

Lao People's Democratic Republic (Lao PDR), a country in Southeast Asia with 6.8 million people, has started the journey towards digitizing its cash-based economy and introducing digital financial services (DFS) to thousands of previously unbanked customers. Lao PDR is currently in the early stages of the Inception phase of the DFS market. There are several providers in the market that have begun to develop their DFS offerings; however, the lack of regulations has limited their ability to launch services. In Q1 2015, the regulator released draft guidelines for providers (banks and non-banks) to implement DFS and for the market to begin its journey to the Start-Up phase.

The joint Bank of the Lao PDR (BoL) - United Nations Capital Development Fund (UNCDF) programme '[Making Access to Finance more Inclusive for Poor People' \(MAFIPP\)](#)—supported by Australian Aid and in collaboration with the UNCDF Mobile Money for the Poor (MM4P) programme—aims to develop the DFS market from scratch. MM4P uses a **theory of change** approach to DFS development, which focuses on making **shifts** between phases of market development, moving from Inception to Start-Up to Expansion and eventually to a mature market known as Consolidation. Through each phase, MM4P takes into account the entire DFS ecosystem. This means MM4P plans activities at the levels of Policy & Regulation, Infrastructure, Providers, Distribution, High Volume and Customers to improve market conditions and facilitate shifts.



Lao PDR Annual Monitor

2015



MM4P began its activities in Lao PDR in early 2013: there was no DFS market then, neither providers nor DFS regulations. Since that time, MM4P has worked with the regulator to draft regulations on DFS to allow banks and non-banks to offer mobile products through agent channels, mindful to eventually integrate with the National Payment System that is still in the formulation phase. Nevertheless, Banque Pour Le Commerce Exterieur Lao (BCEL), the largest state-owned bank, has launched its first branchless banking agents under the name BCEL Community Money Express (BCOME). Unitel, a mobile network operator (MNO), has begun the process of product and strategy development in order to roll out its mobile wallet.

Through MAFIPP, MM4P has supported market development over the last three years through the following activities:

- Placed a full-time DFS expert in Lao PDR to manage programme activities
- Coordinated quarterly working group meetings in the DFS sector
- Hosted a payments and financial inclusion summit
- Support the central bank and providers to complete study tours in the Philippines, Cambodia and Uganda
- Supported the central bank to complete a study tour in the United Republic of Tanzania
- Supported and disseminated market demand research
- Provided direct technical assistance to Enterprise of Telecommunications Lao (ETL), Star Telecom (Unitel), BCEL and Lao Development Bank
- Held strategy and product development workshops for all stakeholders
- Provided direct technical assistance to the central bank for the development of the DFS pilot application process

Over the next two years, MM4P plans to continue to invest in the Lao DFS market with the goal of moving the market into the early Expansion phase.

MM4P has planned the following activities for 2016:

- Conduct additional research on customer journey and use cases
- Facilitate additional workshops on customer journey and Human Centered Design (HCD)
- Provide direct technical support to providers
- Explore opportunities to move high-volume payments to digital means
- Explore opportunities for bulk payments
- Conduct agent network diagnostic and development workshop
- Support the central bank to develop DFS guidelines and a monitoring framework for DFS activities and to support dissemination of the framework throughout the organization



Facts and figures

Lao PDR

6.8 million
Population
UN World Population Prospects, 2015



4.4 million
Adult population
UN World Population Prospects, 2015

beginning
2013

Q4
2015



Active unique
DFS
users
90 days

0 %
of adult population
0
total

< 1 %
of adult population
733
total



Active
agents
30 days

0
per 100,000 adults
0
total

0.7
per 100,000 adults
30
total

Source: Partner reporting Q4 2015



93%
Mobile
penetration
rate
GSMA, 2014



47%
Financial
inclusion
rate
FinScope, 2014

Key DFS ecosystem members



MNOs

Unitel
Lao Telecom
ETL Mobile
Beeline



Main banks

BCEL
ACLEDA Bank
Agricultural
Promotion Bank
Lao Development
Bank



DFS providers

BCEL Community
Money Express
(BCOME)

Opportunities

Challenges



Policy & Regulation

- There is support for BoL to promote a policy supporting banks and non-banks to enter the DFS ecosystem

- Limit to use of local currency may inhibit cross-border transactions and even domestic remittances
- National Payment System decree not ratified and pending



Providers

- Providers are gaining understanding of the opportunity for DFS activities
- Leading provider (BCEL) is collaborating with other financial institutions

- Few stakeholders able to meet minimum level of investment required



Distribution

- Agents engage in the value proposition as there are relatively few new business streams for micro, small and medium enterprises

- Limited scalable national brands to be leveraged



Infra-structure

- Real-time gross settlement system (RTGS) as basis for payment system is developed
- New central bank ATM switch is to be launched

- Utilization of RTGS system low
- Overall infrastructure in Lao PDR not well developed



Customers

- There is a low level of financial access and growing interest in new services

- Low financial literacy

Where we were

**beginning
2013**

Inception phase

No guidelines or regulations for DFS

No DFS providers

No interoperability between banks and mobile wallets

0 active agents per 100,000 adults

0% active users in adult population

Where we are

**Q1
2016**

Inception phase

Draft application process for DFS providers

Release of advanced draft regulations on payments

Completion of pilot phase of BCOME branchless banking services, with plans for expansion in scale and service offering validated by management

Approval by BoL of Unitel application to launch DFS pilot with 143 service points and 50 agents

Basic services in development by providers

0.7 active agents per 100,000 adults

<1% active users in adult population

Where we want to be

**end
2017**

Early expansion phase

Permission by regulator for bank and non-bank DFS

Clear regulations on agent networks, e-money and DFS

Basic services available (wallets, bill payments, airtime, cash-in/cash-out)

Multiple service providers engaged in the ecosystem

Business use of DFS increasing

Strengths

- Draft regulation for non-bank e-money issuers released
- High volume of cash circulation
- Young population adaptive to technology
- Pending BoL National Payment System decree
- Integration of National ATM and POS Switch (Lao ATM Pool Switch – LAPS)
- High population coverage with access to mobile voice services (>90%)
- Affordable mobile phone service leading to high usage
- High and growing internet and 3G penetration even in rural areas
- Multiple banks and MNOs with moderate competition
- Post office network throughout the country
- Large formal domestic remittance market – significant international remittances from migrant workers, though with some competition from informal channels
- Untapped potential for government high-volume payments
- Trust in banks, particularly state-owned institutions, with widespread use of over-the-counter transactions
- Fairly strong savings culture

Weaknesses

- Poor physical infrastructure (roads, telecoms) between major towns as well as in rural areas
- Low level of economic integration between urban and rural areas
- Low financial literacy
- BoL National Payment System decree unratified and timeline undeclared
- Low utilization of financial switch infrastructure (RTGS)
- Low level of branch and ATM penetration outside cities
- Lao language unevenly supported on mobile platforms
- Most providers lacking previous experience with DFS
- Few national level chains or distributors
- Inability to transact in multiple currencies may hinder the long-term scalability and adoption of DFS
- Fairly high levels of illiteracy