



# **APB Reforms linking to Lao Rural Finance Development Sector**

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# CONTENTS

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- GENERAL CONTEXT**
- THE LAO BANKING SECTOR**
- THE STATUS OF RURAL AND MICROFINANCE**
- THE AGRICULTURAL PROMOTION BANK**
- MICROFINANCE INITIATIVES**
- CONSTRAINTS TO MICROFINANCE**
- ADB TA Cluster 3413-LAO**
- THE PROPOSED PROGRAM**



# GENERAL CONTEXT

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- ❑ Lao PDR is a landlocked country with a population of 5.5 millions inhabitants
- ❑ GDP per capita is USD 350
- ❑ Real GDP growth at 6.5% (FY 2003-2004)
- ❑ Economic potential : Paddy, Hydropower, Garment, Wood
- ❑ Population under 15 years is over 40 % out of the total



# THE LAO BANKING SECTOR

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- ❑ The LBS is quite small: about 500 millions USD
- ❑ About 15 banks ( 3 SOCB, 3 JVB, 8 Foreign Banks)
- ❑ SOCB covering over 70 % of the sector
- ❑ Important efforts from GOL to solve NPL and modernize the sector



# THE STATUS OF RURAL AND MICROFINANCE

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- ❑ Poverty line in Lao PDR is 30 %
- ❑ 80 % of population is rural, but 90 % of poverty is rural
- ❑ About 90,000 new entrants to the rural labour force each year
- ❑ Generating rural income opportunities and employment is crucial for poverty reduction



# THE STATUS OF RURAL AND MICROFINANCE

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- ❑ 120,000 households (15%) have access to the Agriculture Promotion Bank (APB)
- ❑ 40,000 (5%) have access to microfinance initiatives
- ❑ 80 percent of households have no access to formal or semi-formal financial services
- ❑ Dispersed population and poor infrastructures raises transactions costs



# THE AGRICULTURAL PROMOTION BANK

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- ❑ Government's main instrument for rural finance
- ❑ Established 1993 as state-owned policy bank
- ❑ 50 percent of total lending is policy lending
- ❑ Management autonomy is limited
- ❑ Current portfolio USD 25 million (7 % of banking sector)



# THE AGRICULTURAL PROMOTION BANK

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## □ New Vision Statement and Mission

*"To be the first provider in rural finance and operate in a market-oriented, financially self-sustainable way to contribute to poverty reduction and the country's economic growth and prosperity"*



# THE AGRICULTURAL PROMOTION BANK

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- Achievement of Phase 1 of reforms  
*Financial and Organisational restructuring*
  
- Next step : Phase 2 of reforms  
*Advanced capacity building*
  
- Program covering 2005-2007 ?  
*Grant*  
*Loan*



# MICROFINANCE INITIATIVES

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- Six established with view to sustainability
  - Microfinance Project (1997; UNDP-UNCDF)
  - PDDP (1997; AFD)
  - CCSP (1996; local entrepreneurs)
  - RDC (2001; local entrepreneurs)
  - Fonds Villageois PRODESSA (2001; AFD)
  - SCUs (2004; BOL-APB-ADB)
  
- These six initiatives have collective outreach to about 7,000 people



# MICROFINANCE INITIATIVES

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- In addition there are about 1,600 village revolving funds



# CONSTRAINTS TO MICROFINANCE

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- ❑ No clear legal and regulatory framework
- ❑ Low capacity, unsustainable practices
- ❑ Dispersed population and a lack of appropriate infrastructure
- ❑ Limited BOL capacity to regulate and supervise



# ADB TA Cluster 3413-LAO

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- ❑ Co-financing program of USD 2.5 million GOL-BOL-ADB (started in the end of 2000-now)

Divided in 6 sub-projects :

- ❑ SP1: Awareness building (2000-2001)
  - ❑ SP2: Diagnostic study and first audit of APB and preparation of restructuring plan of APB (2002)
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# **ADB TA Cluster 3413-LAO**

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- ❑ SP3: Pilot 3 best-practice SCUs (2003-now)
  
  - ❑ SP4: Policy Statement, Strategy, Regulations (2003-now)
  
  - ❑ SP5: APB Restructuring Plan phase 1 (2003)
  
  - ❑ SP6: National RMF Survey (2003-now)
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# THE PROPOSED PROGRAM (1)

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- Name of the proposed program "Rural Finance Sector Development Project"
  
- Divided into 2 sub-programs with the possibility to receive loan from ADB and TA grant from various donors
  
- - Program Loan  
- Project Loan



# THE PROPOSED PROGRAM (2)

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- ❑ Objective: to promote a sustainable rural and microfinance sector
  
- ❑ Objective: to assist the GOL implement the reform program embodied in its strategy to promote sustainable rural and microfinance
  
- ❑ Cost of the program:
  - USD 10 million loan
  - USD 4.1 million grant



# THE PROPOSED PROGRAM

## Program Loan-Themes

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- ❑ Creating an enabling policy framework
- ❑ Creating a sound prudential regulatory and supervisory environment
- ❑ Creating a market-oriented state-owned sector
- ❑ Creating a diverse and competitive private sector
- ❑ Creating a supportive non-prudential regulatory environment



# THE PROGRAM PROPOSED Program Loan – Policy Framework

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- ❑ Adopt national “Policy Statement”
- ❑ Adopt national “Strategy and Action Plan” to implement Policy Statement
- ❑ Extend mandate of the RFMC to oversee and co-ordinate Strategy implementation
- ❑ Disseminate best practice for provincial officials
- ❑ Initiate consultations between GOL and MF industry



# THE PROPOSED PROGRAM Program Loan-Prudential Regulation

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- PMO issues decree on enabling microfinance regulations
- BOL approves regulations/byelaws for pilot SCUs



# THE PROPOSED PROGRAM

## Program Loan-State Sector

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- ❑ Continuing APB restructuring plan
- ❑ Phase out policy lending and interest rate subsidies from APB
- ❑ Recapitalize APB on a performance-related basis
- ❑ Strengthen APB BoD, Management, and Staff
- ❑ Upgrade APB's ICT, risk management, and MIS



# THE PROPOSED PROGRAM

## Program Loan-Private Sector

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- License three pilot commercially-oriented member-owned SCUs
  
- Establish Microfinance Fund to catalyze MFIs



# THE PROPOSED PROGRAM

## Project Loan

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- ❑ Build BOL MFI supervision capacity
- ❑ Continue APB Restructuring Plan Upgrade APB's ICT systems
- ❑ Support start-up and growth of MFIs through Microfinance Fund
- ❑ Grant co-financing being pursued for all TA components and the MFF grant fund



# CONCLUSION

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- ❑ RMF in Lao PDR is still in earlier stage, but all favorable conditions are ready
- ❑ RMF in Lao PDR needs strong support from the stakeholders
- ❑ In any case, State sector must play a crucial role to create a enabling environment to RMF



# And finally...

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Khobchay

Otkoun

Cam On

Thank you

Merci