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Brunei Darussalam: Development Status

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
GDP	–	gross domestic product
GNI	–	gross national income
IMF	–	International Monetary Fund
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars unless otherwise stated.

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I. INTRODUCTION

1. Brunei Darussalam became the 65th member of the Asian Development Bank (ADB) on 27 April 2006.¹ It joined as a regional member, but its development status was left undetermined and a country classification under ADB's Graduation Policy was not undertaken.² In 2010, the Government of Brunei Darussalam requested ADB to deepen the relationship through systematic engagement.

2. Brunei Darussalam is the only unclassified regional member of ADB. Nauru (1991) and Palau (2003) joined as regional members with their development status initially left undetermined, as in the case of Brunei Darussalam. However, Nauru was conferred the status of a developing member in 1995 by the Board of Governors; Palau was given that same status in 2006.

3. ADB has engaged with Brunei Darussalam in a number of ways since it became an ADB member. Besides being a shareholder, Brunei Darussalam has been an Asian Development Fund (ADF) donor since ADF IX, 2005–2008.³ ADB provided technical assistance (TA) for capital market development in the amount of \$600,000 to Brunei Darussalam in 2008, on a reimbursable basis.⁴ A second reimbursable TA project, approved in 2010 to strengthen public financial management systems, was canceled in December 2011.⁵ In addition, Brunei Darussalam participates in capacity building programs and workshops organized by ADB.

4. More than 6 years have passed since the Board considered Brunei Darussalam's membership. In view of the country's economic and institutional situation, it is appropriate that ADB reviews the development status of Brunei Darussalam. This paper takes into account the findings of an in-depth country economic assessment that was finalized in 2012, in consultation with the authorities.⁶ It identifies the considerations relevant to determining the development status of Brunei Darussalam.

II. GENERAL CONSIDERATIONS RELEVANT TO DEVELOPMENT STATUS

5. The development status of a regional member is significant, because eligibility for most types of ADB assistance is linked to the determination by the Board of Governors that a country is a developing member. Article 2 of the Agreement Establishing the Asian Development Bank (the Charter) empowers ADB to "utilize the resources at its disposal for financing development of the developing member countries in the region." It also allows ADB to "meet requests from members in the region to assist them in the coordination of their development policies and plans with a view to achieving better utilization of their resources" and "provide technical assistance for the preparation, financing and execution of development projects and programmes."⁷

6. The formal process for determining the development status is laid out in the Charter. Article 28 (para. 4) provides that "the Board of Governors may, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members, from time to time determine which countries or members of the Bank are to be

¹ ADB. 2006. *Membership of Brunei Darussalam and Increase in Authorized Capital Stock*. Manila.

² ADB. 1998. *A Graduation Policy for the Bank's Developing Member Countries*. Manila.

³ For ADF XI, Brunei Darussalam has committed B\$8 million (about \$6.3 million). Brunei Darussalam has a burden share of 0.11%.

⁴ ADB. 2008. *Development of the Capital Market and a Modernized Payment and Settlement System*. Manila

⁵ This was in part because the International Monetary Fund provided grant TA covering similar issues.

⁶ ADB. 2012. *Country Economic Assessment: Brunei Darussalam*. Unpublished.

⁷ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

regarded as developed or developing countries or members, taking into account appropriate economic considerations.”

7. The Charter states that “appropriate economic considerations” are to be taken into account when determining the development status of member countries, although specific guidelines have not been provided in this regard. A 1995 Board paper noted that “in determining development status, there appears to have been an implicit link between the member country’s per capita gross national product and its classification as a developed or developing country.”⁸ The paper further noted that a high per capita gross national product should not automatically determine whether a country is developed or developing; other factors, such as a narrow economic base, should also be taken into consideration. A 2006 Board paper concluded that if a country had high per capita gross national income (GNI), but its key economic and social institutions are not well developed, these factors should be taken into account in determining its development status.⁹

III. SOCIOECONOMIC CONSIDERATIONS FOR THE DEVELOPMENT STATUS OF BRUNEI DARUSSALAM

8. The overall socioeconomic situation in Brunei Darussalam currently is good. Per capita gross domestic product (GDP) is among the highest in the world (estimated at more than \$36,583 in 2011).¹⁰ Per capita GNI (Atlas method) was \$31,800 in 2009, which is the latest available data.¹¹ The population was 405,938 in 2011. Most indicators of social and human development are above regional averages. Extreme poverty has virtually been eradicated. The country’s macroeconomic indicators are sound. The country has fiscal and current account surpluses on average, and the reserve situation is strong. Brunei Darussalam’s need for external capital borrowings—on commercial or concessional terms—has been limited as the economy is typically able to draw on its own resources to finance its development agenda.

9. However, the economy has a very narrow base, with its affluence critically dependent on the energy sector. Brunei Darussalam has large oil and gas reserves relative to its population, and exploitation of this resource has led to the country’s high per capita income. On average, the sector accounts for two-thirds of GDP, 95% of export revenues, and 90% of government revenues. As the figure below shows, the economy is dependent on energy markets. Fluctuations in energy prices affect the economy in several ways:

- (i) The country’s GDP is affected by energy market developments. Nominal GDP moves directly with energy prices. International Monetary Fund (IMF) data show that, while real GDP growth has averaged 1.2% in 2006–2012, the real growth rate was negative in 2008 and 2009 as oil production fell during the global economic crisis. The economy rebounded in 2010 as world energy markets recovered.
- (ii) The current account is driven by energy exports. IMF data show that the current account including energy exports averages almost 50% of GDP (2006–2012), but the non-energy current account balance is –18.5% of GDP over the same period. During the global economic crisis, falling energy exports caused the current account to decline, reaching a low of 40.2% of GDP in 2009. It picked up with a recovery in global energy prices in 2010 and was projected to be over 52% of GDP

⁸ ADB. 1995. *The Development Status and Country Classification of the Republic of Nauru*. Manila.

⁹ ADB. 2005. *The Development Status and Country Classification of the Republic of Palau*. Manila.

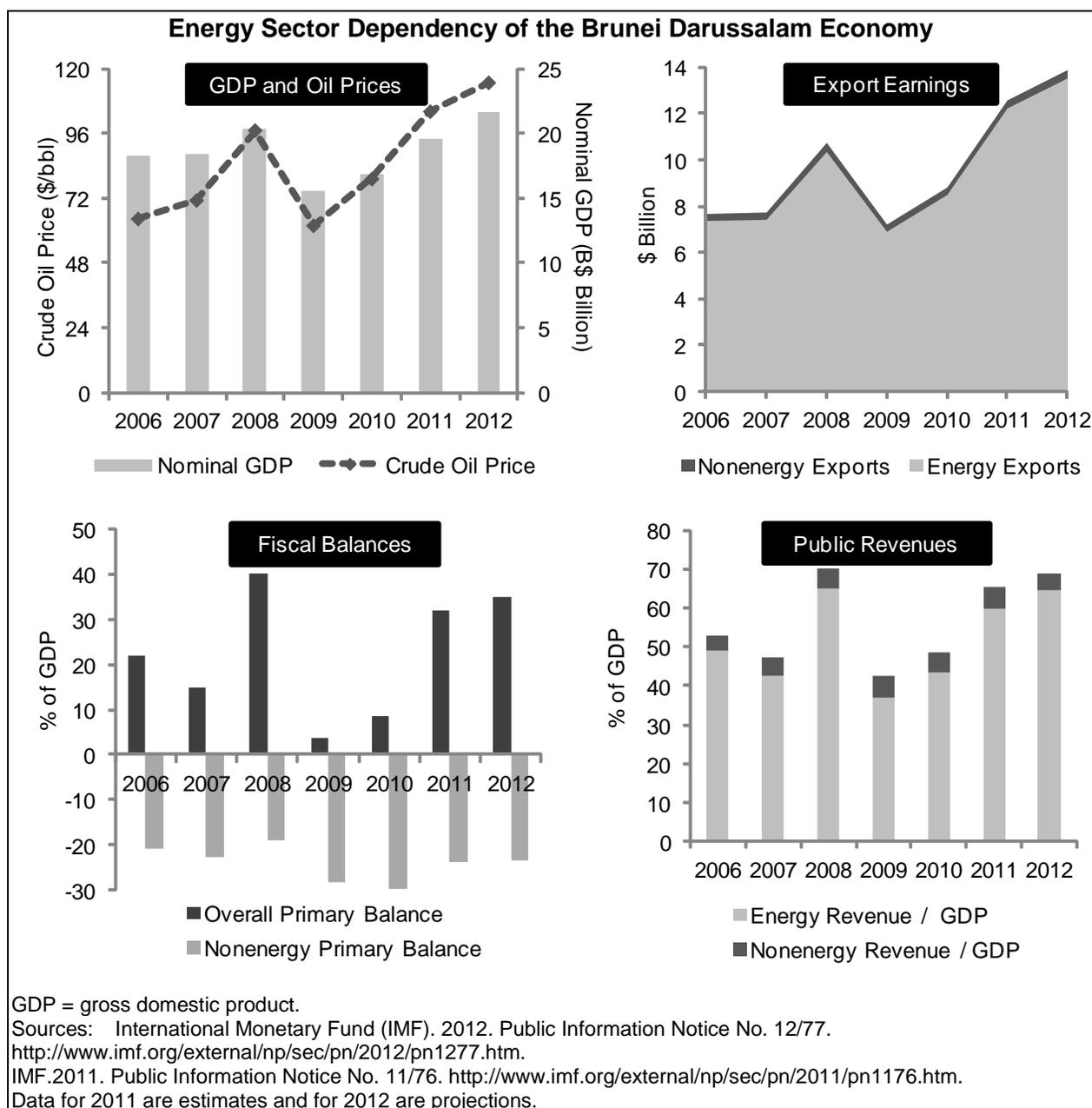
¹⁰ International Monetary Fund. World Economic Outlook.

<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weoselgr.aspx> (accessed 2 October 2012).

¹¹ World Bank. World Development Indicators. <http://databank.worldbank.org/ddp/home.do> (accessed 2 October 2012).

in 2012. Brunei Darussalam imports basic consumer and industrial goods, including manufactured goods and foodstuffs, as its own production base is narrow.

- (iii) The fiscal balance reflects the reliance of government revenues on energy sector royalties, dividends, and corporate taxes. IMF data show that, while the overall primary surplus averages 22.3% of GDP (2006–2012), the non-energy primary balance is a deficit of 24.0% of GDP.



10. Although poverty is not currently a problem in Brunei Darussalam, excessive dependence on finite natural resources could jeopardize the country's longer-term welfare. First, hydrocarbon resources are finite. While the immediate outlook for Brunei Darussalam's hydrocarbon reserves is positive, depletion of natural resources could become a long-term issue. Second, the dependence on energy exports limits employment opportunities, especially in the non-energy

private sector. This could lead to Dutch Disease effects and stifle growth in other sectors. Third, the economy is extremely vulnerable to downturns in the energy market. Lower production during the global economic crisis in 2008 and 2009 translated into slower real economic growth. It is important to guard against similar long-term downturns.

11. The IMF has a positive macroeconomic outlook for Brunei Darussalam, but considers economic diversification a necessity. The IMF's 2012 Article IV Staff Report Public Information Notice commended the government for its flexible and prudent fiscal policy, and recognized encouraging prospects for growth in the medium term.¹² However, the IMF emphasized that successful implementation of reforms to promote private sector development and diversification will be critical to increase jobs, investment, and productivity in the non-energy private sector.

12. Issued in 2008, the national development plan—the *Wawasan* (National Vision) Brunei Darussalam 2035—aims to move the country from an energy-dependent economy to a more diversified one, where entrepreneurs are encouraged to take risks. The *Wawasan* includes plans for the development of small and medium-sized enterprises to promote Brunei Darussalam as an international offshore financial center (especially for Islamic banking and finance), and to expand downstream energy projects. The government also seeks to expand vocational and technical training to equip the domestic population with the market-oriented skills required by the private sector.

13. However, institutional constraints still hamper economic diversification (footnote 6). First, data from the World Economic Forum show that Brunei Darussalam is perceived to have regulatory barriers, a lack of transparency in government policy making, a small domestic market, inadequate transport infrastructure, insufficient skilled labor required by the private sector, and high labor costs—all of which reduce the country's competitiveness relative to its neighbors.¹³ Second, the financial sector remains underdeveloped and investment products for banks are limited. About two-thirds of bank lending is directed to households for personal loans and mortgages, rather than to support business operations. Third, the depth and pace of economic reforms are hampered by capacity constraints and technical limitations.

14. In summary, Brunei Darussalam has high per capita income. However, key social and economic institutions are weak, and capacity constraints present challenges to the implementation of Brunei Darussalam's development agenda. The economy's affluence is based on a single finite natural resource. This lack of diversification leaves the country vulnerable to shocks in the energy markets. Therefore, Brunei Darussalam could be regarded as a developing member of ADB.

IV. RECOMMENDATION

15. It is recommended that the Board of Directors agree to adopt the draft report to the Board of Governors (Appendix 1) and submit it, together with the draft resolution (Appendix 2), to the Board of Governors under the special procedure provided under Section 3 of the By-Laws, with a request for a vote within 30 days of the date of transmittal.

¹² IMF. 2012. Public Information Notice No. 12/77. <http://www.imf.org/external/np/sec/pn/2012/pn1277.htm>

¹³ World Economic Forum. 2012. *The Global Competitiveness Report, 2012–2013*.

DEVELOPMENT STATUS OF BRUNEI DARUSSALAM

(Draft) Report of the Board of Directors

1. The Board of Directors has considered the case for conferring the status of a developing country on Brunei Darussalam, a regional member of the Asian Development Bank (ADB).
2. The Board of Directors recommends that the Board of Governors determine, pursuant to paragraph 4 of Article 28 of the Agreement Establishing the Asian Development Bank, that Brunei Darussalam shall be regarded as a developing member of ADB.
3. The Board of Directors considers that a decision on this matter should be taken as soon as possible and that the special procedure in Section 3 of the By-Laws of ADB should be invoked for this purpose. Accordingly, the Board of Directors has authorized the President to transmit to each Governor, the text of the draft Resolution together with this Report, with a request for a vote within 30 days of the date of transmittal.
4. In accordance with paragraph 81 of ADB's Public Communications Policy 2011, the Board of Directors will authorize disclosure to the public of the Resolution after its adoption.

(Draft) Resolution No. _____

DEVELOPMENT STATUS OF BRUNEI DARUSSALAM

WHEREAS:

Brunei Darussalam was admitted as a regional member country of the Asian Development Bank on 27 April 2006;

It is appropriate to determine the development status of Brunei Darussalam pursuant to paragraph 4 of Article 28 of the Agreement Establishing the Asian Development Bank.

NOW THEREFORE the Board of Governors hereby RESOLVES

That Brunei Darussalam shall be regarded as a developing member of the Asian Development Bank.