

Lao PDR Annual Monitor 2016



Lao People's Democratic Republic (Lao PDR), a country in Southeast Asia with 6.9 million people, has started the journey towards digitizing its cash-based economy and introducing digital financial services (DFS) to thousands of previously unbanked customers. There are several providers in the market that have begun to develop their DFS offerings. However, the lack of a regulatory framework had limited their ability to launch services until Q1 2015, when 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 United Nations Capital Development Fund (UNCDF) programme Mobile Money for the Poor (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 considers 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 is currently in the initial stages of the Start-Up phase of DFS market development.



MM4P began its activities in Lao PDR in early 2013. Since that time, through the financial-inclusion programme Making Access to Finance more Inclusive for Poor People (MAFIPP)—a joint UNCDF-UNDP sector programme in partnership with Bank of the Lao PDR (BOL) funded by the Australian Department of Foreign Affairs and Trade (ex AusAid)—MM4P has supported market development through the following primary activities:

Promoted the drafting of enabling regulation, and supported BOL in developing guidelines for providers (banks and non-banks) to engage in pilot DFS projects

Supported BOL in the convening of the DFS Working Group to bring together all stakeholders in the DFS ecosystem each quarter

Recruited a resident DFS Expert to provide technical assistance to partners and manage long-term projects

Supported Banque Pour Le Commerce Extérieur Lao (BCEL) in the pilot preparation and commercial launch of the country's first-ever branchless banking initiative, BCEL Community Money Express (BCOME), which is now in every province of the country

Conducted multiple workshops on DFS topics, including an introduction to the principles of digital finance as well as the implementation and management of effective agent networks

Over the next three years, MM4P plans to continue to invest in the Lao DFS market, working towards the goal of moving the market into the early Expansion phase with at least 6% active users within the adult population (active use is defined as having used the account at least one time in the past 90 days).

In 2017, MM4P has planned the following activities:

Supporting Unitel in the pilot launch of U Money, the first mobile wallet offered by a mobile network operator (MNO)

Conducting workshops for appropriate DFS interventions for microfinance institutions (MFIs) and developing the business cases for them to enter the ecosystem

Assisting in the expansion and extension of BCOME to allow for instant issuance of rural-appropriate, card-based accounts via agents and for withdrawals from accounts at agent locations

Supporting the Government to release the DFS regulation

Fostering the expansion of the DFS Working Group

Supporting additional applications for pilot projects by one bank and one non-bank

Exploring opportunities to move high-volume payments to digital means

Lao PDR

Facts and figures

Population^a

6.9 million



Adult population^b

4.4 million



Where we were 2013

Where we are 2016



(90 DAYS)

TOTAL ACTIVE
DFS USERS^c

0

ACTIVE DFS USERS AS
PERCENTAGE OF ADULT
POPULATION^c

0%



(90 DAYS)

TOTAL ACTIVE
DFS USERS^d

5000

ACTIVE DFS USERS AS
PERCENTAGE OF ADULT
POPULATION^{d,e}

<1%



(90 DAYS)

TOTAL ACTIVE
AGENTS^c

0

(30 DAYS)

ACTIVE AGENTS
PER 100,000 ADULTS^c

0



(90 DAYS)

TOTAL ACTIVE
AGENTS^e

128

(30 DAYS)

ACTIVE AGENTS
PER 100,000 ADULTS^e

2.9



MOBILE
PENETRATION
RATE^f

93%



FINANCIAL
INCLUSION
RATE^g

47%



PROVIDERS
ENGAGED IN DFS

MNO: Unitel

Main bank:
BCOME by BCEL

^a UN World Population Statistics, 2016

^b UN World Population Prospects, 2015

^c UNCDF-MM4P internal scoping mission, 2013

^d UNCDF-MM4P partner reporting, 2016 (measured as unique active users, including over-the-counter transactions)

^e UNCDF-MM4P partner reporting, 2016 and UN Population Statistics, 2016

^f GSMA, 2014

^g FinScope, 2014

OPPORTUNITIES



Release of DFS regulation is pending approval



Real-time gross settlement system (RTGS) has been developed as the basis for payment system



There are new entrants from MNOs, banks and third parties



Agents are eager to engage in the business, as there are relatively few other new business opportunities for micro, small and medium enterprises



Education, agriculture and conditional cash transfers can leverage the growing ecosystem



Customer adoption is starting to grow, when human-centred design is used



MFIs are becoming more engaged in DFS and identifying appropriate models for their individual businesses

CHALLENGES

(1) National Payment System Decree has been delayed (2) Strict regulation on the control of foreign capital may inhibit cross-border transactions and the digitization of some business transactions

(1) Access through unstructured supplementary service data (USSD) technology has not yet been offered to non-MNO players, which may present challenges to new entrants (2) Internet coverage is not fully developed, particularly in rural areas

(1) Few stakeholders are able to meet the minimum level of investment required; the limited size of the domestic market and the high upfront capital investment in technology and distribution may delay the profitability of projects (2) Perception of competition, even in such a nascent market, makes some providers overly cautious

(1) Few distribution networks with a nationwide footprint are available to be leveraged (2) Distribution channels for fast-moving consumer goods require more than basic cash management and payment solutions

A significant ecosystem is a prerequisite for high volume to support transactions, but that ecosystem is not there yet

There are low levels of financial literacy and experience with formal financial services

It is difficult to identify partnerships between established market leaders and competitors, making it a challenge to identify opportunities that can scale

2013 WHERE WE WERE 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

2019 WHERE WE WANT TO BE Early Expansion phase:

- Permission is given by regulator for bank and non-bank DFS
- Clear regulations are provided on agent networks, e-money and DFS
- National Payment System, including LAPS and RTGS, is in use
- Additional providers of DFS and DFS+ services focus on health, education and agricultural use cases
- Distributors of fast-moving consumer goods leverage and support DFS
- There are >40 active agents per 100,000 adults
- Digitization of agricultural value chains and piloting of circumscribed government-to-person payments occur
- Enhanced services are available with specialized accounts
- Savings, lending, and possibly bundled insurance products become available
- DFS Working Group develops committees to focus on challenges
- Aggregators for technology integration begin to enable more extended service
- Payment service providers and operators come on-line

2016 WHERE WE ARE Early Start-Up phase:



- Pilot Application Guidelines were released by BOL
- Draft DFS regulation is pending approval



- Recent launch by BOL of the Lao ATM Pool Switch (LAPS) may provide springboard infrastructure for digital payments



- BCOME completed pilot and commenced launch of first branchless banking service
- Unitel committed to launch pilot in 2017 for mobile wallet



- Basic services were launched for remittances and payments



- MFIs are acting as agents of BCOME and promoting further extension of services and development of product offering
- Quarterly DFS Working Group brings together all stakeholders to address areas of concern and promote partnership development