

Economic Development and Financial Products in Brunei Darussalam: Practice and Role of Islamic Pawnbroking

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Place of fieldwork: Brunei Darussalam

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- Research background

Brunei Darussalam is one of the Southeast Asian countries that introduced and developed Islamic economic system. Brunei Darussalam sought to achieve economic diversification because its economy has mainly depended on oil and natural gas.

For this reason, development of the financial industry has been an important goal of economic policies in Brunei Darussalam. In particular, Islamic finance has grown rapidly through the establishment and mergers of financial institutions. The share of financial assets is about 40% in the financial sector.

- Research purpose

The purpose of this research is to show the role of Islamic finance in Brunei economy and to answer the following two questions:

1. What is a special feature of Brunei's economic development strategy?
2. What is the role of Islamic finance in the strategy?

To answer these questions, I did the following:

1. Collected and read documents (National Development Plan).
2. Studied practice and economic role of Islamic financial products.

- Results and achievements

I obtained the National Development Plan documents from the Universiti Brunei Darussalam Library and conducted a survey in September 2014. I could not obtain these documents or conduct any fieldwork in Japan. I found that the recent National Development Plan is based on Malay Islamic Monarchy, the idea of Brunei Darussalam and a financial product called Ar-Rahnu, Islamic pawnbroking, is actively transacted. Bank Islam Brunei Darussalam, whose financial assets share is the largest in Brunei Darussalam, provides Ar-Rahnu in Bandar Seri Begawan and Seria.

The advantages of Ar-Rahnu are simplicity and quickness. The requirement for a customer to obtain a loan is ownership of gold or other jewelry. A transaction takes 15-20 minutes without the customer having to offer a business plan as security. Ar-Rahnu helps promote the businesses of Brunei Malay women, who present gold items such as earrings, necklaces, bracelets, and anklets.



Fig.1. Ar-Rahnu in Bandar Seri Begawan



Fig.2. A staff measures a carat in BIBD Ar-Rahnu

- Implications for future research

Through my fieldwork, I examined the National Development Plan and the role of an active Islamic financial product, Ar-Rahnu. As a next step, it may be useful to examine the relationship between the Brunei Malay economy and Islamic finance, and to seek answers to the following questions: a) Why do Brunei Malay use gold as security? b) How much widespread is this use of gold in Brunei society? c) Why do Islamic banks offer Ar-Rahnu as one of their main retail financial products?



Fig.3. “The Mall” in the Gadong business district in Bandar Seri Begawan