

Session with Brunei Banks on SMEs
16 August 2012

Opening Remarks.

Bismillah Hirrahman Nirrahim,
Assalammualaikum Warahmatullahi Wabarakatuh
And a very good morning.

Dear colleagues and friends,
Ladies and Gentlemen,

1. Foremost, I would like to thank you all for fulfilling our invitation to attend this morning gathering during this holy month of Ramadan Al Qareem, despite as always, your very busy schedule.
2. I addressed you all as colleagues and friends, as I know almost all of you for sometimes, some even for many years during my times with the armed forces.
3. I would like this session to be a very open, colourful and yet informal gathering and discussion amongst friends on a very important subject of your roles in the energy landscape of our beloved nation, which will at the end of the day, focus on the financing of projects and development of our local SMEs.
4. Let me at the onset be clear as to what this morning gathering is all about. It is on your very important role in helping overall, our oil and gas industry to grow. That is the boundary. It is not about issues that you may face with the Monetary Authority, on taxation and so on. On these you can always have a separate session with the said authority or the Ministry of Finance.

5. Our Awang Haji Jamain bin Haji Julaihi, the Permanent Secretary (Downstream and Power) of the Prime Minister's Office have set the scene for our discussion this morning, with a short presentation on the proposed Energy White Paper which will be launched very soon and also on some aspects concerning our initiatives on Local Business Development.
6. Also one of our objectives is to share with you all as representatives of financial institutions, very important issues that came to our knowledge during my very own various sessions with local contractors with contracts in the oil and gas industry.
7. One of the feedbacks from our local contractors is the multiple challenges that they faced in trying to get financing from local financing institutions. The issues that were raised not only touch on difficulty in obtaining the financings but also how the rates offered by banks outside the country are better to those quoted by those in Brunei. So my question is why this is so and what we can do together on this? If the foreign bankers are able to have faith and provide the financing to our local contractors, but ours don't then something is a miss here.
8. Let me tell you what the local contractors that I met said about our local bankers. I repeat these are their views and I hope some of what were said are not true but just loose cannon balls that were said out of frustration:
 - i. Top statement is that you are stingy and 'ketam batu' and it is difficult to get a loan from you all. I think there is merit in this statement. There are facts supporting this accusation. According to the Ease of Doing Business Index issued by the World Bank

on Negara Brunei Darussalam, we are ranked very low at 126 on ease of getting credit from the banks. Having said that, I am also aware of the AMBD's regulatory roles on this.

- ii. Second on the list is that the local bankers are friendly but only to some segments of the players within the industry and definitely not to some of them. There were even accusations of corruptions in handing out loans. This is an interesting issue and may even be true. According to the World Report on Global Competitiveness Index 2010, one of the most problematic factors for doing business in NBD is identified in corruption and also access to financing involving Banks etc. In 2011, the Transparency International Corruption Index ranked Brunei as number 44!
- iii. That's not all. We have unflattering description number 3 for our bankers from the local contractors. People handling the loans are very unprofessional. They said some loans were approved over a cup of coffee at the kopitiam. So those who go to Jin Chew better be very careful who you meet over there.
- iv. Again as I said before, these are what the local contractors that I met said. I am sure most of you just have the banks' interests in mind. But does it work in the long term – would being labelled 'ketam batu' and unprofessional be in your bank's best interests. You would not be a bank of first choice if the customers have all these negatives perceptions on your integrity and business decisions.
- v. Overall, the impression that I have from what were said by the local contractors is that you as the bankers are a loft and do not

really have a complete understanding of what are happening on the playing fields, their predicaments, dilemma and cries for help.

9. Let me share with you all some of the things that we in the Energy Department have undertaken in order to develop our local businesses that are involved in the oil and gas sector. We have to date introduced two LBD Directives designed to ensure that the oil and gas industry are able to provide spin-offs in terms of development of SMEs, increasing the local contents and providing more job opportunities for the locals. Every year, the oil and gas industry spends some \$ 4 billion and yet, sadly the indicators show only 10% of these expenditures stay within the country. Frankly to me the figure would only be close to 5%. As bankers, I am sure you are fully aware of this situation.
10. Again, the main questions before us are with a history of more than 80 years of oil and gas industry, why are we still facing these issues in Brunei Darussalam and how you as the Bankers can help us to achieve a sustainable economy through our local SMEs.
11. On the use of local financing facilities, the Brunei Shell Joint Ventures' has introduced what is known as the Contracting Strategy Criteria under which as a pre-condition to the award of major contracts, the contractors must show that they have access to local financing for the projects. This is a must and is what is known in the business circle as the drop-dead criteria. We see this as a win-win situation for the local companies, you as the bankers and the country as a whole.
12. With the planned development of more offshore oil and gas reserves, the opportunities are there to be grabbed for the financing of offshore facilities construction works, services and maintenance

activities and others. Brunei Shell Petroleum (BSP) is spending on a yearly basis \$2-\$3 billion on projects and with the signing of the Investment Incentive Agreement earlier this year, the number will grow in a very short time to around \$4 billion.

13. As you can see, not only are we trying to help our SMES. At the same time, we also want our local financing institutions to have a reasonable share of the opportunities from the oil and gas industry. It is fair for me to ask whether you have really looked seriously into these opportunities. Again as I said earlier, this is an industry that involved an expenditure of some \$4 Billion annually.
14. The Government of His Majesty the Sultan and Yang Di Pertuan has always prioritised the need to develop our SMEs and to generate more job opportunities for the locals.
15. This is indeed not a new priority. As far back as 5 years ago in 2007, His Majesty the Sultan and Yang Di- Pertuan in His Birthday Titah in made a very clear call including to Bankers, when he said:-

“In our efforts to improve the economy, cooperation and service are the two most fundamental factors. It is seen as being able to facilitate the development and strengthening small businesses and medium enterprises, or SMEs for short-term benefits and long term. Therefore, government agencies must also provide routes to their growth and development, so that the sectors can together play a role in developing the country.” His Majesty then went on to state that for the purpose of economic excellence, all parties need to appreciate the contribution of the SME group and also deal with their problems.”

19. As you have heard from the presentation made earlier by Yang Mulia Hajah Dyg Hjh Ning-Lela binti Dato Paduka Hj Mohammad, Permanent Secretary (Performance) at the Ministry of Finance, the Government of His Majesty the Sultan and Yang Di-Pertuan is also doing its parts in developing our local SMEs by providing various incentives and assistance schemes to the players.
20. So what have you as the Bankers done in rallying to His Majesty's Titah? 5 years that had passed is not a short time. Your support in providing the necessary financing to help our local SMEs is crucial if we are to see the desire and vision of His Majesty being achieved.
21. I am not saying that as bankers you should just simply hand out loans without any commercial basis. That would defeat our efforts to create a truly sustainable economy. We want you to be able to work more closely with us and especially also with the SMEs by providing more attractive financing facilities to the SMEs that have genuine needs for these financing for their activities. The logic is simple, as our SMEs become stronger and able to venture further into other activities – they would in turn provide more business opportunities for you as the financiers.
22. Indeed, as bankers you have your own process and criteria on approving loans. I agree totally on this. But any process or procedures are only as good as how the people using them made them to be. My question on this is again very simple, have you really look seriously into your own people especially those handling loan applications and the subsequent negotiations. For one, these officers must be open and transparent, and free of corruptions. Let me again asked this, are those handling loan applications being rotated

regularly in order to avoid them from constantly holding these portfolios? In the BSJV's Supply Chain Management Department, those handling certain types of jobs are now being rotated and allowed only to hold the jobs for a certain period. This helps us to minimise the risk of untoward conducts.

23. Touching on the need to eradicate corrupt and unhealthy practices such as favouritism, let me quote an extract of His Majesty's Titah delivered on the occasion of the New Year 2008. **"We develop as other people do, using the resources and mechanisms that we have. This is normal, not exceptional. Now what makes the development special or extraordinary is when we succeeded in putting it on the right track, by making it safe from being tainted by negative behaviours and frauds"**.
24. It is your responsibility to see to this. You are the one who can remove the stigma of being ranked at 126 on ease of doing business in the world ranking, or ranked 44 in the Transparency International Corruption Index for access to financing involving banks. This is not where we as a nation that adheres to Islamic values as part of our MIB doctrine want ourselves to be. You must help us to improve these ranking and be at least in the top 10 as envisioned in our Wawasan 2035, not in 2035 but much earlier.
25. Let us stamp out the unhealthy practice of corruption by improving the whole process. Let identified what are there in the process system that we have that could give rise to temptations to offer or accept gratifications. One thing that is certain, we are not going to come up in the rankings if we are to conduct everything with Business As Usual.

26. I have also been made to understand that one of the difficulties faced by you all in considering loan applications by local contractors is the absence of proper business proposals and financial statements by the applicants. On this let us be frank again. Have the Association of the Banks conducted seminars or provide trainings toward capacity building including in preparing these proposals and statements to our local contractors? Have the banks ever seriously consider sharing a small portion of the profits to conduct capacity building workshops for the local SMEs.
27. Please ask yourselves, is sponsorship green fees for the same group of VIPs to play golf every weekends more worthy than spending on capacity building of our local contractors. On this I have to be very careful, perhaps they have put in a lot of money in your banks. Whatever it is, I want you to look seriously at this capacity building needs.
28. In closing, I feel I have provided enough of my vision of what this morning session is all about. I have given you a reflection of what the local contractors have said about you. Some of these may be unfounded, untrue, unjustifiable and even personally hurtful to all of you.
29. But you must understand that there are resentments and even feeling of hopelessness out there amongst some of the local contractors. It is therefore worthwhile for you to revisit some of these issues. This is the message that I want to deliver to you all, that you have an extremely important role in addressing the needs of the nation, the industry and the players within the industry. A strong, clean and healthy local oil and gas industry will also present a better environment and more businesses for you all in the banking industry.

30. I will stop now, as I want to hear from you what are the issues that banks face and how you can provide the support and provide financial facilities to develop SMEs.

Thank you, Wabillahhi taufik walhidayah wassalamualaikum wbt.