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**Agriculture Promotion Bank (APB)**

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**Brief presentation**

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The Agriculture Promotion Bank (APB) was established in 1993 as a state-owned policy bank, and has since been considered as the country development bank, focusing on the agricultural sector. APB is the main public instrument in rural finance, with 50% of total lending directed towards policy lending. Since its creation, APB has effectively never been supervised nor regulated by the central bank. In 2002, a diagnostic study that included the first external audit of APB found that 88% of APB's loans were non-performing. The bad financial situation resulted from a lack of profit orientation, poor lending mechanisms, and weak provisioning. APB entered in 2003 in a formal phase of restructuring, including phasing out of policy and subsidised lending, adoption of market-based principles, improvement of lending policies, recapitalisation and strengthening of information systems and management capabilities.

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**Involvement in microfinance**

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120,000 households (15% of the population) have access to the APB. Among them, 40,000 (5%) have access to its microfinance initiatives. APB provides mostly commercial credit. In microfinance, it uses group lending techniques, modelled on the BAAC in Thailand, which target rice production and livestock. With a maximum of 3 years term, APB loans have a subsidised interest rate of 12% per year. This low interest rate attracts the interest of non-poor groups, which in turn restrict the access to the poor, and increase corruption.

The government of Lao PDR has developed over recent years six microfinance initiatives, mostly funded by UNDCF-UNDP, AFD and the Asian Development Bank, which involved APB participation.

After an initial assessment undertaken in 2003, and funding for technical assistance provided by the ADB, APB supports the development of three pilot commercially-oriented Savings and Credit Unions, which are member-owned. Also funded by ADB, a microfinance fund will be established to support start-up and growth of MFIs.

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**Area of Operations**

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Country-wide

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**Partners**

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In terms of funding, APB is supported by the ADB, and "FIRST Initiative" a consortium of donors. APB also collaborates with the Bank of Lao, and implement projects partnering with mass organisations, such as the Lao Women's Union.

An APB representative is a member of the Rural and Micro Finance Committee, a consultative group representing ministries, central bank authorities, and microfinance researchers.

## **Poverty Focus**

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Through APB's involvement in six microfinance initiatives from 1996 to 2004, APB reached an overall outreach of 7,000 people, mainly from the low-income category.

## **Distinctive Features**

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APB's management autonomy is limited. APB is currently in the first phase of reforms, under financial and organisational restructuring. The second phase of reforms will focus on capacity building. Over the long-term, APB aims to be the first provider in rural finance and to operate in a market-oriented, financially self-sustainable way to contribute to poverty reduction and the country's economic growth and prosperity.

## **Funding**

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With the Bank of Lao PDR, the APB will benefit from a US\$10 million loan and a US\$3.5 million technical assistance grant from the Asian Development Bank, which entails its transformation into a commercial-oriented model, such as BRI in Indonesia. A major portion of the loan will be used for the recapitalisation of APB, a smaller portion for the modernization of MIS and the IT system. It will also benefit from training and capacity building activities funded by a consortium of donors "FIRST Initiative". In recent past, APB has received a US\$2.4 million technical assistance grant.

As of November 2004, APB had a total loan portfolio of US\$25 million, which include microfinance lending activities.

## **Sources**

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- APB reforms linking to Lao Rural Finance Development Sector. 2004. Presentation by Sayaphet Phanthaboun, Deputy General Manager, APB, and member RMFC, at the BWTP Regional Microfinance workshop held in Cambodia, December 2004 (available on BWTP website).
- Asian Development Bank project documents