei-

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<sup>1</sup> Brunei, Indonesia, Malaysia, Philippine – East Asia Growth Areas

Japan Economic Cooperation Partnership Agreement (BJEPA), Trans-Pacific Strategic Economic Partnership Agreement (TPSEP/P4). Other than that, Brunei also have an active double taxation agreements and bilateral investment treaty with Bahrain, Kuwait, UK, Germany, Ukraine, Oman, Qatar, Pakistan and Tajikistan.

### **1.1.3 Socio Political Stability**

The country is known for its peaceful environment with a stable government and safe environment. The World Health Organisation in 2017 ranked Brunei as the 3<sup>rd</sup> cleanest air in the world, making it a suitable choice of clean and healthy business conduct in a rapidly dirty conditions due to industrialization. The country also has no records of major natural disasters or business loss because of it. Brunei remains committed in preserving its flora and fauna by allocating more than half of the country for forest conservation while 75% of the country is still covered by pristine forest.

### **1.1.4 Business Friendly Environment**

Brunei Darussalam strive to improve its business environment by making all necessary procedure and access to facilities and services as easy as it can get. Government Agencies such as Brunei Economic Development Board (BEDB), Brunei Darussalam FDI Action and Support Centre (FAST), Darussalam Enterprise (DARe) for example, are created only for this reason. The government have a fast track FDI processing system that allows faster processing time for inbound investments. Brunei also allowed 100% foreign ownership with a favourable 18.5% corporate income tax. Other than that, there is no personal income tax, sales, payroll, capital gains and manufacturing tax levy on the foreign owned companies and parties. Brunei Darussalam is known for its high-quality infrastructure and have a competitive utility rates, which subsidized by the government. In 2017, World Bank announced in its annual Ease of Doing Business report that, Brunei ranked number 1 as the most

improved country, the fourth ease in doing business in ASEAN and number 13 in whole Asia Pacific.

## **1.2 Key Investment Sectors**

Brunei Darussalam has identified 4 main investments sector for international investors to join and help develop Brunei's economy. The following are the 5 investment sectors.

### **1.2.1 Halal Industry**

As a Muslim nation, Brunei's halal economy is a niche that should be utilized. The government wants to tap the growing Halal industry combined with the expertise and the experience from Brunei as a leading Muslim nation. Brunei is already known for its strict adherence of Islamic teaching, therefore have come up with Brunei Halal certification system. At the same time, the country is making headway as producer of premium halal products such as food and beverages, pharmaceuticals and cosmetics. The government of Brunei Darussalam is particularly interested in food industry and would like to attract major food and food ingredients companies into the country for exports. Also, the country has potential to establish research and development centres for the development of innovative nutritional products through the utilization of local food ingredients that can lead to the manufacturing and processing of customized food products for global markets.

Government commitment is translated to its allocation of a designated area as a halal innovation hub. Known as Bio Innovation Corridor (BIC), the first phase of the area is already full of companies specializing in halal food processing, pharmaceutical and healthcare. Another focus is on pharmaceutical and pharmaceutical ingredients industry in which the government of Brunei Darussalam welcomes companies to establish a presence in the country. Companies may also opt to produce halal

pharmaceuticals as a value-add to their products. Brunei Darussalam has developed its very own guidelines and standards for the handling and manufacturing of halal pharmaceutical products with the objective to pave the way for the establishment and production of halal pharmaceuticals in the country while seeking to become a global leader in halal industry.

Under Halal industry initiatives, government also looking at the potential to develop fishery, aquaculture and agriculture. The fisheries potentials of Brunei Darussalam are estimated to be worth at least B\$400 million/ year by the year 2023. The country's clean and unpolluted environment, the absence of typhoon and other food related epidemic or phenomena are amongst the reasons why it is the ideal choice for investment in fishery sector. Furthermore, the country is also found to be the immigration path of tuna. As for aquaculture, the country is pushing for development of freshwater and inland aquaculture. As of recent, Brunei has become the main destination for foreign business specialize in this to develop their aquaculture in Brunei for export abroad. Agriculture and food security remain the priority for Brunei Government. The country has been reaching out to potential business leader in agriculture to develop its rice industry as well as vegetable products.

### **1.2.2 Technology and Creative Industry**

Brunei Darussalam welcomed these kinds of industry to participate in journey to transform Brunei into the future. Technology start ups in the country already making its name abroad and hopes to attract foreign talents to come and develop their products in Brunei. Under this industry, the government seek to develop other business clusters such as data centre, digital media, internet of things and biotechnology. The BEDB is currently looking into the feasibility of bringing new frontiers of science and technologies into Brunei to create economic activities driven by accelerated technology developments with increasingly significant economic values in the following sectors – Healthcare/ Health Sciences, Food Security, Advanced

Manufacturing Processes, Material Sciences, Electronics, as well as further research into the areas of Energy, Sustainable Environment and ICT.

### **1.2.3 Business Services**

In order to develop better delivery and fasten the growth of the aforementioned investment sector, the government is making it a priority for business service to be improved and made efficient. This include transport and logistics, financial services, supply chain management and warehousing. At the same time, in order to have a smooth running of business services, logistic industry must be competitive and efficient. Therefore, Brunei welcomes any multinational companies to set up and help improve the delivery of business services.

### **1.2.4 Tourism**

Brunei is an underrated tourist destination in the region. The government seek to change that by dedicating a ministerial level supervision and initiatives together with joint efforts by private sector to develop the industry. The country welcomes international MNC to help develop the industry through innovative products, presence and networks. The government is looking at business clusters such as ecotourism, medical tourism, cultural tourism and hospitality as pathways to develop the industry.

### **1.2.5 Downstream Oil and Gas Industry**

Due to volatility of oil prices, the government realized the needs to spin off its oil and gas production into downstream industries. In recent years, the country had already established Methanol Company as a spinoff of the industry and it is expected, many more downstream activities will come soon. Brunei Darussalam welcomes foreign direct investment (FDI) in the downstream sector, including those that can create cross-sectoral opportunities by utilising feedstock from existing and future

petrochemical plants to manufacture value-added derivatives, which can subsequently lead to further spin-off opportunities.

### **1.3 Other Investment Options**

Apart from what has been mentioned above, Brunei Darussalam are also open for any kind of investment opportunities. The following are some of investment options outside of the one that are prioritized by the government.

#### **1.3.1 Manufacturing Industry**

This industry is key in developing Brunei's economy. Brunei welcomes any kind of manufacturing industry that can help contribute to the country's economy and wellbeing. At the same time, such activities will help in the country's diversification effort. With a long history of oil and gas production, Brunei Darussalam is now looking to open up new frontiers and develop capacities in renewable energy. Abundant deposits of silica sand available in this country have been seen as conducive to the development of a hub for solar glass manufacturing as well as solar cells and modules production.

#### **1.3.2 Service Sector**

Within the services sector, Brunei Darussalam seeks to further expand and develop its capacities by building on its highly-skilled workforce and readily available infrastructure in a move towards making the country globally competitive.

Figure 2-1 Industrial Sites available



Source: Invest BN, Retrieved from [www.invest.gov.bn](http://www.invest.gov.bn)

## 2. Type of Businesses in Brunei Darussalam

Brunei established dual business jurisdiction namely the 'offshore' facilities in line with international legislation (the so called 'Brunei International Financial Centre, BIFC) and 'domestic' legislation. The offshore companies normally under IBC Order 2000, meanwhile for the on-shore ones, it will be governed by Companies Act (CAP 39). As for IBC, memorandum and articles of Association contain statutory contract between company's shareholders. The following will explain the overall business legal structure and type of businesses in Brunei Darussalam.

## 2.1 Type of Business inside the Brunei International Financial Centre (BIFC)

### 1) Brunei International Business Companies (IBC)

- IBC is governed by the 'International Business Order 2000 (IBCO)'. This means businesses falls under this category will tax-free.
- Strictly emphasis on shareholders' agreement prior to registration
- IBC's are the most common type of business form in the offshore sector

### 2) Brunei International Limited Partnership (ILPO)

- This type of business is governed by the 'International Limited Partnership Order 2000 (ILPO)
- An ILP consists of one or more general partners (of which one must be either a trust company, an IBC or another ILP) and any number of limited partners
- In an ILP, a general partner is responsible for all the debts and obligations of the ILP but not limited partner.

### 3) Brunei International Trust (ITO)

- Type of business is governed by the 'International Trust Order 2000 (ITO)

## 2.2 Domestic Type of Business

### 1) Business Sole Partnership

- Sole proprietors are not subject to tax in Brunei Darussalam.
- Sole proprietors are responsible for the obligations of their businesses.
- It is not extended to foreigners



## 2) Brunei Partnership

- A partnership may consist of individuals, local companies, and branches of foreign companies.
- The maximum permitted number of partners is twenty.
- At least one partner in the partnership must be a Bruneian or a Brunei Permanent Resident.

## 3) Brunei Private Company (Sendirian Berhad Order Sdn. Bhd.)

- Companies that are incorporated in Brunei Darussalam are governed by the Companies Act (Cap. 39)
- A private company must prohibit any invitation to the public to subscribe for shares or debentures.
- At least half the directors in a company must be Brunei citizens or Brunei Permanent Residents.
- Private companies must have at least two shareholders. Shareholders need not be Brunei citizens or residents.
- All companies must appoint auditors to audit their accounts and report to shareholders.

## 4) Brunei Public Company (Berhad Order Bhd.)

- Public companies are formed under the same legislation as private companies.
- A public company is one which may issue freely transferable shares to the public but is therefore more regulated.
- Shareholders need to be Brunei citizens or residents.

## 5) Brunei Branch

- Any foreign company that wishes to establish a business in Brunei Darussalam and does not incorporate as a local company must register as a branch of the foreign company.

- The branch must have a registered office in Brunei and must appoint a local agent. On registration, a foreign company is entitled to the same powers and authority as a local company.
- Branches of foreign companies are required to file a copy of their head office annual financial accounts with the Registrar of Companies every year. Branches are also required to prepare branch accounts for tax computation.

### 3. Legal Environment in Brunei Darussalam

There are two parallel systems of law in Brunei Darussalam: first, the Statutory laws, which regulate mercantile activities and disputes between persons; and second, the Sharia law. The former is based upon English codified laws based on pre-1999 amendment to UK Supreme Court practice and their court known as the Civil Courts. The statutory law has rights over all civil and criminal cases in the county.

#### 3.1 Application of Laws Act

Key legislation in Brunei Darussalam is the Application of Laws Act. This Act emphasis on the following UK common law, doctrines of equity and statutes of general application and hereby enforceable in the Country. The aforementioned statute is enforceable in so far as the circumstances permit, and subject to be qualified by local circumstances and customs. On top of that statute, The Contracts Act and Specific Relief Act also enforceable in the sultanate, overseeing contract law and laws of equity based on English common law.

#### 3.2 Sharia Law

In the past, Brunei's Sharia Court have a limited function such as matters related to marriage, divorce, inheritance among others. After the introduction of Sharia

Penal Code Order 2013, Brunei officially established a reformed and strengthened second independent system of courts based on sharia law. Under the Sharia Penal Code, the jurisdiction of sharia courts expanded to include offences such as murder, rape and theft. Previously, such offences were previously within the jurisdiction of civil criminal courts, now within the jurisdiction of Sharia Court. Both Penal Code (Cap 22) and the Sharia Penal Code Order 2013 to be in force Coexist together as part of Brunei Darussalam's unique criminal justice system.

### **3.3 Court & Jurisdiction**

In Brunei Darussalam, its up to the discreet decision to the relevant authorities to make charges according to which penal code. Should the authorities pursue charges under the penal code, the civil criminal courts that apply common law principles will apply and vice versa. Brunei remains committed to maintain English Common Law that based on precedence as it served useful in diverse ethnic background existed in Brunei. At the same time, English commercial law has been successful in mediating trade related disputes that allows the economy to prosper. Therefore, Brunei Darussalam keen to keep the Civil Courts alive while transferring Muslim related cases to the Sharia Courts.

### **3.4 Structure**

As for the civil law, Brunei makes sure its judges to has fair amount of knowledge and expertise in English Common Law. Therefore, Bruneian judges predominantly gained their qualification in the UK. This is extended to private legal practitioners are educated and obtain their professional qualifications in the UK. The Court of Appeal itself is presided over by visiting retired judges from the Hong Kong Court of Appeal, while the High Court consists of both local and former Hong Kong High Court judges.

In the case of civil matters, parties to a dispute can mutually agree before the commencement of the trial or the Court of Appeal hearing to have the judicial Committee of the Privy Council sitting in the UK as the court of final appeal for their case. The language of law courts is English, and laws are enacted in English, with a Malay version also made available. Legislative enactments are included as laws.

### **3.5 Business Regulation**

Brunei Darussalam is making sure minimal interference is inflicted to businesses. The law basically related to public policy, safety, health and employment. Other than that, the government seek for as little interference as possible to ensure positive competition and growth of companies. Recently, Ministry of Energy (Energy and Manpower) and Industry seek to encourage downstream and local business development plans. Thanks to its long tradition in the common law, Brunei can quickly import, modify and adapt to the latest commercial laws. The rule of law has been respected as the foundation for a healthy business environment. Investors are assured that Brunei government will govern by and in accordance with the law.

### **3.6 Foreign Investment**

Brunei Darussalam realised that, its dependent on non-renewable resources such as hydrocarbon will not last. At the same time, the government wants to develop infrastructure and the economy of the country further. With that in mind, the country set on a journey to diversify its economy and welcomes foreign investments into the country. To facilitate investments coming into the country, the government set up several facilitating agencies such as Brunei Economic Development Board (BEDB), Daussalam Enterprise (DARe), FDI Action and Support Centre (FAST), Darussalam Assets Sdn Bhd among others. BEDB is tasked to facilitate interested investors to explore potential investment areas and help them to develop a proposal. Alongside with BEDB, DARe join in hand to manage all industrial sites in the country.

FAST basically will provide all necessary support needed by the investors shall any needs arises. Government liked companies also join hands foreign partners to set up company in Brunei. DARE activities not limited to managing industrial sites, rather the body has a wide range of task given, primarily concern with the development of local enterprises and start up. This is in line with government agenda to promote entrepreneurship amongst the youth and to support them until they are successful.

### **3.7 Industrial Park**

There are about 30 industrial parks scattered all over the country. Brunei government through partnership with BEDB and DARE has identified the purpose for each of the industrial sites. Some of the most renowned industrial park namely Bio Innovation Corridor (for halal related industries), Rimba Digital Junction (for technology related industries), Bukit Panggal Industrial Site (for energy related industry) and Sungai Liang Industrial Park (SPARK) (for downstream energy related industry). For example, the Sungai Liang Industrial Park is just next to the country's LNG processing plant. The Park is home to Brunei's first downstream industry, Brunei Methanol Company and soon home to another few downstream industries such as ammonia and urea production plant. All these industrial sites are maintained by DARE.

### **3.8 Business Related Legislation**

In order to protect businesses, Brunei Darussalam is committed to come up with up to date laws related to the financial, banking, international financial and investment management sectors. The following are the list of legislation passed throughout the years:

- 1) International Business Companies (IBC) Order 2000
- 2) International Limited Partnerships Order 2000
- 3) International Trust Order 2000

- 4) Registered Agents and Trustees Licensing Order 2000
- 5) International banking Order 2000
- 6) Banking Order 2006
- 7) International Insurance and Takaful Order 2002
- 8) Money Laundering Order 2000
- 9) Anti-Terrorism (Financial and other measures) Order 2002
- 10) Emergency (drug trafficking) Recovery of Proceeds Order 1996
- 11) BEBD Act (revised 2003)
- 12) Criminal Conduct (recovery of proceeds) Order 2000
- 13) Sungai Liang Authority (SLA) Act (Revised 2009)
- 14) Distress Act (revised 2009)
- 15) Asian Development Bank (ADB) Act 2009
- 16) Securities Market Order 2013
- 17) Competition Order 2015

### 3.9 Business Entities

Brunei Government realised the importance of government linked companies in catalysing growth as well as the effectiveness of public-private partnership business model. Therefore, the government is keen in inviting suitable investors as well as the public to engage in national development agenda for the benefit of all. The most common form of business entity for private business activities in Brunei Darussalam is the limited to Liability Company (*sendirian berhad*). This form of legal entity is based on the model of the UK's company law and its essentially an entity that has a minimum of two shareholders and two directors, is governed by its articles of association and has its authorized capital divided into shares.

This model has generally worked well and has encouraged foreign investors to enter into joint ventures with local counterparts wherein the shares are agreed and divided up between the contracting parties. Section 19(2) (c) of the Legal

Profession Act allows only Bruneian law firms and registered accountants (in person), as well as individuals (in person)

### **3.10 Income Tax**

In order to attract foreign investor, Brunei introduce The Income Tax Act (Amendment) Order 2008 that reduced the tax rate from 30% to 18.5% gradually since 2008 to 2015. The government also provided some incentive such as tax break up to five years. More information on tax related matters can be found on <http://www.mof.gov.bn/Divisions/income-tax.aspx>.

### **3.11 Land Code**

Up until 2017, only Bruneian and permanent resident can register for land titles and properties in the country. However, with the introduction of Land Code (Strata) Chapter 189, this new amendment allows foreigners to own property in Brunei up to 99 years. This new amendment set to lure investtors into the country, by allowing foreigners to have a secured land and property ownership Strata as well as long term growth of real estates industry in the country.

### **3.12 Arbitration**

Due to the importance of arbitration especially related to commercial disputes, Brunei set up an independent Arbitration Association of Brunei Darussalam in 2016. This body will provide a venue to resolve disputes through arbitration as opposed to lengthy courts proceedings. The association follows the the International Arbitration Order 2009, which shapes the UN model Law on International Commercial Arbitration. Brunei government further provides another alternatives venue for dispute settlement through Brunei Darussalam Arbitration Centre. This Centre is wholly run by government with the option to resolve disputes through either arbitration or mediation.

l awaiting one-off financial support to set up its own designated office building to carry out its operations efficiently.

### **3.13 Intellectual Property**

In line with Brunei drive to cultivate ‘IP culture’, the country has revamped its IP administration. Since June 2013, all IPO related administration such as registration and protection of patents, trademark, industrial designs and Plant Varieties Protection are all under BrulPO office. The office will work with related agencies to ensures ipo related laws is up to date according to recent trends and development. At the same time, the office is task to promote innovation and creativity by encouraging Bruneians to patents their creations. IPO laws in Brunei closely related to UK Copyright Act 1988 and recently has follows other models to strenthen IP protection in the sultanates.

## **4. Foreign Exchange Control**

As of current, there are no foreign exchange controls in Brunei Darussalam, although exchanges and movements of currency are monitored. Nonresident bank accounts are permitted, and there are no restrictions on borrowing by nonresidents.

## **5. Investment Incentives**

Brunei Darussalm announced The Investment Order 2011 to lure investors into the country. Inside, ther are a list of incentives investors may apply for example pioneer status, which will allow the company to be exempted from tax for 5 years, being provided with business capital expenditure of BND 500,000 – BND 2.5 Million and tax exemption from capital expenditure for 8 years. This pioneer status not exclusive only to the downstream hydrocarbon industry, it covers almost all other sectors such as agriculture, agri-business, construction; chemicals; consumer goods; environmental



technologies; food processing; ICT; industrial equipment; marine technology; metal manufacturing for example. As for services, the government is keen to invite expertise in consultancy and research, automotive and ground transportation, education, finance, ICT, media and entertainment, and travel.

More information on investment incentives can be found here

<http://www.agriculture.gov.bn/lists/investment%20incentives%20order%202001/allitems.aspx>

## 6. FDI Promotion

Brunei Darussalam welcomes investors to invest in Brunei. Through Brunei Economic Development Board (BEDB), the government task this body to promote and facilitate interested investors to come and invest in the country. BEDB will normally become the focal point anything related to FDI. Another government agency that works directly on FDI is the FDI Action and support centre (FAST). This centre will basically help in the implementation stage of the investment and become the focal point for established investors to ask for assistance in the sultanate. Meanwhile, Darussalam Enterprise maintains all the industrial sites in the country, therefore, anything related to industrial sites will be channel to DARE. Other related agencies are Ministry of Energy (Energy and Manpower) & Industry for downstream industry, Ministry of Foreign Affairs for the promotions of investments abroad, Ministry of Finance & Economy for facilitating investment incentives and Ministry of Primary Resources and Tourism for non-hydrocarbon industries. Brunei government also works with its subsidiaries to promote the country as an investment friendly destination through its national carrier, Royal Brunei Airlines (RB).

## 7. Setting up Businesses

For interested investor, Brunei has set up a fast track FDI processing system through 3 entities namely BEDB, FAST and DARE. BEDB for example will work closely

with investors to ensure they obtain all the necessary government permits, licenses and approvals, and recruitment of foreign labour. While FDI Action and Support Centre (FAST) main is to evaluate investment proposals, liaise with government agencies and obtain project approvals. An Account Manager will be assigned to be investor's liaison officer to facilitate any business and investment related matters.

100% Foreign Ownership is allowed and co investment option can be obtained schemes under Ministry of Finance and Economy's Strategic Development Capital Fund (SDC) and Government Linked Companies (GLCs).

### **FDI Approval Process<sup>2</sup>:**

**Step 1:** Investor will come to BEBD to express their interest. BEBD will help to guide investors in coming up with necessary documents and preparations (investment Proposal and Assessment Report) before tabling their proposals to BEBD. If the proposal passes, BEBD will introduce investors to potential Joint Venture (JV) partners – Strategic Development Capital Fund (SDC) and Government Linked Companies (GLCs) under Ministry of Finance & Economy.

**Step 2: FDI working Committee** called FDI Action and Support Centre or “FAST” will help facilitation and source solution

**Step 3: Approve of the investment by FDI Steering Committee**

**Step 4: Darussalam Enterprise (DARE)** will help facilitating about industrial site landowners and handle post implementation after-care by facilitating and processing operational level applications.

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<sup>2</sup> BEBD. (2016). Invest in Brunei. PDF. Accessed on 26<sup>th</sup> September 2018 from <https://twbusiness.nat.gov.tw/files/TWASEAN/%E6%B1%B6%E8%90%8A%E7%B0%A1%E5%A0%B1.pdf>

## 8. Banking System

Brunei Darussalam has a dual banking system of Islamic banks and the conventional banks. There are 5 fully licensed commercial banks currently operating in the domestic market. There are 2 local banks (1 conventional bank and 1 Islamic bank), 1 branch of international banks and 2 branches of Capital Assets. There is also an Islamic Trust Fund which provides specialized financial services. The Brunei Darussalam Monetary Authority has granted a Restricted Banking License to the State Street (Brunei) Sdn Bhd. Its activities are restricted to support clients based in Brunei Darussalam through client servicing relationship management. Its office in the country will not accept deposits or engage in any other core banking functions.

**Table 2-1 List of Licensed banks in Brunei Darussalam**

<b>1. Fully Licenced Banks</b>		
<b>Local Banks</b>	<b>Branches of International Banks</b>	<b>Capital Assets</b>
<ul style="list-style-type: none"> <li>Bank of Islam Brunei Darussalam (Islamic)</li> <li>Baiduri Bank Berhad</li> </ul>	<ul style="list-style-type: none"> <li>Standard Chartered Bank</li> </ul>	<ul style="list-style-type: none"> <li>Malayan Banking Berhad (Maybank)</li> <li>RHB Bank Berhad</li> </ul>
<b>2. Restricted Banking Licence</b>		
State Street (Brunei) Sdn (Restricted Banking License)		
<b>3. Islamic Trust Fund</b>		
Perbadanan Tabung Amanah Islam Brunei (TAIB)		

Source: Author updated from Business Guide Brunei Darussalam

## 9. Taxation in Brunei Darussalam <sup>3</sup>

Tax year in Brunei is the same as Calendar year. A company is subject to tax on income accruing in or derived from Brunei Darussalam or received in Brunei from outside Brunei.

Taxable income includes income derived from a trade or business, investment income, such dividends received from companies not previously assessed to tax in Brunei, interest and royalty income. Certain income is exempt, e.g. dividends received from a company subject to tax in Brunei and income of specific government and nonprofit organizations.

Companies with revenue that does not exceed BND 1 million are exempt from corporate tax.

### 9.1 Tax Exemptions at a Glance

- No Personal Income Tax
- No Sales Tax
- No Payroll Tax
- No Export Tax
- No Manufacturing Tax
- No Capital Gains Tax

### 9.2 Tax Incentives at a Glance

- Pioneer Status Companies – apply to be exempted from
  - Exempt from Corporate Income Tax
  - Exempt from Import duties on machinery
  - Exempt from import duties on raw materials

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<sup>3</sup> Ministry of Finance & Economy. (2018). Taxation in Brunei Darussalam. Accessed on 26<sup>th</sup> September 2018 from <http://www.mof.gov.bn/Divisions/income-tax.aspx>

- Tax exemption for up to 8 years (+3 Years)
- A 15% credit could be claimed on new investment in new plant and machinery made between January 2012 and December 2017, and the credit may be carried forward for 2 years.
- Tax credit are available for certain salaries and training expenditure.
- Companies dealing with exports can opt to pay tax at a fixed rate of 1% on approved exports, in lieu of corporate tax.

### 9.3 Types of Taxes on Foreign Investment

#### 9.3.1 Corporate Tax

- Corporate Income Tax in Brunei Darussalam is at 18.5% with a 55% rate applying to oil and gas companies.

#### 9.3.2 Loss

- Losses may be carried forward for 6 years and carried back one year.

#### 9.3.3 Foreign Tax Credit

- A foreign tax credit is available for tax paid on foreign-source income, but it is limited to the tax assessed at half of Brunei's rate.

#### 9.3.4 Withholding Taxes

- Brunei does not levy withholding tax on dividends that have been assessed to tax, regardless of whether paid to a resident or a nonresident. Interest paid to a nonresident is subject to a 2.5% withholding tax, provided the nonresident is not effectively connected to a permanent establishment in Brunei.

**9.3.5 Stamp Duty** – Stamp duties are levied at fixed or ad valorem rates on various business documents.

#### **9.4 Income Tax for Individuals**

There is no personal income tax in Brunei Darussalam. Individuals do not have to pay any capital gains tax, and profits arising from the sale of capital assets by individuals are also not taxable. A nonresident individual in Brunei Darussalam is not subjected to tax.

#### **9.5 Income Tax for Partnerships**

Partnership income apportioned to the partners is not subject to income tax, assuming the partners are individuals. Partners who are companies are subject to tax on their partnership income at a rate of 30%.

#### **9.6 Offshore Companies (under the BIFC)**

An International Business Company does not pay income tax, capital gains tax, stamp duty or other direct tax.

#### **9.7 Branches of Foreign Companies**

Profits derived in Brunei Darussalam are taxed at the same rate (30%) as for local corporations. Branch accounts should be prepared for branches of foreign companies. These accounts, which do not need to be audited, are required to support the tax computation.

## Chapter 3

### Halal Industry, Halal Brand, and Halal Certification in Brunei Darussalam

#### 1. Halal Concepts and Definitions

Often it is heard, Muslim can ‘only’ consumed Halal products. However, not many individuals educated themselves what does Halal means. In this regard, Halal means permissible. It comes from Arabic term and deeply associated with the religion. Consuming Halal products (not limited to only foods) is consider an obligation to every Muslim or simply said, Muslim way of life. In a bigger scope, Halal also extended to ‘lawful’ & permissible in term of products, behaviours and services (Esposito, 2003). This is part of a bigger concept of ‘*Halalan Thayyiban*’ as prescribed in Al Quran in Surah Al An’am, verse 145, Al A’raf Verse 157, Al Maidah Verse 1,4, 5 & 88, which becomes the reference in fulfilling the obligation (Baharudin Othman 2016). In simple term, ‘*Halalan Thayyiban*’ emphasis on halal, safe, clean and quality of the products. The main idea behind halal is not limited to hygiene for human consumption, but it also looks into the benefit and effects in consuming such products. In spite different views on halal by Muslim scholars from different school of thoughts, general understandings simply can be understood as the followings:

- Pork (*Khinzir*) and all swine by products
- Animals not slaughtered by Halal requirements
- Dead animals killed prior to slaughter
- Animals killed in a manner that prevents their blood from being fully drained from their bodies
- Animals slaughtered in the name of anyone other than Allah
- Blood and Blood by-products
- (Halal) Foods that have been contaminated by any of Haram products
- Carnivorous animals such as lions, tigers, or wolves

- Birds of prey such as eagles, owls, falcons or vultures
- Pests such as rats, centipedes, scorpions and other similar animals
- Animals considered repulsive such as lice, flies, maggots and other similar animals
- Mules and domestic donkeys
- Animals live both on land and in water (e.g.) frogs, crocodiles and other similar animals
- All poisonous and hazardous aquatic animals Intoxicants of all types, including alcohol and drugs
- Gambling, Pornography, Riba (charging and paying of interest) (Youri Oh et al., 2018)

In this regard, it becomes the responsibility of the authorities in ensuring the ‘halalness’ of products for the Muslim community. Halal Certification has been seen as an effective tool to ensure whether a product or a service that said to be halal, is really halal, safe, clean and quality. The authorities responsible not necessarily be government body, but it can be appointed special Islamic body or a dedicated halal certification body (Baharudin Othman 2016). Their responsibilities also vary from one to another, such as certification only, certification and consultancy services, certification, consultancy and training services for example. These authorities carry out their responsibilities based on legal provision or parliamentary decree that seek to fulfill the demand of the Muslim population.

### **1.1 Halal Concept in Brunei Perspective**

Brunei Darussalam as a conservative Muslim country strictly follows on the laws of Islam within the Shafi’i school of thought. Brunei is a strict adherent to Ahlus Sunnah Wal Jamaah creed which follows diligently the teaching of the Holy Quran and Al Hadith. Brunei place religion above all else, having served as both in national philosophy (Malay Muslim Monarchy) and national vision (Negara Zikir). Two religious



authorities responsible in religious matters namely Ministry of Religious Affairs and State Mufti's Office. These two religious bodies determined any issues related to religious matters and provide religious services around the country. Having said that, Brunei Darussalam codified the meaning of Halal, Halal Food, Halal Certification and Halal Label in the Halal Certificate & Halal Label Order 2005.

#### **a) Definition of Halal**

Things or actions permitted by Hukum Syara' (Laws of Islam in Mazhab Shafi'e) without punishment imposed on the doer

#### **b) Definition of Halal Food**

Halal food means food fit for human consumption and permitted by Hukum Syara' and fulfill the following conditions:

- (i) the food or its ingredients that do not contain any parts or products of animals that are non-halal to Muslims according to Hukum Syara' or products of animals which are not slaughtered according to Hukum Syara';
- (ii) the food does not contain any ingredients that are najis according to Hukum Syara';
- (iii) the food that is safe and not harmful;
- (iv) the food that is not prepared, processed or manufactured using equipment that is contaminated with things that are najis according to Hukum Syara'; the food or its ingredients do not contain any human parts or its derivatives that are not permitted by Hukum Syara';
- (v) during its preparation, processing, packaging, storage or transportation, the food is physically separated from any other food that does not meet the requirements stated in items (a), (b),

(c), (d) or (e) or any other things that have been decreed as najis by Hukum Syara’.

**c) Definition of Halal Certificate**

A Halal Certificate issued by the Majlis under the Halal Certificate and Halal Label Order 2005. When exhibited in any place of business, the certificate shall mean that the food in relation to which the certificate is referring:

- (i) neither is nor consists of or contains any part or matter of an animal that a Muslim is prohibited by Hukum Syara’ to consume or that has not been slaughtered in accordance with Hukum Syara’;
- (ii) does not contain anything that is considered impure in accordance with Hukum Syara’;
- (iii) has been prepared using an instrument that is free from anything which is impure in accordance with Hukum Syara’; and
- (iv) has not in the course of preparation or storage, been in contact with or close proximity to any food that fails to satisfy paragraph (a), (b) or (c) and anything that is considered to be impure in accordance with Hukum Syara’.

**d) Definition of Halal Label**

When used in relation to food in the course of trade or business, the Halal Label shall mean that such food:

- (i) Neither is nor consists any part of an animal that a Muslim is prohibited by Hukum Syara’ to consume or that has not been slaughtered in accordance of Hukum Syara’
- (ii) Does not contain anything that is considered to be impure in accordance with Hukum Syara’

- (iii) Has been prepared using an instrument that is free from anything which is considered to be impure in accordance with Hukum Syara’
- (iv) Has not in the course of preparation or storage, been in contact with or close proximity to any food that fails to satisfy paragraph (i), (ii), (iii) and anything that is considered impure in accordance with Hukum Syara’

All the definitions are carefully chosen and use to explain each Halal, Halal Food, Halal Certificate and Halal Label as enshrined in Halal Certificate and Halal Label Order 2005 of Constitution of Brunei Darussalam (Order under Article 83(3)).

## **2. Halal Market Potentials**

In recent years, great emphasis has been spotted on Halal related industry. Currently, global Muslim population stands at 1.8 Billion with a total global Muslim market stands at USD 3.9 Trillion for 2015 alone (BEDB, 2018). The industry itself reported 20% annual growth, showing a great potential and opportunities in this industry alone (Kim, 2015). The Muslim population stands 26% of total global population, with a record high birth rate growth stands at 3% per year (Grim and Karim, 2011). The industry itself not limited to only foods, but it also includes beverages, cosmetics, pharmaceuticals and Islamic services (banking and insurance). Out of the industries, the halal food industry is main industry that generates a lot of potentials. The Halal food and beverages industry recorded USD 1.2 Trillion spent in 2015 followed with USD 78 Billion in pharmaceuticals and USD 56 Billion in cosmetics (BEDB, 2018). This industry involved in activities revolving around food for example food processing, manufacturing and distribution.

Due to such prospects, Muslim economies set out trying to have a slice of this industry. Many governments make it a national agenda or part of economic activities that could help their economies. In Malaysia for example, the Halal industries

generates hundreds of thousands of jobs and makes about USD 10 Million annually (Youri Oh et al., 2018). In Brunei Darussalam, the industry already employs a sizeable number of employees which stands at 835 employees in 35 Halal related companies and generated about USD 64 Million for 2016 alone (BizBrunei, 2017). Following this findings, Thompson Reuters positioned Brunei at the 12<sup>th</sup> place out of 73 Muslim economies in its Global Islamic Economy Indicator. Following this trend, Muslim governments also seek to enhance the quality of these halal products. Halal certification has become a popular choice in ensuring ‘halalness’ of each product. In the initial days, limited scope of halal specifications and requirements were laid out for the industry players. These days, related authorities go beyond the traditional scope of Halal by going into niche market such as cosmetics, pharmaceuticals and supply chain itself. To date, there are about 122 halal certification authorities around the world, may it be government owned, government linked or an independent bodies (Komitopoulou, 2015). However, there are reports that these authorities responsible for halal certification faked the process for returns or industry players faked the certificate itself. Therefore, there are increasing need for an accountable and trustworthy Halal certification authorities by serious industry players.

### 3. Brunei Darussalam’s Halal Strategy

Brunei Darussalam has identified Halal industries as part of her economic drive. This can be seen from the efforts made by the government to develop the industry as well as making the industry as part of national economic agenda. The industry made debut in the 9<sup>th</sup> National Development Plan (2007 – 2012). To this day, the Brunei Government paid extra attention in ensuring the industry growth. The government has assigned different agencies to collaborate in ensuring this industry to take off. Generally, Brunei Darussalam’s Halal strategy can be categorise into 3 main parts. First is the **Brunei Halal Certificate and Halal Label** (including Halal Meat), second the **Brunei Halal Brand** and lastly **Brunei Halal Industry**. Each of the strategies have

different functions and focus yet arrived at the same i.e. to develop a competitive and sustainable Halal industry in Brunei Darussalam.

The motivation behind this starts not due to economic reason, rather more to the fulfillment of Fardhu kifayah<sup>1</sup>. As Brunei aspire to become a truly Islamic state, matters related to halal foods should become its main priority. Another motivation comes from His Majesty himself. His Majesty and Yang Dipertuan of Brunei Darussalam made repeated calls for relevant parties to look at on how Brunei should monitor the ‘halalness’ of food and beverages sold in the country<sup>2</sup>. Not only that, His Majesty himself personally followed the development of the industry in his capacity as the Head of Islamic Faith in Brunei Darussalam and making advise wherever necessary<sup>3</sup>. Following His Majesty’s speech and advice, the relevant bodies have step up their efforts in establishing necessary body and regulations related to Halal industry.

As part of this strategy, Brunei government set forth to promote branding of Brunei Halal that sees cooperation from many agencies within the government since 2007 onwards (Youri Oh et al., 2018). The new logo belongs to Brunei Islamic Religious Council (MUIB) is a must have in Brunei especially in food and beverages industry. Fast forward 10 years later, in 2017, all food related businesses (MSME, Macro, Multi National Company) are required to obtain Halal Permit for each of their products (Azaraimy, 2017). The government already enforced all food and beverage establishments to obtain Halal Certification for their establishments few years back.

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<sup>1</sup> communal obligations for Muslim community, if some Muslims make the initiative to fulfil the requirement, it is believed that God will free the rest of the Muslim from the responsibility

<sup>2</sup> “...As of recent, there are doubts on food, drinks and utensils that might be contaminated with ‘najis’, especially with the imported meat sold in the country. In this context, it is time for the relevant parties to look at the possibility to create a body that controls halal food and drinks, including all kind of meat and utensils in this country...” His Majesty’s Titah (Royal Speech) during His Majesty’s Birthday ceremony on 15<sup>th</sup> July 1997.

<sup>3</sup> “...our roles in regional and international economy will shine if we have the capacity to become the producer of Halal food. Last year, we already have an Act that is related to it, to guarantee that the supply of meat and chicken is truly halal according to Syara’. I hope, this step should be extended to those of processed foods.” His Majesty’s Titah during His Majesty’s Birthday ceremony on 15<sup>th</sup> July 2000.

This move is seen to fulfill the obligations of the concept ‘*Halalan Thayyiban*’ or permissible and guaranteed safe for consumption especially for domestic market. This also can help to raise the image of Brunei in the international arena for its strict enforcement of Halal in food & beverages industry and help lure investors to Brunei. Not only have that, Brunei leveraged on its stringent law by passing numerous important laws related to Halal industry as well as up to date guidelines in different sectors of the industry.

Brunei Darussalam has been known to be a ‘dry’ country as she had banned the sale of alcohol and consumption of alcohol on public spaces since 1991. Apart from that, non-Halal food section have been allocated in major supermarket so that it will not be mix with the halal food. In line with the ‘*Halalan Thayyiban*’ concept, the Government through Ministry of Health and State Mufti’s office has been discouraging smoking cigarette and has banned smoking in public spaces and buildings, as it brings harm to the health when consumed. Having said that, Brunei Darussalam gradually readying itself to be an example of a Muslim country where Halal concept can be applied almost everywhere and part of its way of life. Therefore, it is no wonder, the industry already making headway despite its young age and challenges facing the industry.

#### **4. Brunei Halal Certificate and Halal Label & Halal Meat Act (Chapter 183)**

This strategy concern with the Halal Certification and Halal Label, shall not be confuse with Brunei Halal Brand. The Brunei Darussalam’s Halal Certificate and Halal Label is concern only with certification of premises and establishment deemed to be ‘halal’ (or clean, hygienic and permissible) for halal activities (manufacturing, processing, packaging) and Halal Label for products verified as Halal by relevant authorities. As the process in Brunei Halal Certificate and Halal Label starts with reviewing and conforming to the Brunei Darussalam Certification Guideline for Halal Certificate and Halal Label, this section will be divided into 2 main sections namely

Brunei Darussalam Standard Halal Food (PBD 24-2007) which concern primarily with practical guidelines that food industry related must consider and apply into their operation prior to applying for the Halal Certificate and Halal Label. Later, this section will explain about the certifying body that responsible for certification, the two Acts related to the industry, the certification process and statistics.

#### 4.1 Brunei Darussalam Standard Halal Food (PBD 24-2007)<sup>4</sup>

This guideline completed in 2007 served as the benchmark for Standard Halal food in Brunei Darussalam. Current and potential industry players are required to observe and conform to the said standard at all times. It becomes the basic requirement for food product and food business in the country. The guideline covers definition, Najis (filth), sources of Halal foods and drinks, slaughtering, inspection, packaging, labelling and miscellaneous matters. The following are details of the guideline:

##### I. Najis

Najis or filth is things that is considered as ritually unclean. According to Syara', najis can be understand as the following:

- a) animals or things that are themselves not permissible such as pig (khinzir) and all its derivatives, blood and carrion;
- b) halal food that is contaminated with things that are non-halal;
- c) halal food that comes into direct contact with things that are non-halal;

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<sup>4</sup> A copy of this guideline can be fetch from the following link:

[https://www.google.co.th/search?q=4.1+Brunei+Darussalam+Standard+Halal+Food+\(PBD+24-2007\)&oq=4.1+Brunei+Darussalam+Standard+Halal+Food+\(PBD+24-2007\)&aqs=chrome..69i57.1484348j1j7&sourceid=chrome&ie=UTF-8](https://www.google.co.th/search?q=4.1+Brunei+Darussalam+Standard+Halal+Food+(PBD+24-2007)&oq=4.1+Brunei+Darussalam+Standard+Halal+Food+(PBD+24-2007)&aqs=chrome..69i57.1484348j1j7&sourceid=chrome&ie=UTF-8)

- d) any liquid and objects discharged from the orifices of human beings or animals such as urine, excrement, blood, vomit, pus, sperm and ova of pigs and dogs except sperm and ova of other animals
- e) carrion or halal animals that are not slaughtered according to Hukum Syara.

From the explanation provided above, the najis (filth) is further categorise into three types of najis namely najis Mughalazah, najis Mukhaffafah and najis Mutawassitah. Najis Mughallazhah is the most severe najis coming normally from dogs and pigs including any liquid and objects discharged from them. It requires a specific cleansing ritual for the affected area. Najis Mukhaffafah is deemed as light filth which normally comes from urine of a male baby age 2 and below and only consumed breast milk. This najis can be cleanse by simply sprinkle some water on them. Last but not the least is najis Mutawassitah, the medium najis such as vomit or blood. This filth can be cleansed by pouring water to clean them off. Islam take considerable emphasis in this matter as this najis will determined the ritual (prayers) is sah/acceptable or not according to Syara’

## **II. Sources of Halal Foods and Drinks**

The guideline also entails the sources of food and drink that can be considered as halal. There are certain criteria for the sources of halal food and drinks. For example, sources from animals must be non-pork, animals with tusk and teeth (tigers, bears, elephants, cats, monkeys), predator birds, pests and forbidden animals such as ants, bees, woodpeckers. For aquatic animals, animal that live both inland and on water is not halal. The sources from plants, mushroom and microorganisms, natural minerals & chemicals and drinks are all allowed as long as it is not poisonous, intoxicating or hazardous. As for genetically modified food, it is allowed as except non-halal by products. Last but not the least, food additives are considered halal except those that have alcohol.



### III. Slaughtering

One key requirement to make animals meat halal is the procedure in which it is slaughtered. Islam makes extra precaution in making sure certain criteria must be met to ensure the meat is halal. The key concept in Halal slaughtering is ‘ihsan’ or mercy in the act of ending animals’ life. At the same time, halal slaughtering procedure ensure the meat is safe for consumption by ensuring total cut off animals’ trachea, esophagus, carotid arteries and jugular veins to end blood circulation<sup>5</sup>. First is the place of slaughter. The slaughterhouse should be exclusively used to slaughter halal animals only. In the case the place of slaughter housed non-halal animals, halal animals must be fully separated to ensure it will not contaminate with the non-halal animals and najis. Second is criteria of animals to be slaughtered. The animal must be first and foremost halal. The animals to be slaughtered must be alive at the time of slaughter. Last but not the least, the animals should be healthy and approved by the relevant authority. Third criteria are concern with the slaughterer. The person in charge in slaughtering must be a Muslim with mental stability and fully understand the Islamic procedure in slaughtering. The slaughterer shall not be in the state of ‘ihram’ or importance ritual in Hajj and Umrah.

### IV. Slaughtering Tools

Tools and utensils used for slaughtering should only use for halal slaughter only. The slaughtering knife must be sharp to ease the process. Only sharp items such as knife is allowed for slaughtering (not bones, nails, teeth).

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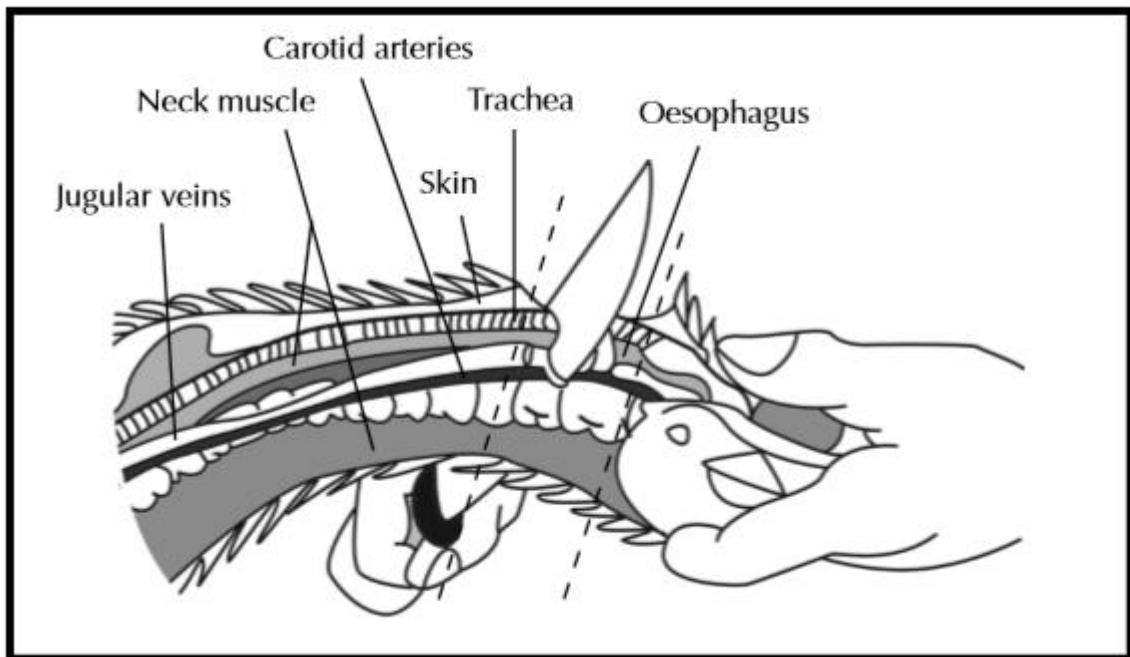
<sup>5</sup> Scientific evidence found out that, by cutting off animal blood circulation, this will lessen the risk of bacteria circulating in the animal body post slaughtering

## V. Procedure

In Islamic slaughtering practice certain procedures must be observed to ensure the whole process is blessed and according to the teaching of Islam. Islam prohibits prolonging the struggle faced by the animals' post slaughtering. Therefore, Islam makes sure that the process is swift and help the animals to pass away as quickly and efficient as possible. The following are the procedure step by step:

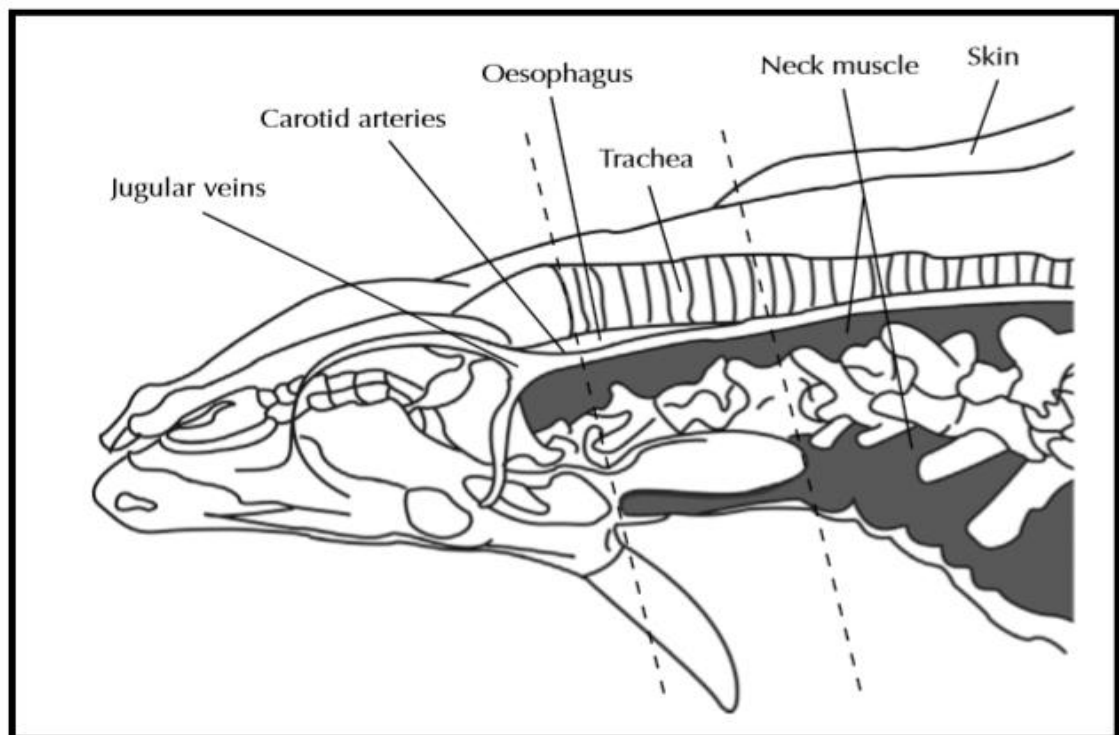
- a) The procedure starts with intention and the slaughter is aware of his action.
- b) The purpose of slaughtering is only for Allah and not for other purposes.
- c) Recite the phrase 'Bismillahir Rahmannir Rahim' (In the name of Allah Most Gracious, Most Merciful) before the slaughtering of each animal.
- d) Slaughtering must be done only once to each animal. The 'sawing action' of the slaughtering is permitted as long as the slaughtering knife must not be lifted off the animal during the slaughter.
- e) The act of halal slaughter shall begin with an incision on the neck at some point just below the glottis (Adam's apple) and after the glottis for long necked animals.
- f) The slaughter act shall sever the trachea, oesophagus and both the carotid arteries and jugular veins to hasten the bleeding and death of the animal (see Figure 1 & 2). The bleeding shall be spontaneous and complete.

Figure 3-1: Chicken anatomy during slaughtering



Source: Brunei Darussalam Standard Halal Food PBD 24:2007

Figure 3-2: Cattle anatomy during slaughtering



Source: Brunei Darussalam Standard Halal Food PBD 24:2007

## **VI. Inspection**

During the whole process, two inspectors must present at all time to ensure all the procedure is followed through. Normally the inspection will involve in the process of slaughtering, process thereafter (dressing, handling storage, packing, lifting, transportation) and the manufacturing the meat to become halal processed food. The processed food will be considered as halal as long as it does not come into contact with non-halal substance or najis, the product or ingredients is safe for consumption, the manufacturing process use only equipment that are free from contamination with najis and lastly, the process food have no human derivatives.

## **VII. Packaging**

Islam also takes into consideration on how the Halal food is packaged. There are certain criteria must be fulfilled for the packaging to be deemed as 'Halal'. First, the packaging material must not produce using materials considered as Najis. Second, while manufacturing the package, the equipment used should not be contaminated with Najis. Third, the manufacturing and transporting of the packaging should not be in the same place with non-halal material. The packaging itself must be non-hazardous and safe to use. Packaging process must be carried out in a clean and hygienic manners at all times.

## **VIII. Labelling**

Labelling is important in determining and certifying a product is halal. Label must be shown clearly and must not be made of harmful material when in contact with the product as well as not made from najis. A label must have the following information to give sufficient information to verify it is a halal product:

- a) name of the product
- b) nett content expressed in metric system;

- c) name, address and trademark of the manufacturer of local origin;
- d) name and address of importer and/ or local distributor in the case of imported food;
- e) list of ingredients and shall be specified in descending order of the proportion by weight;
- f) code number identifying date and/ or batch number of manufacture and expiry date; and
- g) country of origin.

As for meat product, apart from the above information is made available, it also must have the date of slaughter and date of processing.

## **IX. Miscellaneous**

In this section, the guidelines entail about miscellaneous matters related to Halal food and drinks. First it describes about devices, utensils, machines and processing aids. Second is about product storage, display and servings and lastly, hygiene, sanitation, sanitization and food safety.

- a) Devices, Utensils, Machines and Processing Aids
  - All devices, utensils, machines and processing aids for processing Halal food must be made from any materials deemed as najis. In the case that those items were previously used for processing non-halal food, it must be first and foremost washed and ritually cleansed similar to cleansing rituals for Najis Mughallazah.
- b) Product Storage, Display and Servings
  - All halal food that are stored, displayed, sold and served must be clearly labelled as halal and separated from non-halal products.
- c) Hygiene, Sanitation, Sanitisation and Food Safety
  - Islam put an extra care in ensuring hygiene and sanitation in ensuring food safety. This may include many aspects such as personal

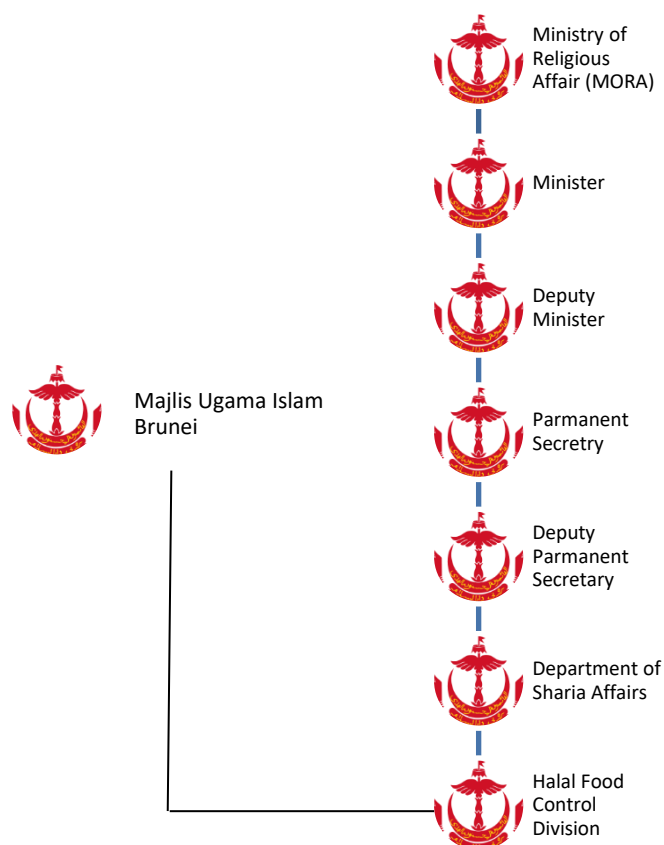
hygiene, clothing, equipment and working environment. For example, producers are expected to have control environment for food growth (plants) and control their health (both plants and animals) so that it will pose any hazards to human. Halal foods also should be prepared processed, packaged, transported and stored that reflects highest possible hygienic and sanitation condition. Some systems should be in place to prevent food contamination by foreign matters as well as the excessive use of food additives.

The above-mentioned guidelines are a brief summary of what is expected from the industry players as stated in Brunei Darussalam Standard Halal Food PBD 24:2007.

#### **4.2 Certifying Body**

In Brunei Darussalam, the certifying body is the Islamic Religious Council of Brunei or simply called MUIB (Majlis Ugama Islam Brunei). This religious council normally in charge of Islamic administration policy across the country. The Council is one of the five council that directly advises His Majesty the Sultan & Yang DiPertuan of Brunei Darussalam. Hence, they initially act on behalf of His Majesty as the Head of Islamic Faith as well as execute any recommendations commended by His Majesty on religious matters. MUIB normally is the policy maker related to religious matter and executed by the Ministry of Religious Affairs (MORA). Through the same frameworks, MUIB discharge its duty in processing halal foods certificate and permit to Halal Food Control Division (BKMh), which comes under direct purview of Department of Sharia Affairs, Ministry of Religious Affairs. BKMh also acts as Secretariat for Halal related matters to Majlis Ugama Islam Brunei (MUIB). To understand better of the workflow, the following is the flowchart explaining the organizational structure.

Figure 3-3: Organization Structure for Halal Food Control Division



Source: Halal Food Control Division, Department of Sharia Affairs, Ministry of Religious Affairs

Halal Food Controls Division is responsible for the enforcements of 2 Acts related to Halal industry namely Halal Certificate and Halal Label Order 2005 & Halal Meat Act and associated rule 1999. Within this mandate, BKMH becomes the key body in guaranteeing halal foods and establishments. The following will explain the scope and responsibility of BKMH within the 2 Acts mentioned before.

#### 4.3 Halal Certificate and Label Order 2005 (amended 2017)

This Act concern with the process and regulations related to Halal Certificate and Label Order introduced in May 2005 and enforced in 2008. There are 2 different

sections on the Act namely first the Halal certificate and second the Halal label. The following will explain the difference between the two.

#### 4.3.1 Halal Certificate

A Halal certificate is a certificate issued by MUIB for to ensure a food served at an establishment is ‘Halal’ (restaurants or food factories). Further explanation can be understood as the following.

- (a) The exhibited food or drinks are not contaminated or mix with najis or has not been slaughtered in accordance with Hukum Syara’
- (b) does not contain anything that is considered najis,
- (c) prepared properly using utensils or equipment that is free from najis,
- (d) In the process of preparation or storage, not been in contact with or close proximity to any food that fails to satisfy paragraph (a), (b) or (c) and anything that is considered to be impure in accordance with Hukum Syara’.

It is mandatory for all food establishments and food factories operating in Brunei to apply for Halal Certificate for the premises. This includes local food manufacturers, pharmaceuticals, health supplements and traditional medicines practitioner. In order to pass and get the certification, the business must fulfill the following requirements:

- a) Employ a full time 2 Muslims Halal supervisors and each one must attend and supervise the operation at all time
- b) All ingredients, devices, utensils, packaging and machines used must be free from najis
- c) The premises must only prepare, sell and serve halal food
- d) The exterior and interior of the premises must be ritually cleansed
- e) Fulfill the requirement as stated in Standard and Brunei Darussalam Certification Guidelines Requirements



The process of getting Halal Certification involved several steps. First, applicants must file an application to BKMH. The application should be for either each type of business or each place of business if the business has more than one place. The followings are list of accompanying certificates and documents in applying for Halal Certificate<sup>6</sup>

- 1) Copy of Applicant's Identity Card / Passport
- 2) Company profile
- 3) Copy of Miscellaneous License of company (if any)
- 4) Copy of Business License
- 5) Copy of Business Registration Certificate
- 6) Name and information of the type of business
- 7) Name and address of other place of business (if any)
- 8) Name and information of product/menu for verification
- 9) Ingredients used
- 10) Name and address of producer / ingredient supplier
- 11) Halal status of ingredients and their Halal certifications or product specifications for critical ingredients (as appropriate).
- 12) Type of packaging material (if any).
- 13) Processing and production procedures.
- 14) Product process flow.
- 15) Other certificates or documents such as Hazard Analysis and Critical Control Point (HACCP) Plan, International Standard Organisation (ISO), Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP), Total Quality Management (TQM), Veterinary Health Mark (VHM), Veterinary Inspection Logo (LPV) and other (if applicable)
- 16) Map of the place or the place of business.

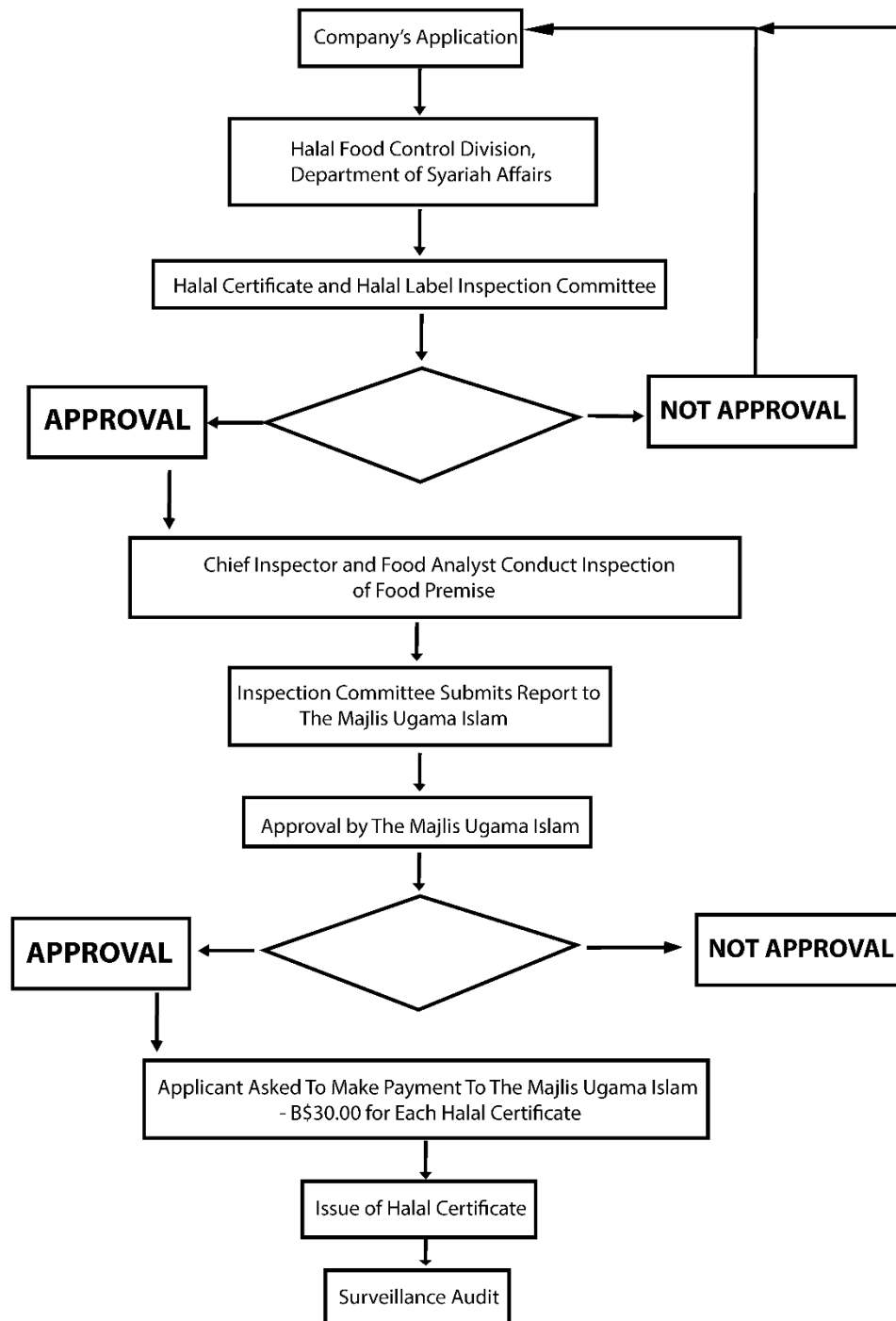
BKMH will later on, ask the applicants to sit for a written and technical test. After due process, BKMH will assign auditors as part of the inspection team to inspect

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<sup>6</sup> Source: Guidelines for Halal Certification (BCG Halal 1)

the premise and ingredients used. If necessary, samples of foods and products will be asked for further analysis by relevant parties. As it is required by law, the food establishments must have halal supervisors, therefore the owner of the business must send 2 staffs to be train as Halal supervisors. After completing necessary inspection, the Inspection Committee will make a report and submit it to MUIB. Upon approval from MUIB, applicant may proceed to make a payment of BND 90 for fee payment and valid for the next 3 years. The whole process should take place within 45 days since the submission of the application as part of key performance indicator for the process of getting Halal Certificate. All cost and expenses for auditing should be borne by the applicants themselves. After getting the certificate, a surveillance audit will come and make inspection from time to time. The following table will explain the flowchart for application of Halal Certificate.

Figure 3-4 Halal Certification Application Process Flowchart



Source: Guideline for Halal Certification (BCG Halal 1) First Edition 2007

#### 4.3.2 Halal Label

Halal label is a permit issued by MUIB that allows the use of Halal Label on the packages of the food. Further explanation can be understood as the following.

- a) The food that comes with the labels should guarantee that it is not contaminated or mix with najis or that has not been slaughtered in accordance with Hukum Syara’;
- b) does not contain anything that is considered najis,
- c) prepared properly using utensils or equipment that is free from najis,
- d) In the process of preparation or storage, not been in contact with or close proximity to any food that fails to satisfy paragraph (a), (b) or (c) or anything that is considered to be impure in accordance with Hukum Syara’.

It is mandatory for all food establishments and food factories including operating in Brunei to apply for Halal Certificate for their products. This includes local food manufacturers, pharmaceuticals, health supplements and traditional medicines practitioner. In order to pass and get the permit, the food producers must fulfill the following requirements:

- a) the food or its ingredients that do not contain any parts or products of animals that are non-halal to Muslims according to Hukum Syara’ or products of animals which are not slaughtered according to Hukum Syara’.
- b) the ingredients used does not contain any najis
- c) the food that is safe and not harmful.
- d) It is not prepared, processed or manufactured using equipment that is contaminated with things that are najis according to Hukum Syara’.
- e) the food or its ingredients do not contain any human parts or its derivatives

- f) during its preparation, processing, packaging, storage or transportation, the food is physically separated from any other food that does not meet the requirements stated in items (a), (b), (c), (d) or (e) or any other things that have been decreed as najis by Hukum Syara’.
- g) Fulfill the requirement as stated in the Guideline for Halal Certification (BCG Halal 1)

The process of getting Halal Label or Permit involved several steps. First, applicants must file an application to BKMh. The application should be for each type of food product. The followings are list of accompanying certificates and documents can be found in applying for Halal Label/Permit<sup>7</sup>

- 1) Copy of Applicant’s Identity Card / Passport
- 2) Company profile
- 3) Copy of Miscellaneous License of company (if any)
- 4) Copy of Business License
- 5) Copy of Business Registration Certificate
- 6) Name and information of the type of business
- 7) Name and address of other place of business (if any)
- 8) Name and information of product/menu for verification
- 9) Ingredients used; j) Name and address of producer / ingredient supplier
- 10) Halal status of ingredients and their Halal certifications or product specifications for critical ingredients (as appropriate)
- 11) Type of packaging material (if any)
- 12) Processing and production procedures
- 13) Product process flow
- 14) Other certificates or documents such as Hazard Analysis and Critical Control Point (HACCP) Plan, International Standard Organisation (ISO), Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP), Total Quality

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<sup>7</sup> Source: Guideline for Halal Certification (BCG 1)

Management (TQM), Veterinary Health Mark (VHM), Veterinary Inspection Logo (LPV) and other (if applicable)

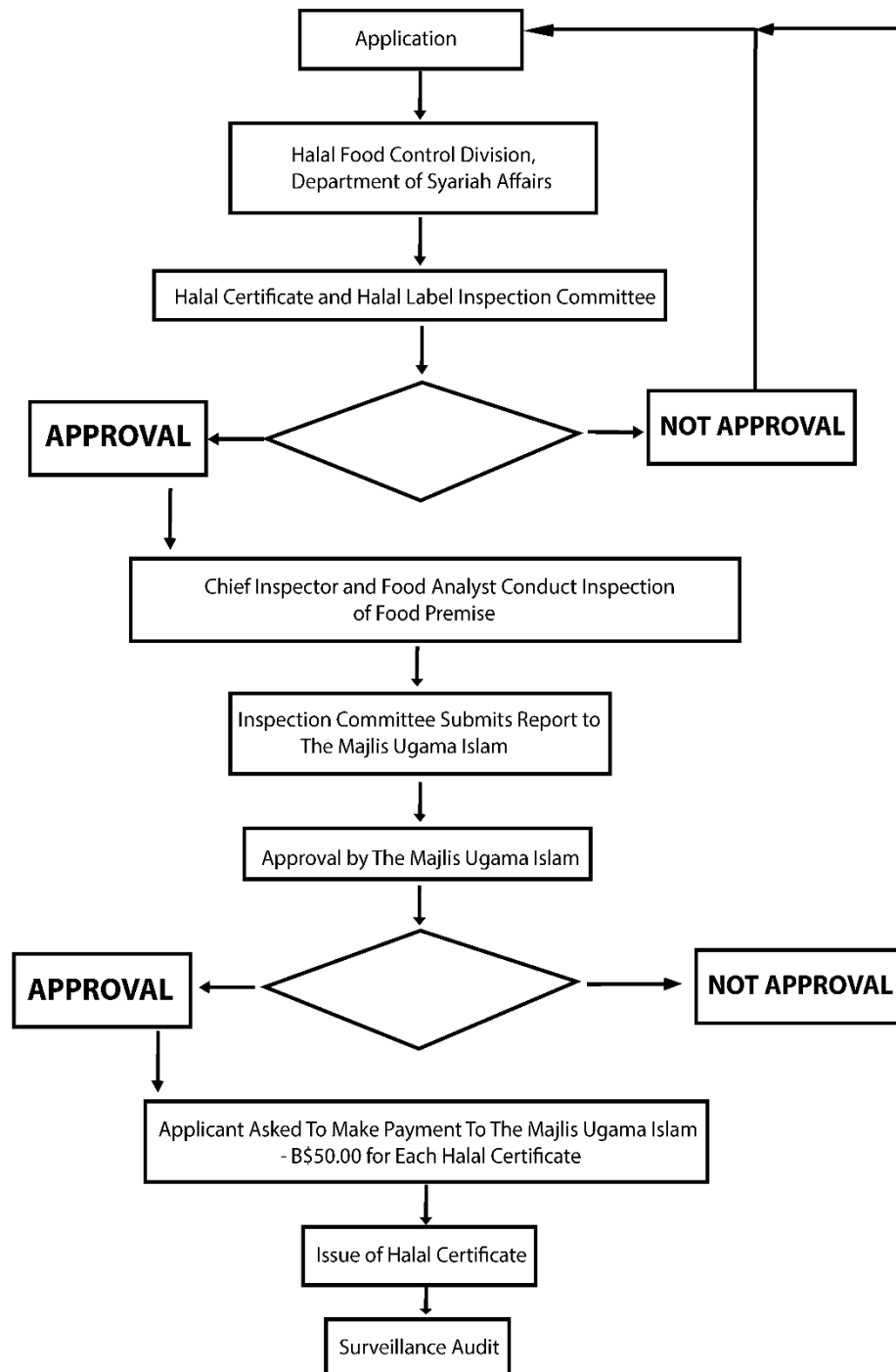
15) Map of the place or the place of business

BKMH will later on, ask the applicants to sit for a written and technical test. After due process, BKMH will assign auditors as part of the inspection team to inspect the premise and ingredients used. If necessary, samples of foods and products will be asked for further analysis by relevant parties. After completing necessary inspection including laboratory analysis report, if necessary, the Inspection Committee will make a report and submit it to MUIB. Upon approval from MUIB, applicant may proceed to make a payment of the permit. The price of products will be according to the size of their business. The following are the details of the price:

- a) Micro: BND 5 per products
- b) Small: BND 150 for 20 products
- c) Medium: BND 300 for 20 products
- d) Macro: BND 700 for 20 products
- e) Multinational Company: BND 1,000 for 20 products

The permit will last for lifetime, as long as the product will not change its ingredients in due course. The whole process should take place within 45 days since the submission of the application as part of key performance indicator for the process of getting Halal Label. After getting the permit, a surveillance audit will come and make inspection from time to time. All cost and expenses for auditing should be borne by the applicants themselves. The following table will explain the flowchart for application of Halal Label or Permit.

Figure 3-5 Halal Label/Permit Application Process Flowchart



Source: Guideline for Halal Certificate (BCG Halal 1)

#### 4.4 Halal Meat Act (Chapter 183) and Accompanying Rules 1999

This acts concern about the regulating local halal raw meat that circulate in the country. The act targeted the slaughterhouse as the source for raw meat in the country. This may include local and foreign abattoirs and must be accredited by MUIB before their produce can be allowed to be sell in Brunei.

##### 4.4.1 Local Abattoirs

For the local abattoirs, they are required to apply for 3 different license & certificate namely supplying license, slaughtering certificate and halal certificate, on top of the Halal label produce by MUIB. These 3 license and certificate can be obtained through the Board of Halal Import Permits under the purview of MUIB, which sees 4 different government agencies collaborated together namely Ministry of Religious Affairs, Ministry of Health, Department of Agriculture and Royal Custom & Excise Department, Ministry of Home Affairs. The applicants for slaughtering certificate will have to undergo 2 tests namely written and technical test. As for the Supplying License and Halal, the slaughterhouse will be inspected by Department of Agriculture and Agrifood for hygiene and safety check, including the storage area and transportation process. The applicants simply fill in the application and upon submission, the Board will set up an inspection committee to inspect the slaughterhouse to ensure all the process involved in the slaughtering, packaging and transporting is clean and permissible according to Hukum Syara'. The Committee will later on will compile their reports (including from Ministry of Health and Department of Agriculture) and submit it to the Board. Upon approval, the applicants may pay the fees as stated below.

- a. Halal Certificate: BND 10 per year
- b. License for Local Halal Meat (Supplying License): BND 30 per year
- c. Slaughtering Certificate: BND 10 per year
- d. Halal Logo (label): BND 2 cents per logo



Local suppliers and sellers are required to display the Halal Label during transportation and sale of the meat. The meat must be fixed with halal logo onto each product that contains the details such as company name, serial number and year. The following is the sample of halal logo.

Figure 3-6 Brunei Halal Logo

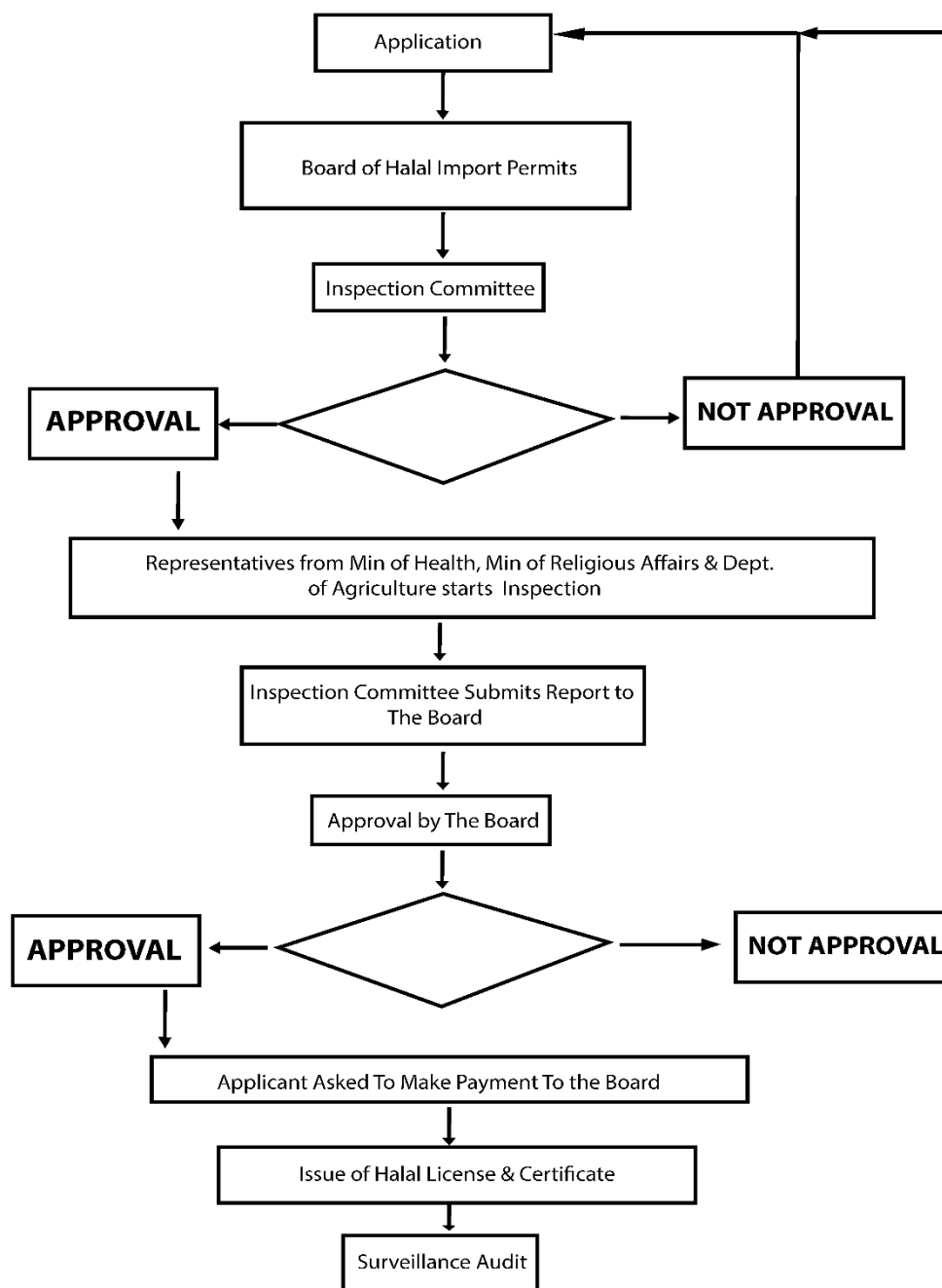


Figure 3-7 Brunei Halal Logo fixed on a meat product



The whole process should take place within 45 days since the submission of the application as part of key performance indicator for the process of getting those license and certificate. After getting the license and certificate, a surveillance audit will come and make inspection from time to time. All cost and expenses for auditing should be borne by the applicants themselves. The following table will explain the flowchart for application of the supplying license and slaughtering certificate.

Figure 3-8 License & Certificate Application Process Flowchart



Source: Author's own analysis

#### 4.4.2 Overseas Abattoirs

For the foreign or overseas abattoirs, in order to get accreditation from MUIB, they are required to apply for 2 permits i.e. approval permit (for import matters) and approval import quota permit (for import quota matters & bio security) on top of 3 different license & certificate namely supplying license, slaughtering certificate and halal certificate, on top of the Halal label produce by MUIB. These 3 licenses and certificate & can be obtained through the BKMH on behalf of MUIB and Board of Halal Import Permits, which sees 4 different government agencies collaborated together namely Ministry of Religious Affairs, Ministry of Health, Department of Agriculture and Royal Custom & Excise Department, Ministry of Home Affairs. While the 2 permits can be obtained from Royal Custom & Excise Department for approval permit and Department of Agriculture and Agrifood for approval import quota permit. Upon submission, the MUIB will call a Board meeting to set up an inspection committee consist of representatives from BKMH, Department of Health Services, Department of Agriculture and Agrifood and Royal Custom and Excise Department. The inspection committee will later on inspect the slaughterhouse to ensure all the process involved in the slaughtering, packaging and transporting is clean and permissible according to Hukum Syara'. The followings are the requirements that overseas abattoirs must fulfil to pass the inspection.

- a) quantity of meat is imported which is necessary having regard to the availability of meat produced locally
- b) Countries from where the meat are imported are free from dangerous diseases
- c) Applicants must have sufficient hygienic storage facilities
- d) Importers and local suppliers must be Muslim

At the same time, the Committee will observe the slaughtering process to ensure it meets the requirement of Hukum Syara'. The following are the requirements that must be met:

- a) Slaughterer must be Muslim, fully authorized by law of that country to slaughter according to Hukum Syara'
- b) At least 2 Muslims stationed in every slaughtering center who shall be present at the time of slaughtering, packing, lifting and transporting of the meat
- c) The animals must be alive in normal condition (Hayat Mustaqirrah) during the point of slaughtering
- d) Trachea and oesophagus must be cut off completely
- e) Slaughtering apparatus must not be made from bones, teeth or fingernails
- f) Basmalah must be evoked during slaughtering
- g) Slaughtering must be done once but repeated sawing action is permitted as long as the cutting apparatus is not lifted off the animal
- h) Stunning must not be used for chicken slaughters
- i) Ensure Muslim workers must be present during the slaughtered animal sheath
- j) Ensure that Halal meat be kept separate from non-halal meat at abattoir, storage, packing, transporting, importation and selling.<sup>8</sup>

At the same time, the committee makes sure all procedure follows the law of the country of origin and destination (Brunei) to ensure smooth immigration procedure upon departing and arriving at the port of call. Upon return, the Committee will later on will compile their reports (including from Ministry of Health and Department of Agriculture) and submit it to MUIB. Upon approval, the applicants may pay the fees as stated below.

- a. Accreditation by MUIB: Free of Charge
- b. Halal Import Permit: BND 50 per year
- c. Halal Certificate: BND 10 per year
- d. License for Local Halal Meat (Supplying License): BND 30 per year

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<sup>8</sup> Source: Halal Food Control Division, Department of Syariah Affairs, Ministry of Religious Affairs.

- e. Slaughtering Certificate: BND 10 per year
- f. Halal Logo (label): BND 2 cents per logo

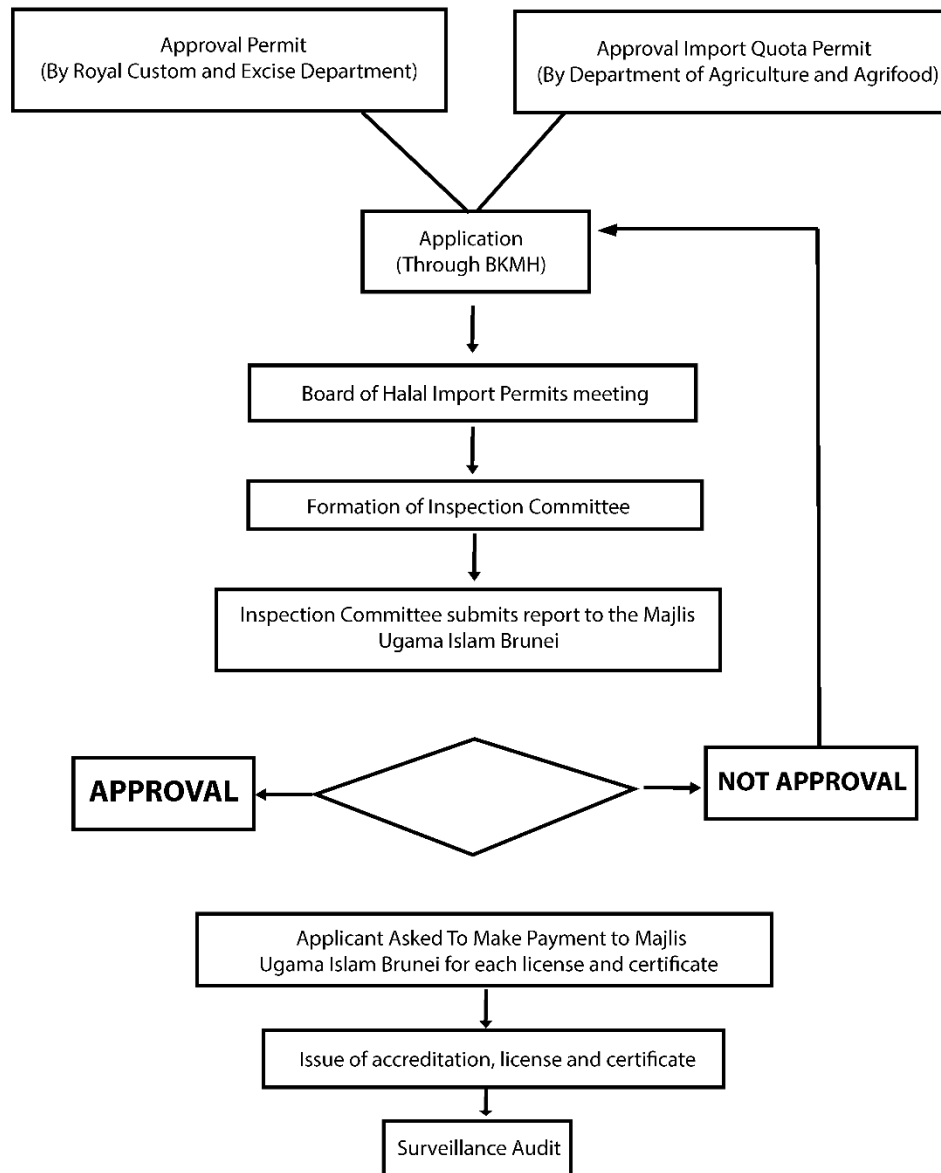
Foreign suppliers and sellers are required to display the Halal Label during importation, transportation and sale of the meat. The meat must be fixed with halal logo onto each product that contains the details such as company name, serial number and year. If the animal is not slaughtered properly, it will be contained 'NH' for Non-Halal or 'NB' for Non-Halal to let the customers know. After getting the accreditation, license and certificate, a surveillance audit will come and make inspection from time to time. All cost and expenses for auditing should be borne by the applicants themselves. The following table will explain the flowchart for application of the accreditation, supplying license and slaughtering certificate.

#### 4.5 Halal Food Lab Testing

To ensure products meet Brunei Darussalam's halal requirements, **the Halal Science and Metrology Centre** conducts halal food analyses at its laboratory facilities. This lab was established by Ministry of Energy and Industry and has MOU with Osaka University and Japan Food Research Lab. It provides DNA analysis and the like to identify whether applied products are truly Halal.

The Centre's equipment is able to detect porcine DNA and proteins, alcohols, oils, fats, lards, gelatine and other substances which may render a product to be non-halal. The Centre also provides technical support to the Ministry of Religious Affairs for halal certification applications.

Figure 3-9 Accreditation, License & Certification Process Flowchart



Source: Author's own analysis

#### 4.6 Statistics

This section will entail about the recent statistical data related to Halal food and industry. As of June 2018, there are about 1,672 restaurants, 241 local factories and 22 foreign factories have already given the Halal Certificate by MUIB. A total of 7,305 local products and 344 foreign products certified under Brunei Halal label/permit. Brunei Darussalam also allowed products with labels verified by Council of Religion in Brunei, Indonesia, Malaysia and Singapore or MABIMS, an association of 4 Muslims countries concerning the Islamic Faith. Labels from Department of Islamic Development of Malaysia (JAKIM), Board of Food Research, Medicine and Cosmetics, Indonesia Muslim Scholars Council (LPPOM MUI) and Islamic Council of Singapore (MUIS) can enter the country without the need for verifying the products. The following are the accepted labels that can enter Brunei Darussalam apart from the Halal logo produced by Brunei Darussalam.

Figure 3-10 Accepted Halal Lables in Brunei Darussalam



Halal Label by JAKIM



Halal Label by LPPOM



Halal Label by MUIS

Apart from that, there are 47 active foreign abattoirs that are accredited by MUIB and supplying raw meat to Brunei Darussalam and beyond. 16 are in Australia, 13 in Malaysia, 9 in the United Kingdom, 4 in India, 2 in People's Republic of China, and 1 in Indonesia, Jordan and the Philippines respectively. There are about 18 local abattoirs get accredited by MUIB. Apart from that, MUIB has so far, produce 6 referring guidelines for industry players. The following are the said guidelines.

- a) Halal Food Guidelines (PBD 24:2007)
- b) Halal Cosmetics Guidelines (PBD 26:2016)
- c) Brunei Halal Guidelines 1 (Halal Certification)
- d) Brunei Halal Guidelines 2 (Halal Compliance Audit)
- e) Brunei Halal Guidelines 3 (Compliance Auditors)
- f) Brunei Halal Guidelines 4 (Surveillance Audit)
- g) Guidelines for Manufacturing and Handling of Halal Medicinal Products, Traditional Medicines and Health Supplements (GDP 10: 2014)

In short, according to recent studies by Norhidayah & Saadan, Brunei Halal Certificate and Label is one of the most trusted because of its stringent procedure. At the same time, the fee for those license and certificate found to be the cheapest amongst all of Southeast Asian nations (Norhidayah and Saadan, 2014). Foreign abattoirs seek accreditation from MUIB is not because their product is going to be exported to Brunei, rather they use the accreditation as a legitimate document that will allow them to penetrate the global halal market.

## **5. Brunei Halal Brand**

Brunei Halal Brand is a commercial brand belongs to His Majesty's Government. It is managed and promoted as a 'Private Label Brand' for commercial use (Suserena, 2018). The Brand is a brainchild of Ministry of Primary Resources and Industry (now Ministry of Primary Resources and Tourism) to take advantage of Brunei's comparative advantage in global Halal industry food chain. Later on, in 2009, Ghanim International



Corporation was established as a government linked companies to managed and develop the brand. The brand aspires to be a well-recognized global halal brand that is renowned through its innovation and virtue. Innovation here means the brand will utilize cutting edge and up to date technology to make sure the food have benefit and healthier to consume. While the brand virtue lies on Brunei's stringent observant of Islamic faith that translates into the image as well as the production process of their products.

The Corporation that managed the brand involved in commercial activities such as trading, distribution and promotion of the brand and products. Their strategy is simple, to create a trusted global halal brand as part of global halal product solutions. This means, the business focus on exporting halal foods to rising demands from around the world and be part of increasing varieties of Halal foods in the world market. This strategy further supported by their 5 pillars of business conduct i.e. provide convenience to ready to eat halal food, use of innovation in food production and promotion, quality products, making sure that their products have added health benefits and competitive prices against other halal products on the market. According Ghanim International, what makes them stand out from the rest is the stringent process in ensuring that it is halal to consume, innovative and wholesome products and their dedicated workforce that will ensure the brand live up to its name. Another thing that make Brunei Halal brand special is the introduction of healthier choice of products. These products will be low in sugar, salt and fat.

As a commercial company, the business centred upon manufacturing these foods themselves, apart from having joint ventures and partners to use their brand. Although headquarter is in Brunei Darussalam itself, the manufacturing firm used to be in the United Kingdom. Through this firm, the products then exported to China, United Arab Emirates, Singapore and Brunei. In United Kingdom itself, at the peak of its production, Brunei Halal Brand products can be found across 200 Tesco (BorneoBulletin, 2015). As of now, there are about 50 products under the brand ranging

from ready to eat foods, cordials, snacks and many more to come in near future. All of these will feature the brand itself and Brunei halal label as shown below.

**Figure 3-11 Brunei Halal Label/Logo and Brunei Halal Brand Logo**



**Brunei Halal Label/Logo**



**Brunei Halal Brand logo**

The Brunei Halal brands also seek to empowered local products through partnership with local SMEs. Although these products already received local boost from government program such as ‘One Village One Products’ (OVOP), these products can go thus far as Brunei is considered as a small market. Therefore, through partnership with Ghanim International, their products will definitely have further boost specially to break global halal market. Normally, the SMEs are required to obtain the Brunei Halal Label/Permit for their products first. For Medium enterprises, they should obtain the Brunei Halal Certificate for their premises. Then Ghanim will send inspection team to ensure the place of business is clean and up to standard. After that, negotiation can start before a partnership deal is brokered.

As for interested parties outside of Brunei that wants to utilize the Brand, first they are asked to obtain the Brunei Halal Certificate and Brunei Halal Label. Ghanim itself have no authority in producing the said certificate and label. Upon obtaining the said label and certificate, Ghanim will then send an inspection team follow with a

negotiation. If both parties satisfied with the negotiation, a deal will be made, and the former can start using the brand on their products. Ghanim insists on such products should be for export as to help the brand grows its wing. There are many advantages in using the brand such as access to Muslim market, obtaining a trusted brand from a renowned Muslim country (trust to their products) and stringent quality products. These advantages are key in penetrating Global Halal market especially in the Gulf states and the middle east as the Muslim population here is more observant of halal matters and take no shortcuts in fulfilling religion requirements. Thus, through the brand, their products immediate gained the trust from the Muslim population.

Some Thai manufacturing companies reached out to Ghanim International showing their interest in using the brand. These companies duly follow the requirements laid out but facing problems in fulfilling one key requirement to obtain Brunei Halal Certificate. These companies lacked 2 Muslim supervisor that must present at all time during production process. Without this supervisor, the authority (BKMH) refused to recognize that the companies is producing food in ‘Halal’ manner. Such a stringent procedure ensures the quality of Brunei Halal Brand as a trusted global halal brand.

Since its inception, the brand already grown in reputation as a trusted and rising global halal brand. This recognition reflected from the demand from foreign market such as from China and UAE, interests from other manufacturer in using the brand such as from Malaysia and Thailand as well as awards for example Gulfoods Innovation Awards 2017 for the category of Best Local Foods. Looking at this positive growth, Ghanim International plans to have a repacking facility and create products in smaller packs as for their medium-term goal. As for the long term one, due to closure of their manufacturing factory in the UK, the company plans to open one to support the existing production line.

## 6. Brunei Darussalam Halal Industry

Taking advantage of its expertise, observant Muslim image as well as a quality workforce, Brunei Darussalam take note of Halal industry as one of the five priority areas for business and investments<sup>9</sup>. Brunei in so far have develop necessary requirements that will place her as one of the key destinations for Halal industry such as the widely recognized Halal Certificate and Label, the referring Halal guidelines and the Brunei Halal Label on top of its strict adherence to the Islamic faith. Under the Halal industry, Brunei seek to develop food and beverages, pharmaceuticals and cosmetics as key component for the industry. In order to develop this industry, the country open its arms to foreign direct investment and the key enabler for growth. It is well known that FDIs has enable the host country to benefit from knowledge and technology know how, opening new markets as well as opening up new opportunities for business for local companies and employments. The main strategy adopted in Brunei specifically for this industry is to make Brunei as production base that will add value to their products and export oriented. An example of this is Saahtain Asia Private Limited, a Meal Ready to Eat (MREs) manufacturer for humanitarian crises. The UAE based company make a quick decision to settle in Brunei after considering a lot of factors. The company cited factors such as political stability, peaceful environments and various incentives given by the government as the key factor for choosing Brunei as for their Asia headquarter (Azlan, 2017). The company have three categories of Meals Ready to Eat (MREs) namely Tayyib, normally for humanitarian efforts, The Food Pouch for the military and Al Gourmet for general retails. The companies managed to add value through obtaining Brunei Halal Logo in all of its products, making their products popular in Muslim majority countries. Since operating in November 2017, the company already send relief foods to Bangladesh and Myanmar with much convenience due to Brunei's available infrastructure, feeding chain and location that is literally at the heart of ASEAN.

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<sup>9</sup> Other priority areas are technology and creative industry, business services, tourism and downstream Oil & Gas industry

Another example is Simphor Pharma, a 100% halal pharmaceutical company established in Brunei. Taking advantage of Brunei stringent halal procedures and the world's first halal pharmaceutical guidelines, the company becomes the pioneer in developing the pharmaceutical industry in the country. A joint venture between Canadian companies and local investors, for the past 3 years, the company already developed 80 different products ranging from health supplements, Pharmaceuticals and cosmetics (BorneoBulletin, 2017). Similar to Saahtain, the company take advantage of Brunei stringent halal certificate and halal label to add value to their products with the hope to win over customers. The company slowly making headways in penetrating foreign market such as the United States and China (Brudirect.com, 2016). In short, there are plenty of potential to tap in for halal investments in Brunei Darussalam.

### 6.1 Process

Brunei Darussalam has established due process to help investors coming into Brunei. There are several government agencies that facilitates FDIs namely Brunei Economic Development Board (BEDB), FDI Action and Support Centre (FAST) and Darussalam Enterprise (DARe). These agencies are to provide necessary facilitation for the ease of interested investors. For example, BEDB becomes the main focal point for any interested parties to invest in Brunei. Their functions primarily is to pursue and promote FDI under identified 5 business clusters namely Halal, technology and creative industry, business services, tourism and downstream Oil & Gas industry. Their main strategy is to help these investors create a high value products and exports them abroad.

Interested parties may come to BEDB for initial talks before they are assign with an account manager. The account manager roles are to help the potential investors to develop a proper investment proposal, fulfill their request to visit or liaise with other agencies help them until the project is feasible and accepted by the His Majesty's Government. Later on, the potential investors ask to provide investment

proposal brief that entails all the details about the company. This will follow with developing a proper investment proposal that includes matters such as labour requirements, raw material, market access and logistics for example. Next, they are required to come up with project requirements that may fit their business such as lands, location, proximity to ports, incentive among others. Coming up with Investment project proposal and project requirements normally takes time as to ensure all matters are taken care of. After all are set, then the project is presented to 5 Ministers from Ministry of Energy and Industry, Ministry of Finance, Ministry of Development, Ministry of Primary Resources and Tourism and Ministry of Foreign Affairs and Trade. Upon approval, the project may proceed with the implementation stage, which BEDB transfer the duties to FDI Action and Support Centre (FAST).

Another agency responsible for facilitating FDI is the FDI Action and Support Centre, under the Prime Minister's Office. This newly established agency will facilitate during implementation period and served as the desk helper for the investors. Any inquires or problems happening during construction or operation will be directed to FAST. Last but not the least is Darussalam Enterprise (DARe). This agency primarily focuses on the development of SMEs. However, the agency recently is tasked to manage all industrial sites in the country. Basically, DARe will help potential investors to find suitable locations for their firm during project requirement inquiry. At the same time, DARe is task to oversee the infrastructure, roads, drainage, electricity, water supplies etc. There are about 30 industrial sites scattered all over Brunei, each one has different function and zoning according to type of industry. The following table shows key industrial sites around Brunei Darussalam.

Figure3-12: Key Industrial Sites in Brunei Darussalam



Source: Brunei Economic Development Board

Initially, there are 2 types of industrial sites, develop and undeveloped one. Develop industrial site will have all the basic necessities in setting up the factory. On the other hand, undeveloped industrial site will require the investors to invest more on clearing the land and setting up of basic necessities such as electricity, road etc. Due to that, undeveloped industrial sites are cheaper in comparison to developed, without adding the extra works needed to be done. DARE normally leased the site for approximately 30 years. However, if the company is taking advantage of the Strata Titles law, they may lease the site up to 99 years.

In relation to Halal industry, one of the industrial sites maintain by DARE called Bio Innovation Corridor (BIC) has been chosen as the location for halal and bio

technology. The corridor spans about 194 hectares and the first phase alone is 26 hectares, 50 more hectares as reserves (Husaimah, 2018). This industrial site is strategically located in Bandar Seri Begawan and within easy reach for logistics purposes. The Corridor will mainly house FDI companies related to Halal foods, food processing, pharmaceuticals and other high-tech industries. It is said that, the site can generate 28,000 new jobs when it reached full capacity. One FDI company already established there is MC Biotech Private Limited. This commercial bio technology company produce cultivates and extracts microalgae as ingredients for health supplements. Other halal food producing companies such as Western Foods and Packaging Private Limited and Saahtain Asia Private Limited opted other industrial sites such as Salambigar Industrial Park (few kilometers away from sea port) and Serasa Industrial Park (next to seaport itself) due to logistics reasons (BorneoBulletin, 2018). In short, DARE take extra care of any requests from the investors as to maximize the business operations while minimizing cost while running it.

On a related note, Brunei Darussalam was named as ‘the most improved economy in the world’ for two consecutive years by World Bank’s Ease of Doing Business Report, citing great leap in Ease of Doing Business ranking thanks to the efforts the country made in cutting unnecessary bureaucracy and red tape (BorneoBulletin, 2018). World Economic Forum latest report on Global Competitiveness Report shares the same sentiment, putting the country at 46<sup>th</sup> place out of 137 economies and the most improved in ASEAN. That being said, Brunei can be a good location for investing in Halal related industries.

## **7. Chapter Summary**

Halal market is one of the biggest markets in the world. At present, the number of Muslim populations around the globe accounts for approximately 1.8 billion. Most of them lives in Southeast Asia, Middle East, and North America. Muslim population is



expected to reach two fifth of the world population soon. It can be said that opportunities for foods and products that are Shariah compliance are immense.

Brunei Halal is an official Halal certification issued by Ministry of Religious Affairs and supported by Ministry of Energy and Industry. It is the only certification in the world that the government directly audit the applied entities and the auditing process acts independently from any commercial entities. Brunei Halal acrediation system is widely known as one of the most stringent Halal certification mechanisms. Brunei government works on increasing Brunei Halal recognition along with its stringency so as to become a premium Halal Certification. The Brunei Halal accreditation starts at the sources to ensure the integrity of the products and unfaltering compliance with set rules governing the sourcing of raw materials, manufacturing process, logistics, and distribution. This certificate is issued through the Halal Food Control Section of the Department of Shariah Affairs, Ministry of Religious Affairs which is the only authority that delivers the halal certification in the country. The halal certification process takes 45 days and valid for 3 years. The halal certification process can be summarized in figure 3-12.

As for the Halal Brand, the government established Brunei Wafirah Holdings Sdn Bhd as owner of the Brunei Halal Brand. Later, Ghanim International Food Cooperation Sdn Bhd was set up as a joint venture between Wafirah and Brunei Global Islamic Investment, and Kerry FDA Limited, a Hong Kong-based logistics firm (Brunei Halal, 2012). The main function of Ghanim International is to captura global halal food chain through manufacturing jointventure and partnerships in creating premium halal products. By creating a trusted halal brand, Brunei Halal hopes to be part of global halal market.

**Figure 3-13 Summary of Halal Certification Process (Production)**

STEPS	1	2	3	4	5	6	7	8	9	10	11	12
ACTIVITIES	Submitted Application	Decision: Approved – Step 3 Not Approved – Step 1	Inspection	Report Preparation & Submission	MEETING Decision: Approve – Step 6 Not Approve – Step 1	Report submission to MUJB	MEETING Decision: Approve – Step 8 Not Approve – Step 3	Print halal certificate for approval	Submit certification to MUJB Committee	Certificates approval & Re-Submit to BKMh	Make Payments to MUJB	Issuance of halal certificates
ACTORS & AGENCIES	Applicant BKMh	Inspection Committee BKMh	Inspectors BKMh	Inspectors	Inspection Committee	Inspection Committee	MUJB Halal Committee	BKMh	BKMh	Secretary of MUJB	Applicants	
ACTIVITIES	<b>PRODUCTION</b>											
DETAILED ACTIVITIES	<p><b>Halal Certificate</b> – for premise</p> <p>Halal food handler program (Two modules)</p> <p><b>Halal Permit</b> – for productions</p> <ol style="list-style-type: none"> <li>Apply for halal logo to be printed on product packaging</li> <li>Prepare list of ingredients for check-up</li> <li>Check halal-status of all ingredients in product</li> </ol> <p>Valid for 3 years</p> <p>45 days (35 days Audit, 10 days for issuance of certificate)</p> <p>Fee based on no. of workers</p> <p><b>Halal Label</b> – Logo after halal permit approve</p> <p>BKMh – Biro kawala makanan halal</p> <p>MUJB – Majlis Ugama Islam Brunei</p>											

Source: Khalid, A. M. Haji Masr, N. Muhammad and W.L. Pang, 2018

## Chapter 4

### Islamic Bank in Brunei Darussalam

Recently, the global Islamic finance industry has grown rapidly. By the end of December 2016, total assets of the industry reached US\$ 2.2 trillion. According to the ICD – Thomson Reuters Islamic Finance Development Report 2017, Brunei was ranked among top 10 in the Islamic finance performance (ICD – Thomson Reuters, 2017). Of the total banks in Brunei Darussalam, the Brunei Islamic Bank of Brunei (BIBD) and Tabung Amanah Islam Brunei (TAIB) are the only banks that offer comprehensive Islamic banking services. This chapter will explore what are factors that contribute to the success of Islamic banking industry and finance in Brunei and what are lesson-learned for Thai Islamic Banking Industry.

#### 1. Islamic Banking Concept in Brief

As the trends of financial boom and bust happen more often than ever, there is an immediate call in finding alternative to this problem. Islamic Banking provided a stable alternative through its nontraditional method, innovative products and ahead of time risk calculation. Islamic Banking and Finance proved to be resilience against the most recent global financial crisis and at the same maintained the positive growth. In 2016 alone, global financial assets stands USD 1.8 Trillion, effectively carving the market share away from the conventional ones (Bulletin, 2017b). Therefore, since the failure of the Bretton woods system in the 80's, considerable amount of attention and efforts has been put in pioneering as well as strengthening this new banking and financial method.

Before going deeper into Islamic Banking in Brunei, it is wise to understand some concepts regarding Islamic Banking and Finance per se. First, in order for a banking product and services to be accepted non equivocally Islamic, it must have thorough

investigation and alignment with what is taught in Al Quran and As Sunnah (the teaching of the Prophet) (Ebrahim, 2001). In saying so, for a service or a product to be regarded as Sharia compliant, it should fulfill these 4 main features. First, the products and services can be use in all matters of transaction except for activities prohibited by Islamic teaching such as gambling, liquor, pork, tobacco, prostitution, defense & weapons and likewise. Second, the financial contract must be clearly documented, equitable and avoid any elements of *riba* (interest), *gharar* (deception without prior knowledge or permission) and *maysir* (speculative). Third, such activities must have elements for the growth of the Muslim economy through the development of financial markets, institutions and instruments. Last but the least, to keep the committed transaction afloat, it must have a clear profit and loss sharing mechanism such as *Musharakah* (equity), *Mudharabah* (third party equity), *Ijarah* (renting or leasing a service) among others. Apart from that, the products and services normally underwent further assessment by relevant bodies (such as religious agency, central bank and judiciary) to declare such products and services as fully sharia compliant and can be deem as Islamic banking and finance products.

Another important design of Islamic banking system is, the system survived without interest or debt. Any practices of usury and interest is strictly prohibited. This in return discourages debt and leverage (Iqbal, 2016). Immediately, the supplier of fund is regarded as investors rather than creditors. With asset backed finance, it creates a close linkage with the real sector of the economy. Different from conventional banking, the Islamic banking have various method in turning the business as profitable and able to serve both the Muslim and non-Muslim community. The main attraction for Islamic banking is their high return per year due to high concentration given in investing money entrusted to them. This is made possible due to the rise of Islamic related businesses around the world such as the surge in demand for Halal products as well as the rise of Islamic related entrepreneurship such as Muslim clothing, Muslim Tour, Muslim food and beverages for export and many more. Having said that, Islamic banking prioritise not only about profitmaking but held themselves accountable for

the trust given to them by their customers. In short, Islamic Banking and Finance open a door for a new venue for exciting yet challenging opportunity ahead.

The following is the Islamic Banking Balance Sheet Analysis. This analysis is to complement an understanding of Islamic bank asset and liabilities managements (ALM) with regards to cash and capital flow that will determine the financial health of the institution.

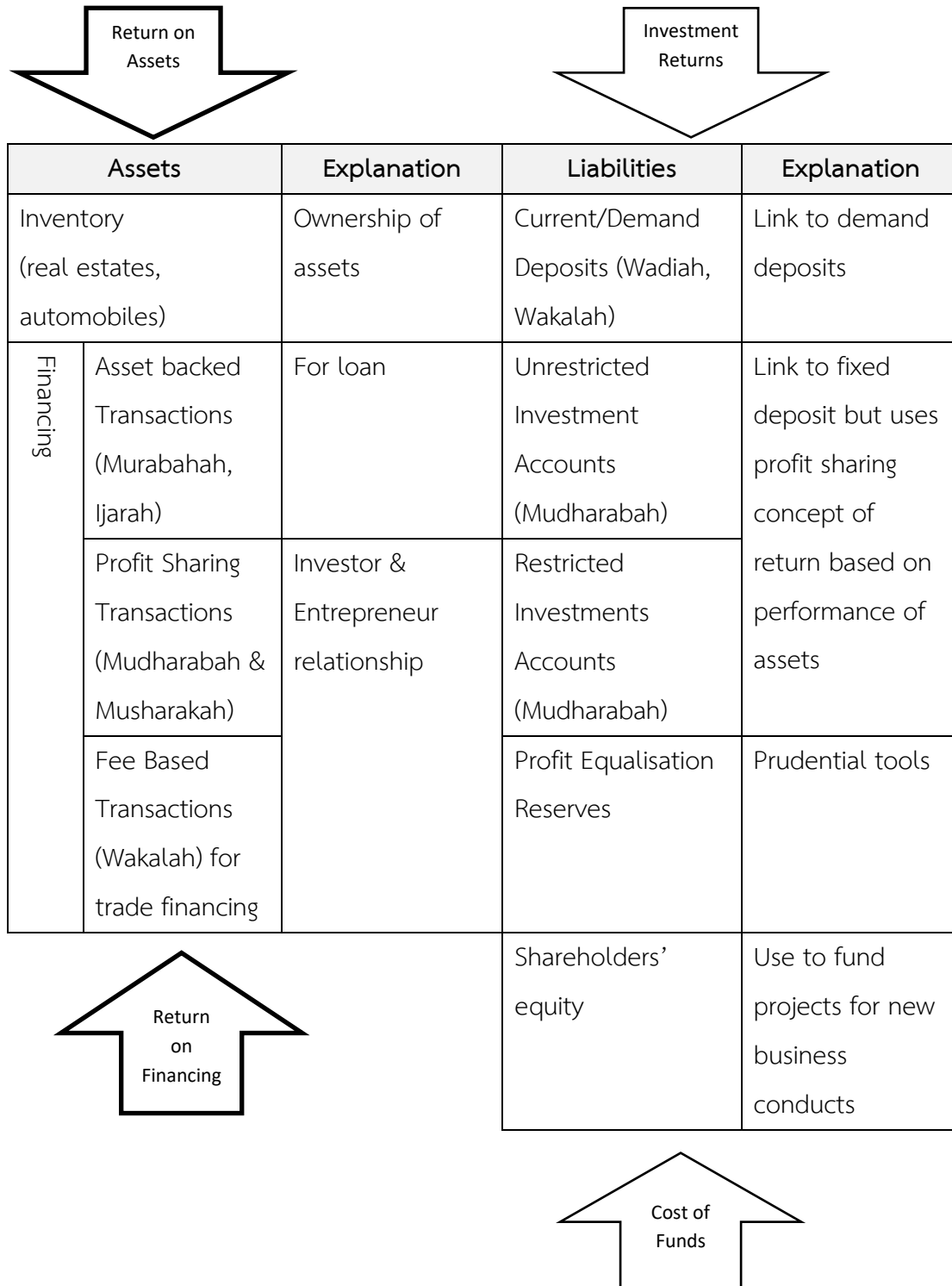
**Table 4-1 Islamic Bank Assets and Liabilities Managements (ALM)**

Assets	Liabilities
Islamic financing and investing accounts	demand deposits and investment accounts
as the Islamic bank's depositors' return is linked to the return on the assets of the bank.	Types of liabilities present in an Islamic bank's balance sheet are nearly universal, their exact composition varies greatly depending on a bank's business and market orientation
Islamic bank's assets are concentrated on the asset-based investments which has credit risk but are also backed by a real asset. bound by the availability of real assets in the economy	A liability is a measurable present bank's obligation to another party to transfer assets, extend the use of an asset, or provide services to that party in the future because of past transactions or events.
Criticisms: general lack of liquid securities on the asset side. temporal phenomenon until a well functioning securities market for &hari'ah#compliant instruments is developed	
the assets of Islamic banks contain financing assets where tangible goods and commodities are purchased and sold to the customers. The bank is not limited to the exposure as a financier but can develop additional exposures resulting from dealing with physical assets.	
Islamic banks cannot issue debt to finance the assets which consequently discourages creation of	

Assets	Liabilities
leverage. Due to the lack of leverage, Islamic banks can be considered less risky during a time of financial crisis.	
Capable of generating positive cash flows or other economic benefits in the future either by itself or in combination with other assets which the bank has acquired the right to hold (rightful ownership of maal), use of dispose (rights on manfaat) because of past transactions or events” (AAOIFI)	

To understand further the cash and capital flow of Islamic banking using ALM concept, the following gives an idea of a ‘pass through’ nature of Islamic banking balance sheet.

Figure 4-1 Cash and Capital Flow of Islamic Bank using ALM Concept



In Islamic banking, Mudharabah concept of profit sharing and loss bearing is the most common kind of contract between the depositors, the bank and the entrepreneurs. Otherwise, the contractual parties will agree on some form of profit-sharing platform in mobilizing and using the funds. Based on the above explanations, the following is the kind of activities conducted by Islamic banking within ALM.

- structure of mobilising and investing capital;
- profit sharing institution that invests investment account holders' money in Shari'ah based financing activities;
- investment account holders and their unique position in Islamic financial institutions;
- principles and practical operations of current accounts and savings accounts (mudaraba, wakala and wadiah);
- financing through leasing (ijarah), sale-based contracts (murabaha, istisna'a, salam) or profit-sharing modes (musharaka/mudaraba);
- mechanism of profit and loss sharing with investment account holder

To sum up the balance sheet analysis of Islamic banking, the following is the comparisons between Conventional bank and Islamic bank business conduct

**Table 4-2 Comparison between Islamic and Conventional Bank's Balance Sheet**

No.	Islamic Bank	Conventional Bank
1	Total Financing	Total loans
2	Profit Rate	Interest rate
3	Fund Based income	Interest income
4	Fee based income	Non interest incme
5	Net income margine	Net interest margine
6	Financing loss coverage	Loan loss coverage
7	Impaired financing ratio	Impaired loan ratio
8	Financing to deposit ratio	Loans to deposit ratio



No.	Islamic Bank	Conventional Bank
9	Profit sharing ratio	n.a.
10	Profit sharing investment account + risk absorbent capacity	n.a.
11	Dividend/return	Interest expense
12	Zakat	n.a.
13	Profit after tax and zakat	Profit after tax
14	Sukuk	bonds
15	Investment based (no credits & leverage)	Credit based and leverage
16	Real assets on real economy	Speculation + intermediaries

Source: from author's analysis

## 2. Islamic Banking in Brunei Darussalam

### 2.1 Impetus for Islamic Banking in Brunei Darussalam

Islamic Banking in Brunei first mooted by His Majesty and Yang Di Pertuan of Brunei Darussalam as early as 1986<sup>1</sup>. However, progress has been slow due to no early precedence on how to pursue Islamic banking especially in Southeast Asia. However, by September 1991, His Majesty reiterated this again in his royal address to the Islamic Religious Council (one of the 5 Executive Council answerable to His Majesty) which led to the formation of a steering committee for the formation of Islamic Bank in Brunei (Salma, 2003). Exactly one year after, with His Majesty as the first customer of the Islamic Trust Fund called Tabung Amanah Islam Brunei (TAIB). This Islamic trust fund is not Islamic bank per se, rather savings and loans services as in Brunei, the culture of savings is always associated with Islamic Banking. TAIB is most renowned for its Hajj Savings Account which help Bruneians to save up for them go to Hajj.

<sup>1</sup> Malaysia under Dr Mahathir also vigorously promoted and realize the idea of establishing Islamic Bank in Malaysia around the same time and this provide the structural framework for Brunei version in 1991.

Islamic Bank in Brunei only becomes a reality in 1993 when Islamic Bank of Brunei Berhad (IBB) officiated by His Majesty. Formerly known as International Bank of Brunei, the Bank management makes a considerable effort to shift to become Islamic bank since 1986. In the early days, the banks served as choice for the public to invest and use the service of a bank that is fully owned by the government. However, the bank cease to be associated as ‘government bank’ and envision to become a premier Islamic bank in Brunei and beyond (Salma, 2003). Another Islamic Bank is the now defunct Islamic Development Bank of Brunei Berhad (IDBB). This bank mostly caters for businesspersons and entrepreneurs to help the local businesses to grow and thrive. The bank successfully integrated with Islamic Bank of Brunei Berhad (IBB) in 2005 to become Islamic Bank of Brunei Darussalam (BIBD). This merger is to gives ample boost in resource and capacity to increase the productivity and competitiveness of BIBD both in domestic and foreign market. Since then, Bank Islam Brunei Darussalam (BIBD) have reshaped the scene of Islamic Banking and Finance and Brunei Darussalam and beyond, with TAIB following suits in their tracks.

## 2.2 Shariah Compliant Products & Services

As the first Islamic related financial institution, Tabung Amanah Islam Brunei (TAIB) put an extra effort in ensuring quality products for their customer. Compared to BIBD, customer confidence on Islamic products presented by this Islamic trust fund is higher than the former. Their main products mostly centered upon 2 main activities, saving account and loans. The saving accounts primarily use *Al Mudharabah* (third party equity) and *Al Wadiah* (safekeeping) concept. While the loan products follows the *Bai Bithaman Ajil* (installment) concept (Salma, 2003). TAIB having two main subsidiaries namely Insurance Islam TAIB which handles all insurance related services and Darussalam Holdings, which normally handles Islamic tours. As Islamic concept of banking and finance requires some sort of community empowerment as basis for their intent in pursuing business, TAIB have been working closely in helping entrepreneurs to set up their business through financial or any other means. In recent years, TAIB

collaborated with the government agency responsible for entrepreneurship, Darussalam Enterprise (DARe) in coming up with ‘Entrepreneurship Program’ that will help aspiring SMEs to laid out the business plan, set up business and option for expansion (Bulletin, 2017c). At the same time, the Islamic trust fund also make it easy for the Muslim to do their obligation such as make ease the payment for *Zakat* or alms.

As for Bank Islam Brunei Darussalam (BIBD), it offers innovative and interesting products to attract its customers. Different from TAIB, BIBD put a focus on loan products than savings such as Personal loan, Naqd (Rainy days) loans, Education, Consolidation, Ar Rahn (Gold pawn), Home financing and home improvement financing (BankIslamBruneiDarussalam, 2018). All these financing scheme follow Islamic concept of *Wakalah* (second part equity). The Bank put a strict background check to assess the health of a person financial situation through a system called Total Debt Service Ratio (TDSR) in order to ensure the capability for the customer to pay as well as to avoid bad debt incidence. As for savings account, the bank come up with different category of savings such as for Hajj, purpose-based saving for example.

In Brunei Darussalam, Islamic banking products is strictly supervised by Monetary Authority of Brunei Darussalam (AMBD) that acts as the central bank in the country. Through join efforts with Ministry of Religious Affairs (MORA), State’s Mufti Office, Sharia Court and Attorney General Chambers, the agency have successfully regulated the industry through a series regulatory frameworks such as International Insurance and Takaful Order 2002, Shariah Financial Supervisory Board Order 2006, Islamic Banking Order 2008 and Takaful Order 2008 (AMBD, 2018). Islamic Finance sector in Brunei Darussalam normally covers banking, takaful (insurance), asset management, mutual funds and trust services; of which all falls under supervision of AMBD. At the same time, Sharia Financial Supervisory Board was established in 2006 to enhance the Syariah governance and monitor the industry. The Board is responsible in investigating whether the submitted product fully compliant to Islamic teaching and

can be deem as an Islamic product. Hence, the quality of the product is highly assured and AMBD takes this matter seriously.

At the same time, to maintained quality deliverance of services in the industry through a knowledgeable and skilled workforce, Brunei Darussalam takes a step further in providing continuous training for capacity building related to Islamic banking and finance. Centre for Islamic Banking, Finance and Management, under the auspices of Institute of Leadership, Innovation and Advancement (ILIA), University of Brunei Darussalam (UBD) provide specially crafted short and long term courses such as *Fiqh Muamalat* (rulings and precepts in economic transaction) Training Program, Financial Planning Practitioners' Program, Ethic training, Islamic Finance Scholarly Discussion among others (CIBFM, 2018). It was established in 2010 and officially under collaboration between University of Brunei Darussalam (UBD) and Monetary Authority Brunei Darussalam (AMBD) to development and strengthen human capacity with regards to Islamic banking, finance and management for Brunei Darussalam. It is one stop centre for the workforce related to industry in upgrading their knowledge hands on as well as a venue to take necessary internationally accredited examination to qualify them as insurance licensing officer in the country. Apart from that, the Centre is active in holding internationally recognize events that brings in experts and scholars around the world to discuss concurrent issues related to Islamic banking and finance such as Brunei Darussalam Islamic Investment Summit, Leadership Conference (LeadCon) and International Banking Conference. This conference normally helps to showcase new products innovations under the guise of Islamic banking and finance at the same time gives some inputs on contentious issues related to the industry.

To sum up, although Islamic banking market in Brunei seems to be small, it gives leverage for the relevant authority to strengthen as well as be innovative in coming up with new interesting products that can be promoted beyond Brunei market. Domestically, the products undergone serious multiple examinations from relevant parties before distributed to the public. Ongoing monitoring is to ensure all products

remains true to the Islamic concept. Last but not the least, Brunei gives importance to the quality of the industry and its management by making sure the workforce inside the industry have sufficient knowledge and skills to deliver top notch quality service to the public.

### **2.3 Islamic banking & Finance Market Share and Standing in Brunei Darussalam**

It can't be denied that, the industry still faced stiff competition from conventional banks. Although like that, in recent years, it has been a positive growth for Islamic banking and finance in Brunei Darussalam in term of market share. In this regard, it is large due to proactive and bold initiative made by BIBD. Before delving deeper into that, the following is the summary of Islamic Banking and finance market share in Brunei Darussalam for the past 4 years. Surprisingly, Islamic banking gained popularity among Bruneians with a total of 47% market share as of the second quarter of 2014 (Bulletin, 2017b)<sup>2</sup>. While Takaful (insurance) services takes 32% of the market share. As for Islamic financial products, it holds 40% of shares as of 2016 and the industry expects to reached 50% share by 2020 (Bulletin, 2017b).

As being mentioned before, the positive growth in Islamic banking and finance in Brunei partly due to the achievements accumulated by BIBD in recent years. As interviewed in Borneo Bulletin's Brunei Yearbook, Asia Banker praises BIBD's efforts due to its ability to record double digit growth in retail assets while the rest of the bank in the country facing downwards trends in banking system, assets and deposits countrywide (Bulletin, 2017a). Earmarked as the best retail banks for 5 consecutive year since 2013, the bank boosted some BND 9.5 Billion with 200,000 recorded customers and owned the largest network of ATMs for the convenience of its customer. The banks also received A- rating for international credit rating by Standard & Poor's

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<sup>2</sup> The most recent data available to date

which reflects the bank responsible business activities in turning business capital to profit as well as slowly leading the Islamic market shares. Internationally, BIBD is the only local bank that received recognition as the strongest bank at par with its regional peers and the only bank represent Brunei in top listings of world's top banks. With such an international standing, it no wonder the bank is a key enabler in developing the industry in Brunei Darussalam.

In the case of TAIB, after marking its 25<sup>th</sup> years anniversary, the Islamic trust funds seriously think of developing itself to become a full fledged Islamic banking subsidiary (EIDPMO, 2016). Although it has successfully captured the niche market or saving, the board of director of the trust think it is time for the Islamic trust fund to ante up the game and contribute more to maximize the potential that Islamic takaful market share have in Bruneian. It sought the help of Islamic Corporation for the Development of the Private Sector (ICD) to build the necessary framework and arrangement before announcing the establishment of a second Islamic bank in Brunei. Despite the market share is well below half, the industry successfully shown itself as a capable banking and financial institution and instruments to compete for a fair market share in Brunei. BIBD's domestic and international standing further help to shape public confidence in the industry. Having said that, it would be an exciting and positive prospect for Islamic banking and finance in Brunei for the years to come.

## **2.4 Making the Business Afloat**

As Islamic concept of banking and finance forbid the use of interest or charging any kind of fee, the industry must look at something else to make the business afloat. In Brunei Darussalam, both BIBD and TAIB engaged in various kinds of businesses to turn the company profitable. One notable income is 'overnight deposit' at Singapore stock exchange or the so called The Singapore Overnight Rate Average (SORA) whereby as Brunei Dollar pegged to Singapore dollar, any gained from the foreign exchange will be shared with Brunei investors (Salma, 2003). Another source of income is Takaful or

insurance services that is available in both institutions. Normally, the takaful covers mortgages, fire, accidents, house or property and motor vehicle, with each of them provides other innovative products to compete<sup>3</sup>. Islamic Bank in Brunei often handles their businesses through second or third party for example, rapid development of BIBD in part due to strong commitment of its 3<sup>rd</sup> part partner, Fajr Capital, a middle east-based Investment Company. On top of that, the bank has a strong presence in real property in and outside of Brunei Darussalam. While for TAIB, the business keeps alive through its subsidiaries that provide Islamic tour such as Hajj and *Umrah* (short pilgrimage) through Darussalam Holdings. Another means of keeping the business afloat is through competing for market shares in Brunei Darussalam and abroad. Both institutions strive to gain more than 50% market share combined by 2020. Apart from that, through supervision and advisory of AMBD, BIBD and TAIB engaged in capital market through the concept of Sukuk (bond) to mega corporations in the country such as Brunei Liquefied Natural Gas (BLNG). This concept will help to strengthen domestic capital market in the long run as well as a venue to gain income. In short, the above explanations help to clarify the source of income for the industry as to follow the concept of sharia law.

## 2.5 Universal Bank for All

When one think about Islamic bank, it is easy to think that such institution reserved only for Muslim community alone. Despite the upsurge trend of Islamic banking and finance, a lot of ambiguity arises with regards to the concept due to ill-informed or lack of knowledge. In the case of Brunei Darussalam, the Islamic banking and financial institutions successfully garnered the interest of both Muslim and non-Muslim customers. First, different from conventional banks, Islamic bank will not

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<sup>3</sup> For example, BIBD's Takaful Brunei offer to provide insurance coverage for professional golfers, personal accidents and travel. While Insurance Islam TAIB offers insurance coverage for businesses and organisations as well as credit card holders.

levied any charges or fees to open any account and at the same time, yearly dividend at these institutions normally higher than that of the conventional banks (Salma, 2003).

Second, BIBD and TAIB found to be superior in term of after sales/after hour customer services. BIBD boost the biggest call centre in Brunei while having sophisticated yet easy to use internet and mobile banking (Goh, 2012). At the same time, to keep the current customer hooked to the bank products, BIBD continuously update and come up with interesting products such as the ever-popular Consolidation Financing Scheme, car & house financing scheme. BIBD make it easy for bill payment through various method such as through counter, ATM or mobile banking. Similar pattern can be found with TAIB as it embraces online banking as well as innovation in its products.

Third, Islamic banking and finance in Brunei does not try to compete with similar products as the conventional banks. Therefore, it appeals to both Muslim and non-Muslim, for example, refinancing scheme (consolidate few debts into one single debt, or car/property refinance), takaful is the cheapest almost all covered insurance available, Islamic tours and many more. Fourth, both institutions boost some of the largest networks of ATMs in the country, making it easier for customers to conduct transaction anywhere possible. Last but not the least, Islamic banks so far shown a strong performance despite international financial crisis such as the subprime economic crisis that saw all conventional banks (including locally made Baiduri Banks) including the closures of 3 international banks afterwards<sup>4</sup>. This creates a panic to the surviving banks while customers with banks that exit the country quickly instruct to transfer to another bank of the choice. The recent closure of few banks helps to increase the market share of BIBD especially. As Islamic bank operates without ambiguity and oppressive business conducts, the bank less likely to be affected by such crisis. To sum up, for the non-Muslim, it does not matter of what concept the bank pursues, as long as their money is safe and have some return, which in the case

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<sup>4</sup> Citibank (exit in 2013), United Overseas Bank (2014), Hong Kong and Shanghai Bank Corp (2016)



of Islamic bank in Brunei, paid more than the conventional ones. For Muslim customer, Islamic bank fulfill their duty in keeping their money in a good hand as well as when its due, the bank will handle the Zakat (alms) payment, which is not levied to the non-Muslim.

### **3. Structure of Islamic Banking and Financial Management in Brunei Darussalam**

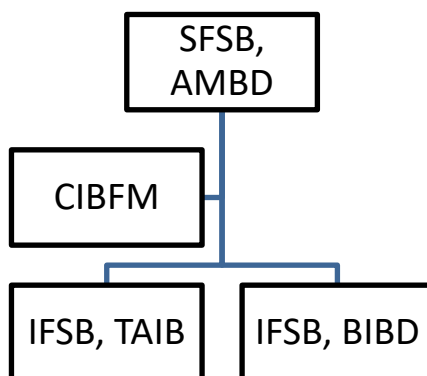
The Brunei banking system is well monitored and regulated by Ministry of Finance, which oversees the Department of Financial Services (Treasury) and the Brunei Investment Agency. The Brunei Monetary Authority (Autoriti Monetari Brunei Darussalam or AMBD) serves as the country's central bank and is responsible for the formulation and implementation of monetary policies, management of currency, and supervision of financial institutions.

To regulate the industry better, the central bank of Brunei, Monetary Authority of Brunei Darussalam (AMBD) enacted the Sharia Financial Supervisory Board Order in the 2006. The order led to the formation of the said Board which members consist of relevant agencies such as Ministry of Religious Affairs (MORA), State's Mufti Office, Sharia Court, and Attorney General Chambers with AMBD as its secretariat. The main task of the board is to examine the products if it is following the Islamic concept and approved it to be distributed to the public. The process starts with the said institutions coming up with their products and underwent internal examination 'Islamic Financial Services Board' of each institution. Post examination, the Board will submit the products to Sharia Financial Supervisory Board (SFSB) for approval<sup>5</sup>.

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<sup>5</sup> More information on the products certified by SFSB can be found at <http://www.ambd.gov.bn/islamic-financial-services/list-of-products-approved-by-the-syariah-financial-supervisory-board>

Figure 4-2 Structure of Islamic Banking & Financial Management in Brunei



Source: based on author's analysis

Furthermore, the Board is responsible for continuous monitoring of the industry to keep the integrity and quality of service being delivered. Assessment of the industry and the institution have been done every year to assess the quality and performance of the market player. This is done with its partner such as International Development Bank (IDB), Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM).

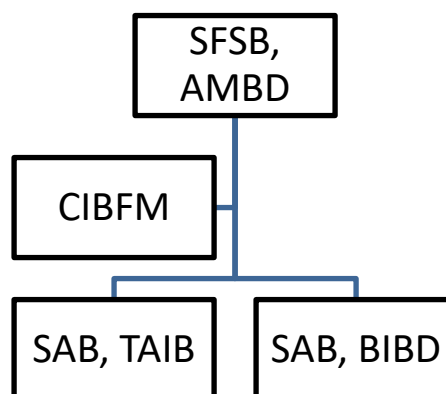
Brunei Darussalam also committed in producing a knowledgeable and skilled workforce working for the industry. Centre of Islamic Banking, Finance and Management (CIBFM) is a training arm specially built for that purpose, with collaboration between AMBD and University of Brunei Darussalam. The Centre provides long, and short-term trainings and courses related to the industry as well as conducting necessary examination such as Insurance Licensing Officer Examination.

#### 4. Institutions, Shariah Governance and Compliance Framework in Brunei Darussalam

Brunei Darussalam have made a careful arrangement in ensuring better management and delivery of Islamic banking and financial services and products. At

the same time, each section has their own roles and functions to fulfill. Brunei develop a two-tier sharia governance and compliance framework with Sharia Financial Supervisory Board of AMBD as the central body and Sharia Advisory Board of each institution. On the top, a supervisory board under the auspices of Monetary Authority of Brunei Darussalam becomes the key supervisor for the industry. Under the same organization, a training centre is created named Centre for Islamic Banking, Finance and Management, a joint effort with the national university, University of Brunei Darussalam. The two clients of comes immediately after that. The two Islamic institutions is under direct supervision and monitoring by Brunei Central bank, Monetary Authority of Brunei Darussalam.

**Figure 4-3 Sharia Governance in Banking and Financial Sector**



Source: based on author's analysis

#### **4.1 Sharia Financial Advisory Board, Monetary Authority of Brunei Darussalam**

To regulate the industry better, the central bank of Brunei, Monetary Authority of Brunei Darussalam (AMBD) enacted the Sharia Financial Supervisory Board Order in the 2006. The order led to the formation of the said Board which members consist of relevant agencies such as Ministry of Religious Affairs (MORA), State's Mufti Office, Sharia

Court, and Attorney General Chambers with AMBD as its secretariat. The details of the members of the secretariat and its position are illustrated as the following:

- Permanent Secretary (Policy), Ministry of Finance as Chairman
- Managing Director of AMBD as Deputy Chairman
- State Mufti as Key member
- Sharia Appeal Court Judge as member
- Deputy State Mufti as member
- Islamic Law Expert from Ministry of Religious Affairs as member
- Assistant Solicitor General from Attorney General Chambers as member
- Chief Istinbat Officer from State Mufti's Office as alternate member
- Lecturer from School of Business and Economics, UBD as alternate member

As can be seen above, the members of secretariat come from various backgrounds yet still an expert within the realm of Islamic Banking and Finance. Under the Sharia Financial Supervisory Board Order 2006, the board is task to examine the products if it is following the Islamic concept and approved it to be distributed to the public. Furthermore, the Board is responsible for continuous monitoring of the industry in order to keep the integrity and quality of service being delivered. Assessment of the industry and the institution have been done every year to assess the quality and performance of the market player. This is done with its partner such as International Development Bank (IDB), Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM). The board also makes sure the guides as slated in a number of order and acts is diligently followed, such as TAIB Act Chapter 163, 1991, Financial Companies Act (Chap. 89), Mutual Funds Order, 2001, International Insurance and Takaful Order, 2002, Pawnbrokers Order, 2002, the Banking Order, 2006, Sharī'ah Financial Supervisory Board Order, 2006, Islamic Banking Order, 2008 and Takaful Order 2008 (Terazono et al., 2014).

#### **4.2 Centre of Islamic Banking, Finance and Management, University of Brunei Darussalam & AMBD**

Brunei Darussalam also committed in producing a knowledgeable and skilled workforce working for the industry. Centre of Islamic Banking, Finance and Management (CIBFM) is a training arm specially built for that purpose, with collaboration between AMBD and University of Brunei Darussalam. The Centre provides long, and short-term trainings and courses related to the industry as well as conducting necessary examination such as Insurance Licensing Officer Examination. On the other hand, the centre also host some important events for AMBD such as Brunei Darussalam Islamic Investment Summit (BIIS), the Leadership Conference (LeadCon), the Annual Brunei Darussalam Roundtable and the International Banking Conference (IBC). With such collaboration, it is hope that, through CIBFM, Brunei can develop into a quality Islamic banking and finance hub thanks to its quality human capacity and expertise.

#### **4.3 Sharia Advisory Board of Bank Islam Brunei Darussalam and TAIB**

In fulfilling its obligations to have a sound and innovative, sharia compliant products, Bank Islam Brunei Darussalam have established its own Sharia Advisory Board since the merger in 2005. A dedicated department under the purview of the said board is created in 2008. For BIBD, the board divest and delegates some of its function to the said department. TAIB on the other hand have the same structure since its establishment back in 1991. The department is led by one manager with the help two assistant and another four supervisors (Shah, 2014). The Sharia department is further divided into 4 unit namely Sharia Business Support and Development Unit, Sharia Control and Audit Unit, Sharia Risk Management Unit & Sharia Secretariat and Admin Unit which reflects different aspect of product assessments. The main role of the department is to assist the Board in improving the compliance of the bank business in accordance to Islamic principle.

The Sharia Business Support and Development Unit basically helps in coming up with business products development and assist in getting the approval from the Sharia Advisory Board and Sharia Financial Supervisory Board of AMBD. This unit normally focus more on before transaction process. There are research team, Proposal team and coordinating team, which all these team helps in the end goal i.e. to facilitate approval process of all products. In the meanwhile, The Sharia Control and Audit Unit focus more on after transaction process such as reviewing, auditing, and monitoring of products, services and activities to ensure it remains sharia compliant. This Unit normally attached with the Internal Audit Unit to streamline the process. On the other hand, Sharia Risk Management Unit is focusing on calculating risk related to the products and coming up with possible solutions to the said problems. Last but not the least, the Sharia Secretariat and Admin Unit which handles all the clerical and administrative works related to the department.

#### 4.4 Special Notes

There are some key issues regarding Sharia governance and compliance framework in Brunei Darussalam. Eventho Brunei have developed two tier sharia governance and compliance framework, the central bank has yet to come up with a centralized guideline for the said framework to streamline the process. BIBD remains reliant to Malaysian's guideline framework such as from Bank Negara Malaysia and Labuan Offshore Financial Services Authority (Shah, 2014). Second, Brunei still lacks expertise and enough number of professionals and experts to fill in the post of the mentioned units earlier. Even for the board, it is found that, the same member holds the same position for all three boards. This put a strained on the current human capacity as well as slow down the process in coming up new innovative and attractive products that will ensure the industry ahead of the conventional ones. Third, Brunei need to explore best practices near and far to develop a suitable sharia governance and compliance network to fully develop the industry as hope.

## 5. Overview of Islamic Banks in Brunei Darussalam

Banks in Brunei can be classified into Islamic banks and conventional banks. Given the natural setting of Brunei, a Malay, Muslim Monarchy, the introduction of Islamic banking is in fact a preferred method of operating banking transactions. The last two decades have witnessed rapid changes in the banking sector with the emergence of Islamic banking which is now dominating the banking industry. There are only seven licensed banks in Brunei, after HSBC left in 2016 and Baiduri Bank bought UOB Brunei's retail banking business in 2015.

**Table 4-3 Overview of Islamic Banks in Brunei Darussalam**

Features	Tabung Amanah Islam Brunei (TAIB)	Bank Islam Brunei Darussalam (BIBD)	Note
<b>Establishment</b>	September 1991	1993	Established in 1980 as Island Development bank, embrace Islamic banking in 1993
<b>Type</b>	Islamic Trust Fund	Islamic Bank	TAIB will have Islamic banking subsidiary soon
<b>Subsidiaries</b>	<ul style="list-style-type: none"> <li>Insurance Islam TAIB</li> <li>Darussalam Holdings</li> <li>TAIB Petrol Stations</li> </ul>	<ul style="list-style-type: none"> <li>BIBD At Tamwil (Finance co.)</li> <li>Takaful Brunei (Insurance)</li> <li>BIBD Securities</li> <li>IBB Capital Assets Management</li> <li>Belait Barakah &amp; Belait CSS (O&amp;G)</li> <li>BIBD Al Kauthar Funds</li> <li>IBB Transport</li> </ul>	
<b>Capital (assets)</b>	BND 10 Million (1991)	BND 10 Million (1993)	with stakes from government, private

Features	Tabung Amanah Islam Brunei (TAIB)	Bank Islam Brunei Darussalam (BIBD)	Note
	BND 26 Million (1999) <sup>6</sup> n.a. (2016)	BND 7 Billion (2013) <sup>7</sup> BND 9.5 Billion (2016)	domestics investors (3, 000 Bruneians & Royal Family) & Daiichi Kangyo Bank, Japan
<b>Market share</b>	Islamic Banking Share (total assets) = 37% (2010) 41% (2013) 47% (2014)  Takaful (insurance) market share = 32% (Brunei Yearbook report, adjusted 2016)  Takaful (insurance) total assets = 62% (2011) 68% (2013)  Islamic Financial Products market share = 40% (2016)		
<b>Income</b>	BND 30 Million ++ (estimated, 2013)	BND 319 Million (est. 2017, USD 244, 2018 rate) <sup>8</sup>	BIBD income may even reach BND 500 Million per year looking at the income growth since 2013-2016
<b>Source of Income</b>	<ul style="list-style-type: none"> <li>● Overnight Rate Average</li> <li>● Takaful</li> <li>● Capital markets/sukuk</li> </ul>	<ul style="list-style-type: none"> <li>● Overnight Rate Average</li> <li>● Takaful</li> <li>● Capital markets/sukuk</li> <li>● Capital market through Bourse</li> </ul>	

<sup>6</sup> SALMA, H. A. L. H. 2003. Islamic Banking in Brunei and the Future Role of Centre for Islamic Banking, Finance and Management (CIBFM). 280.

<sup>7</sup> OBG 2013. Islamic Bank to dominate Finance Sector. Brunei: Oxford Business Group <http://cibafi.org/NewsDetail.aspx?id=0L+9M2ieqnl=&cid=wBvpX4aRbz4=&chk=s>.

<sup>8</sup> INSTITUTE, C. F. 2017. *Top Banks In Brunei* [Online]. Available: <https://corporatefinanceinstitute.com/resources/careers/companies/top-banks-in-brunei/> [Accessed 05/03 2018].



Features	Tabung Amanah Islam Brunei (TAIB)	Bank Islam Brunei Darussalam (BIBD)	Note
	<ul style="list-style-type: none"> <li>● Islamic Tours</li> <li>● Petrol Stations</li> </ul>	<ul style="list-style-type: none"> <li>● Real estate</li> <li>● Subsidiaries (O&amp;G, transport, asset management)</li> <li>● Investment company</li> </ul>	
Attractiveness	<ul style="list-style-type: none"> <li>● High dividend return (about 5%)</li> <li>● Proactive and friendly customer service (mobile banking, call centre)</li> <li>● ‘Package products’ for customers (car, home, consolidation + privileges)</li> <li>● Convenience (after hour) service</li> <li>● Less affected by global financial crisis</li> <li>● Zakat non-levied on non-Muslim</li> <li>● Fulfill Islamic obligation to not interfere in any practice of usury</li> </ul>		
Future Plan	<ol style="list-style-type: none"> <li>1. Continue to support Sukuk to develop capital market</li> <li>2. Prepare for listing into Brunei Darussalam stock exchange</li> <li>3. Established Islamic banking subsidiaries</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue to support Sukuk to develop capital market</li> <li>2. Prepare for listing into Brunei Darussalam stock exchange</li> <li>3. Prepare for listing into Malaysian Bourse</li> <li>4. Conduct marketing and product research for suitability in other SEA market. Currently, studying Singapore financial market</li> </ol>	

Source: based on author's analysis

## **5.1 Bank Islam Brunei Darussalam (BIBD)**

BIBD, Brunei's largest bank and flagship Islamic financial institution, was formed in 2005 through the merger of Islamic Bank of Brunei and Islamic Development Bank of Brunei. As Brunei's flagship Islamic bank and largest financial services provider, with around 900 employees and B\$ 9.5 billion worth of assets under management, BIBD serves more than 200,000 customers - retail, corporate as well as international clients.

BIBD's headquarter is in Bandar Seri Begawan. The bank has 16 branches across the country and the largest ATM networks. BIBD is the only bank in Brunei that serves all segments within the retail banking market.

### **5.1.1 Sharia, legal and compliance**

The Sharia division is a key unit within the bank. This division will come up, facilitate and ensures each BIBD's product is sharia compliant according to the approval given by AMBD as well as in line with the best international Islamic banking and financial practices. Guided and supervise by BIBD's very own Sharia Advisory Board, the Bank have a strict quality assurance control for its own products. With a proactive collaboration with other division and unit, the Sharia division will continue to manage and support the development of innovative products that is sharia compliant.

Not only that, BIBD strives to exist within the legal regulatory framework and compliance. With that in mind, the bank will, from time to time review its structure and practices to ensure the Banks's governance. The bank has tasked the legal and compliance division to guide the bank's policies, identify and prevent any kind of crime related activities, to maintain effective compliance risk management & control systems plus risk mitigation procedures and to ensure compliance with relevance laws, regulations, and internal policies. The division also continue to update itself with new regulatory requirements to ensure adherence.

### 5.1.2 Products

BIBD have a diverse product ranging from Islamic banking and finance service, takaful and capital markets spread across its Parents Company and subsidiary. This section will explore BIBD's Islamic banking and finance products first followed by its subsidiaries. The products of which subsidiaries will also be explored is BIBD at Tamwil for finance and Takaful Brunei Darussalam (TBA) as for insurance products. The following are the Islamic Banking and finance products under BIBD.

**Table 4-4: Bank Islam Brunei Darussalam's Banking and Financing Products**

Banking Product	Concept	Financing Product	Concept
BIBD Current Account	Al Wakalah	BIBD Principal Protected Investments	Al Wakalah
BIBD Foreign Currency Account		BIBD Musharakah Mutanaqisah Home Financing Product	Musharakah Mutanaqisah
BIBD Savings Account		BIBD Musharakah Corporate Financing Product	Musharakah
Safe Deposit Box	Al Ajr	BIBD Personal Financing	Tawarruq
BIBD Mastercard Debit Card	Al Wakalah	BIBD Naqd Financing	
BIBD Mastercard Credit Card	Al Kafalah Bil Mal & Al Wakalah bil Ujrah	BIBD Ar Rahn	
		BIBD Consolidation Financing	
		BIBD Home Improvements Financing	Musharakah Mutanaqisah, Bai Bithaman Ajil, Ijarah

Source: compile from BIBD data

The following are the capital markets products by BIBD:

- BIBD Global Equity Fund
- BIBD Asia Equity Fund
- BIBD Al- Kauthar Funds DCC Incorporated
- Islamic SGD Money-Market Fund
- Sukuk with Brunei Gas Carrier

The following is the products for Islamic Finance under BIBD's subsidiary, BIBD at Tamwil Bhd.

**Table 4-5: BIBD At Tamwil's Islamic Banking and Finance Products**

Banking Product	Financing Product
Real Saving Account	New Car Financing
Regular Savings Account	Used Car Financing
General Investment Fixed Deposit	Motorcycle Financing
Golden Saver Fixed Deposit	Customer Product Financing

Source: BIBD's website

As can be seen, BIBD have banking service in term of investment under BIBD At Tamwil. Their concept is basically to allow its customer not only to get finance for the vehicle but also a choice to invest with them.

The following are the takaful products for BIBD's subsidiary, Takaful Brunei Darussalam. This Takaful further divided into 2 section, Takaful Brunei Am (General Insurance) and Takaful Brunei Keluarga (Family Insurance).

**Table 4-6: Takaful Brunei Am (General Insurance) products**

Takaful Section	Takaful Products
Individual Takaful	<ol style="list-style-type: none"> <li>1. Motor               <ul style="list-style-type: none"> <li>▪ Private motor</li> <li>▪ Motorcycle</li> <li>▪ Additional motor coverage</li> </ul> </li> <li>2. Fire               <ul style="list-style-type: none"> <li>▪ Basic Fire</li> <li>▪ Fire &amp; allied perils</li> <li>▪ House owner</li> <li>▪ House holder</li> <li>▪ Comprehensive Home</li> </ul> </li> <li>3. Miscellaneous               <ul style="list-style-type: none"> <li>▪ All risk for Bicycle</li> <li>▪ Golfer's Takaful</li> <li>▪ Musafir</li> <li>▪ Personal Accidents</li> <li>▪ Personal Accidents for active life</li> </ul> </li> </ol>
Corporate Takaful	<ul style="list-style-type: none"> <li>▪ Aviation</li> <li>▪ Energy</li> <li>▪ Marine</li> <li>▪ Engineering</li> <li>▪ Performance Bond Liability</li> <li>▪ Fire</li> <li>▪ Motor</li> <li>▪ Miscellaneous</li> </ul>

Source: Takaful Brunei Am's website

**Table 4-7 Takaful Brunei Keluarga (Family Insurance) products**

Takaful Section	Takaful Products
Mortgage and financing	<ul style="list-style-type: none"> <li>■ Mortgage</li> <li>■ Annual financing</li> </ul>
Protection & Savings	<ul style="list-style-type: none"> <li>■ Nur savings</li> <li>■ Education</li> <li>■ Hajj/Umrah</li> <li>■ Dream House</li> <li>■ Savings</li> <li>■ Retirement</li> <li>■ Amal Jariah</li> <li>■ Wedding</li> <li>■ Overseas education</li> </ul>
Protection	<ul style="list-style-type: none"> <li>■ Employee</li> <li>■ As Syifaa (medical)</li> <li>■ Student</li> <li>■ Aman (Peace)</li> <li>■ Group Term life</li> <li>■ Group hospital and surgical benefits</li> </ul>

Source: Takaful Brunei Keluarga's website

### 5.1.3 Investment Options

Both institutions have plenty of investment options in term of dividend (from current or debit accounts) or returns from term deposit. For example, BIBD have investment option from its current and demand deposits by giving dividend every half year per financial period. BIBD also have unrestricted investment account using Mudharabah concept, which normally reserved for its shareholders. Last but not the least, BIBD provide a competitive retracted investment accounts such as Term Deposit in Brunei Dollar or Term Deposit in Foreign Currency. Other than that, It is not known

of any other products or ways of which a party could participate in investing in BIBD. Apart from that, the bank itself utilised different concepts in investing the said deposit or source of fund. These funds normally invest in financing activities. BIBD comes up with 3 financing activities namely asset backed transactions, profit sharing transaction for Corporate Finance and fee based transactions for trade finance. The details of the products and concepts applied by BIBD can be found in **Table 4-4** .

#### 5.1.4 Portfolio Investment

To rely on liquidity of asset and liabilities will not be enough to make a profit in Brunei. Both institutions have engaged in a vigorous and diversified investment portfolios both in domestic and beyond. BIBD for example have become a key player in real estate and oil and gas industry in Brunei, enabling her have enough fund for expansion in near future. The following are just some of the known investment portfolios of BIBD:

- Overnight Rate Average in Singapore Stock market
- Takaful such as BIBD At Tamwil
- Capital markets/sukuk
- Capital market through Bourse eg BIBD Securities
- Real estate
- Subsidiaries (O&G, transport, asset management)
- Investment company
- Known Subsidiaries: BIBD At Tamwil, Takaful Brunei, BIBD Securities, IBB Capital Assets Management, Belait Barakah & Belait CSS (O&G), BIBD Al Kauthar Funds, IBB Transport

#### 5.1.5 Source of Fund & Use of Fund

To understand where the Islamic Bank gets its funds and how it manages the use of fund, best possible explanation can come in the form of an Islamic Balance

Sheet. As liquidity is important for bank businesses, striking a right balance between the two will result in the Bank's profitability or otherwise. In Islamic balance sheet, the liabilities are where the fund comes from. It can be in the form of deposits, long term deposits and shareholders' equity which gives the bank the much needed capital for conducting business. On the other hand, assets are where the money either recycles or is invested on other business ventures which will provide profit for the bank. In such arrangements, the bank conducts its business and manages its own funds.

Following the explanation provided above, this section will explore the source of fund and use of fund of Bank Islam Brunei Darussalam. This following table will give an idea on how BIBD gets its source of fund (including the concept) and how it uses its fund to generate more income.

**Table 4-8 Balance Sheet of Bank Islam Brunei Darussalam**

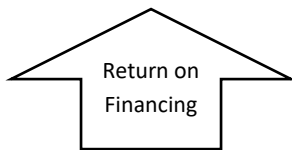
Assets	Explanation	Liabilities	Explanation
<b>Inventory</b> (real estates in Brunei Darussalam and Beyond)	Ownership of assets	Current/Demand Deposits	Link to demand deposits
		Products:	
		1. Current accounts (General & Tiered)	Concept applied: Wakalah (allow bank to invest on behalf and the bank will get a fee while the rest of the return given back to the depositor)
		2. Savings Accounts (General Saver, Easy Saver, Purpose Saver, Hajj Saver, Tiered Saver)	Al Ajr** (pay fee in exchange for custody)
		3. Foreign Currency Account	



Assets		Explanation	Liabilities	Explanation
			4. Safe Deposit Box**	
Financing	Asset backed Transactions	For loan	Unrestricted Investment Accounts (Mudharabah)	Link to fixed deposit but uses profit sharing concept of return based on performance of assets
	Products:	Concept applied:		
	1. Personal Financing	Tawarruq (A customer buys an easily saleable asset from an Islamic bank at a marked-up price or bargain price to be paid at a later date, and quickly sells the asset to obtain cash),		
	2. Naqd (Emergency)	Ar Rahn (pawn),		
	3. Education Financing	Musharakah		
	4. Consolidation Financing	Mutanaqisah* (jointly owned a property and paid out over the finance period),		
	5. Ar Rahn (Pawn)	Ijarah* (rent property from bank over finance period before change ownership), Bai Bithaman Ajil* (Sale of goods (deferred payments) including profit		
	6. Home Financing			
	7. Home Improvements Financing			

Assets		Explanation	Liabilities	Explanation
		margin throughout finance period		
	Profit Sharing Transactions for Corporate Financing  Products: 1. Naqad financing (Overdraft) 2. Demand Financing 3. Demand Line Financing 4. Term Financing 5. Development Financing 6. Musharakah Financing 7. Bank Guarantee (Default)	Investor & Entrepreneur relationship.  Concept applied: Musharakah (profit and loss sharing)  Additional info: - Short term - Mainly to provide extra capital to businesses	Restricted Investments Accounts  Products: 1. Term Deposit BND 2. Term Deposit Foreign	Concept applied: Wakalah (allow bank to invest on behalf and the bank will get a fee while the rest of the return given back to the depositor)
	Fee Based Transactions for trade financing  Products: 1. Letter of Credits + Trust Receipts 2. Collection Bills	Investor & Entrepreneur relationship  Concept applied: Wakalah (Agent/users of fund) & Murabahah	Profit Equalisation Reserves	Prudential tools

Assets		Explanation	Liabilities	Explanation
	3. Shipping Guarantee 4. FX Hedging	(Profit sharing and loss bearing)  Additional info: - Short term - Mainly to facilitate business expansion		
			Shareholders' equity	Use to fund projects for new business conducts



Source: based on author's analysis

From the above table, it can be seen quite clearly on how BIBD generate its fund and how the bank divest it in many investments portfolios. Not only that, the bank have been innovative in coming up with a simple concept attached to each products in both sides of the balance sheet. Havng said that, BIBD have quite a clear structure on the source and the use of funds.

### 5.1.6 Performance

The study provided for this bank is based on the financial statements and report made financial year 2017 and 2016. BIBD did only have a complete report dated back in 2016 and yet to produced one for 2017. In this nature, it is expected, 2018 financial statements will be produced in first quarter of 2019 and the full reports will be published in the second half of the year.

Overall, Bank Islam Brunei Darussalam come up to be the strongest bank in Brunei, despite weak domestic demand for financing and deposits for the past few years. At the end of financial year 2017, BIBD recorded a net profit of BND 169,818 Million after Zakat and taxation. The total asset also increases from BND 9.035.5 Million in 2016 to BND 9,591,345 Million. BIBD also recorded a strong increase in its customer deposit, standing at BND 8,226,221 Million from the previous BND 7,114,600 Million in 2016. With such a strong number, BIBD's performance for the past few years can be said as extra ordinary, amidst a challenging market environment. The following charts will entail BIBD's performance in term of net profit (after Zakat and taxation), total assets and deposits from customers from 2013 onwards.

Appendix 4-1: BIBD's Net Profit after Zakat and Taxation (BND Million)

Appendix 4-2: BIBD's Total Assets (BND Million)

Appendix 4-3: BIBD's Deposits from Customers (BND Million)

#### **5.1.6.1 Financial Year 2016/17 Summary**

It has been an active and fruitful years for BIBD in the past 5 years or so. Their dedication in building 'a truly Bruneian identity' in banking has so far winning the hearts and minds of the Bruneians. The prove to this is the numerous awards that they received in recognition of their efforts. The Banker, an internationally recognized economic and financial intelligence focusing on banking and financial, have praised and recognize BIBD's efforts in many spectra. BIBD's best known for its Digitalisation of its banking service, winning the awards from the Banker annually since 2016. Another is a recognition in its quality of service, which led them to bag 'best retail bank awards' every year since 2013. The following are some of the awards BIBD received for the past few years:

- The World's Best Emerging Markets Banks in Asia-Pacific by Global Finance (2013)
- The World's Best Islamic Financial Institutions by Global Finance (2013)
- Best Retail Banking Awards by The Banker (2013, 2014, 2015, 2016, 2017, 2018)

- The Asian Banker Technology Innovation Awards by The Asian Banker (2016)
- Safest Bank in Brunei by Global Finance (2016)
- Best Smart Branches in Southeast Asia by the Asian Banker (2016)
- A- Credit Rating from Standard & Poor's (2016, 2017)
- Best Mobile Banking Application, by the World Finance (2017)
- Best Digital Bank in Brunei, by the World Finance (2017)

In domestic perspective, the recognition comes in terms of trust extended to BIBD. As of 2016. About 6,000 SMEs are using products from BIBD while BIBD itself conducts approximately 250 joint projects with these SMEs. These projects translate BIBD commitments in giving back to the community as well as part of its CSR projects. A product of BIBD named 'SME 360' provide a comprehensive banking solution for aspiring startup in the country. This one stop service will help in providing relevant information and come up with tailored solutions for each SME. From time to time, BIBD holds workshops in helping SME to succeed in business world with a strong support from Darussalam Enterprise (DARe) and LIVEwire Brunei. In another related note, BIBD reached 93% customer satisfaction of its service according to an independent survey done in 2016. In term of corporate trustworthiness, about 500 Bruneian corporations choose BIBD than other banks, a big number for a small country with a plenty of corporations. BIBD have a history of supporting local corporations in many industries such as construction, education, agriculture, food and downstream activities from oil and gas industry. In short, BIBD have recorded positive results for the past few years and expected to create more record-breaking achievements in near future.

#### **5.1.6.2 Retail and International Banking Group**

Brunei Darussalm is not excluded from the gloomy financial demand hitting the region the past few years. Some domestic banking and financial institutions in the country were adversely affected by this such as Hong Kong and Shanghai Bank Corporation (HSBC Brunei) that decided to exit the market in 2015. The largest

conventional bank in Brunei as well as a competitor to BIBD, Baiduri Bank managed to record meagre profit of BND 30 Million for the financial year of 2017 due to weak demand (BBYB). Despite such challenges, BIBD comes up to be the strongest of all bank in Brunei and the Asia Pacific, placed at number 14<sup>th</sup> in the Asian Banker's ranking for strongest banks for the year 2016-2017. BIBD managed to weather the storm and turn the tide by making a considerable amount of net profit. This happened primarily thanks to strong performance of the retail banking group, which remains the core for the bank's stable funding base.

BBD has been rigorous in nurturing a thorough and personalized service for each of its customers, winning their trust instead. In 2016 alone, the number of retail customer increase by 25%, the highest ever recorded by the group. Its attractive card's rewards and gifts sees an increase of 26% in the number of cards application and transaction in 2016. To increase a sense of safety for the users, BIBD team up with MasterCard for a real time monitoring to supervise any kind of fraud activities. Furthermore, the bank has invested heavily on its digital technologies and aspire to become the forefront of such financial technology in Brunei. The online and mobile transactions see a major increase in activities and BIBD will continue in ensuring these technologies is easier to use.

On the other hand, BIBD's newly restructured International Banking Group is more than ready to handle international and multinational companies to come and invest in Brunei. By offering a sharia compliant product, the group seek to focus on MNC coming from the Islamic countries and the Middle East. The group already in contact with interested ASEAN and Middle Eastern companies for possible financial solutions in term of sukuk, syndication and liquidity deployment. To summed up, these two groups has joined hand in hand with the Corporate group to make a mark, not only in Brunei, but beyond with a truly Bruneian identity and service.

### 5.1.6.3 Treasury and Global Markets

The treasury is responsible for the control and managements of funds as well as ensuring the bank's businesses have access to liquidity. Their function mostly needed during market stresses that requires the bank liquidity and prudent capital management. The treasury has been managing 64% of BIBD's total asset and the number expected to rise. Apart from the asset part, the team also tasked with managing the Bank's liabilities to ensure safekeeping of customer deposit that becomes the foundation of trust for the bank. The team also helps in coming up more complex and innovative financial solutions based from study made across the globe. This will help in bringing in new customer to use their service. In near future, the team plans to make a presence in the Middle East by tapping on inter banks activities.

### 5.1.6.4 Human Resources and Capital

In running a business of this scale, it is crucial for the bank to ensure the quality of its human resource. BIBD is committed in ensuring continuous developments for its employees in term of skills and talents and capabilities. By doing so, the bank hope to deliver the effective and efficient service for its customers. BIBD is known for its high-quality learning and skills upscaling and the bank is proud to be led today by the Bruneians that they invest in the past few years. BIBD do trainings and workshops through face to face training, group building and e learning programs. In 2016 for example, 20 of its employees received the prestigious training certificate (Certified Qualifications in Islamic Banking - Wealth Management) from Islamic Banking and Finance Institute (IBFIM), Malaysia and another 19 in Islamic Financial Planning Certificate.

Not only that, the bank also ensured its employees to be well equipped in specified sectors of the industry. For example, the bank has been sending its employees to work on various risk and compliance programs such as IFSB regulations

for Islamic Financial Institutions, Foreign Account Tax Compliance Act (Basel III), Sharia Non-Compliance Risk Training and Impact on Credit Risk Management. On top of that, BIBD also reached out to schools, higher institutions and government agency to seek for young talents that can contribute positively to the future of the bank. From time to time, the bank even offered internship to them in the country or abroad.

The bank also embarks on a journey to strengthen the bank leadership team. Locally, employees have training with Centre of Islamic Banking, Finance and Management (CIBFM) for leadership and other related training. BIBD also collaborate with International Centre for Leadership in Finance (ICLIF) to develop a leadership course for the bank's staffs. Due to extensive investment on human capital and resources, The Islamic Banking and Finance Institute, Malaysia awards the bank Islamic Finance Talent Development Champion awards in recognition of BIBD's extensive development programs.

#### **5.1.6.5 Operations**

The bank realized, to continue to become number one choice for Bruneian market, it must step up the game. BIBD shift to digitalisations of its service and operations to utilize this technology fully. The Bank is already holding the largest number of ATMs and have a record high number of transactions online. This achievement is not a reason for BIBD to be slacking, rather the bank will diversify its digitals products and access as well as to automise the bank operations. Today, the bank is proud to be able to automate the Finance, Risk Mangement, Compliance, Procurement, Expense Management and Human Capital unit, and well on its way to become a fully automated service bank in the country. These efforts surely will help in speeding up processing time as well as increase overall efficiencies of the bank.



#### 5.1.6.6 Information Technology

The use of technology always has become the forefront of BIBD. Since its revamp few years back, the use of technology as become one of the contributing to its current success. Therefore, the bank put an extra emphasis on the developments and utilization of technology in its banking service and experience. The bank has just installed its owned primary data centre in 2016, enabling it to handle more traffic and offer more service to its customers. With the new data centre, the bank can expand its Mobile banking and internet banking service, the first bank to introduce so when its arrived at Bruneian shore. The key to BIBD E service is to make it as easy as possible to use while keeping it attractive from time to time. The Bank recorded 5 million online transactions in 2017, the largest number of e transactions in the country, which reflects its customer confidence of BIBD's mobile and internet banking service. The bank also claimed to connect over 100,000 digital customers nationwide (about 1 in 4).

In second week of May 2018, BIBD launched 'BIBD Nextgen' program, whereby the banks introduce next generations' digital banking and financial solutions without human interaction. It featured a total online banking and financial service with virtual reality experience and interactive screens for customers to experience. Located at the heart of commercial district, this prototype digital branch will allow customers to immerse in digital banking and financial services with minimal human assistance or interaction. The branch also featured a robot named 'Arif' to guide customers to explore its services. On a related note, align with BIBD community development program, the Bank established a drive through ATM. This service available along with plenty of SMEs that is supported by the Bank. With such innovation, BIBD will continue to invest on technology to add value to its services.

#### 5.1.6.7 Risk Management

Risk management is important in any kind of business, especially more in Islamic Banking and finance. The nature of the business that is based on investments rather than credit requires a deep thought, a well-planned strategy, not to mention the need to calculate on all the risks before embarking on any kind of activities. The division mainly tasked with assessing, managing monitoring and oversight on financial and non-financial risks in BIBD's business activities. The division will analyse investment and financing proposals and evaluate the Bank's operations. It also makes an extra effort to understand possible risks and provide solutions to them. Up to date, the Bank followed Standard and Poor's guidelines that earned the bank A- credit rating. Apart from that, the bank makes an initiative to study and follow IFRS9 provisions and credit rating of Fair Isaac Corporation (FICO) to better prepared from any kind risks.

#### 5.1.6.8 Audits

The internal audit division is an independent audit unit within the BIBD and do its tasks with much autonomy from the rest of the bank's division to ensure integrity of the audit. BIBD's audit is based on risk-based audit to ensure high level confidence by its customer. The division continue to improve its methodology in conducting audit and collaborate with KPMG in providing an honest audit for the Board. Through such audit, future directions and products can be envisioned for the best of the company.

#### 5.1.7 BIBD's Subsidiaries

As an Islamic Bank, investment is important in ensuring the survival of the institution. Therefore, the banks have extensive subsidiaries that encompassed many sectors. Named as 'The Group', these subsidiaries is an integral part of the Bank's financial part and contribute in fulfilling the banks aspirations as one of the active key player in the market. The following are the list of the subsidiaries under BIBD:

- 1) BIBD At Tamwil Bhd
- 2) BIBD Securities Sdn Bhd
- 3) IDBB Sukuk Inc
- 4) BIBD Management and Services Bhd
- 5) IBB Capital Asset Management Sdn Bhd
- 6) Belait Barakah Sdn Bhd
- 7) BIBD Al Kauthar Funds DCC Incorporated
- 8) BIBD Al Kauthar Asia Pacific Fund
- 9) IBB Transport Sdn Bhd
- 10) Saujana Sdn Bhd
- 11) BIBD Global Equity Funds
- 12) Belait CSS Sdn Bhd
- 13) Better Sdn Bhd
- 14) BIBD Middle East Limited

#### 5.1.8 Board of Directors and Sharia Advisory Board

BIBD have 2 governing boards, first the Board of Director and second, Sharia Advisory Board. The Board of Director mainly provide the direction for the bank and the one that is responsible for the whole business cycle of the bank. On the other hand, the Sharia Advisory Board is to ensure and improve the compliance of the bank business in accordance to Islamic principle. Both Boards plays a crucial part in maintaining a smooth-running business operation for the bank.

**Table 4-9: Bank Islam Brunei Darussalam's Board of Directors**

No.	Profession	Affiliation	Position in the Board
1	Minister of Finance II	Ministry of Finance	Chairman
2	Managing Director, Brunei Investment Agency (BIA)	Key Shareholder	Director
3	Chief Executive Officer, Fajr Capital	Key Shareholder	Director

No.	Profession	Affiliation	Position in the Board
4	Financial Experts	Expert in the field	Director
5	Board Director, Mohammed Alsubaei & Sons Investment Company (MASIC)	Key Shareholder	Director
6	Managing Director of BIBD	BIBD	Director
7	Permanent Secretary, Ministry of Primary Resources and Tourism	Ministry of Primary Resources and Tourism	Director
8	Deputy CEO, Bursa Brunei Darussalam Sdn Bhd	Brunei Stock Exchange	Director

Source: base on author's analysis from Annual Reports

**Table 4-10 Bank Islam Brunei Darussalam's Sharia Advisory Board**

No.	Profession	Affiliation	Position in the Board
1	Permanent Secretary the Ministry of Religious Affairs	Ministry of Religious Affairs	Chairman
2	Deputy State Mufti	State Mufti Office	Deputy Chairman
3	Dean, Faculty of Economic and Islamic Finance, UNISSA	Expert in the field from UNISSA	Member
4	Director, Research and Publications Centre, UNISSA	Expert in the field from UNISSA	Member
5	Istinbat Officer, Ifta Department, State Mufti Office	State Mufti Office	Member
6	Head of Shariah, Bank Islam Brunei Darussalam Berhad	BIBD	Secretary

Source: based on author's analysis from Annual Reports

All the above arrangements are in accordance to TAIB Act 1991 which requires relevant person to fill in the position in the Board. This include the Managing Director of the institution, the relevant Ministers (Minister of Finance and Minister of Religious Affairs), shareholders, Islamic jurists and scholars, shareholders and relevant experts on the field.

### 5.1.9 Challenges and Opportunities

From the reports shown above, it is quite clear that BIBD have direction and ways in handling its business efficiently. Like any businesses, the bank still faced many challenges ahead. The challenges can be summed into the following:

- 1) Absence of national guidelines in Islamic banking and finance governance and compliance let to the adoption of different standard (for example from Malaysia). The Bank should collaborate with TAIB to pursue this matter with AMBD to expedite national Islamic Banking and Finance governance and compliance framework. This will ensure proper delivery in supervising, monitoring and ensuring compliance of Sharia related Islamic banking and finance products and conducts.
- 2) The Banks front line service remains human intensive. It can be observed that, BIBD can't catch up with the demand for the service despite it is human intensive. Recent move to automate functions within the banks should help in alleviating this problem. Yet, it seems, BIBD services can't catch up with the processing time of the conventional banks.
- 3) Over digitalization. BIBD digitalization move can be said as too fast paced. It will take some time for both the customer and the operations to get use to the system. BIBD should focus on products that can be digitalise while remains focus on improving the customer service (by humans).
- 4) BIBD should promptly informed investors to collect their dividend annually. It is found that, BIBD haven't properly inform the stakeholders to collect their dividend. News about the Annual General Meeting should be disseminated properly and so that all stakeholders will be properly updated on the state of the business to this date.
- 5) KPMG, the appointed independent audit company, reported that there is some material misstatement in the information by BIBD. This mistake should be avoided to prevent any confusion and lower the confidence of the customer.

- 6) KPMG also express their distrust that the internal audit is independent from the internal controls. The company suggest BIBD to improve on this and provide a clear boundary between the audit and the rest of the bank to protect its integrity.

**The following are some opportunities for BIBD**

- 1) Market study for emerging markets. BIBD plans to study and enter the Singaporean market to fulfill the domestic demand for Sharia compliant banking and financial service. BIBD should also considers emerging markets in Muslim minority countries such as Thailand and the Philippines whereby there do have a sizeable Muslim population and market. This will fasten BIBD journey to spread its wing abroad and to become a made in Brunei corporations that make it in the world arena.
- 2) BIBD should plays more active role in Sukuk financing for Brunei Darussalam
- 3) BIBD through its digitalization push can become an example to the emerging markets. BIBD should continue what it does best and sought to learn from the best practices available and combined both methods to become a key player in this sector.
- 4) BIBD can push for a greater market shares in banking and finance services in the country. As the largest banks in Brunei, it is only a matter of time the Islamic banking and finance to reach this goal.

## **5.2 Perbadanan Tabung Amanah Islam Brunei (TAIB)**

Perbadanan Tabung Amanah Islam Brunei (TAIB) is a body corporate established in Brunei Darussalam under the Perbadanan Tabung Amanah Islam Brunei Act (Cap 163)

TAIB was officially launched by His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaullah ibni Al-Marhum Sultan Haji Omar 'Ali Saifuddien Sa'adul Khairi Waddien, Sultan and Yang Di-Pertuan of Negara Brunei Darussalam, the Present Monarch who is also the Supreme Executive Authority of the Country on the 29<sup>th</sup> September 1991.

The launching of TAIB marked a new beginning for Brunei Darussalam as TAIB was the first Financial Institution that conducted all its activities in accordance with Islamic faith.

Since its establishment TAIB has two subsidiary companies which are Insurans Islam TAIB Sendirian Berhad (Takaful/Insurance) and Darussalam Holdings Sendirian Berhad (Haj/Umrah Services, Travel Agent) where both of which TAIB has a 100% shareholding.

### **5.2.1 Products**

Similar to BIBD, Tabung Amanah Islam Brunei (TAIB) also have a diverse product ranging from Islamic banking and finance service and takaful spread across its Parents Company and subsidiary. This section will explore TAIB's Islamic banking and finance products first followed by its subsidiaries. The products of which subsidiaries will also be explored is Insurance Islam TAIB for insurance products and Darussalam Holdings for other related business activities. The following are the Islamic Banking and finance products under TAIB.

**Table 4-11 TAIB Islamic Banking and Finance Products**

Banking Product	Concept	Financing Product	Concept
TAIB Savings Account	Al Wadiah Yad	TAIB Personal Financing	Tawarruq
TAIB Term Deposit	Dhamanah	TAIB Education Financing	
		TAIB Education Kit Financing	
		TAIB Property Financing	Musharakah Mutanaqisah, Ijarah & Bai Bithaman Ajil
		TAIB Home Improvements	
		TAIB Short- and Long-Term Financing	Bai Bithaman Ajil, Ijarah, Al Wakalah
		Assets Financing	
		Bank Guarantee	
		Syndicated Financing	

Source: based on author's analysis

The following are the takaful products for TAIB's subsidiary, Insurance Islam TAIB. This Takaful further divided into 2 section, General Takaful Scheme and family takaful plan



**Table 4-12 TAIB's General Takaful scheme products**

Takaful Section	Takaful Products
Individual Takaful	<ol style="list-style-type: none"> <li>1. Motor               <ul style="list-style-type: none"> <li>▪ Private motor</li> <li>▪ Motorcycle</li> </ul> </li> <li>2. Fire               <ul style="list-style-type: none"> <li>▪ Basic Fire</li> <li>▪ Fire scheme for National Housing Scheme</li> <li>▪ House owner</li> <li>▪ House holder</li> </ul> </li> <li>3. Personal Accident               <ul style="list-style-type: none"> <li>▪ Personal Accidents individual</li> <li>▪ Duyufur Rahman (Hajj)</li> <li>▪ Holiday</li> <li>▪ Student</li> </ul> </li> </ol>
Corporate Takaful	<ul style="list-style-type: none"> <li>▪ Marine Hull</li> <li>▪ Marine Cargo</li> <li>▪ Contractor's All Risk</li> <li>▪ Group Personal Accident</li> <li>▪ Fire</li> <li>▪ Motor</li> <li>▪ Workmen compensation</li> <li>▪ Public liability</li> <li>▪ Professional indemnity</li> </ul>

Source: TAIB's Website

**Table 4-13 TAIB's Family Takaful plan products**

<b>Takaful Section</b>	<b>Takaful Products</b>
Mortgage and financing	<ul style="list-style-type: none"> <li>■ Mortgage</li> <li>■ Annual financing</li> </ul>
Protection plan	<ul style="list-style-type: none"> <li>■ Group family takaful</li> <li>■ Personal home assistant</li> <li>■ Teachers</li> </ul>
Protection & Saving	<ul style="list-style-type: none"> <li>■ Family takaful plan – Individual</li> <li>■ Family Takaful plan – education</li> <li>■ Siswa (graduate studies)</li> </ul>

Source: TAIB Website

Last but not the least, is TAIB related Business products under subsidiary Darussalam Holdings. The followings are the products being offered:

- Hajj and Umrah service
- Outbound Muslim tours
- Inbound tours

### **5.2.2 Source of Fund & Use of Fund**

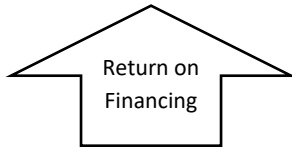
This section will explore the source of fund and use of fund of Tabung Amanah Islam Brunei. This following table will give an idea on how TAIB gets its source of fund (including the concept) and how it uses its fund to generate more income. It worth noting that, TAIB is not a fully functioning Islamic bank, rather an Islamic Trust that work more closely with Takaful/insurance activities.

**Table 4-14 Balance Sheet of TAIB with its products and explanation**

Assets		Explanation	Liabilities	Explanation
<b>Inventory</b> (real estates in Brunei Darussalam)		Ownership of assets	Deposits/Savings	Link to demand deposits
			Products:	Concept applied:
			1. Al Wadiah Savings	Al Wadiah Yad
			2. Si Manja (Minor account with Trustee)	Dhamanah (deposit entrusted to the care of the bank as safekeeping, the bank is expected to return in full amount at any time needed by the depositor)
			3. Remaja (Teenagers)	
			4. Belia (Youth)	
			5. Tekad Haji (Haji)	
			6. Berjasa (Retirement)	
			7. Syarikat (SME)	
Financing	Asset backed Transactions	For loan	Unrestricted Investment Accounts (n.a)	Link to fixed deposit but uses profit sharing concept of return based on performance of assets
	Products:	Concept applied:		
	1. Personal Financing	Tawarruq (A customer buys an easily saleable asset from an Islamic bank at a marked-up price or bargain price to be paid at a later date, and quickly sells the asset to obtain cash),		
	2. Education	Musharakah		
	3. Education Kit	Mutanaqisah* (jointly owned a property and paid out over the finance period),		
	4. Property Financing	Ijarah* (rent property		
	5. Home Improvements			

Assets		Explanation	Liabilities	Explanation
		from bank over finance period before change ownership), Bai Bithaman Ajil* (Sale of goods (deferred payments) including profit margin throughout finance period)		
	Profit Sharing Transactions for Corporate Financing  Products: 1. Short- and Long-Term Financing 2. Assets Financing 3. Bank Guarantee 4. Syndicated Financing	Investor & Entrepreneur relationship.  Concept applied: Bai Bithaman Ajil* (Sale of goods (deferred payments) including profit margin throughout finance period), Al Ijarah (a leasing contract of property for stream of rental and purchase payments, ending with a transfer of ownership to the lessee), Wakalah (allow bank to invest on behalf and the bank will get a fee while the rest of the return given back to the depositor)	Restricted Investments Accounts  Products: 1. Ar Rizq (Wealth Term Deposit)	Concept applied: Wakalah (allow bank to invest on behalf and the bank will get a fee while the rest of the return given back to the depositor)

Assets	Explanation	Liabilities	Explanation
		Profit Equalisation Reserves	Prudential tools
		Shareholders' equity	Use to fund projects for new business conducts



From the above table, it can be seen quite clearly on how TAIB generate its fund and how the bank divest it in many investments portfolios. Compared to BIBD, TAIB business conduct is not as expansive as BIBD. However, TAIB as the oldest Islamic financial institution in Brunei remains as one competitive entity in Brunei's financial industry.

### 5.2.3 Investment Options

On the other hand, TAIB have similar concept as BIBD, a dividend through the savings account, or the so called 'Time Deposit'. Insofar, TAIB don't have unrestricted investment account, but have a single restricted investment account named Ar Rizq. Apart from that, it is not known of any other products or ways of which an individual can invest in TAIB. TAIB also invest the fund into two categories of financing activities namely asset backed transactions and profit sharing transaction for corporate finance. The details of the products and concepts applied by TAIB can be found in Table 4-14.

### 5.2.4 Portfolio Investment

As for TAIB, she had a modest investment portfolios, investing mainly in domestic market. The following are just some of the known investment portfolios of TAIB:

- Overnight Rate Average
- Takaful

- Capital markets/sukuk
- Islamic Tours
- Petrol Stations
- Known Subsidiaries: Insurance Islam TAIB, Darussalam Holdings, TAIB Petrol Stations

Both BIBD and TAIB portfolios are based on the known investments both in domestic and beyond. It is suspected that both institutions have other portfolios apart from what mentioned above.

#### **5.2.5 Board of Directors and Shariah Board**

Similar to BIBD, TAIB has 2 governing boards – Board of Directors and Shariah Board. According to TAIB Act 1991, the law requires relevant person to fill in the position in the Board of the Directors. This include the Managing Director of the institution, the relevant Ministers (Minister of Finance and Minister of Religious Affairs), shareholders, Islamic jurists and scholars, shareholders and relevant experts on the field.

### **6. Future of Islamic Bank in Brunei Darussalam**

Apart from the market share being discussed earlier, Islamic bank and finance in Brunei will spearhead the listing into stock market around the region. Brunei Stock Exchange currently under development will see BIBD as one of the key local companies to be listed and incorporated into the Exchange. This is due to its strong performance and liquidity which will help to develop the Bruneian exchange in the long run (Vizcaino, 2016). Although the stock set to open last year, a lot of issues must be taken care off and the plan to launch it have shifted to a later date. Due to this development, BIBD shifts its attention to Malaysia Stock Exchange (Bursa Saham Malaysia). This announcement was welcome by the Malaysian counterpart saying that,

out of 33 Banks listed, only 2 Islamic banks made it in the bourse (Alifah, 2017). Another addition to Malaysian bourse will surely attracts more fund managers to Southeast Asia as well as helps to strengthen the already established Islamic banking and finance industry in Malaysia. Other than that, BIBD seek to expand its market outside of Brunei, especially in a non-Muslim majority country of her neighbouring Southeast Asia nations. Immediate target is Singapore, where the Muslim population have been calling for the establishment of Islamic bank and finance franchise from neighbouring Malaysia for quite some time. Looking at this development, BIBD its first representative office in Singapore with the main aims of studying Singapore's banking and financial system and what best ways to introduce Islamic products into the market (BIBD, 2018). If this pioneering step is successful, BIBD may seek opportunities in other Muslim community around Southeast Asia such as in Thailand, Cambodia or Southern Philippines where a considerable number of Muslim communities does exist. In term of shares in global Islamic banking assets, Brunei stand at third place in ASEAN with 0.5 % shares (AMBD, 2015), while domestic system market shares is the 3<sup>rd</sup> in the Islamic world, just behind Iran and Sudan<sup>9</sup>. Such a high number of domestic market shares is an encouraging sign for the rapid growth of Islamic banking in Brunei and may set an example for others in term of fetching for the niche market (IFSB, 2017). Brunei Darussalam is quite adept at focusing on niche market and focus its energy on achievable, short term plan to develop the industry. Therefore, Islamic banking and Finance in Brunei gives a unique case study on a country's prudent management of the industry and how a slow, yet careful step ensure success for the future of Islamic banking and finance in the country.

## 7. Islamic Bank in Brunei Darussalam and Thailand in Comparison

The most striking issue that the authors observe in relation to Islamic banking business in Brunei Darussalam and Thailand is that, these two countries are socio-culturally different. Brunei Darussalam has been for centuries, a Muslim state while Thailand is considered herself as a Buddhist country. More than 80 percent of Bruneian

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<sup>9</sup> Although both countries can't be accepted as both only allow Islamic banking to thrive

and resident is Muslim on the other hand the percentage of Muslim in Thailand is only 15 percent. It seems like 15 percent or 10 million in number is higher than 300,000 (80 percent) of total Muslim in Brunei; however, with this number, the context of business and life-style are different. Bank Islam Brunei Darussalam or BIBD is very strong and stable due to the need of the Muslim in Brunei to fulfil their religious obligation as well as enables them to conduct their daily transactions in ways that are Sharia-compliant together with the political will to totally transform a whole country to comply with the said Law. These are very different from Islamic Banking of Thailand (ibank) that was established to merely fill the gap and cater to the needs of the minority.

In term of Sharia Governance and Compliance, in Brunei Darussalam, the industry is well-regulated by the Monetary Authority of Brunei Darussalam (AMBD), the central bank of Brunei, with guidance from International Development Bank (IDB), Islamic Financial Service Board (IFSB), and International Islamic Financial Market (IIFM). AMBD is the key to stability of the whole financial sector. In Brunei, there are 2-tier system of Sharia governance – at national and institutional (Bank) level. At the national level, roles and functions of Sharia Financial Supervisory Board (SFSB) of AMBD are not limited only to give consultation; but to monitor the industry as well as to examine the product are Sharia's compliance at all time to meet the international standard and practice. At the institutional level, the Sharia Advisory Board (SAB) of each bank has the responsibility to assure that its financial products comply with Sharia concept and is expected to work together with Sharia Financial Supervisory Board (SFSB). These Boards must be filled with experts in related fields. These experts only advise in their own area of expertise and contribute in providing advises and solutions. Knowledge and understanding of Islamic banking and finance are a must. On the contrary, there is no Sharia governance and compliance framework at the national level in Thailand. At institutional level, there are Sharia Advisory Council and Sharia Product Department. Sharia Advisory Council's responsibilities focus on giving consultation and solution whether products and services offered by the bank are Sharia compliance while Sharia



Product Department works on research and development as well as checking whether customers and proposals are qualified for loan and follow up whether the loan they received are utilized accordingly. Should any problems occur, Sharia Product Department would bring it up to consult Sharia Advisory Committee. Although the committee of Sharia Advisory Council are renowned and revered among Muslim communities in Thailand, there are questions on products and services following school of thoughts. Lacking the regulator at the national level, issues of trusting in the products and services remains.

The status of BIBD and iBank are different. BIBD has developed from conventional banks to Islamic bank as a Government Link Companies (GLC) and later own, a business entity of its own. Today, BIBD runs like any other for-profit corporation. From the beginning, the bank did not make money and continued to make big losses until 2008. BIBD chose to drop from becoming a GLC in 2008 to instill a sense of urgency to survive. During 2008-2013, BIBD incurred another big loss from Non-Performing Loans until the central bank, AMBD, intervened in 2013 by lower consumer credit rating from 11% to 8%. BIBD was never bailed out by the government or any other investor. Within few years, BIBD manages to record high profit. BIBD success story attracts Gulf Cooperation Council investors. As part of the requirement, BIBD needs to send annual report and assessment every year in International Islamic Financial Market (IIIFM). In contrast, iBank started with the status of Specialized Financial Institutions (SFI), a state-owned company under Ministry of Finance. iBank has been up and down in business until recently facing problems with Non-Performing Loan. Different from BIBD, iBank is bailed out by Ministry of Finance. At present, Ministry of Finance is allowed to have a share higher than 49% to inject money to help iBank to get through their financial crisis. It can be seen the different path the two banks have in order to solve their financial problems. Currently, BIBD is a private company with a big success on its business and goal to become a key regional player in while iBank is now in the strictly under the government's supervision.

Another stark differences between the two Islamic banks in two countries is the willingness to amend financial laws and regulations in accordance with the Islamic financial concept and Shariah law. In Brunei, in order to ensure the smooth running of Islamic banking industry, AMBD always reviews and introduces necessary law and regulations related to the industry, for example, Shariah Financial Supervisory Board Order 2006, Islamic Banking Order 2008, Takaful Order 2008, and recently, the Accounting Standards Order 2010 and Securities Markets Order 2013. The Central bank also recently launched Islamic Bank and Finance Blueprint for Brunei Darussalam, whereby, the long-term plan to develop the industry is slated. It is necessary for the law makers to understand that the nature of Islamic banking and financial system are not the same as those in conventional banking system in many aspects. Some laws must be introduced and enforced to facilitate, accommodate, and strengthen the industry. Even though Islamic bank and conventional bank may be considered as competitors in the same industry, their differences in nature of business operation requires different set of law. In case of Brunei, AMBD always ensures that Islamic banking can compete fairly with conventional bank. In Thailand, in contrary, iBank has been struggling to cope with the set of laws that are not accommodating with Islamic concept and losing out to the conventional banks.

Transparency is one of the most important issues in running business in every sector, more importantly in sharia compliant businesses. This is somewhat similar in both banks. As a public limited company, BIBD uses experienced foreign auditing company, KPMG, for internal and external audit. It was found that transparency has still been an issue in BIBD although the bank has lessened the risk of lack of transparency throughout years. The bank's Sharia Advisory Board is tasked to double-check the authenticity of the audit report to prevent error in term of sharia concept and compliances. Recently, BIBD is venturing into machine learning to lessen human error and transparency issues. In Thailand, there has been a wide speculation that the issue of transparency was one of the causes for the current crisis of iBank. If iBank

cannot solve the issue of transparency soon, it is difficult to gain trust from customers and investors.

In term of market and products, the domestic market for Islamic banking and finance in Brunei is not big because the population is only around 420,000. Brunei is unique due to its consumer-based industry and small market size. Yet, various financial products can be offered to cater to domestic needs. Brunei Islamic Financial Institutions are so popular due to its innovative products and bold innovation in using the Sharia Concept. The bank is very adaptive in following the trend of the day and abandons the way conventional bank attracting customer and focus on niche market. There are 13 types of savings accounts, 7 types of Sharia compliant financing, 2 types of debit card, 5 types of credit card, 1 type of Virtual Prepaid, and other bank services including Zakat Counter, Remittances, and Safe Deposit Box. It can be observed that, despite this is an Islamic bank, the name of the accounts and/or types of services are easy to remember such as General Current Accounts, Easy Saver (savings accounts), Purpose Saver (savings accounts), Haj Saver, Term Deposit BND Currency, Term Deposit Foreign Currency, etc. In contrast, for Thailand, the majority of iBank customers are microfinance and SMEs. There are 8 types of deposited account, namely, Wadiah Savings Account, Wadiah Current Account, Mudarabah Fixed Deposit, Tax-free Mudarabah Fixed Deposit, Savings Account for the Elderly, Al-Ameen Deposit, Al-Haj Deposit, Al-Haj Deposit V.2. Other services are Cash Management including Direct Debit & Bill Payment, Retail Funds Transfer, Zakat Account Management, ATM Chip Card Gold, ATM Chip Card Silver, iBank PromptPay as well as Trade Finance which covers Import-Export, Domestic & Guarantee, and Foreign Exchange & Remittance. The name of the accounts provided at iBank using the exact name of the transactions in Arabic. This is hard to understand and remember for those who are not familiar with the nature of transaction which make it harder for doing business in Non-Muslim country like Thailand.

Because Islamic banking and financial system has a different way of doing business and different structure, it is not easy to make the public known about its concept and system. In Brunei, in one part, the majority of Muslim population have at least, basic knowledge on Islamic banking and finance and the importance of this as well as through education and training. BIBD also put an effort to educate customers by make it simple, easy, and direct explanation of the concept applied to all potential customers. In doing banking business, both BIBD and TAIB only hires graduates with Islamic banking background from local universities and higher institutions. After that, they send their employees for regular training and update at either CIBFM or Islamic banking and financial learning centres in Malaysia. AMBD also helps by regulates the definition, business conduct, and approach of Islamic Banking and finance so as to avoid confusion and misinterpretation. In Thailand, there has not been done much in term of making people known about the concept and system of Islamic banking. For employees' capacity building, iBank utilized in-house training in compliance with what their employees request due to current budget control and constraint.

Brand awareness and recognition are important in business growth. In addition to quality of its services and products, to build the sense of belonging and trust, BIBD invests a lot in media to shore up continuous interest and support from the public. However, it doesn't make people feel that the bank tries hard to win the customers as well as doesn't emphasis more on Islamic identity. Rather, the bank focuses more on the Bruneian identity which reflects in its motto, "Bruneian at Heart". This way it will attract both Muslim and non-Muslim in the country. On the contrary, iBank highlights its identity as an Islamic bank. The majority of non-Muslim in Thailand already thought that the services and products are catered for Muslim only. Again, when the bank chooses to focus on the religious aspect in non-Muslim country, Islamophobia also plays a role for potential customers to choose to use or not the services and products of the bank. iBank should consider the identity issues and brand awareness seriously.

Lastly, it is worth noting that the bank will not go far without capable executives, knowledgeable management team, and valuable staff. In Brunei case, the country put extra emphasis in putting the right people in directing the industry. At the national level, Sharia Financial Advisory Boards (SFSB) comprises Permanent Secretary (Policy) of Ministry of Finance, Managing Director of AMBD, State Mufti, Sharia Appeal Court Judge, Deputy State Mufti, Islamic Law Expert from Ministry of Religious Affairs, Assistant Solicitor General from Attorney General Chambers, Chief Istinbat Officer from State Mufti's Office (alternate member), and Lecturer from School of Business and Economics, University of Brunei Darussalam (alternate member). At BIBD, Shariah Advisory Board includes Permanent Secretary of the Ministry of Religious Affairs, Deputy State Mufti, Dean of Faculty of Economic and Islamic Finance of UNISSA, Director of Research and Publications Centre of UNISSA, Istinbat Officer of Ifta Department (State Mufti Office), and Head of Shariah of BIBD.

Also, at BIBD, Board of Directors comprises of experts not only in finance but Islamic finance field – Minister of Finance II, Managing Director of Brunei Investment Agency (BIA), Chief Executive Officer (Fajr Capital), Financial Experts, Board Director of Mohammed Alsubeaei & Sons Investment Company (MASIC), Managing Director of BIBD, Permanent Secretary of Ministry of Primary Resources and Tourism, and Deputy CEO of Bursa Brunei Darussalam Sdn Bhd. BIBD only hires graduates with Islamic banking background from local universities and higher institutions to work at the bank. The bank further invests in its human capital by providing its employees in trainings to upgrade their skills and knowledge, domestically at CIBFM, and internationally in Malaysia. To gain promotion, staff at BIBD must possess basic knowledge on Islamic banking and finance, specific knowledge on area of expertise, and few years of experiences. On top of that, BIBD and UNISSA collaborate in creating Bachelor Program to fill in position in the bank while BIBD and UBD have MoUs to train the bank's employees. For those with high achiever, Brunei Government sends them to Islamic universities such as International Islamic University of Malaysia and University Al Azhar in Egypt to study about Islamic Banking and Finance. In Thailand, a specific institution,

such as CIBFM, should be created just to train the personnel related to the industry as well as to provide knowledge and information for public, especially non-Muslim. The following table shows the similarities and differences between BIBD and iBank.

**Table 4-15 Comparison between Bank Islam Brunei Darussalam and Islamic Bank of Thailand**

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
<b>First Establishment &amp; Development of the Bank</b> <b>ปีที่ก่อตั้งและ</b> <b>วิวัฒนาการของ</b> <b>ธนาคาร</b>	<p>1991- Islamic Banking market in Brunei was formally initiated when TAIB, the first Islamic trust fund in the country, was established following repeated calls from His Majesty</p> <p>1993 – International Bank of Brunei was successfully finished its conversion to Islamic banking that was started since 1986. It was renamed as Islamic Bank of Brunei Berhad (IBB)</p> <p>2005- BIBD was established following a merger between Islamic Bank of Brunei (IBB) and Islamic Development Bank of Brunei (IDBB).</p> <p>2006-the issuance of Brunei’s first sovereign Islamic bond (sukuk) by Ministry of Finance.</p> <p>2006- Sharia Financial Supervisory Board Order was introduced to regulate and approve the offering of Islamic Financial Products and business services to the public</p>	<p>1987 – Islamic finance in Thailand began with the establishment of Pattani Islamic Saving Cooperative</p> <p>1994 – formation of ‘Growth Triangle’, government consider there is a need to set up Islamic Banks to cater Muslim community in the southern border provinces</p> <p>1998 – Introduction of Islamic window by the Government Saving Bank</p> <p>2001- Krung Thai Bank opened its the first Islamic Branch</p> <p>2003 – Establishment of the first fully -fledged Islamic Bank, Islamic Bank of Thailand (ibank)</p>
<b>Current Status</b> <b>สถานะปัจจุบัน</b>	Public Limited Company	State-enterprise (Special Financial Institution or SFI under Ministry of Finance)
<b>Legal and Regulatory Framework</b> <b>กรอบกฎหมายที่</b> <b>เกี่ยวข้อง</b>	<p>Law and regulations with reference to Islamic Banking and Finance is very liberal and accommodative. For Islamic Banking and Finance, there have separate sets of regulatory standards to comply with Sharia Law and to facilitate the business.</p> <p>- Law and Regulations that built/ instituted foundations of Islamic Finance as the following</p> <p>-- Islamic Banking Act, Chapter 168 (repealed 2008)</p>	Islamic Banking of Thailand Act B.E. 2545 (2002)

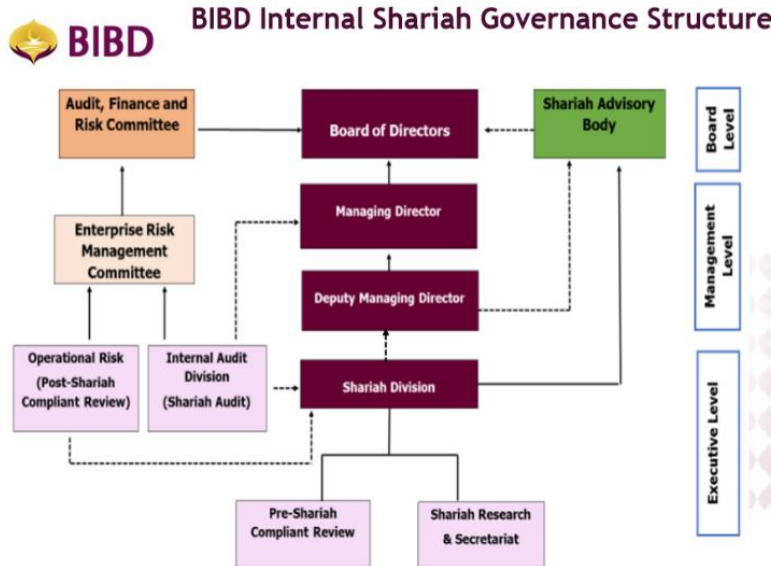
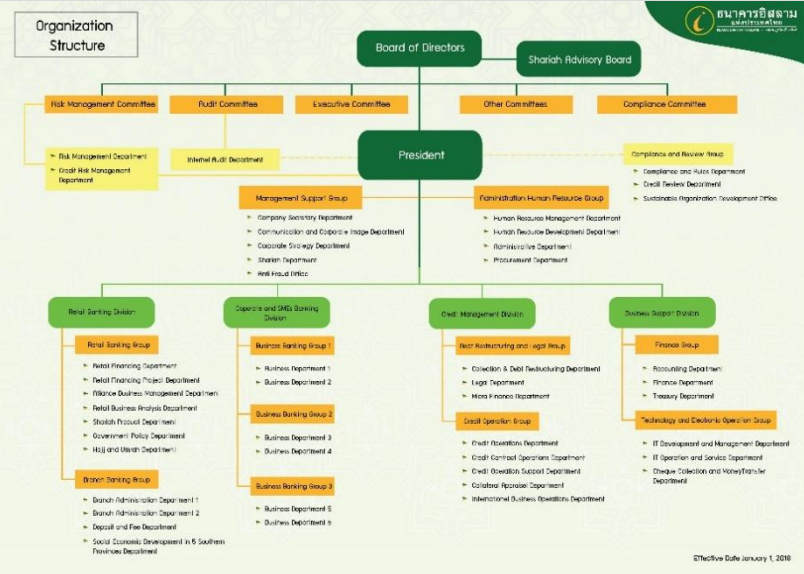
Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
	<ul style="list-style-type: none"> <li>-- International Banking Order, 2000</li> <li>-- International Insurance &amp; Takaful Order, 2001</li> <li>-- Securities Order, 2001 and Mutual Funds Order, 2001 (repealed 2013)</li> <li>-- Sharia Financial Supervisory Board Order, 2006 (SFSB)</li> <li>-- Islamic Banking Order, 2008</li> <li>-- Takaful Order, 2008</li> <li>-- The Deposit Protection Order 2010</li> <li>-- The Autoriti Monetari Brunei Darussalam 2010</li> <li>-- The Accounting Standards Order 2010</li> <li>-- Securities Markets Order, 2013</li> </ul>	
<b>Recent Regulatory Development</b>	<ul style="list-style-type: none"> <li>-Implementation of International Standards (IFRS, Basel, IAIS, IOSCO, IFSB)</li> <li>-Enhance and strengthen regulatory framework for Islamic banks takaful operators and securities market</li> <li>-Legal certainty to conduct Islamic windows operation for the capital market players</li> <li>-Implementation of Corporate governance and criteria for key responsible persons and in the midst of developing Sharia Governance</li> </ul>	N/A
<b>Law Amendment &amp; Tax Adjustment</b> <b>การแก้ไขกฎหมายและภาษี</b>	<ul style="list-style-type: none"> <li>-local laws are changed so that Islamic finance is on an equal footing with conventional finance</li> <li>-Local laws and tax regulations are modified to permit Sharia-compliant investments.</li> <li>- Under the recently published Islamic Banking and Finance Blueprint, AMBD through SFSB and related agencies will further develop necessary</li> </ul>	<ul style="list-style-type: none"> <li>-Almost none of local law amendment and tax adjustment to be in accordance with the Islamic concept.</li> <li>Islamic bank is operated in the same set of law so as to have a fair competition with the conventional banks</li> </ul>



Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
	law to support the development of the industry in reference to Brunei market	-Recently, there is changes in wording a piece of law -from interest to return- to accommodate Islamic concept of no ‘interest’ and another one is in the progress of trying to modify tax regulations.
<b>Regulatory Bodies</b> หน่วยงานกำกับดูแล	1993- 2011: Financial Institution Division, Ministry of Finance 2011 – present: Autoriti Monetari Brunei Darussalam (AMBD) with a special secretariat for Islamic advisory services	State-enterprise under the Ministry of Finance while the Bank of Thailand is responsible for Conducting on-site examination, off-site monitoring, and risk assessment, focusing on major transactions (Significant Activities: SA) of Specialized Financial Institutions (SFIs); overseeing corporate governance practices, compliance with the BOT’s regulations and risk management and control of the SFIs; as well as granting approvals or waivers to the SFIs in order to ensure that each SFI’s mandate be practically carried out and to ensure the safety and soundness of the SFIs and the stability of financial system.
<b>Vision &amp; Mission</b> พันธกิจ	<b>Vision</b> - Serving Brunei through Islamic Solution as its leading financial institution (To be the benchmark Institution and Point of Reference through responsible Fusion of Islamic Values, Real Economy and Finance)  Mission -To become THE FIRST-CHOICE institution for Employees, Customers, Stakeholders	<b>Vision</b> -Being an Islamic bank that is trustworthy and reliable in providing financial services complying with Shariah principles. To be a main bank for Muslim customers and general business customers who conduct business with Muslims, as well as being an alternative bank for general customers.  <b>Mission</b> 1. Have fine-tuned management, standardized work system, quality staff, and do business professionally. 2. Transparency in operations under corporate good governance.

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
		3. Achieve financial stability with sustainable growth, while keeping balance on benefiting all stakeholders. 4. Support and provide business linkage for Muslims and related parties. 5. Contribute in promoting stability through economic and social development, especially in five southern boarder provinces.
Target Group/ Market Position	Bruneian at Heart - BIBD is a bank for the people of Brunei and beyond, developed by the people of Brunei.	Focus on Muslim Community in Thailand
Business Growth since establishment อัตราการเติบโต ภายหลังการก่อตั้ง จนถึงปัจจุบัน	Sharia-compliant banking now accounts for around 60 percent of local market	Growth is insignificant; currently on the restructuring schemes to solve the bank's NPL crisis
Major Shareholder	<ul style="list-style-type: none"> <li>Ministry of Finance, Brunei Darussalam</li> <li>Sultan Haji Hassanah Bolkiah Foundation</li> <li>Fajr Capital Limited</li> <li>Approximately 6,000 individual Bruneian investors</li> </ul>	Ministry of Finance (99.7%) as of 1 November 2018
Number of Banks	1 Islamic Bank - 16 branches across the country 1 Islamic Trust Fund	1 Islamic Bank - 108 branches across the country
Market share	About 40%	n.a

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
Products	There are 13 types of savings accounts, 7 types of Shariah compliance financing, 2 types of debit card, 5 types of credit card, 1 type of Virtual Prepaid, and other bank services including Zakat Counter, Remittances, and Safe Deposit Box.	There are 8 types of deposited account and other services including Cash Management including Direct Debit & Bill Payment, Retail Funds Transfer, Zakat Account Management, ATM Chip Card Goad, ATM Chip Card Silver, iBank PromptPay as well as Trade Finance which covers Import-Export, Domestic & Guarantee, and Foreign Exchange & Remittance.
Total Group Assets มูลค่าสินทรัพย์ทั้งหมด	Approx. 2,824 million baht (BND 116.2m (2017, audited))	N/A
Number of Muslim Population	82.7% (approx. 330,000)	15% (approx. 10 million)
Supporting Factor (s)	-MoU with Bank of Malaysia	N/A
Institutions supporting Islam Banks' Operation	Centre for Islamic Banking, Finance and Management (CIBFM)	Not formally, but iBank utilizes facilities from Ministry of Finance in term of R&D and well-collaborate with other SFIs in Thailand
Public Relation & Advertisement	The bank invests a lot in media to shore up continuous interest and support from public.	Not much

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
Internal Syariah Governance Function บทบาทคณะกรรมการชะรีอะฮ์	 <p>The diagram illustrates the BIBD Internal Shariah Governance Structure, organized into three levels: Board Level, Management Level, and Executive Level. At the Board Level, the Board of Directors is the central authority, with the Shariah Advisory Body (SAB) providing guidance. The Audit, Finance and Risk Committee and the Enterprise Risk Management Committee also report to the Board. At the Management Level, the Managing Director and Deputy Managing Director oversee the Shariah Division. At the Executive Level, the Shariah Division is supported by the Pre-Shariah Compliant Review and the Shariah Research &amp; Secretariat. The Internal Audit Division (Shariah Audit) and Operational Risk (Post-Shariah Compliant Review) also provide input to the Shariah Division.</p>	 <p>The diagram shows the Organization Structure of the Islamic Bank of Thailand. It is headed by the Board of Directors and the Shariah Advisory Board. The President oversees the Executive Committee, which includes the Risk Management Committee, Audit Committee, and Compliance Committee. The President also oversees the Management Support Group and the Administration/HR Group. The President is supported by four main divisions: Retail Banking Division, Corporate and SME Banking Division, Credit Management Division, and Business Support Division. Each division has several sub-departments and groups, such as the Retail Banking Group, Business Banking Group, Credit Risk Management Group, and Finance Group.</p>
	<ol style="list-style-type: none"> <li>1.Sharia Risk Management Control – systematic monitoring and control of Sharia risk’s identification and assessment</li> <li>2.Sharia Research -perform in-depth Sharia research including day-to-day Sharia advise and consultancy, may seek inputs from experts on technical matters</li> <li>3.Sharia Secretariat – provide necessary support to SAB and the Bank in implementing Sharia governance, engaging with relevant parties that needs assistance</li> </ol>	<ol style="list-style-type: none"> <li>1. Shariah Advisory Council</li> <li>2. Shariah Product Department</li> </ol> <p>(for clearer view, please see Appendix 5)</p>

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
	<p>4. <b>Sharia Review</b> – overall business operation including end-to-end process of product development (from product structuring to product offering)</p> <p>5. <b>Sharia Audit</b> – provide independent assessment &amp; assurance to all aspect of business operation and activities including adequacy of Sharia governance process, adequacy of Sharia non-compliant risk control, compliant audit on Sharia compliant process, organizational structure, people and IT application system.</p> <p>2017 – Sharia is practiced in every operation in the Bank          (for clearer view, please see Appendix 4)</p>	
<b>Syariah Compliance Framework</b> การกำกับดูแลของคณะกรรมการชะรีอะห์	<ol style="list-style-type: none"> <li>1. Sharia Financial Supervisory Board at the National Level</li> <li>2. Sharia Advisory Body at each Islamic Financial Institutions</li> </ol>	Syariah Advisory Body at Islamic Bank of Thailand
<b>Summary of Advantages</b>	Brunei Darussalam has adequate legal and regulatory framework, strong political will and cooperation from key players in the industry.	The bank is only an Islamic bank in Thailand.
<b>Challenges &amp; Obstacles</b>	Tax issues – Islamic bank in Brunei have to pay 30% corporate tax and 2.5% Zakat Contribution to the government	<ul style="list-style-type: none"> <li>-Legal and regulatory framework</li> <li>-tax issues</li> <li>-trust issues that could spring from either school of thought and/or nature of products</li> <li>-perception of non-Muslim customers</li> <li>-other supports from government than bail-out money</li> </ul>

Theme	Bank Islam Brunei Darussalam (BIBD)	Islamic Bank of Thailand
		<ul style="list-style-type: none"> <li>-limited financial products</li> <li>-Islamic financial literacy, particularly in non-Muslim customers</li> <li>-corporation with key players in Islamic financial industry</li> <li>-no religious regulator</li> <li>-banking professions should be properly trained in Islamic Finance to enhance management, operating competency, as well as the efficiency of the bank</li> <li>-lack of relationship with foreign banks</li> </ul>

## 8. Chapter Summary: Lesson-Learned from Islamic Banking in Brunei Darussalam

8.1 Brunei Darussalam has political and social stability as well as economic framework aligns to Islamic Teaching and principle

8.2 Brunei Darussalam has a strong legal infrastructure for Islamic Finance. Legislations that are currently in place are Syariah Financial Supervisory Board Order, 2006; Islamic Banking Order, 2008; Perbadanan Tabung Amanah Islam Brunei Act, Chapter 163; Takaful Order, 2008; International Insurance and Takaful Order, 2002; Securities Markets Order, 2013; Finance Companies Act (Chap. 89); and Pawnbrokers Order, 2002. AMBD during the interview, exposed their long-term plans to develop more laws and legislation for the industry in the next few years as stated in the newly released White Paper.

8.3 Brunei Darussalam has a strong Syariah governance framework with a two-tier Syariah governance structure comprising of a centralized Syariah Financial Supervisory Board (SFSB) and an internal Syariah Advisory Body within each Islamic Financial Institution. These board and body will only be filled by experts in related fields with proven experience in the industry.

8.4 Thanks to sufficient knowledge in Islamic banking and finance concept, Sharia Advisory Board of each banks has come up with some of the most innovative products on the market, majority catering for domestic market demands. This ensures the Islamic banks stay ahead or at least at par with the conventional ones in products and services being offered.

8.5 The Islamic Finance industry in Brunei Darussalam has also been very active in knowledge building and knowledge sharing such as actively participating in conferences, for example, the Brunei Darussalam Islamic Investment Summit 2017, as well as the recently launched Islamic Finance website and Application so as to facilitate and familiarize the customers with Islamic banking and finance.

8.6 Transparency is key in any businesses. Both BIBD and TAIB cross check their internal audit with the appointed international audit companies (KPMG and Deloitte). This will ensure increase efficiency in matters related to transparency.

8.7 Both banks have a strong mission and vision of what they envisioned to be. This translated to what both banks have achieved for the past 25 years and rapid growth of the industry directly contributed by both banks as key players and related agencies and subsidiaries.

8.8 BIBD has been active in investing in technology driven banking and finance services. In doing so, BIBD has become the pioneer in Brunei and in near future, may become a model Islamic bank that utilize innovation and technology in its services.

8.9 Human capital development is key to the growth and expansion of the industry. Through multilateral partnerships of interest groups and key players in the industry, human capital growth can be ensured as well as to create quality workforce and quality leaders to lead this industry. For example, AMBD have its training arm called Centre for Islamic Banking, Finance and Management, whereby, its main task is to provide monthly tailored trainings to individuals working for the industry. The



main Islamic university, Sultan Sharif Ali Islamic University (UNISSA) also works with the industry players to come up with programs relate to the industry in bachelor, master and PhD level. This will make sure steady supply of quality workforce to join the industry. National university, University of Brunei Darussalam (UBD) also inked MOUs to provide training courses for the bank's employees. On the government side, Brunei governments continue to support and give scholarship to talented individuals to pursue Islamic related studies at renowned international universities usch as University Al Azhar in Egypt and International Islamic University of Malaysia.

Appendix 4-1: Bank Islam Brunei Darussalam's Net Profit after Zakat and Taxation

	Note	Group		Bank	
		2017	2016	2017	2016
		B\$'000	B\$'000	B\$'000	B\$'000
Profit from financing, leasing and investments	3	300,392	283,099	252,582	233,967
Profit paid/payable to depositors	4	(42,582)	(39,064)	(39,534)	(35,813)
Net profit margin		257,810	244,035	213,048	198,154
Fee and commission income	6	33,360	29,869	32,112	29,116
Fee and commission expense	6	(5,457)	(4,433)	(5,457)	(4,433)
Net fee and commission income		27,903	25,436	26,655	24,683
Gain/(Loss) from derivatives and investments	5	282,551	(141,899)	282,551	(142,933)
Net foreign exchange (loss)/gain	5	(287,894)	158,976	(287,894)	158,976
Other operating income	7	51,151	44,452	113,659	68,677
Total income		331,521	331,000	348,019	307,557
Less:					
Personnel expenses	8	(70,745)	(66,485)	(59,677)	(54,310)
Other expenses	9	(74,370)	(62,671)	(56,791)	(47,302)
Total operating expenses		(145,115)	(129,156)	(116,468)	(101,612)
Operating profit before allowances		186,406	201,844	231,551	205,945
Less:					
Allowance for impairment on financing and advances, net	10	(38,222)	(23,850)	(36,374)	(22,527)
Allowance for impairment on receivables		(1,864)	(1,230)	(739)	(1,230)
Allowance for impairment on investments, net	11	(1,964)	(40,017)	(1,964)	(40,017)
Allowance for investment in subsidiary, net		—	—	(1,715)	—
Operating profit		144,356	136,747	190,759	142,171
Share of profit of associate	25	2,073	722	—	—
Profit before zakat and tax		146,429	137,469	190,759	142,171
Less:					
Zakat	12	(2,692)	(3,349)	(2,692)	(3,349)
Income tax expense	13	(27,555)	(29,904)	(18,249)	(16,765)
Total zakat and income tax expense		(30,247)	(33,253)	(20,941)	(20,114)
<b>Profit for the year</b>		<b>116,182</b>	<b>104,216</b>	<b>169,818</b>	<b>122,057</b>
Profit for the year attributable to:					
Equity holders of the Bank		110,582	101,899	169,818	122,057
Non-controlling interests		5,600	2,317	—	—
<b>Profit for the year</b>		<b>116,182</b>	<b>104,216</b>	<b>169,818</b>	<b>122,057</b>

Source: BIBD and Its Subsidiaries Financial Statements (31 December 2017)

#### Appendix 4-2: Bank Islam Brunei Darussalam's Total Assets

		<b>Group</b>		<b>Bank</b>	
	<b>Note</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
		<b>BS'000</b>	<b>BS'000</b>	<b>BS'000</b>	<b>BS'000</b>
<b>Assets</b>					
Cash and cash equivalents	16	2,419,360	2,113,791	2,610,380	2,294,667
Balances with Autoriti Monetari					
Brunei Darussalam	17	456,933	463,382	419,913	430,531
Placements with and financing					
and advances to banks	18	1,974,964	2,588,964	2,150,964	2,662,314
Government sukuks	19	16,198	26,715	16,198	26,715
Investments	20	1,179,002	804,651	1,179,002	799,447
Derivative financial assets	21	40,865	17,971	40,865	17,971
Financing and advances	22	3,231,905	3,186,405	2,639,100	2,602,613
Finance lease receivables	23	12,587	12,556	12,587	12,556
Investments in subsidiaries	24	—	—	39,804	40,826
Investment in associate	25	17,388	14,513	7,080	7,080
Other assets	26	41,786	39,344	31,712	46,084
Property and equipment	27	174,470	178,337	50,392	47,955
Investment property	28	25,887	27,434	25,887	27,434
Deferred tax assets	29	—	8,557	6,038	17,288
<b>Total assets</b>		<b>9,591,345</b>	<b>9,482,620</b>	<b>9,229,922</b>	<b>9,033,481</b>

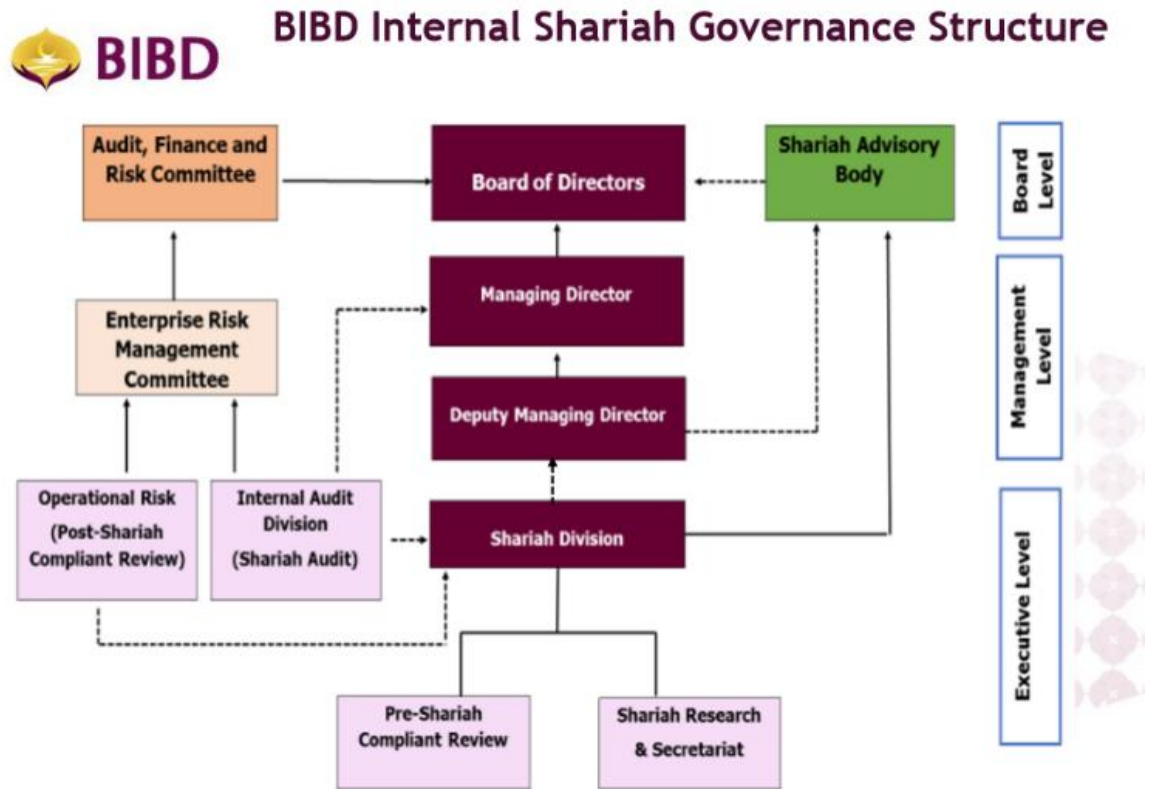
Source: BIBD and Its Subsidiaries Financial Statements (31 December 2017)

#### Appendix 4-3: Bank Islam Brunei Darussalam's Deposits from Customer

<b>Liabilities and equity</b>					
Deposits from customers	30	7,526,368	7,214,644	7,434,748	7,114,615
Deposits from banks and other financial institutions	31	521,433	510,272	394,108	363,939
Placements from other financial institutions	18	240,716	57,872	240,716	57,872
Derivative financial liabilities	21	15,860	110,620	15,860	110,620
Other liabilities	32	115,400	102,711	99,808	82,413
Zakat	33	2,831	4,037	2,831	4,037
Provision for taxation	33	54,783	68,580	38,150	52,703
Deferred tax liabilities	29	3,371	–	–	–
<b>Total liabilities</b>		<b>8,480,762</b>	<b>8,068,736</b>	<b>8,226,221</b>	<b>7,786,199</b>

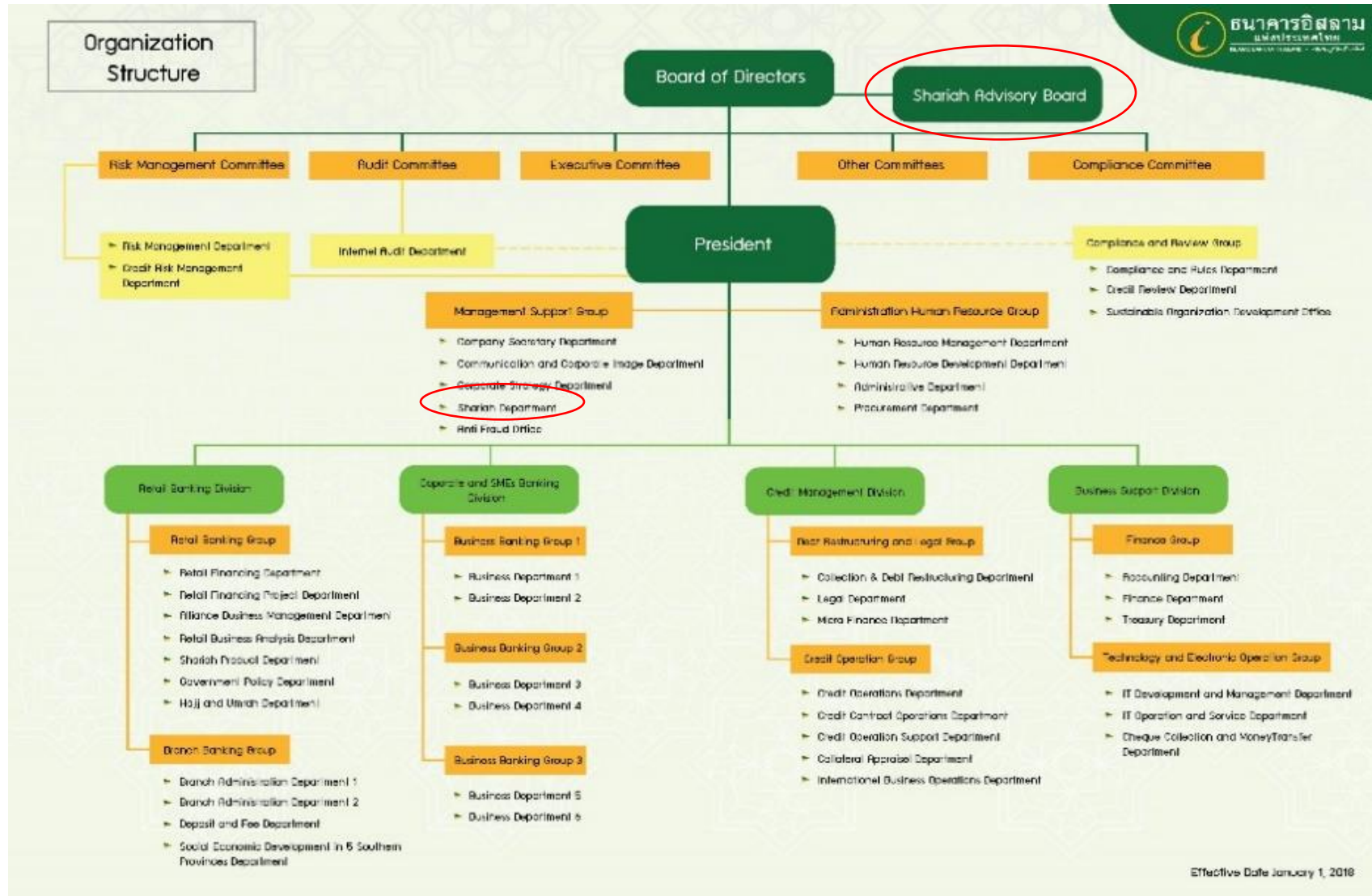
Source: BIBD and Its Subsidiaries Financial Statements (31 December 2017)

Appendix 4-4: BIBD Internal Shariah Governance Structure



Source: BIBD

## Appendix 4-5: iBank Internal Shariah Governance Structure



## Chapter 5

### Conclusion and Recommendations

In this last chapter, it will be the conclusion which discuss about comparison that can be found between systems that are being applied in Brunei Darussalam as compared to Thailand. This section seeks not to criticize what Thailand has done, rather as to see the best practices in Brunei Darussalam and to consider whether this can be applied in Thailand. The chapter will also briefly touch lesson learned from Brunei Darussalam to see the pretext in specific context and followed by suggestions and recommendations. The chapter will first explore Islamic banking and finance follows by Halal industry. As for the Halal industry, the chapter will explore further in areas of opportunities for aspiring Thais entrepreneurs. There are also some clarifications on subject matters that will be useful for reference in Thailand. In the end, this chapter serves as policy recommendations and implication for related stakeholders in both industries.

#### 1. Conclusion and Recommendations: Islamic Banking and Finance

##### 1.1 Socio Cultural Differences

The most striking issue that the authors observe in relation to Islamic banking business in Brunei Darussalam, and Thailand is that, these two countries are socio-culturally different. Brunei Darussalam has been a Muslim state for centuries, while Thailand has considered herself as a Buddhist country. More than 80 percent of Bruneian and resident is Muslim; on the other hand, the Muslim population in Thailand is only 15 percent. Although the number of Thai Muslim population (15 percent or 10 million) is greater than 300,000 (80 percent) of total Muslim in Brunei, with the percentage of the population, the contexts of business and lifestyle are different. Bank

Islam Brunei Darussalam or BIBD is very strong and stable due to the need of the Muslim in Brunei to fulfil their religious obligation as well as enabling them to conduct their daily transactions in ways that are Sharia-compliant. Together with the political will, this is a total transformation of a whole country to comply with the Muslim Law. These are very different from Islamic Banking of Thailand (Islamic Bank of Thailand) that was established to merely fill the gap and cater to the needs of the minority

As for the lesson learned, despite differences in socio- cultural context, Brunei has a considerable number of non-Muslim population made up of Chinese, Indian, local tribes and expatriates. Islamic banking and finance in Brunei Darussalam is well received among the non-Muslim population compared to the conventional ones (Qaisar, 2018). This can be considered a success, considering that Islamic banking and finance in Brunei takes off around the same time as Thailand. The study found that, key players such as Bank Islam Brunei Darussalam (BIBD) and Tabung Amanah Islam Brunei (TAIB) have been continuously studying the market to identify which market segment they should focus. With a population of only 400,000 people, certainly banks are not able to compete solely on market demands. Therefore, to capture more market share, Islamic banking institutions in Brunei focus more on developing consumer-based products and financial solutions as the core of their business.

Another socio-cultural factor that helps to create the demand for Islamic Banking and Finance in Brunei Darussalam comes from adequate religious understanding for the need of a truly Islamic banking and financial services that caters to the Muslim. Muslims in Brunei Darussalam feel confident to keep and invest their savings in interest-free institutions with track records of being transparent, runs by the mindful religious business organization that has stability in running their business. Such an understanding is resulted from the Brunei education system, which includes compulsory six-year full time religious education. Religious education, mainly held in the afternoon, establishes a strong understanding on religious principles, including ‘muamalah’ or Islamic transactions or dealings in banking and finance. Also, religious



education is provided in normal curriculum as part of either compulsory or elective subjects such as Islamic Religious Knowledge (compulsory subject in the Primary and lower Secondary education), Sharia & Usuluddin (elective subject in sixth form education). In tertiary education, Sultan Sharif Ali Islamic University (UNISSA) provides bachelor's and master's courses in Islamic economics and finance offered at the Faculty of Islamic Economics and Finance.

Furthermore, awareness of Islamic banking and finance concept in Brunei Darussalam is created and fostered through the media may it be printed, visual and social. Through these channels, the information is easily made available to the public while more inquiry can be made directly to the State's Mufti office for clarification. Further readings on subject matters can be obtained at the State's Mufti Office. On top of that, government agencies such as the Monetary Authority of Brunei Darussalam (AMBD) and Ministry of Finance held Roadshows regularly on financial literacy programs which helps to shape their healthier financial habits as well as exposing them with Islamic banking and finance concepts. On another related note, since Islamic banking and institutions started their business two decades ago, they are known for their higher returns than the conventional counterparts. These higher return rates entice even the non-Muslim to open their account with BIBD and TAIB.

On the bank sides, Islamic banking and finance institutions in Brunei Darussalam are highly innovative. Their products and services are always up to date, supported by unceasing consumer, demand and market analysis. They normally focus on niche market segments such as savings, investments and product innovation as the backbone of their business. BIBD, for example, provides easy explanations on concepts to lessen confusions and help consumers to decide what suit their financial needs. The bank also put extra efforts in tailoring products scheme to best fits the need of potential customers so that consumers will always feel they get what is best for them. Use of technology is prevalent, especially BIBD, with the roll out of BIBD Next Gen, which features the use of AI and machine learning to bring the bank to the next level. Another

key learning point from BIBD is its strong research team, which is very active and dynamic in researching and developing new products to attract consumers. Last but not the least, BIBD has a strong track record on CSR such as BIBD Alaf (education for the underprivileged), Titian Amal (CSR projects for the underprivileged) and BIBD Connect, a multipurpose community sphere, which shows that the bank not only benefits their customers, but also extends their help to a wider society. The above explained well on how Islamic banks in Brunei Darussalam win over the public, despite diverse socio-cultural demographics in the country.

The following will be the suggestion and recommendation to expose Islamic Banking and Finance to a wider audience despite diverse social cultural backgrounds.

- Islamic Bank of Thailand should consider conducting a national study of Islamic banking market and demand in Thailand to understand Thai context and to identify the potential and the niche areas for developing Islamic banking and financial services in Thailand
- Islamic Bank of Thailand should study the market and survey consumer demands regularly to learn about changes in the market, demands, and consumer trends.  
The findings can help Islamic Bank of Thailand to understand the market situation and to come up with products on demand. The data will also serve as the foundation for a clear vision forward.
- The study suggests that Islamic Bank of Thailand should first focus on the Muslim population and strengthen the bank within this circle. With the number of Muslim populations in Thailand and proper management, Islamic Bank of Thailand should be doing well. After Islamic Bank of Thailand is strong enough, the bank should extend their business to non-Muslim populations. Despite business with non-Muslim

populations may generate more revenues and seem to help the bank situation, there are various issues and challenges facing the bank. The bank must be ready to tackle all sorts of problems regarding concepts, awareness, and other related issues in loans and credits.

- Islamic Bank of Thailand should expand subsidiaries' businesses to include other religious obligations such as Hajj and Umrah, Aqiqah services, Halal services, Halal logistics among others. Non-religious business activities also encourage such as real estate, tourism, etc.
- There is an urgent need to create public awareness on Sharia compliant Banking and financial services in Thailand. This task should not belong to only Islamic Bank of Thailand. Relevant stakeholders may see the suitability of inserting Islamic Economics and Finance subject as part of the education, especially in the areas where a considerable number of Muslim populations. Furthermore, relevant religious bodies may collaborate and establish a network among tertiary institution in opening up courses or Bachelor/Master program. This can enhance the quality of staffs hired under Islamic Bank of Thailand as well as help to create a niche education segment where the job is readily available.
- Although Islamic Bank of Thailand is currently administered by Bank of Thailand and Ministry of Finance, there is an urgent need to have a national Sharia governance and compliance in place. This will help strengthening the industry as it can undertake necessary steps and policies to develop the industry. The important point is, such body can help creating awareness of sharia compliant banking system to the public, similar to what happened in Brunei.

- Islamic Bank of Thailand can position itself in the niche market, for example, the sole and trusted sharia compliant banking and financial solutions in Thailand. In Muslim perspective, it is a duty for all Muslims to not taking any part in (syubahah) transaction or dealings that involved in interest. Within this context, the Muslim population will definitely choose Islamic Bank of Thailand over other banks due to religious requirements. When Islamic Bank of Thailand can improve their services and satisfy the Muslim population, it is certain that the non-Muslim will be interested in the services. Every customer wants the bank that credibility, stability, high return, and meet their needs. For non-Muslim, it is not their obligation but investment. Once Islamic Bank of Thailand can poof to be a good bank, the number of non-Muslim customers will increase.
- Awareness of the bank in non-Muslim consumers is important as well. Islamic Bank of Thailand should increase awareness and understanding of Islamic banking system to the non-Muslim consumers if the bank wants to expand their business. Without understanding of what Islamic banking and financial system are, it is unlikely for the non-Muslim populations to engage in the bank businesses and services.
- What matters at the current point is, for Islamic Bank of Thailand to do better in all sections of its businesses by focusing on catering for the Muslim as it is their duty to do so, especially when the Muslim population is a minority.

Finally, socio-cultural differences are in fact not a hindrance but opportunities for Islamic Bank of Thailand to stand up and fill in the gap as a premier fully compliant Islamic Bank. When all plans and systems are in place, Islamic Bank of Thailand has a great potential to rise as a strong competitor against the conventional banks. Islamic

Bank of Thailand needs to be aware of global trends while being mindful of the domestic market trends and demands so that Islamic Bank of Thailand can turn the crisis into an opportunity. The study believes that many Muslims in Thailand are waiting for Islamic Bank of Thailand to come back so that they can rest assure of their savings does not contradict with the religion requirement.

## 1.2 Sharia Governance and Compliance

In terms of Sharia Governance and Compliance, in Brunei Darussalam, the industry is well- regulated by the Monetary Authority of Brunei Darussalam (AMBD), the central bank of Brunei, with guidance from the International Development Bank (IDB), Islamic Financial Service Board (IFSB), and International Islamic Financial Market (IIFM). AMBD is the key to the stability of the whole financial sector. In Brunei Darussalam, there are 2-tier system of Sharia governance - at institutional (Bank) and the national level. At the national level, roles and functions of Sharia Financial Supervisory Board (SFSB) of AMBD are not limited only to give consultation; but to monitor the industry as well as to examine the product is Sharia's compliance at all times to meet the international standard and practice. At the institutional level, the Sharia Advisory Board (SAB) of each bank has the responsibility to ensure that its financial products comply with Sharia concept and is expected to work together with Sharia Financial Supervisory Board (SFSB). These Boards must be filled with experts in related fields. These experts only give advices and provide solution in their own area of expertise. They need to have a good Knowledge and thorough understanding of Islamic banking and finance. On the contrary, there are no Sharia governance and compliance framework at the national level in Thailand. At the institutional level, there are Sharia Advisory Council and Sharia Product Department. Sharia Advisory Council's responsibilities focus on giving consultation and solution, whether the products and services offered by the bank are Sharia compliant while the Sharia Product Department works on research and development as well as checking whether customers and proposals are qualified for a loan and follow up whether the loans they received are utilized accordingly. Should

any problems occur, Sharia Product Department would bring it up to consult Sharia Advisory Committee. Although the committee of Sharia Advisory Council are renowned and revered among Muslim communities in Thailand, there are questions about products and services following school of thoughts. Lacking the regulator at the national level, issues of trusting in the products and services remain.

The following will be the suggestions and recommendations relates to Sharia Governance and Compliance.

- The study highly recommends the establishment of Sharia Financial Supervisory Board at the national level. This Board may attach to either Bank of Thailand or Ministry of Finance. However, the study suggests for the board to be given a certain degree of autonomy to allow them to fully develop the industry without using the same template as the conventional one. This includes provisions to create a different set of rules, laws and regulations that are more compatible with Islamic banking and finance environment, without prejudice towards the conventional one.
- BOT and Ministry of finance may decide on the model first (such as One Tier or two-tier system) and laid out the task given to the Board. Normally, SFSB regulates the whole industry by providing services such as analyzing and approving products, consultation service, setting the long-term plans for the industry, auditing institutions reports and coming up with draft laws as the foundation of conducive environment for Islamic Banking and finance to grow. SFSB of Thailand should be set up in a manner that fits the context of Thailand only.
- The Board of Directors of the said Board should be filled with foreign talents together with local scholars and prominent persons. This

combination will provide a strong foundation for SFSB as the body becomes the key to the development of the Industry. The Board should limit the number of non-performing ex officio (government offices) as directors. At the same time, this Board should seek advice from neighboring countries such as Malaysia, Indonesia, and Brunei & GCC Countries.

In short, through the establishment of SFSB, Islamic Banking and Finance in Thailand have stable and a strong backbone to support them. The formation of SFSB is crucial in any nations that are keen on developing their Islamic Banking and Finance sector. Only through a thorough and strict sharia governance and compliance in place, a nation's Islamic Banking and Finance sector can be truly trusted as fully sharia compliant.

### **1.3 Bank Status**

The status of BIBD and Islamic Bank of Thailand is different. BIBD has converted from conventional banks to Islamic bank as a Government Link Company (GLC) and, later on, a business entity of its own. Today, BIBD runs its business like any other for-profit corporation. From the beginning, the bank did not make money and continued to make big losses until 2008. BIBD chose to drop from becoming a GLC in 2008 to instill a sense of urgency to survive. During 2008-2013, BIBD incurred another big loss from Non-Performing Loans to the point that the central bank, AMBD, has to intervened in 2013 by lower consumer credit rating from 11% to 8%. BIBD was never bailed out by the government or any other investor. Within a few years, BIBD manages to record high profit. BIBD's success story attracts investments from Gulf Cooperation Council investors. As part of the requirement, BIBD needs to send annual report and assessment to International Islamic Financial Market (IIIFM) annually. In contrast, Islamic Bank of Thailand started with the status of Specialized Financial Institutions (SFI), a state-owned company under Ministry of Finance. Islamic Bank of Thailand has been

up and down in the business until recently facing problems with Non-Performing Loan. Different from BIBD, Islamic Bank of Thailand is bailed out by Ministry of Finance. At present, Ministry of Finance is allowed to hold 99% of ownership share to inject money to help Islamic Bank of Thailand to get through their financial crisis. It can be seen the different paths the two banks have in order to solve their financial problems. Currently, BIBD is a private company with a big success on its business and goal to become a key regional player in while Islamic Bank of Thailand is now strictly under the government's supervision.

The lesson learned is that, Islamic Banks in Brunei are totally run as a business. Although they start as a government linked companies, after a while they can manage it by their own. It comes to the attitude of 'Do or Die', in which the government set a timeline for them to be privatized, and it's up to them to let the business afloat. This happened to BIBD as per mentioned before. Their success lies from constant market analysis, product innovation, up-to-date services, and successful branding efforts among others. BIBD's success is not without its own challenges. The Banks have to continue pushing forward by placing itself at the forefront of new banking experiences through the extensive use of technology. As for TAIB, their success lies on their stable and high returns as well as extensive services related to religious activities such as Hajj, Umrah, Aqiqah, Halal tourism, car insurance, etc. Both institutions offer simple and easy concept in everything they do such as the name of the account and its accompanying concept, service, corporate identity. They lessened the excessive use of Arabic language and technical explanations of particular concepts. At the same time, both incorporate much closer identity as part of their brand, the 'Bruneian identity' into its services. This further attracts customers as they feel familiar & comfortable with the bank's service, which invoked a sense of belonging to each other.

Therefore, the following are the suggestion and recommendation related to Bank Status.



- The study encourages Islamic Bank of Thailand to run as a full fledged business corporation. This will help the bank to grow its wings and enhance efficiency in running the bank as well as to increase the competitive edge of Islamic Bank of Thailand.
- The study thinks that it is necessary for Islamic Bank of Thailand to consider total corporate identity branding. Islamic Bank of Thailand should look back at its roots, reflects back on what it wants to achieve and conveyed it in the new brand.
- The study suggests on capitalizing on The Muslim population first and attached it with how Islamic banking and finance is run in the South (using Southern Cooperative model). Another way is to reflect what it means to be a Muslim in Thailand and how the Thai Muslims see themselves within a larger picture of Thai society. Invoking a sense of belonging is an important business strategy in order for Islamic Bank of Thailand to survive.
- Islamic Bank of Thailand should make everything simple and easy, without compromising sharia requirement. This can be done by the name of the account, and its accompanying concept, service, corporate identity for example. Excessive use of Arabic language and technical explanations of particular concept should be avoided.
- The study discourages ambitious expansion plan, rather suggest downsizing the business and focus on key branches that have high returns after a major makeover. Focusing on the core, i.e. catering for the Muslim first should be a priority.

- The study suggests for the bank to look at other similar models of Islamic banks in a majority of non-Muslim areas to learn about the best practices that can be applied to improve ISLAMIC BANK OF THAILAND.

#### 1.4 Laws & Regulations

Another thing that make the two Islamic banks in two countries different is the willingness to amend financial laws and regulations in accordance with the Islamic financial concept and Shariah law. In Brunei Darussalam, in order to ensure the smooth running of Islamic banking industry, AMBD is always reviewing and introduces necessary law and regulations related to the industry, for example, Shariah Financial Supervisory Board Order 2006, Islamic Banking Order 2008, Takaful Order 2008, and recently, the Accounting Standards Order 2010 and Securities Markets Order 2013. The Central bank also recently launched Islamic Bank and Finance Blueprint for Brunei Darussalam, whereby, the long-term plan to develop the industry is slated. It is necessary for the lawmakers understand that the natures of Islamic banking and financial system are not the same as those in the conventional banking system in many aspects. Some laws must be introduced and enforced to facilitate, accommodate, and strengthen the industry. Even though Islamic bank and conventional bank may be considered as competitors in the same industry, their differences in the nature of business operation require a different set of law. In case of Brunei, AMBD always ensures that Islamic banking can compete fairly with the conventional bank. In Thailand, in contrary, Islamic Bank of Thailand has been struggling to cope with the set of laws that are not accommodated with Islamic concept and losing out to the conventional banks.

As a lesson-learned, it can be seen that Brunei Darussalam sees the need to have a separate set of law and regulation that catered to Islamic Banking and Finance. AMBD repeatedly explained, this was due to the system, application and interpretation of law is completely different from the Conventional ones, whereby the Sharia compliant banking underwent stricter surveillance and auditing by AMBD (AMBD, 2015).

Laws related to Islamic banking and finance have to be careful in certain aspect, such as interest. In this case, interest is disregard and forbidden while paying much attention to how the money is jointly invested according to different concepts. Another example is how the returns are made and divided among parties in contrast to interesting returns of the conventional bank. Such law is the foundation for the industry to operate upon as well as the guidelines for Sharia complaint business conduct. Such law also helps developing the industry in a sense that the law considers the environment and the context of a particular nation. For example, Islamic banking and finance in Brunei Darussalam is a consumer-based industry in contrast to a market-based industry in Malaysia and Indonesia. Therefore, the law concentrates on how the industry can develop along this line. In drafting the law, authorities such as AMBD, SFSB, Attorney General Office, Ministry of Religious Affairs and State's Mufti Office as well as stakeholders such as the Sharia advisory Board of BIBD & TAIB and Sultan Sharif Ali' Islamic University (UNISSA) join forces to give their input in order to come up with the best outcomes for all parties. These efforts also include contributions from other key institutions abroad.

As for suggestions and recommendations, the study highly recommends that separate set of laws to be made available for Islamic banks and finance in Thailand. These laws will not jeopardize the conventional bank as it mostly involves the application and interpretation of Sharia concept. These separate sets of laws do not mean favoring Islamic bank over the conventional ones but to facilitate the proper operation of the Islamic bank. The unmodified legal framework of conventional finance is not suitable to cater to Islamic financial system. This does not mean that a new, separate regulatory and legal framework for Islamic finance is needed for all aspects. Where similarity exists, the principles and concepts can be extended to Islamic finance, e.g. in matters like transparency, accountability, conflict of interest, etc. This assists Islamic finance, as the regulators do not have to start from scratch. Furthermore, the long experience of conventional finance could be used to make Islamic finance industry more resilient. Separate laws will give moral and a trust boost to the industry

as consumers and investors can now confirm there will be no element of interest or other forbidden matters persists in Islamic Banks. This step will enable the industry to grow, develop and create the competitive edge against regional competitors as it empowers Islamic bank up to par level competition.

### 1.5 Transparency

Transparency is one of the most important issues in running business in every sector, more importantly in sharia compliant businesses. This is somewhat similar in both banks. As a public limited company, BIBD uses experienced foreign auditing company, KPMG, for internal and external audit. It was found that transparency has still been an issue in BIBD although the bank has lessened the risk of lack of transparency throughout the years. The bank's Sharia Advisory Board is tasked to double-check the authenticity of the audit report to prevent an error in terms of sharia concept and compliances. Recently, BIBD has been venturing into machine learning to lessen human error and transparency issues. In Thailand, there has been a wide speculation that the issue of transparency was one of the causes of the current crisis of the bank. If Islamic Bank of Thailand cannot solve the issue of transparency soon, it is difficult to gain trust from customers and investors.

Lesson learned from Brunei Darussalam is that the country put greater emphasis on transparency, especially for Islamic banking and finance. Being transparent and trusted are key elements in sharia concept. Islamic banks in Brunei employ multi-layered transparency report process, starting from the bottom to the top. Each department has to make their reports and compile data before being audited by a Sharia Advisory Board. This report is later submitted to SFSB and other investors. Gradually, these banks are phasing out internal audit team and replace them with the foreign auditing team. This is due to errors and missing numbers made by the internal audit team. To avoid these kinds of mistake, both banks ventured into machine learning and the use of technology to lessen human error and increase transparency.

The following are the suggestions and recommendations made on Transparency.

- The study recommends hiring foreign auditing firm to do the auditing job
- BOT and Ministry of Finance must cross check the final audit report
- Islamic Bank of Thailand should invest in machine learning and the use of technology to lessen human error.

### **1.6 Capable and Knowledgeable Staff**

It is worth noting that the bank will not be this successful without capable executives, knowledgeable management team, and valuable staff. In the case of Brunei Darussalam, the country emphasizes on putting the right people in directing the industry. At the national level, Sharia Financial Advisory Boards (SFSB) comprises Permanent Secretary (Policy) of Ministry of Finance, Managing Director of AMBD, State Mufti, Sharia Appeal Court Judge, Deputy State Mufti, Islamic Law Expert from Ministry of Religious Affairs, Assistant Solicitor General from Attorney General Chambers, Chief Istibat Officer from State Mufti's Office (alternate member), and Lecturer from School of Business and Economics, University of Brunei Darussalam (alternate member). At BIBD, Shariah Advisory Board includes the Permanent Secretary of the Ministry of Religious Affairs, Deputy State Mufti, Dean of Faculty of Economic and Islamic Finance of UNISSA, Director of Research and Publications Centre of UNISSA, Istibat Officer of Ifta Department (State Mufti Office), and Head of Shariah of BIBD.

Moreover, at BIBD, Board of Directors comprises of experts not only in finance, but the Islamic finance field - Minister of Finance II, Managing Director of Brunei Investment Agency (BIA), Chief Executive Officer (Fajr Capital), Financial Experts, Board Director of Mohammed Alsubaei & Sons Investment Company (MASIC), Managing Director of BIBD, Permanent Secretary of Ministry of Primary Resources and Tourism,

and Deputy CEO of Bursa Brunei Darussalam Sdn Bhd. BIBD only hires graduates with Islamic banking background from local universities and higher institutions to work at the bank. The bank further invests in its human capital by providing its employees in trainings to upgrade their skills and knowledge, domestically at CIBFM, and internationally in Malaysia. To gain promotion, staff at BIBD must possess basic knowledge on Islamic banking and finance, specific knowledge on areas of expertise, and a few years of experiences. On top of that, BIBD and UNISSA collaborate in creating Bachelor Program to fill in the position in the bank while BIBD and UBD have MoUs to train the bank's employees. For those with high achievement, Brunei Government sends them to Islamic universities such as International Islamic University of Malaysia and University Al Azhar in Egypt to study about Islamic Banking and Finance. In Thailand, a specific institution, such as CIBFM, should be created just to train the personnel related to the industry as well as to provide knowledge and information for the public, especially non-Muslim. The following table shows the similarities and differences between BIBD and Islamic Bank of Thailand.

Therefore, the following are the suggestion and recommendation related to Capable and Knowledgeable Staff.

- Islamic Bank of Thailand should be strict on whom it invites to be part of its staff. Staff should at least have knowledge of Islamic banking and finance. Experience is an advantage. However, it is not recommended to hire anyone based only on experience as managing to be part of the team since Islamic banking and finance requires a specific set of knowledge and skill set.
- Islamic Bank of Thailand should emphasis on hiring graduates with the degree in related field, especially Islamic Banking or Islamic finance. These graduates can be a great asset to the bank as they can help in providing a

better understanding of the concept for the consumer as well as giving invaluable feedbacks to improve the operation of the bank.

- These staff should have continuous career development and training program, not only in-house training or domestically, but also send them abroad to exchange ideas and increase their knowledge. CIBFM suggests, it would be cheaper to bring in experts or trainer to provide training in Thailand, rather than to send them abroad.
- Furthermore, the executives should also join executive training programs such as management, leaderships or policy-making session to enhance the quality of leadership of the bank. A strong and charismatic executive can help steering Islamic Bank of Thailand towards success.
- The study suggests for the formation of the training center specialized on Islamic Banking and Finance. Such center will provide the necessary training programs for both staff and the executives. This is another viable option, which is will lower the cost and time rather than sending them abroad. Yet, the study agreed, sending them abroad is a better choice due to its many benefits than bringing expertise/trainers in and does the training or workshops around the country.

Apart from what specifically mentioned above, the following are some areas that worth taking note of. In terms of market and products, the domestic market for Islamic banking and finance in Brunei is not big because the population is only around 420,000. Brunei Darussalam is a unique example due to its consumer-based industry and small-market size. However, various financial products can be offered to cater to domestic needs. Brunei Islamic Financial Institutions are so popular due to its innovative products and bold innovation in using the Sharia Concept. The bank is very adaptive in following the trend of the day and abandons the way conventional bank

attracting customer and focus on niche markets. There are 13 types of savings accounts, seven types of Sharia compliant financing, two types of debit card, five types of credit card, one type of Virtual Prepaid, and other bank services, including Zakat Counter, Remittances, and Safe-Deposit Box. It can be observed that, despite this is an Islamic bank, the name of the accounts and/or types of services is easy to remember such as General Current Accounts, Easy Saver (savings accounts), Purpose Saver (savings accounts), Haj Saver, Term Deposit BND Currency, Term Deposit Foreign Currency, etc. In contrast; for Thailand, the majority of Islamic Bank of Thailand customers are microfinance and SMEs. There are eight types of deposit account, namely, Wadiah Savings Account, Wadiah Current Account, Mudarabah Fixed Deposit, Tax-free Mudarabah Fixed Deposit, Savings Account for the Elderly, Al-Ameen Deposit, Al-Haj Deposit, Al-Haj Deposit V.2. Other services are Cash Management, including Direct Debit & Bill Payment, Retail Funds Transfer, Zakat Account Management, ATM Chip Card Gold, ATM Chip Card Silver, Islamic Bank of Thailand PromptPay as well as Trade Finance, which covers Import-Export, Domestic & Guarantee, and Foreign Exchange & Remittance. The name of the accounts provided at Islamic Bank of Thailand using the exact name of the transactions in Arabic. This is hard to understand and remember for those who are not familiar with the nature of transaction, which make it harder for doing business in Non-Muslim country like Thailand.

Because Islamic banking and financial system have a different way of doing business and different structure, it is not easy to make known to the public about its concept and system. In Brunei, in one part, the majority of Muslim populations has, at least, a basic knowledge of Islamic banking and finance and the importance of this as well as through education and training. BIBD also put an effort to educate customers by making it simple, easy, and direct explanation of the concept applied to all potential customers. In doing banking business, both BIBD and TAIB only hire graduates with an Islamic banking background from local universities and higher institutions. After that, they send their employees for regular training and update at either CIBFM or Islamic banking and financial learning centers in Malaysia. AMBD also helps in regulating



the definition, business conduct, and approach of Islamic Banking and finance so as to avoid confusion and misinterpretation. In Thailand, there has not been done much in terms of making people known about the concept and system of Islamic banking. For employees' capacity building, Islamic Bank of Thailand utilized in-house training in compliance with what their employee's request due to current budget control and constraint.

Brand awareness and recognition are important in business growth. In addition to the quality of its services and products, to build the sense of belonging and trust, BIBD invests a lot in media to shore up continuous interest and support from the public. However, it doesn't make people feel that the bank tries hard to win the customers as well as doesn't highlight on their Islamic identity. Rather, the bank focuses more on the Bruneian identity which reflects in its motto, "Bruneian at Heart." This way, it will attract both Muslim and non-Muslim in the country. On the contrary, Islamic Bank of Thailand highlights its identity as an Islamic bank. The majority of non-Muslim in Thailand already thought that the services and products catered for Muslim only. Again, when the bank chooses to focus on the religious aspect in non-Muslim country, Islamophobia also plays a role for potential customers to choose to use or not the services and products of the bank. Islamic Bank of Thailand should consider the identity issues and brand awareness seriously.

## **2. Conclusion and Recommendations: Halal Industry**

As for the halal industry, this section will explore the potential of the industry for the next decades as well as what are opportunities for Thai investors and Thai entrepreneurs who want to be part of this up and rising market via Brunei Halal strategies as well as how Brunei halal infrastructures can jumpstart their products to global market.

## 2.1 Global Halal Market

Global Halal industry is one of the fastest growing industries in the world. This is due to constant increase in demand for halal products. Traditionally, Halal market refers to four main components namely food & beverages, pharmaceuticals, cosmetics and Islamic banking & Finance. Today, the market includes products and services for Muslim lifestyle such as Muslim clothing, media & Entertainment, Halal Tourism, halal logistics and many more. The following table simplify understandings about global halal market.

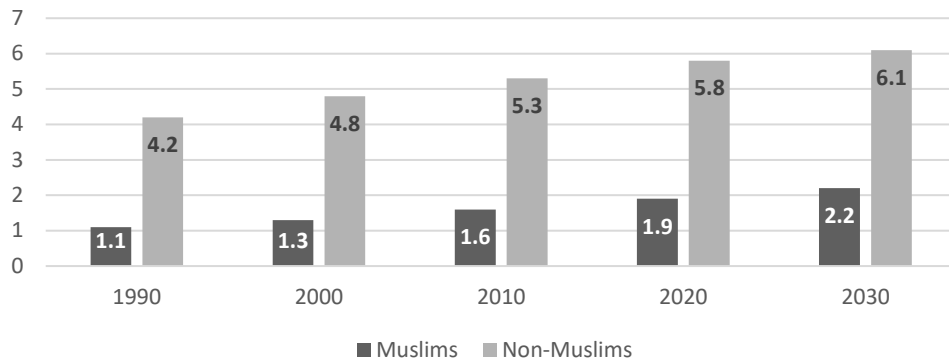
Figure 5-1: Overview of Global Halal Market



Source: Abdelhafidh Abdeleli, 2016

As can be seen above, the table shown pinpoint key sectors within global halal industry that is growing at a fast pace year to year. These industries driven by the commitments made by the Muslims to follow and observe religious values, their nature as well as needs as a human. Therefore, with 1.8 Billion Muslim worldwide, certainly this market will continue to grow with rapid Muslim population growth.

**Figure 5-2: Population vs. Market Growth (Billion)**



Source: Pew Forum Religion and Public Life, 2011

According to Pew Research, Muslim population has shown an incredible growth. From 2000 until present, Muslim population has grown by about 600 million people worldwide. These means, alongside with population growth, there will be a surge in demand for halal products and services.

**Table 5-1: Muslim Population vs. Halal Food Market**

	2005	2015	2025
<b>Muslim Population Worldwide</b>	1.5 billion	1.8 billion	Est. 2 billion
<b>Halal Food Market (\$USD)</b>	580 billion	1.3 trillion	Est. 3 trillion

Source: ERIA, 2016; Nurrachmi, 2016

From the table shown above, it can be clearly seen that, a surge in population will affect the demand for halal market. It is expected that, the Muslim population will continue to grow until 2050, when eventually the population will slow down. With this estimation, Halal industry will remain a fast-growing industry. Region wise, Asia remains at the forefront with the Halal market is valued at nearly USD 400 Million and closely followed by Africa (USD 115 Million) and Europe (USD 63 Million) (Halal Asia, 2016). The following table further shows the country with the highest halal food demand.

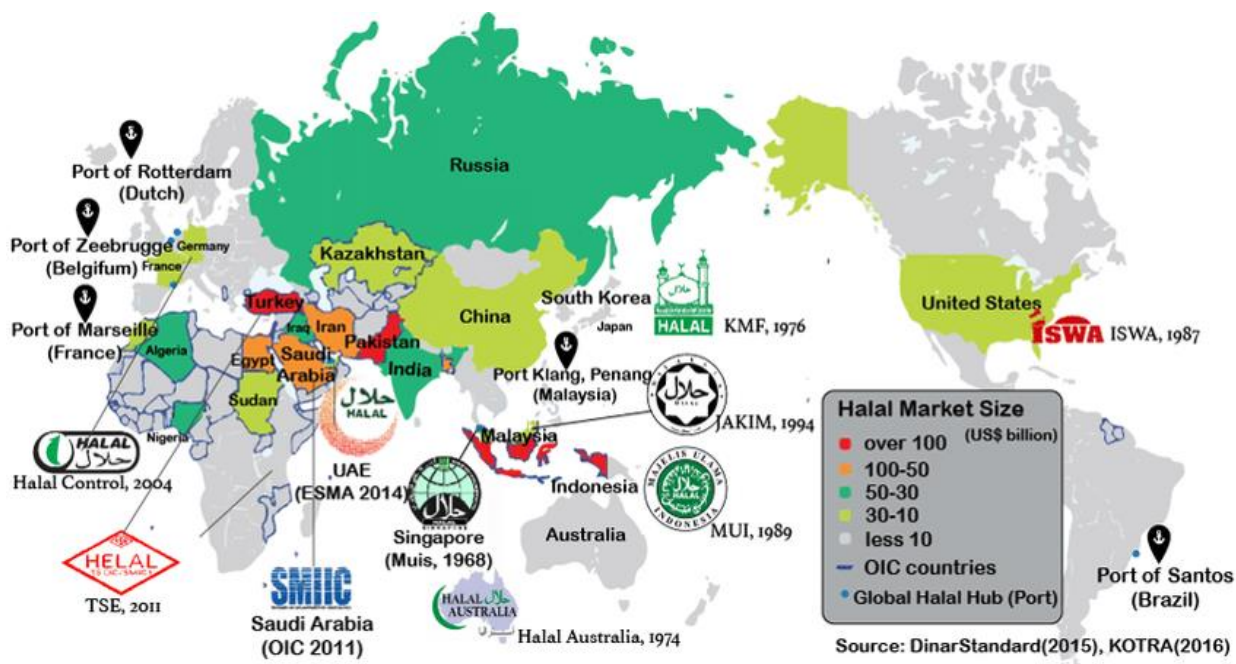
**Table 5-2: Global Halal Food Demand by Country**

Region	Country	Muslim Population	Muslim Population (%)	Halal Food Demand (million USD)
Southeast Asia	Indonesia	204, 847,000	87.2	138,292
South Asia	Pakistan	178,000,000	96.4	264,526
South Asia	India	172,000,000	14.2	676,098
South Asia	Bangladesh	145,607,000	86.3	29,413
West Asia	Iran	74,819,000	99.7	208,363
Middle East	Iraq	31,108,000	98.9	39,873
Middle East	Saudi Arabia	25,493,000	97.1	46,056
Africa	Egypt	80,024,000	94.7	222,859
Africa	Nigeria	75,728,000	47.9	41,787
Africa	Algeria	40,400,000	99.0	26,583
Northern America	United States	3,450,000	1.1	22.6
Europe	United Kingdom	4,130,000	6.3	4.6
Europe	Europe	25,700,000	4.9	20.1

Source: ERIA, 2016

Table 5-3 shows Asia as the hub of Halal market due to high demand for halal food in line with the Muslim population in the country. Among regions, the demand for halal products and services is the highest due to the number of Muslims in Indonesia, Pakistan, India, Bangladesh. The following world map shows the halal market size in USD (Billion).

Figure 5-3: Global Halal Market Size



Source: Dinar Standard, 2015; KOTRA, 2016

In short, it is expected that, the growth of Global Halal industry will continue to be positive for years to come despite the economic uncertainty. The opportunities in this specific market are immense and still open for everyone.

## 2.2. Opportunities for Thai Producers, Manufacturers & Entrepreneurs

### 2.2.1 Opportunities from Brunei Halal Label and Certificate

The strength of the Brunei's Label and Certificate lies on its stringent procedures. All stages of food productions (preparation, processing, Packaging, storage, transportation) must be halal (clean, hygienic & permissible according to Hukum Syara'). It also stringent in acquiring the Certificate and Label by observing, physical separation of halal and non-halal products/ingredients and fulfill the Standard & follow guidelines, systematic auditing and periodic surveillance as well as must have two

supervisors. It is worth noting that, in halal market, the more stringent the process is, the most trusted the label & certificate will be. This means, products with such label can easily enter global market, especially the stricter yet more lucrative market such as GCC countries and the Middle East. Hence, the majority of producers and manufacturers from Australia, New Zealand, Japan and China keens to acquire Brunei Halal Label and Certificate in order to gain market access to global halal market.

CPF, the biggest agricultural products producer in Thailand, is a good example of how Brunei Halal label and certificate can add value to its products. Once the company successfully get the Halal label and certificate, its products are well received by not only the Bruneians but also many Muslim countries. These days, the products are readily available in East Malaysia by using Brunei Halal Label without the need of acquiring Malaysia JAKIM label for the same product. This is allowed due to the agreement between Islamic Religious Council of Brunei, Indonesia, Malaysia and Singapore (MABIMS) to allow products endorsed by other members of the Council to be imported and sell freely. This is an important step as the label allowed the products to enter few countries at the same time. Therefore, this is a good opportunity for Thai producers and manufacturers.

### **2.2.2 Opportunities from Brunei Halal Brand**

Another opportunity can be sought from Brunei Halal Brand, a private label brand owned by Brunei Government. Seeking to penetrate Halal market through added value products, Brunei Halal Brand has making its own name especially in Asia and Europe. Managed by Ghanim International, there are about 50 products labeled under this brand. The brand is closely associated with Brunei Halal Label, as all the products must first pass the stringent screening of getting the label (for products) and certificate (for premise). Currently, the brand has about 20 business partners worldwide with the product penetration into China, The UK, UAE and Singapore's market. In the past, Brunei Halal Brand products are available at 5,000 UK Tesco and 50 Hero supermarkets

in Malaysia. This means, Thai products that utilize Brunei Halal Brand will easily penetrate in market where the Brand have a strong presence. Not only that, their products easily accessible by the locals all around the globe.

Any products partnered with Brunei Halal Brand will have an exclusive assistance from the Brand in term of design, marketing and production strategy. The brand will help designing the products, gives a marketing boost for each product through its wide networks as well as handling all other logistics issue. This means, partnering with Brunei Halal Brand will cut the hassle of establishing an image for the products. At the same time, such partnership will help to lower any unnecessary cost by doing it personally. Furthermore, producers and manufacturers may utilize Brunei Halal Brand facilities and manufacturing farms across the globe. In the past, the Brand have a manufacturing factory in Birmingham. Unfortunately, the factory had to close down due to redevelopment in the area. Currently, the brand has a small factory based in Brunei. The Brand is committed to reopen a full fledged manufacturing firm in the UK. The Brand is testing waters in selected Asian countries such as China, Singapore and Malaysia and rethinking of opening factories in these countries depending on the local demand. If this is realized, firms that partner with the Brand has the advantage of their products to be made in different factories belongs to the Brand.

Not only have that, aspiring Thai SMEs considered applying for Brunei Halal Brand to kick start exporting their products. The Brand is already known as a strong supporter of Bruneian SMEs. The Brand has been successfully helping in making these SMEs to break the international market under their brand. Currently, the Brand is already in negotiating phase with plenty of Thai SMEs specializing of crackers to be marketed under the Brand. Once the negotiation goes through, these Thai SMEs has the upper hand as their products received international market exposure as well as very well taken care of by the Brand. Brunei Halal Brand will take care of the packaging, transportation, marketing etc., which is important to a budding entrepreneur as it will considerably lower their cost. Having said that, there are plenty of opportunities for

Thai producers, manufacturers and budding SMEs in utilizing Brunei Halal Brand for their advantage. To partner with Brunei Halal Brand is very simple, interested party must first obtained Brunei Halal label for their products and halal certificate for their establishments, then negotiation can start right away. More information on the brand can be found at [www.information@brunei-halal.com](mailto:www.information@brunei-halal.com).

### 2.2.3 Opportunities from Brunei Halal Manufacturing Industry

Brunei Darussalam also identifies Halal manufacturing industry as a priority for business and investments. Within the context of halal manufacturing industry, Brunei possessed advantages that Thai businesses and investors can take advantage of. Brunei strategy lies mainly on creating an environment that allows companies to add value to their products and export the products. Effectively, Brunei will become halal manufacturing hub for the region and beyond. To penetrate the competitive market, Brunei focuses on a smaller yet lucrative niche market segment such as Halal pharmaceuticals and cosmetics, alongside with Food and beverages. According to BEDB, Brunei possessed plenty of advantages to become a successful Halal manufacturing hub. The following table summarizes all those advantages in details.

**Table 5-3 Brunei Darussalam's Advantages**

Stable Macroeconomic Environment	Favorable Tax Environment
<ul style="list-style-type: none"> <li>● Political stability</li> <li>● No history of natural disaster</li> <li>● Clean &amp; green environment</li> <li>● High standard of living</li> <li>● Low crime rates</li> </ul>	<ul style="list-style-type: none"> <li>● No tax on               <ul style="list-style-type: none"> <li>➤ Personal income</li> <li>➤ Sales</li> <li>➤ Payroll</li> <li>➤ Capital gains</li> <li>➤ Manufacturing</li> </ul> </li> <li>● Low Corporate Income Tax: 18.5%</li> </ul>



Globally Recognized	Tax Exemptions
<ul style="list-style-type: none"> <li>• No. 1 in the world for “Macroeconomic Environment”</li> <li>• No. 1 in the world for “Biodiversity &amp; Habitat”</li> <li>• No. 2 in Asia for “Air &amp; Water Quality”</li> <li>• No. 3 in ASEAN for “Quality of Education”</li> <li>• NO. 26 out of 148 countries for “Global Competitiveness)</li> </ul>	<ul style="list-style-type: none"> <li>• Pioneer status: apply to be exempted from               <ul style="list-style-type: none"> <li>➤ Cooperate income tax</li> <li>➤ Import duties on raw materials &amp; machinery for a period of 8 years (+3 years)</li> </ul> </li> </ul>
Access to Key Markets	Prepared Industrial Parks
<ul style="list-style-type: none"> <li>• Good connectivity</li> <li>• Market Access:               <ul style="list-style-type: none"> <li>➤ Strategically located in ASEAN</li> <li>➤ International agreements in place: providing greater market search</li> </ul> </li> <li>• Access to Raw Materials               <ul style="list-style-type: none"> <li>➤ From BIMP EAGA region</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Cost Competitive &amp; Negotiable Prices</li> <li>• Offering competitively priced utilities</li> </ul>
Halal Market Access	Strong Commitment to Training & “R&D”
<ul style="list-style-type: none"> <li>• 2010: 1<sup>st</sup> in the world to issue guidelines on the manufacturing of Halal Pharmaceuticals</li> <li>• Stringent Halal Food Guidelines are already in place</li> <li>• Currently, finalizing similar guidelines for the production of “Halal Cosmetics”</li> </ul>	<ul style="list-style-type: none"> <li>• Training Grant               <ul style="list-style-type: none"> <li>➤ B\$ 5.0 million per year or 10% of total fixed asset investment whichever is lower for the initial 5 years of establishment</li> </ul> </li> <li>• Highly educated &amp; Skilled workforce</li> <li>• Research &amp; Development (R&amp;D) Grant: up to B\$ 5.0 million per project</li> </ul>

Co-Investment Partnership	Sound Legal & Regulatory Framework
<ul style="list-style-type: none"> <li>Companies established in Brunei Darussalam are permitted to have 100% foreign ownership; nonetheless credible co-investment partnership is available</li> </ul> <p>Partners include:</p> <ul style="list-style-type: none"> <li>➤ Strategic Development Capital Fund (\$DC)</li> <li>➤ Government Linked Companies (GLCs)</li> </ul>	<ul style="list-style-type: none"> <li>Brunei Law fosters a pro-business and pro-investor environment</li> <li>Robust and comprehensive intellectual Property (IP) Protection: with international filing routes is accessible</li> </ul>

Source: BEDB, 2019

As it can be seen in Table 5-4, there are many advantages in Brunei Darussalam and offered by Brunei's government that help the country to establish herself as a halal manufacturing hub.

The above factors are also the keys in determining investors' decision to invest in a specific country. With a readily available infrastructure, stable institutions in place together with various government initiatives to help setting up and/or operate businesses in Brunei, Brunei will surely become an ideal choice for companies that want to penetrate global halal market. These advantages further enhance with Brunei's readily accessible Halal related services such as Halal guidelines, laws related to Halal, Sharia compliant financing services, Halal lab (collaboration with Japan), religious authorities for referring purpose etc. In addition, Brunei's image as an Islamic country will further enhance products' marketing strategy. There are many instances that when consumer knows products made in Brunei. Muslim consumer would buy it immediately without doubt. This is true particularly with consumers from the UK, Middle East and GCC countries.

Brunei Darussalam has an open trade attitude with proper trade arbitration process. Despite the government is pro-business, the government agencies usually keep their distance in many aspects. In this case, government has been proactive in creating a conducive environment for investors and businesses to conduct their business in the country including efforts to simplify bureaucratic process to set up business, speeding up approval process while not lowering any standard as well as generous investment incentives. The following shows different investment incentives available in Brunei Darussalam.

**Table 5-4: Brunei Darussalam Investment Incentives**

	Menu	Remarks
Tax Incentives	Pioneer status	<ul style="list-style-type: none"> <li>✓ For industries which are new to Brunei, corporate tax and tariff for ingredients and machineries are exempted</li> <li>✓ Exemption is valid for 8 years with options to extend 3 years</li> </ul>
Equity Investment	Strategic Development Capital Fund (SDC)	<ul style="list-style-type: none"> <li>✓ Government owned fund which can make equity investment into companies enters into Brunei</li> </ul>
Grant	R&D Grant	<ul style="list-style-type: none"> <li>✓ Provides up to BND 5 million R&amp;D budget for R&amp;D conducted in Brunei</li> </ul>
	Training Grant	<ul style="list-style-type: none"> <li>✓ By training local Bruneians, up to BND 5 million per annum or 10% of fixed asset, whichever lower will be provided for 5 years.</li> </ul>
FDI Promotion	100% Foreign Ownership	<ul style="list-style-type: none"> <li>✓ 100% foreign ownership is allowed.</li> </ul>
	One-stop Service	<ul style="list-style-type: none"> <li>✓ Government owned entity Darussalam Enterprise established Business Support Centre in 2016. It helps SMEs to resolve disputes with governments.</li> </ul>

Source: [www.business.gov.bn](http://www.business.gov.bn)

According to ERIA, Brunei has skilled labor that is readily available, and the labor cost is slightly lower than in Singapore and Malaysia (ERIA, 2016). Utility and real

estate cost are also competitive due to government subsidies for utility and the under develop real estate industry which gives Brunei an edge compared to others. Brunei tax regime is also very attractive, as can be seen from the following table.

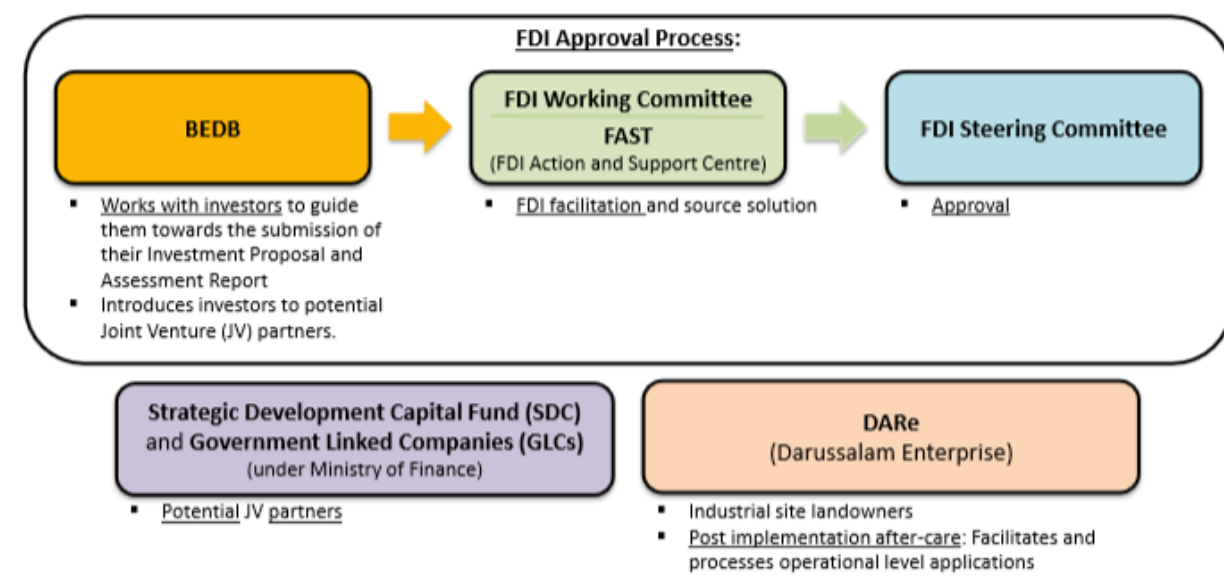
**Table 5-5: Brunei Darussalam Tax Regime Competitiveness**

Category	Brunei	Malaysia	Indonesia	Singapore
Corporate Income Tax	18.5%	20% or 25%	25%	17%
	If pioneer status is approved, 0% for 8 years	(1) Market capital less than 2,500k MYR: 20% for <50k MYR and 25% for above (2) Market capital more than 2,500k MYR: 25%	20% for some listed companies	75% of the first 10k SGD and 50% of next 290k SGD are exempted
Personal Income Tax	0%	0-25%	5-30%	2-20%
	No income tax for individuals	Progressive 25% for over MYR 400,000	Progressive	Progressive
VAT	0%	6%	10%	7%
	No VAT	VAT, Standard rate	VAT, Standard rate	VAT, Standard rate

Source: ERIA/JETRO 2016

Thai producers and manufacturers can obtain these benefits by setting up their company of factory in Brunei. To date, only Thai SMEs collaborating with different Brunei agencies to take advantage of Brunei's image and services. Apart from that, Thai products and brands are highly in demand as can be seen from the opening of various stores specialized on Thai products and foods such as Cha Tra Mue and Boat Noodle. In addition, close proximity between Brunei Darussalam and Thailand can be a decisive factor for establishing a factory or company In Brunei. Setting up a factory in Brunei is quite straight forward, as per shown below.

Figure 5-4: Process of Establishing a Factory and Company in Brunei



Source: BEDB, 2019

Interested parties may contact directly to BEDB as the Board is the first contact point for anything related to investment. BEDB will help in guiding the investors for investment proposal and assessment report. The Board also helps in connecting to different government agencies and in arranging for site visit or any other request. Once the proposal reaches implementation stage, BEDB will transfer the duty to FDI Action and Support Centre (FAST). FAST will facilitate any issue arises from implementation of the project and any other request while Darussalam Enterprise is responsible for helping the investors to find a suitable site for their factory across 30 industrial sites. More information can be found from <http://www.invest.gov.bn/SitePages/Home.aspx> & <http://www.business.gov.bn/SitePages/Home.aspx>.

### 3. Lesson-Learned from Brunei Darussalam

From the extensive explanation provided above, Brunei Darussalam is keen on developing its halal industry, including Islamic Banking and Finance. The Islamic Banking and Finance sector in Brunei has become of the most successful model around the

globe. As for the Halal Manufacturing hub, Brunei needs further development and Thailand can be part of this journey. There are many lessons- learned from Brunei Darussalam, and it can be summarized as the following.

(1) Brunei Darussalam capitalize on its Islamic expertise over the course of 600 years as a Muslim State. This led to the development of a personalized Islamic experience which enables it to stand out as well as become a niche of its own. The nation is known for its conservativeness, yet it is also well known for its moderate Islamic ideology. This can be seen from the lifestyle of the Bruneian which sees a blend of religiosity with centuries old culture and customs. As long as the culture and customs does not against the teaching of Islam, it keeps afresh and alive even in the modern era. This teach the outside world of about the beauty of moderate undertakings in life. This concept is pervasive everywhere in Brunei, may it be in lifestyle, system, culture, society or even the institution. This happened thanks to centuries of assimilation between Islam and the Bruneians which becomes the hallmark of their culture.

(2) Brunei Darussalam's knowledge in halal does not come from external source, rather it is developed locally through exchanges from the outside world. From such experiences, Brunei sees to leverage on Halal niche market that the country can capture. Brunei does not considers tapping the market purely due to economic reason, rather it is because of its duty to provide halal food, first for its population and second, extended to the world. Brunei wants only quality and healthy Halal foods for its citizens and shares this sentiment with the larger Muslim population. This evidence can be found from how Brunei slowly establishes Halal requirement for the country and slowly develops the system for make it economically possible to undertake.

(3) Brunei government has been playing supplementary roles that helps a lot in the development of Halal industry in Brunei. This can be seen in numerous occasions, whereby, strong government supports provided a strong platform for the

industry to grow and develop. An evidence of this is government crucial roles in developing the Islamic banking and finance in the country. Through government active support, Islamic Banks in Brunei manage to compete equally with long established conventional bank, to the point that, it gives a fierce survival competition to the latter. Another evidence is shown in the Brunei Halal Label and Certificate. Although with strong government presence in the process, this ensures the quality of service given meet the standard and set a stringent procedure in place. On top of that, relevant government religious bodies such as Ministry of Religious Affairs, State's Mufti Office, Sharia Court and Islamic Council of Brunei Darussalam provides a strong support for the industry through their services such as consultation, interpretation of subject matter, foreign experts advice, application and many more. Hence, Brunei Government play various active roles in Halal industry as a whole becomes the catalyst for the success of the industry in the country.

(4) It is necessary to create a favorable business environment for halal industry to grow and develop. Therefore, the government and the private sector must join hands in creating such an environment through different means such as strengthening the relevant institutions through reforms, building necessary infrastructures, simplifying bureaucratic procedures, coming up with interesting incentives and many more. This also includes empowering local SMEs by giving them the platform for showcasing their products and assistance in exposing them to the global markets. By having a strong SMEs specializing in Halal industry, it is hope that they can become the support system to the halal manufacturing industry as a whole. By doing so, Brunei hopes to develop a healthy domestic organic economy especially for halal industry.

#### **4. Some Clarifications on Halal Concept: Lesson Learned from Brunei Darussalam**

As happened to many Muslim authorities, there are different approaches on interpreting the Halal concept. This can cause different interpretation as Muslim

scholars couldn't agree on the subject matter. In this case, Brunei can provide an excellent example on how to pursue this particular issue. In Brunei Darussalam, Islam is embedded in all aspect of life, including governance of the state. Therefore, Brunei has established numerous religious authorities with specific tasks of its own. The highest of them all is the Islamic Council of Brunei or Majlis Agama Islam Brunei (MUIB). This council is chaired personally by His Majesty himself. This Council oversees the religious policies regarding religious matter administration in the country. As the highest religious body in the country, the Council is set to help and advice His Majesty to play his role as the Head of Islamic Faith in the country (MORA, 2018). The Council is supported by a secretariat under Ministry of Religious Affairs (MORA). Another influential religious body is the State Mufti's Office. The Office is the source for answers related to religion nationwide and headed by the most senior and influential religious Ulama in the country. Both the government and the public are encouraged to approach the office for any clarification.

While Ministry of Religious Affairs served as to service the nation in any services related to the Islamic faith such as Islamic administration, Religious education, the spread of Islam, Hajj & Umrah, Zakat, Waqaf & Baitulmal, administration of Mosque, Sharia & Religious Law (MORA, 2017). Within these contexts, the Ministry have more scope to handle and follow the policy set out by MUIB. As for the clarification on Islamic concept, for example Halal; Brunei Darussalam always refers to the State Mufti's Office. The Office through its strong pool of Islamic scholars in various backgrounds provide a comprehensive answer to any religious question posed by the public. The answer or 'irsyad' (religious guidance) provided is widely upheld by the public, normally respected and not being challenged. Therefore, if there is some religious issues being raised that needs interpretation or guidance, it is automatically referred to State Mufti's Office.

Within the context of Halal concept, Brunei follows the interpretation as slated in Halal Certificate and Halal Label Order 2005. However, if there is any issue that raised



doubt, first Brunei utilize logic to its application. For example, a fly flies over and stop a pig and later land on meat slaughtered through halal process, there are two scenarios can be applied here. First, if there is not much evidence to suggest where the fly comes from, then it is permitted to be process. However, if there is a considerable doubt that the flies contaminate the product (for example, a considerable number of flies), then the meat considered Haram. Within this pretext, doubt plays an important role in determining a particular product's halalness. Brunei Darussalam encourage the public to not consume any product if their state of their halalness can be doubted. On a related note, Brunei Darussalam through Halal Food Control Division (BKMH) provide scientific services for products that is deem as doubtful in their state of halalness. This can be any ingredients or chemically produced compounds which needs further determination. Basically, these labs will be assessed of their contents and the results will be referred immediately to the State Mufti's Office. If the clarification of the said doubt has not reached satisfaction, the objects will be sent to labs in Japan for further test and clarification.

Another example of this is about the usage of alcohol. Brunei Darussalam in general does not tolerate the use of alcohol, especially in food. First, alcohol from fermentation is totally forbidden, both for oral or external use. However, the chemical or synthetic alcohol is allowed for external use only. At the current moment, the religious authority discourages the use of chemical or synthetic alcohol for consumption, pending for clarification from the State Mufti's Office. Brunei Darussalam is quite stringent on the application of concept and continue to determine the halalness of new-found ingredients (may it be chemically or hybrid contents) for the sake of Muslim Ummah. Currently, the religious bodies in Brunei Darussalam is trying to determine the halal state of various type of gelatin. On another related note, Brunei does not recognize franchise that utilize halal label from other countries. This is due to recent amendment that requires franchise especially food and beverages to apply for halal label and certificate for each of their products and premises (Azaraimy, 2017). Such a strict regulation initially received backlashes however the relevant authorities

is assuring the public that, such measure is necessary to re-check the halalness of these franchises. Apart from that, the government makes extra efforts by asking non-Muslim eateries to display a stating ‘Food for non-Muslim’ (Bukan Makanan untuk Orang Islam).

The most important lesson learned from Brunei Darussalam on the matter of halal is the application of logic before going deeper into scientific findings. This concept is widely practiced in the country and become the easiest way to help the Muslim making choice about their food consumption. Another lesson learned is how Brunei set up an organic system within religious frameworks that can help the Halal industry to develop and grow. It starts with the duty to fulfilled Muslim requirements and later develop into an industry itself. Through such process, Brunei is able to develop the industry step by step. Government has played a crucial role as supporter, backer and catalyst for the development and growth of the industry. For example, halal monitoring and auditing is a must and this process must continue, even better if it is held monthly. Through a strong support from the security forces and relevant agencies, compliance to the halal standard can be keep at all times. The law also played a crucial role, with penalty up to BND 20,000 for offence such as misuse of Brunei Halal label or changing ingredients without prior notice. Therefore, the study suggests for Thailand to strengthen the monitoring and auditing process so that the quality of Halal Label produced by CICOT can be enhanced. Recent reports stating doubts on Halal Labels under CICOT in both Malaysia and Brunei Darussalam (Norhidayah & Saadan, 2014) (Suserena, 2018). Through a stringent law as well as monitoring and auditing, this will help improve the quality of the label as well as the overall reputation of the brand.

There are several lesson-learned that can be found from the way Brunei Darussalam shaping the overall Halal industry (including Islamic Banking and Finance). Although geographically and demographically different, Brunei sets a precedence on some best practices that Thailand could learn from. Certainly, there are also drawbacks

in Brunei's case, yet her capability to develop a successful Halal industry is admirable despite her small size, limited market and logistic problems. Therefore, Thailand could learn from the simple way of doing things as found in Brunei Darussalam. Thailand should first reflect back on simplifying various areas and focus more on things that matter. Undeniably, Halal industry in Thailand have a great potential, provided that the relevant stakeholders played a significant role in any where it can to contribute to the success of the industry as a whole. Eventually, Halal industry in Thailand will become successful and a model for the rest to follow.

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## Appendix

### Research Fieldwork in Brunei Darussalam

10-13 July 2018

#### 10 July 2018, Tuesday

9.00 – 12.00 hrs.	Autoriti Monetari Brunei Darussalam (AMBD), Ministry of Finance
12.00 – 13.00 hrs.	Lunch
13.30 – 16.30 hrs.	Brunei Economic Development Board (BEDB)
18.0 – 21.00 hrs.	Tamu Gadong (Night Market Observation)

#### 11 July 2018, Wednesday

9.00– 12.00 hrs.	Darussalam Enterprise (DARe)
12.00 -13.00 hrs.	Lunch
13.30– 16.30 hrs.	Ghanim International Cooperation (Brunei (Halal)
18.00 – 19.00 hrs.	BIBD Connects (for Observation)

#### 12 July 2018, Thursday

9.00 – 12.00 hrs.	Center of Islamic Banking, Finance, and Management, UBD
12.00 -13.00 hrs.	Lunch
13.30 – 16.30 hrs.	Halal Food Control Division, Ministry of Religious Affairs

Research Field trip to Brunei Darussalam took place during 10-13 July 2018. During the trip, the team visited 6 institutions related to the research. On the first day, 10<sup>th</sup> July, the team visited **Monetary Authority of Brunei Darussalam (AMBD)** that acted as Brunei's Central Bank, located at Jalan Menteri Besar. During the visit, the team learn about the roles played by the Authority in regulating the banking industry of Brunei. The officers shared their functions, strategic goals in coming years as well as sharing concerns related to the industry.



In the afternoon, the team paid a visit to the agency responsible for FDI in Brunei Darussalam, **Brunei Economic Development Board (BEDB)**. The Board explain their functions in facilitating investments coming into the countries and their cooperation with other related agencies such as FDI Action and Support Centre and Darussalam Enterprise. During the visit, both parties shared issues related to investments such as logistics and infrastructure for example.



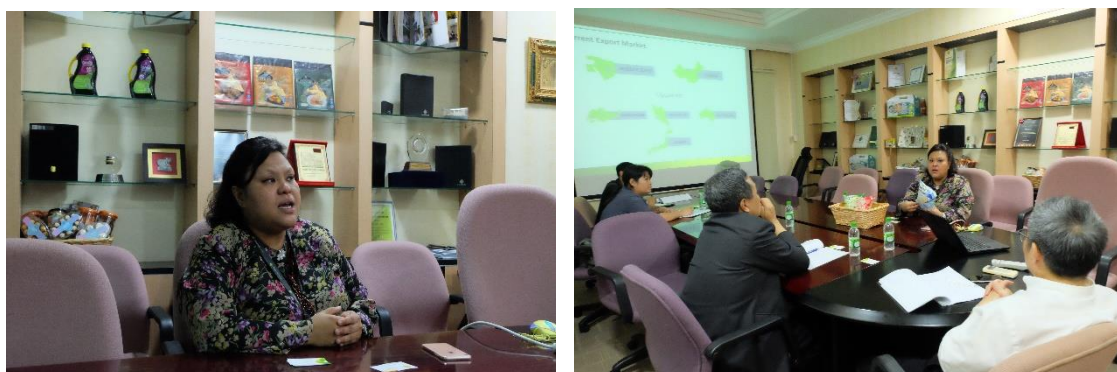
On the 11<sup>th</sup> July, the team went to Darussalam Enterprise to learn about their roles in managing industrial sites in Brunei Darussalam. **Darussalam Enterprise (DARe)** initially provide supports for SMEs apart from their tasks to manage the industrial



estate. The institution shared some key information on establishing Halal factory in Brunei.

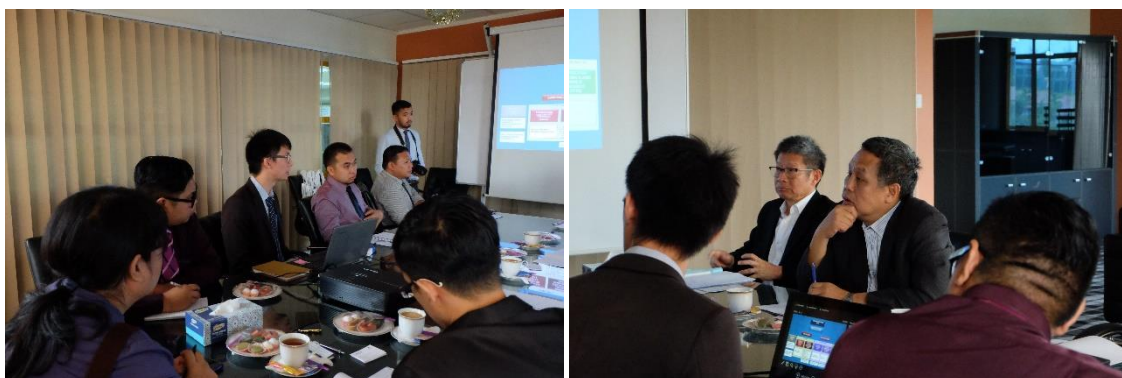


Later in the afternoon, the research team pay a visit to **Ghanim International Corporation**, a government linked companies that managed the Brunei Halal Brand. The team learned about the initiative by Brunei government to develop a globally recognized halal brand through product manufacturing, branding and export. Both parties raised some points related to halal industry that pinpoints some challenges to the industry and suggests some feasible solutions to the said obstacles.





On the last day, the team went to **Centre for Islamic Banking, Finance and Management (CIBFM)**, located within University Brunei Darussalam Campus. During the visit, the institution briefed the teams of their works in strengthening the Islamic banking and finance industry in Brunei. The team raised some interesting questions that may help in answering some issue related to the study. The visit end with both parties look forward for future cooperation.



The last visit was to the **Halal Food Control Division, department of Sharia Affairs, Ministry of Religious Affairs**, located right at the heart of the city. During the visit, the team was briefed with the procedure involved in obtaining the Halal Certificate and Halal Label. Both sides also exchange questions and answer that help the team to answer some questions related to the study.

