



Digital Financial  
Services  
in Lao PDR:

Market Insights on  
Product Needs and  
Channel Management

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January 2015



### **About UNCDF**

UN Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.

### **About MAFIPP**

UNCDF's Making Access to Finance More Inclusive for Poor People (MAFIPP) is a UNCDF sector support programme in partnership with the Bank of the Lao PDR that seeks to improve access of poor rural households to a variety of financial services and markets, improving rural household incomes. MAFIPP is funded primarily by the Australian Department of Foreign Affairs and Trade. The Mobile Money for the Poor programme advises MAFIPP on these efforts.

### **About MM4P**

Mobile Money for the Poor (MM4P) is a global programme funded by UNCDF, The MasterCard Foundation, Bill & Melinda Gates Foundation, Swedish International Development Cooperation Agency (Sida) and Australian Department of Foreign Affairs and Trade (DFAT) that provides support to digital financial services, including both branchless banking and mobile financial services.



## **MicroSave**

*Market-led solutions for financial services*

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We would also like to thank Graham A.N. Wright, Manoj Sharma and Puneet Chopra of MicroSave for their significant contribution and guidance in the development of the report.

## List of acronyms

<b>BoL</b>	Bank of the Lao PDR
<b>DFS</b>	digital financial service(s)
<b>Lao PDR</b>	Lao People's Democratic Republic
<b>MAFIPP</b>	Making Access to Finance More Inclusive for Poor People
<b>MFI</b>	microfinance institution
<b>MM4P</b>	Mobile Money for the Poor
<b>MNO</b>	mobile network operator
<b>OTC</b>	over the counter
<b>SCU</b>	savings and credit union
<b>UNCDF</b>	UN Capital Development Fund
<b>VDF</b>	village development fund

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# 1

## Report summary

Data gathered by the World Bank in 2011 shows that only 27 percent of the population in the Lao People's Democratic Republic (Lao PDR) above the age of 15 has an account with a formal financial institution. There is only one commercial bank branch per 40,000 people in the country. The spread of commercial banks in the country is skewed, as 21 out of the 36 commercial banks are present only in the national capital region. Moreover, a population density of 25 people per square kilometre makes it difficult for banks to extend their reach in a commercially viable manner (for comparison, neighbouring countries such as Cambodia and Viet Nam have a population density of 78 and 280, respectively).

The Government of Lao PDR sees financial inclusion as a vital part of its core agenda. It wants to ensure enhanced access to formal financial services in the country and thus encourage financial growth.

The Government is actively considering digital financial services (DFS) as an alternative low-cost delivery channel to extend the reach of banking services and to achieve its financial inclusion agenda. Factors that make DFS a sound potential strategy for achieving financial inclusion in the country are the following: the booming economy of Lao PDR, high volumes of domestic and international remittances, high penetration of mobile services in the country (mobile penetration stands at 98 percent according to December 2013 data from GSMA), and a high percentage of young and middle-aged people in the population (56 percent of the population is under 54 years of age).

Making Access to Finance More Inclusive for Poor People (MAFIPP), with support from Mobile Money for the Poor (MM4P), commissioned market research in Lao PDR to understand people's financial needs, aspirations and behaviours and the value proposition that DFS could offer. The exploratory research provided insights on early adopting customer segments, in-demand products and potential agent network models that could support implementation of DFS in the country. [MicroSave](#) conducted the research.

The key findings from this market research indicate that financial transactions are mainly in cash, including salary disbursements by several government departments. Most Lao people also tend to keep considerable amounts of cash at home. In fact, it is not uncommon for a household to keep as

### *Lao PDR has*

*31 banks*

*83 branches*

*301 service units*

*35 exchange bureaux*

*565 ATMs*

*97 microfinance institutions*

*4,000 village development funds*

*6 million people*

much as KN10 million (US\$1,250) at home.<sup>1</sup> While safety of cash at home or in transit is thankfully not a major concern, people do want a means to save when there is a surplus of cash. However, there are several barriers to saving in Lao PDR—the biggest of which is the long distance between most Lao people and formal financial institutions. The average cost of travel to a bank branch is KN22,000 (\$3). The average distance travelled by sampled respondents to a bank branch is 14.4 kilometres. Alternative savings and credit channels—village development funds (VDFs), village banks and deposit-taking microfinance institutions (MFIs)—are present in each village, but they are not very popular as they only operate on fixed days every month and put limits on deposit and withdrawal amounts and frequencies.

In a typical village, almost 90 percent of households are engaged in agriculture. Some households earn supplementary income through retail, trade or remittances. Of the 10 percent of households not engaged in agriculture, around 5 percent have salaried family members who are employed by the Government and another 5 percent have family members who are business owners (retailers and/or traders). Almost every household has a family member working in one of the country's urban centres, and these workers send their families regular remittances. Sending and receiving money across the country is a major need and is very common. Electronic or print media have a very limited role in communicating or disseminating information about financial services. Communication and trust-building about financial services is primarily done through discussions with adult children, service providers and village committee members.

*44% of the sample has a bank account*

*64% of the sample earns more than KN1 million (\$125) per month*

*50% of the sample sends/receives KN1 million (\$125) per month*

Banks are rarely used, except by retailers who use them in order to make trade payments. Farmers with large land holdings (more than two hectares) and/or substantial supplementary income use banks for deposits (mostly term deposits, which are made during the harvest season). However, a very large section of the population uses banks for over-the-counter (OTC) money transfer transactions—both when sending and receiving money. OTC transactions are widely accepted and are considered extremely convenient, as they allow anyone to send or receive/withdraw cash, without requiring either the sender or the receiver to have an account with the bank. These transactions are similar to those by Western Union and MoneyGram where, upon making a deposit, the sender receives a code and shares it (through a phone call) with the receiver who can in turn withdraw the money. In order to be successful, a DFS offering would need to match OTC transactions on speed and convenience.

The population in villages can typically be divided into four customer segments on the basis of economic activities: (1) farmers, (2) small- and medium-business owners, (3) salaried employees and (4) migrants and students. Each of these segments has a unique requirement, which DFS offerings need to address. Farmers need better savings/credit products; small- and medium-business owners need a bouquet of savings, credit and payment facilities; salaried employees need a formal service to safeguard their salaries; and migrants and students need better money transfer and receipt facilities. In conclusion, fund transfers and saving facilities are the two flagship products that have the

<sup>1</sup> KN is the currency abbreviation for the Lao kip. Conversion rate US\$1.00=KN8,000 (Source: www.oanda.com, 1 July 2014). This conversion rate was used throughout the report.

potential to be adopted quickly and to drive the growth of DFS in the country. At present, banks are the preferred channels for these products, but low branch penetration means that users have to travel long distances to reach banks (sometimes up to 60 kilometres) and spend large sums of money in order to do so (sometimes as much as KN50,000, or \$6.25).

*Interest on deposits, security of agent points, and proximity of agent points are the top three features sought in DFS savings products*

Beyond fund transfers and savings, another product that could drive the usage of DFS in the country is one which would facilitate bill payments. This type of product could start with mobile top-ups and utility (electricity and water) bill payments, all of which are regular payments made by most of the population. Electricite du Laos plans to expand to 90 percent of households in Lao PDR by 2020, and with mobile penetration in the country at 98 percent, the expansion would be a good opportunity to deploy DFS. Though people do not face major challenges in paying bills or in recharging mobile airtime, customers are likely to find value in using DFS in terms of ease and convenience, as they will be able to pay their bills on their own, without having to depend upon the availability of other people (i.e., shopkeepers) to perform that service for them. Moreover, the size of these regular payments would make products that facilitate these payments attractive to service providers and thus lead to the economic viability of these channels.

There are no agent network management companies in the country at present. Further, even mobile network operators (MNOs) do not have any dedicated networks of agents. Beyond resellers/dealers who purchase airtime from the MNOs, they do not know who is selling their airtime. Thus, in the absence of existing agent networks that DFS providers can use, they will have to build and manage agent networks themselves. The research has identified key sections of the population from which potential DFS agents could be recruited: (1) retailers/shopkeepers in villages/markets, (2) retailers/dealers linked to a national network created by the Lao Brewery Company Ltd. that manufactures and sells Beerlao, and (3) influential individuals in villages. Considering the low population density of the country, DFS providers will have to deploy one agent per cluster of three to four villages in an area of 5 to 10 kilometres, on average, as they start building agent networks. A typical agent will have a target population of only 300 to 400 households. To begin, a product suite that includes savings, money transfers and bill payments, which are also immediate requirements of various customer segments, should enable agents to earn adequate revenue and thus sustain their motivation to remain in that business. Effective financial liquidity management and a risk management/client protection framework at agent points will be crucial for the success of DFS channels. Service providers will have to consider alternative agent models of aggregators or agent managers, as the agent networks expand and develop.<sup>2</sup>

Stakeholders such as the Government of Lao PDR and the regulator, with support from international aid agencies such as UN Capital Development Fund (UNCDF), will play vital roles in establishing DFS. Their task will be to create conducive policies and build a supportive environment in which DFS can thrive. This task may include the following: playing a key role in creating partnerships with agent networks, enabling service providers to expand their product suites by financing research projects and facilitating multiple partnerships, generating awareness about DFS channels and products, and creating a risk management framework that complies with regulations.

<sup>2</sup> Please see more about creating agent networks in ['MicroSave Briefing Note 136: Structuring and Managing Agent Network - I'](#) and ['MicroSave Briefing Note 137: Structuring and Managing Agent Network - II'](#).

## 1.1 Market overview

Lao PDR has a population of over 6.6 million. The population density is 25 people per square kilometre. Nearly 1 million people reside in the capital city of Vientiane alone. Many areas of the country are still not connected by asphalt roads. It is estimated that there are only 6.1 kilometres of roads per 1,000 people.<sup>3</sup>

The country was opened to reforms in the 1990s, which resulted in high GDP growth of close to 7 percent for nearly two decades, except for a slight fall in 1997 due to the Asian financial crisis. Despite this high growth, financial systems in the country have remained underdeveloped, especially in rural areas. The use of formal financial channels is fairly limited in Lao PDR, with only 27 percent of the population having access to formal banking channels. Only 19 percent use formal institutions for savings, 18 percent for credit and only 3 percent for receiving remittances via a bank account.<sup>4</sup> The Bank of the Lao PDR (BoL) annual report mentions the presence of 31 banks, with 83 branches and 301 service units, 565 ATMs and 2,000 POS terminals in the country.<sup>5</sup> In terms of distribution, a lot of financial services are concentrated in Vientiane and in province headquarters. A major reason for the lack of expansion is the cost of expanding into rural areas using the traditional brick-and-mortar branch model.

There are more alternative options, such as VDFs, village banks and MFIs, than there are formal banking channels.<sup>6</sup> There are 97 MFIs registered with BoL. Of these, 34 are deposit-taking MFIs and 20 are credit and savings cooperatives. There is one Lao postal institution, the Enterprise des Postes Lao (commonly referred to as Lao Post), which has 16 branches in province headquarters that offer money transfer services and money orders. It also has offices in 123 districts that offer money orders but not money transfer services. The Lao Postal Savings Institute, which offers savings services, is present only in Vientiane and in province headquarters. It has a depositor base of around 20,000 clients. Though these alternative channels have filled in for banks, they do not meet the growing financial services needs of the Lao people.

In recent years, the Government has focused on increasing access to banking services in remote and rural areas of the country. This effort has been complimented by recent developments in banking and financial service models around the world—in particular with the development of branchless banking models and with MNOs offering financial services with or without banks. To increase access, BoL has been supporting financial institutions and MNOs to develop DFS projects in Lao PDR.

## 1.2 About the research

As the country gears up for DFS, it is crucial to understand financial behaviour and examine that behaviour in the context of DFS products and channels. With that primary objective, this research aimed to increase understanding of the following: the strategies people in rural Lao PDR use to manage their cash flow, the formal and informal financial landscapes of Lao PDR, the customer segments that will drive adoption of DFS, the most appropriate products and product features that could be provided via DFS, and the potential partnerships that could create high-volume business.

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<sup>3</sup> Asian Development Bank—Independent Evaluation Department, '[Sector Assistance Program Evaluation for the Transport Sector in the Lao People's Democratic Republic](#),' 2010. The report says, 'We estimate that the figure of 6.1 km per 1000 population would have changed by 20-30% as the Government has a strategic focus on building road infrastructure. However, with this being, there are many villages that are not connected by a road network and in fact are not reachable during monsoon time.'

<sup>4</sup> World Bank, '[Financial Inclusion Data: Lao PDR](#),' 2011.

<sup>5</sup> Bank of the Lao PDR, '[Annual Economic Report](#),' 2012.

<sup>6</sup> Please see section 6.3 of the annexes for definitions of different types of financial service providers in Lao PDR.

The research also focused on the agent models that service providers could use. The research aimed to improve understanding of the profiles and needs of potential agents and potential agent models.

The insights from this research will enable DFS providers to adapt their product portfolios, service offerings and distribution strategies to best meet the needs of the market.

The research was completed in three provinces: Vientiane, Savannakhet and Xieng Khouang (see **figure I** for locations of provinces). The sampling was purposive and included random samples of residents in villages, workers in factories and students (see **table 1** for coverage of the research). The research tools were qualitative and were implemented with the help of trained market researchers. Sample characteristics are presented in section 6.1 of the annexes. It must be noted that, although research locations and samples did allow researchers to take into account the diversity of the country and thus generalize findings for the whole country, the findings at best must be treated as indicative of the preferences of the samples from the three locations: Vientiane, Savannakhet and Xieng Khouang Provinces. Research methodology is discussed in section 6.2 of the annexes.

Figure I  
Map of Lao PDR with research locations

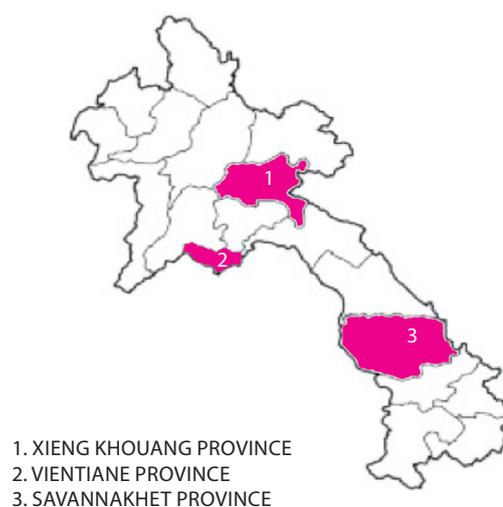


Table 1  
Research tools and coverage

Research tools	No. of people
20 focus-group discussions	218
In-depth interviews with farmers	14
In-depth interviews with traders	12
In-depth interviews with students	8
In-depth interviews with agents	20
<b>Total sample covered</b>	<b>272</b>



# 2

## Financial management in rural areas of the country

## 2.1 Financial management of households

This section discusses the current financial behaviour of rural, mostly low-income Lao people (see **figure II** for the distribution of occupation/financial activities within the research sample).

### 2.1.A Income

**Farmers** are the largest section of this population. Farmers grow rice, maize (corn), vegetables, sugarcane and tobacco. They receive their incomes at harvest time, which occurs twice a year.

**Small-business owners** are the second largest section of the population. They comprise retail shopkeepers and small traders, and they are found everywhere in the country. Though no data is available on the number of people earning their living from small businesses, it can be safely assumed that the numbers are substantial. They conduct all their transactions in cash.

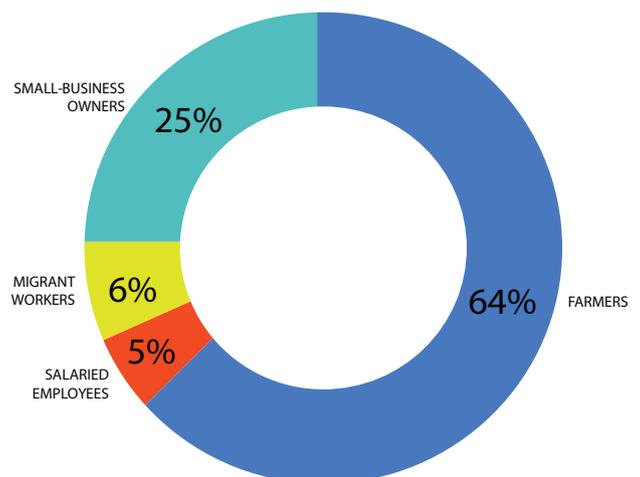
**Migrant workers** make up a smaller section of the population. They are daily-wage or contracted labourers who receive their wages in cash and send money home. As a result, **domestic and international remittances** are a major source of income in Lao PDR.

**Salaried employees** constitute a small section of the population. Most work for the Government. They include teachers, police personnel, doctors, village committee members and staff of private companies. Their salaries are paid in cash—the exceptions being those employed by education departments and banks, which pay salaries through bank accounts.

In addition to income from these occupations, inward remittances are a major part of household income in rural Lao PDR. Almost all households receive either international or domestic

*Financial management of households is a function of availability, accessibility, understanding and perceptions of financial channels.*

Figure II  
Primary occupation of respondents



remittances. The average remittance received per household, according to data gathered during field research, was around KN2.9 million (\$370) per month. International remittances have become important sources of income in many parts of Lao PDR, particularly in the provinces of Savannakhet and Xieng Khouang that border neighbouring countries.

### **2.1.B Expenses**

The major monthly expenses in rural areas are school/college education fees, mobile and utility bill payments, medical payments, gasoline and food.

Costs related to business are also a major expense. For farmers these expenses are incurred on farm inputs, while for small-business owners these expenses are supplier payments. Most of these financial transactions are made in cash.

### **2.1.C Use of financial services**

In this section, the way financial services are used in rural Lao PDR is discussed in order to more closely examine Lao behaviour. (Feedback on specific financial services is provided in section 2.2.)

*VILLAGE-LEVEL RESOURCES:* In rural Lao PDR, saving via livestock and farm produce is very common. Farmers stock their produce in their home and sell it to traders when they need money. Savings at home are used to manage household expenses. During emergencies, money is borrowed from local providers who charge interest rates of 5 to 6 percent per month.

*IN-VILLAGE INSTITUTIONS:* VDFs, village banks, MFIs and savings and credit unions (SCUs) are institutions present in villages. They form an integral part of financial management for rural Lao people; they are the most popular channels for savings and credit in villages. People prefer them because of these features:

- They are present within or near the village.
- They accept small deposits.
- They give higher interest rates on deposits.
- They give credit for meeting planned agriculture and trade expenses.
- They are a source of emergency loans (e.g., VDF).

*OUT-OF-VILLAGE INSTITUTIONS:* Institutions based outside villages are mainly banks. People use banks to save large sums of money. Savings in banks are used to purchase assets like homes, land or vehicles. There are sporadic instances when people use banks to save for old age, as well. Credit services from banks are also used—primarily to buy assets. The high costs incurred by customers when making transactions discourage them from depositing small sums of money in banks on a regular basis and thus prevent them from saving their money in bank accounts. (This phenomenon is detailed in section 2.2.C.)

### 2.1.D Financial decision-making and information sources

Village committees<sup>7</sup> play an important role in the dissemination of financial information. Lao people place immense trust in their village committees. Any service provider who wishes to promote its services/products uses village committee officials in order to do so. Youth in the village are the other major source of information. They are technologically savvy and regularly visit province headquarters/Vientiane. They are considered to be well informed by the people of their villages. Families involve their older children in household decision-making (see **figure III**). As Lao people prefer face-to-face interaction, promotions using print and electronic media are less trusted and so have less impact than the communication channels mentioned earlier on the financial decision-making process (see **figure IV**).

Figure III

People consulted in household decision-making

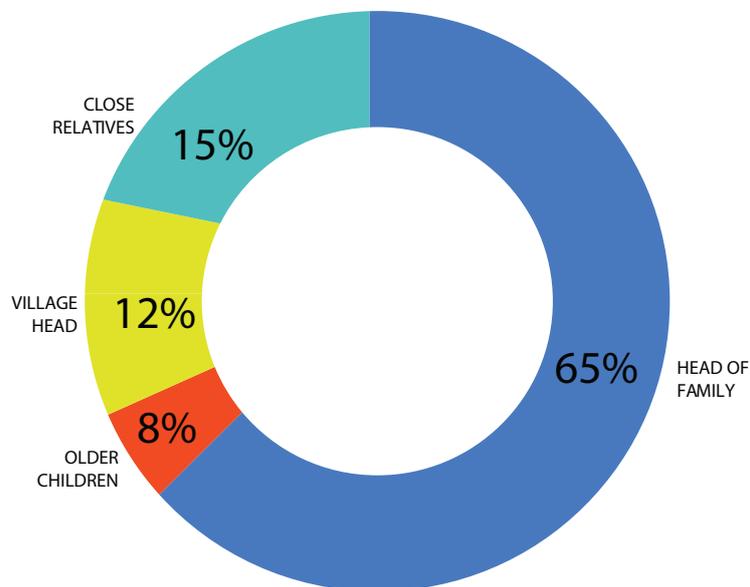
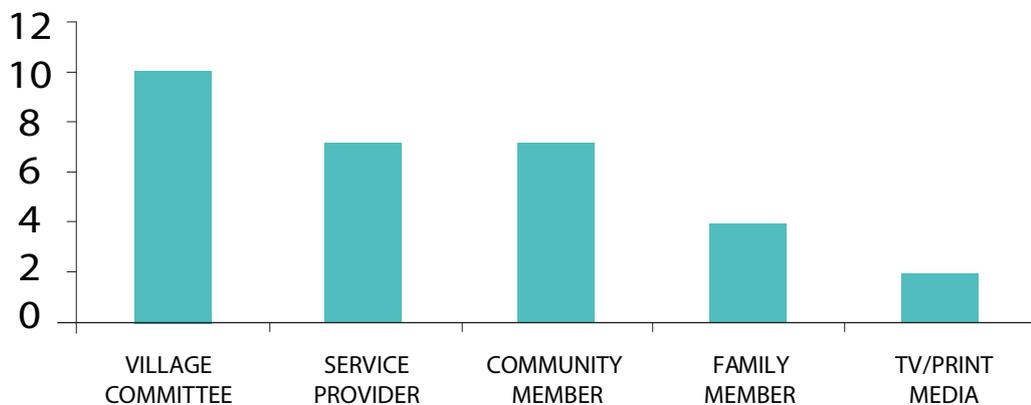


Figure IV

Sources of financial information



*Note:* The height of the bar represents the number of focus-group sessions in which the name of the information source was mentioned.

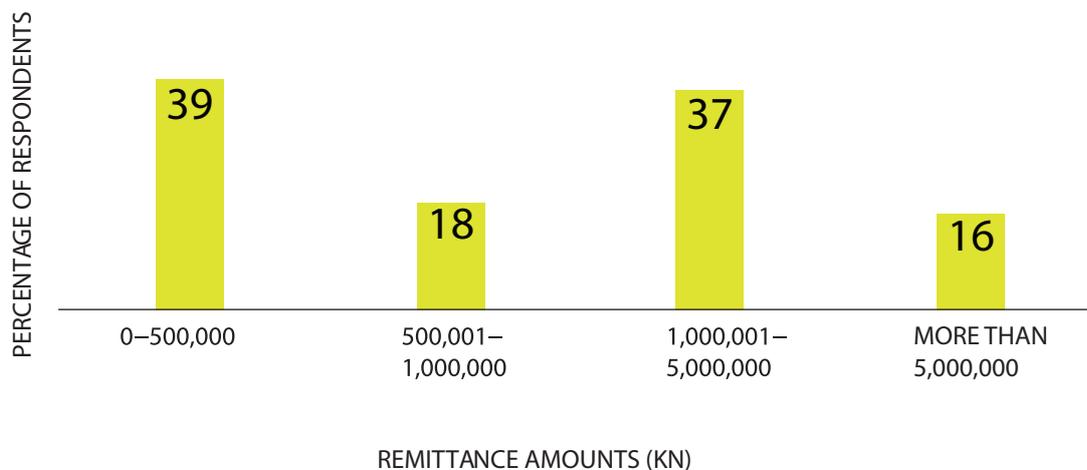
<sup>7</sup> Village committees are government-recognized institutions that manage village-level affairs. They have different bodies, such as VDF Committees, which manage VDFs and consist of members from different sectors (e.g., youth, women and members of the village committee).

## 2.2 Use of formal and informal financial products

### 2.2.A Domestic remittances

Amounts of domestic remittances can range from KN100,000 (\$12.50) to KN30 million (\$3,750) per month in Lao PDR, although the average remittance amount comes to KN2.9 million (\$370) per month (see **figure V**).

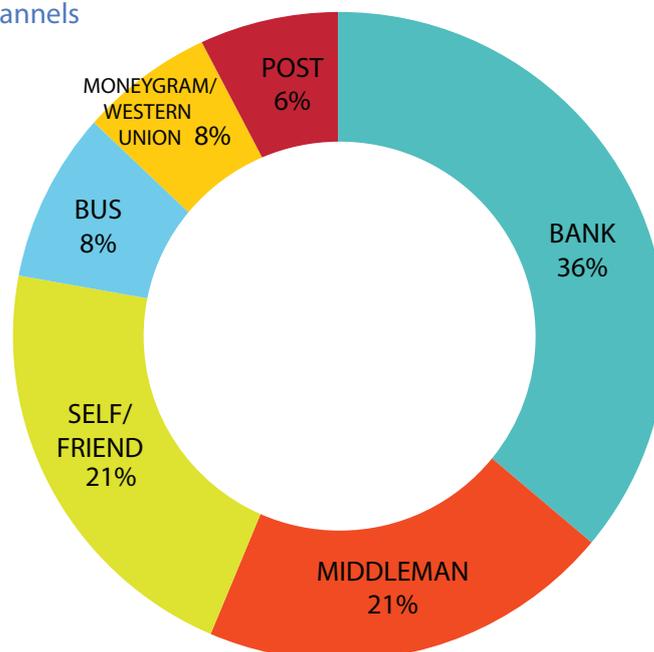
Figure V  
Remittance amounts



Note: Sample size=136

The major channels used for domestic remittances (see **figure VI**) are described below, followed by people's likes and dislikes of each channel.

Figure VI  
Domestic remittance channels



**BANKS—OVER-THE-COUNTER TRANSACTIONS:** People can send and receive money via these transactions without opening a bank account. When the money is sent, the sender receives a code that he/she communicates to the recipient. The recipient visits any branch/service unit of the bank and receives cash by sharing the code and showing his/her proof of identity. Different banks charge different amounts for these transactions from the sender but mostly a flat fee of KN10,000 (\$1.25). Banks offer money transfers through accounts as well, but they are seldom used as they require opening an account at the bank.

“I have a bank account but I prefer to use OTC because I do not have to memorize my bank account number.”

—Focus-group member, Savannakhet Province, February 2014

**LAO POST:** With 123 district offices, Lao Post has a considerable presence in the country. Lao Post provides both money orders and OTC remittance facilities. The former is available at all offices of Lao Post, while OTC money transfer facilities are only available at offices in province headquarters. Lao Post charges a fee of 2 percent on the remitted amount.

**INFORMAL MEANS:** This channel involves the use of buses or other transport services to carry cash to and from people. This method of sending and receiving cash is very popular in villages where people own vehicles. (During field work, many people in Savannakhet Province were found to use this method.) The cost of remittance ranges from nothing, if the driver of the vehicle is a family friend, up to KN10,000 (\$1.25).

**SELF/FRIENDS/RELATIVES:** In many cases, people travel with **physical cash** or send it through their **relatives and friends**. People do not perceive any security risks in carrying cash, although they fear losing or misplacing it. This method is preferred when sending money during emergencies, as other informal means are not always available.

#### Modus operandi of banks for over-the-counter transactions

1. The customer goes to the bank and asks for an OTC form.
2. The customer fills in details: the name of the recipient, the contact number of the recipient/self (not necessary), the amount to be remitted and the ID number of the recipient.
3. The customer deposits the cash along with the OTC form and fee.
4. The customer gets a 16-digit code and sends the code to the recipient.
5. The recipient goes to any service unit/branch, shows the 16-digit code and his/her proof of identity, and gets the money.

Source: Bank branch visits during research

**Table 2** presents characteristics of these channels and what respondents like and dislike about them.

Table 2  
Characteristics and perceptions of domestic remittances

Channel	Characteristics	Likes	Dislikes
Banks— Over-the-counter transactions	<ul style="list-style-type: none"> <li>Neither sender nor recipient has a bank account</li> <li>Sender receives a code from the bank that is communicated to the recipient</li> <li>Recipient visits the bank branch and shares the code to receive the money</li> <li>Used by all sections of society</li> <li>Very popular for guardians who send money to their children studying in other provinces and for migrants whose families do not have bank accounts</li> </ul>	<ul style="list-style-type: none"> <li>Easy to use: requires just one form</li> <li>Customer need not keep money in his/her account nor open a new account</li> <li>Customer does not have to mention/remember his/her account number during the fund transfer</li> <li>Faster than interbank transfers, which in Lao PDR take three days to complete</li> </ul>	<ul style="list-style-type: none"> <li>Limited presence of banks in districts/villages</li> </ul>
Lao Post	<ul style="list-style-type: none"> <li>Similar to banks' over-the-counter transfers; available at all Lao Post branches</li> <li>District offices also offer money orders, but they are costlier than over-the-counter transactions through banks</li> <li>Used when banks are far away</li> </ul>	<ul style="list-style-type: none"> <li>More accessible than banks</li> <li>Less congested than banks</li> </ul>	<ul style="list-style-type: none"> <li>High fees: 2% of the fund transfer</li> <li>Very few staff, or sometimes no staff, at office</li> </ul>
Bus service	<ul style="list-style-type: none"> <li>Driver carries cash from the sender and delivers it to the receiver</li> <li>Used when there is immense trust in the bus driver</li> </ul>	<ul style="list-style-type: none"> <li>Easily accessible in villages</li> <li>Low cost: people pay only up to KN10,000 (\$1.25)</li> <li>Money is received within a day</li> </ul>	<ul style="list-style-type: none"> <li>Cannot trust this channel with large amounts</li> </ul>
Self/Friends Relatives	<ul style="list-style-type: none"> <li>Person travels with physical cash or sends it through a relative or friend</li> </ul>	<ul style="list-style-type: none"> <li>Convenient for the receiver as he/she does not have to travel anywhere to receive remittances</li> </ul>	<ul style="list-style-type: none"> <li>Inconvenience and cost of travelling to deliver the money</li> </ul>

## 2.2.B International remittances

*A **middleman** is a person who travels to Thailand to collect cash for villagers and carries it back to Lao PDR. Middlemen charge around 2% of the remitted amount. Use of middlemen is more prevalent in areas of Lao PDR along the Mekong River because many people from the villages there migrate to Thailand for work.*

There are two types of international remittances in Lao PDR: remittances from Thailand and remittances from other countries.

There are specific service providers for remittances from Thailand. They are called **middlemen**. A middleman typically visits Thailand to collect cash from members of his village, who have gone to Thailand for work, and then returns and distributes the senders' cash to their families. Sometimes the middleman maintains an account at a bank in Thailand. In this situation, senders working in Thailand deposit money into the middleman's account. The middleman crosses the river, goes to an ATM, withdraws the required amount of money and returns to his village with the cash.

An additional channel for remittances from Thailand is through **a bank account that a sender opens in Thailand**. A sender in Thailand deposits money into his/her Thai bank account. Receivers travel from Lao PDR to Thailand and withdraw cash from an ATM. This method is very popular in areas located very near the Lao-Thai border.

For remittances from non-Thai locations, senders use MoneyGram and Western Union.<sup>8</sup> These agencies have multiple partners in Lao PDR, including banks, thus ensuring widespread reach throughout the country. Money transfers from Thailand are in Thai baht and US dollars, though primarily in Thai baht, both of which are widely accepted in Lao PDR and thus do not pose any major challenge with currency conversion.

**Table 3** shows available international money transfer options and what respondents like and dislike about them.

Table 3  
Characteristics and perceptions of international remittances

Channel	Characteristics	Likes	Dislikes
Middleman	<ul style="list-style-type: none"> <li>• Belongs to the village or to a nearby village</li> </ul>	<ul style="list-style-type: none"> <li>• No documentation needed</li> <li>• Trust in the middleman</li> <li>• Access in the same village</li> </ul>	<ul style="list-style-type: none"> <li>• High cost</li> <li>• Security risk</li> </ul>
Self/Friend through Thai ATM	<ul style="list-style-type: none"> <li>• Travels to Thailand and withdraws cash from Thai bank account</li> </ul>	<ul style="list-style-type: none"> <li>• Easy access</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of travel</li> <li>• Security risk</li> <li>• Cannot be used during emergencies</li> </ul>
Western Union/ MoneyGram	<ul style="list-style-type: none"> <li>• Low presence in rural areas</li> <li>• Long queues (at banks offering these facilities)</li> </ul>	<ul style="list-style-type: none"> <li>• Ease of over-the-counter fund transfer</li> <li>• Flat fee</li> <li>• Trust in the system</li> <li>• Fast: immediate fund transfer</li> </ul>	<ul style="list-style-type: none"> <li>• Long travel time</li> <li>• High cost</li> <li>• Long queues and waiting time at the branch</li> <li>• Unavailability of public transport makes travel difficult</li> </ul>

### 2.2.C Savings

In rural areas of the country, saving patterns depend on sources and frequency of income. However, the research revealed that the availability of different services had an influence on how people saved their money. More people used banking services in villages close to a bank's service unit or on a highway that eased access to a bank's branch, as compared to people in remote villages.

There were mixed reports on the use of various channels for saving. The channels are described below, followed by people's likes and dislikes of each channel (see **figure VII** for savings channels and **figure VIII** for average savings amounts).

<sup>8</sup> Many of the migrant workers in Thailand are not able to access MoneyGram/Western Union or other formal remittance channels since they are working without permits. The ILO study '[Migrant worker remittances and their impact on local economic development](#)', 2009, estimates that 60 percent of migrants from Lao PDR do not have work permits.

Figure VII  
Saving channels

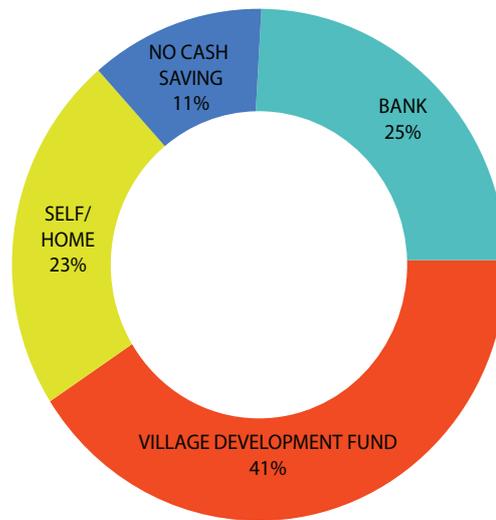
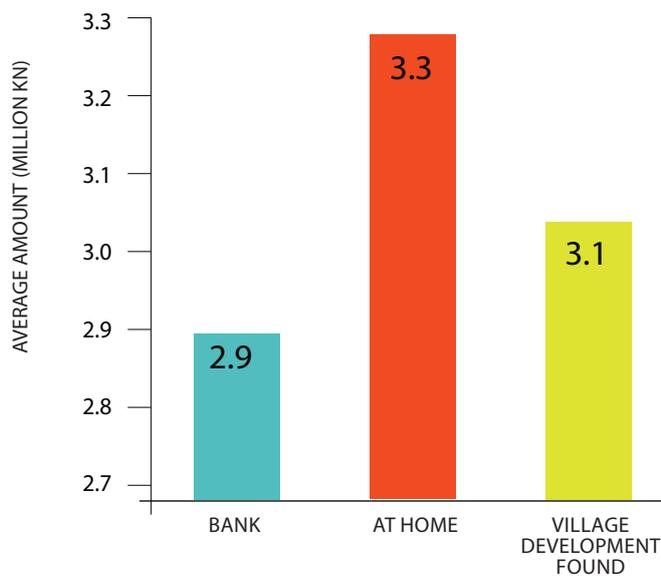


Figure VIII  
Average savings amount by channel



*Customers who want to save in a bank first build a large sum by saving money at home. When the amount reaches KN5million—KN10 million (\$625—\$1,250), they take it to a bank. They typically deposit it for a fixed term.*

- **SAVINGS AT HOME:** People keep money at home to meet their daily needs. Some farmers mentioned that, rather than save in cash, they prefer to maintain a significant portion of their produce at home. They sell it when needed to meet their daily requirements. Small-business owners keep money at home since they have to pay suppliers regularly. Amounts of savings at home thus vary by household. Farmers reported that they keep amounts ranging from KN500,000 to KN10 million (\$62.50 to \$1,250.00) at home at any given time.
- **ALTERNATIVE OPTIONS: VDFs and other semi-formal institutions,** such as village banks, deposit-taking MFIs and SCUs, provide alternative options for saving. VDFs in particular are very popular as places to save, and they were present in the majority of villages visited. At most of these institutions, people have to make a commitment to saving, which boosts their internal scoring and hence increases their chances of getting credit from the institution. Members can also make voluntary savings in these institutions. A key value proposition of these institutions is that they provide dividends on savings as well as credit against the amount of money saved—thus, they support their members in managing agricultural expenses, for which they give credit, and building savings. In some cases, VDFs have reached a very high level of deposits, as much as KN2 billion (\$250,000), and they have had to limit contributions from each member as they can no longer lend out the corpus.<sup>9</sup> VDFs are particularly liked for their informal set-up, since they are managed by the people of their village. Respondents mentioned saving between KN25,000 to KN100,000 (\$3.00 to \$12.50) per deposit in VDFs.
- **BANKS:** People prefer **banks** when they want to save large amounts. The usual practice is to keep money at home until a significant amount is accumulated—around KN500,000 (\$62.50)—and then it is deposited in a bank. Along with their trust in banks, respondents mentioned that they like the fact that there are barriers to withdrawing money, which discourage them from withdrawing money instantly and thereby help them to build large sums at the bank.

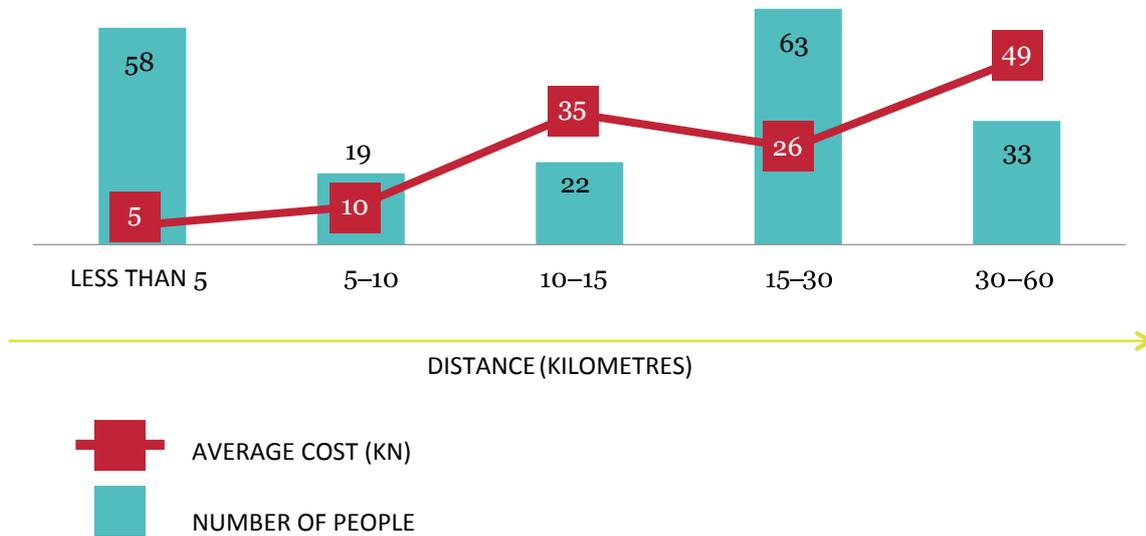
Some farmers mentioned using term deposit accounts (available at banks) to save a significant portion of their income. The motivation to use term deposit accounts is that they receive higher interest on their money. Term deposit duration ranges from six months to one year, which is the period by which farmers need money again to buy new goods and products for their farms. They withdraw the required sum of money after the completion of the term and put the rest of their money into another term deposit account. Other customer segments, including traders, also use term deposits to save large amounts. The high value of deposits in banks is because of high average deposits per customer, even though only 25 percent of respondents reported using banks for savings.

The biggest challenge that respondents face in using banks is limited accessibility, which in turn results in high costs involved in getting to banks—it can cost as much as KN100,000 (\$12.50) to get to a bank (see **figure IX** for more specifics on distance and cost). Some respondents also mentioned that they think having a bank account requires them to invest money and that they cannot deposit small amounts of money into a bank.

<sup>9</sup> In Vientiane, one of the VDFs has set a deposit limit of KN100,000 (\$12.50) per person per month since they had accrued over KN2 billion (\$250,000) in their reserve fund.

Figure IX

Distance to a formal financial institution and average cost of reaching it



**Table 4** summarizes respondents' specific likes and dislikes of savings channels.

Table 4

Characteristics and perceptions of savings channels

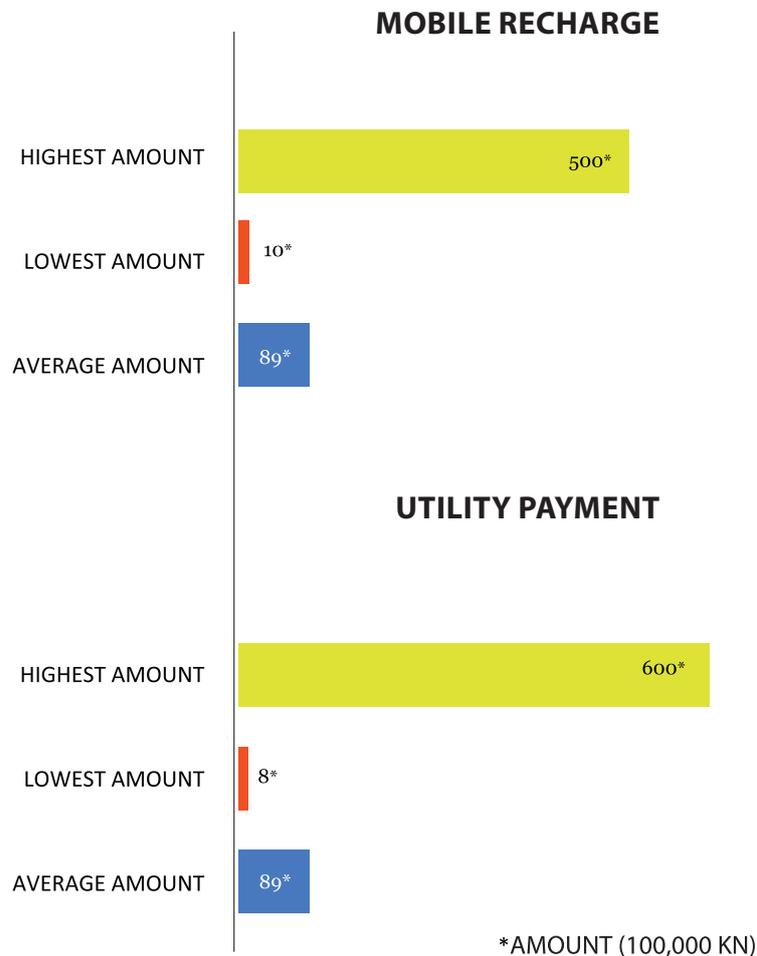
Channel	Characteristics	Likes	Dislikes
Savings at home	<ul style="list-style-type: none"> <li>Most readily available option</li> </ul>	<ul style="list-style-type: none"> <li>Accessibility</li> <li>Ability to save smaller sums of money</li> </ul>	<ul style="list-style-type: none"> <li>No interest earned</li> <li>Might get misplaced</li> </ul>
Alternative options (savings and credit union, microfinance institution, village bank, village development fund)	<ul style="list-style-type: none"> <li>Used to save consistently either because of individual or group consensus</li> </ul>	<ul style="list-style-type: none"> <li>Available in the village</li> <li>Informal and operated by the villagers</li> <li>No transaction cost</li> <li>No transaction limit</li> <li>Dividend earned on saving</li> <li>Provides funds for emergencies</li> <li>Provides credit against saving</li> </ul>	<ul style="list-style-type: none"> <li>Can transact only on limited days in a month</li> <li>Operates only two days per month, so limited opportunities to deposit savings</li> <li>Interest available only on commitment saving and not on voluntary saving</li> </ul>
Banks	<ul style="list-style-type: none"> <li>Bank account used to save larger amounts</li> <li>Some people also use term deposit account to earn higher interest rates</li> </ul>	<ul style="list-style-type: none"> <li>Trust in banks</li> <li>Interest paid</li> <li>Barriers to withdrawing money, which discourages withdrawal</li> </ul>	<ul style="list-style-type: none"> <li>Low presence</li> <li>Long travel time and high cost</li> <li>Long waiting time in the branch</li> <li>Difficult to save small amounts</li> </ul>

## 2.2.D Bill payments

Primary bill payment categories in rural areas are mobile recharges, electricity bill payments, water bill payments and school/university fees. The characteristics of each bill payment category are discussed below.

**MOBILE RECHARGES:** Mobile recharges are made more than once per month. It depends on usage, as illustrated by **figure X**. People purchase scratch cards for mobile recharges, which are easily available in markets.

Figure X  
Average expense per month on bill payments



Respondents mentioned that they face challenges when they need to recharge their phone urgently or at odd hours since most shops are closed outside of normal business hours. These challenges are especially felt by business owners who have to make frequent calls to keep up with their business dealings. A few people also mentioned that sometimes local stores run out of scratch cards, which makes it really difficult to recharge.

**UTILITY BILL PAYMENTS:** Utility bills primarily include electricity and water. It must be noted that, amongst the villages researched, not all had water company services. Thus, in those villages that lacked water company services, utility payments were limited to those for electricity. There are two primary methods of paying bills:

- A designated person from the respective department visits people's homes to collect the monthly bill payment. He/She provides a receipt upon collection of the money. Customers are not charged any fees for using this method. The only challenge is that the staff collects fees on designated days, and if people are not home on those days, then they need to visit the relevant department to pay in person.

- A person from the village is appointed as the agent who collects bill payments from households. After the collection, he/she visits the relevant department and deposits the amount. The person charges a fee for this service—usually KN2,000 to KN5,000 (\$0.25 to \$0.60).

*SCHOOL/UNIVERSITY FEES:* School/University fees are paid quarterly. These payments are again made in two ways:

- For students studying in a different province than where their parents are living, parents transfer the amount into their child's bank account and the child withdraws the money and takes it to the school/university.
- For students studying in the same province as where their parents are living, students collect the money from their parents and take it to the school/university.

Respondents did not mention any specific challenge in making these payments.

## 2.2.E Credit

There are four sources of credit in the country: MFIs, VDFs, banks and friends/relatives. In many cases, people do not like to take credit. Of respondents, 32 percent did not report taking loans from any source. They felt that loans would be stressful with regard to payments and therefore avoided them.

**Table 5** shows characteristics and respondents' likes and dislikes of each credit category.

Table 5  
Characteristics and perceptions of credit channels

Channel	Characteristics	Likes	Dislikes
Microfinance institutions	<ul style="list-style-type: none"> <li>• Provide medium-sized loans of KN1 million–KN6 million (\$125–\$750)</li> <li>• Limited reach in remote areas</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rates on savings and term deposits are higher than those given by commercial banks: 8% per annum on a savings account and 10%–14% on term deposits</li> </ul>	<ul style="list-style-type: none"> <li>• Liability for others' loans</li> <li>• Not everyone can become member</li> </ul>
Village development funds	<ul style="list-style-type: none"> <li>• Preferred for smaller loans</li> <li>• Loans provided against saving commitment and internal scoring</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal paperwork</li> <li>• Faster processing time</li> <li>• Informal setting</li> <li>• No collateral requirement for loan up to KN5 million (\$625)</li> <li>• Provision for emergency loans</li> </ul>	<ul style="list-style-type: none"> <li>• Operates two days per month</li> <li>• Limited funds available for large loan amounts</li> <li>• Limited ability to meet credit needs of members</li> </ul>
Banks	<ul style="list-style-type: none"> <li>• Preferred for large loan amounts</li> </ul>	<ul style="list-style-type: none"> <li>• Readily able to provide loans of larger amounts</li> </ul>	<ul style="list-style-type: none"> <li>• Limited accessibility</li> <li>• High interest rates</li> <li>• Time-consuming documentation</li> <li>• Strict repayment schedule</li> </ul>
Friends/Relatives	<ul style="list-style-type: none"> <li>• Person takes a loan from a friend/relative in the village—mostly during emergencies</li> </ul>	<ul style="list-style-type: none"> <li>• No collateral required</li> <li>• Very little processing time</li> <li>• Informal setting</li> </ul>	<ul style="list-style-type: none"> <li>• High interest rates (up to 5% per month)</li> </ul>

## 2.3 Digital financial services in the country

The preceding section clearly reveals that Lao people have various ways of accessing the basic financial services of savings, credit and bill payments. However, the services are marred by poor customer satisfaction with regard to access and delivery. Thus, there is no single predominant channel for any financial product. Although banks are favoured for domestic remittances, large savings and credit, they are not easy to access. Thus, DFS represent a promising channel for providing financial and banking services in remote and rural Lao PDR.

The fact that a very high percentage of the population of Lao PDR is young—close to 25 percent—is one encouraging factor in the development of DFS.<sup>10</sup> The experience of organizations operating in this field around the world has been that young people are open to DFS and are normally early adopters of such services. In addition, the research found that these young people can influence financial decision-making in a household.

Furthermore, Lao PDR has a high literacy rate of over 80 percent amongst adult men and about 89 percent amongst youth, which makes marketing and information dissemination relatively easy.<sup>11</sup> Literacy, coupled with a high level of trust in banks and MNOs (especially government-owned institutions) and faith in village committees, will support uptake of DFS launched by government institutions.

<sup>10</sup> Lao Department of Statistics, '[Socio-Economic Atlas of the Lao PDR](#).'

<sup>11</sup> UNICEF, '[At a glance: Lao People's Democratic Republic](#)', updated 27 December 2013.



# 3

Implementing  
digital financial  
services in the  
country

### 3.1 Customer segments

Potential customers for DFS can be divided into five segments—farmers, small-business owners, migrant workers, students and salaried employees. This segmentation is based on income-generating activity, presence in villages and current use of financial services (see figures XI and XII for a view of the channels currently used by each segment for savings and remittances). In this section, characteristics of each segment and their responses to the benefits of DFS are presented.

Figure XI  
Savings channels by segment

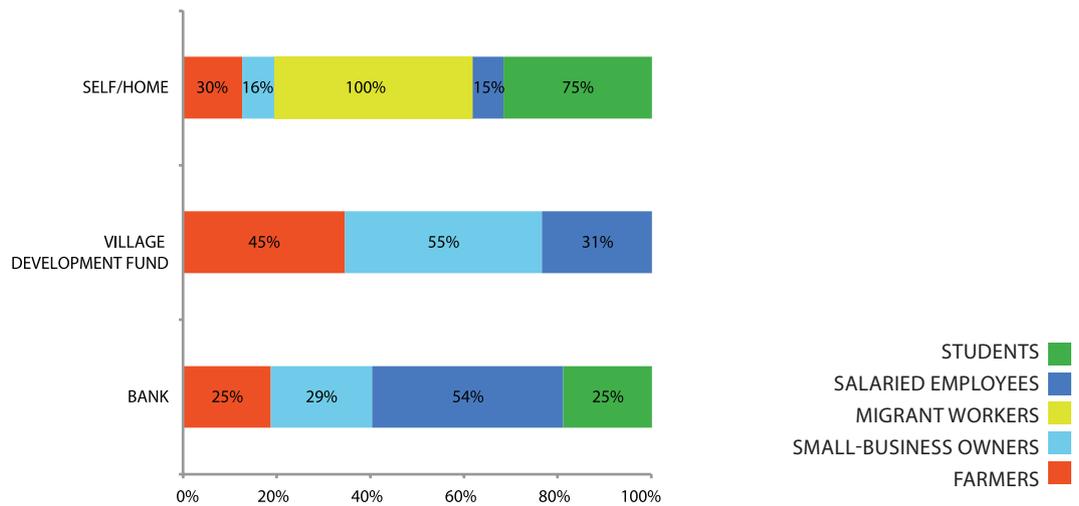
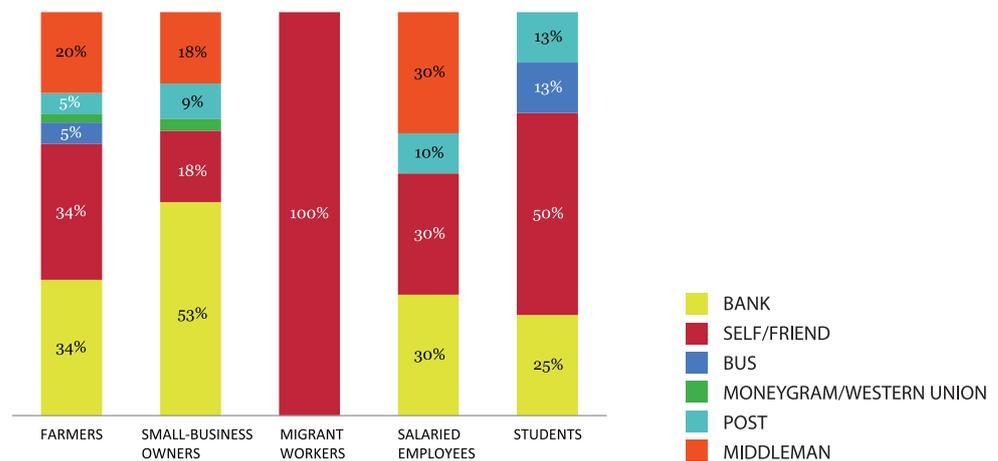


Figure XII  
Remittance channels by segment



### **3.1.A Farmers**

Agriculture (farming) dominates the Lao economy and constitutes 51 percent of GDP. In the research, 58 percent of respondents mentioned agriculture as their primary source of income. Farmers, in general, form 75 percent of the workforce in Lao PDR. They produce a mix of cash and consumption crops, like rice (mostly for subsistence), tobacco, coffee, sugarcane and sweet potato. Other income sources for farmers include livestock like water buffalo, pigs, cattle and poultry.

Farmers' income from crops is seasonal and in bulk at the time of crop harvest. Along with storing farm produce, farmers either save income from sales in a bank via term deposits or deposit it in a VDF. Farm produce is sold to meet expenses. Such expenses are usually high (e.g., school fees for children, asset purchases and subsistence money for children studying away from the village). Income from livestock is used to meet household expenses and the excess is deposited as savings in a VDF.

Having limited channels for saving, farmer respondents liked the idea of having an agent close to their village, where they could save and withdraw money, through DFS. In addition to savings, farmers appreciated that DFS would provide remittance services at agent points, as their existing channels for sending and receiving remittances include informal means and banks. Please refer to section 2.2.A for challenges experienced with these channels.

### **3.1.B Small-business owners**

In Lao PDR (like most other countries), small-business owners do all their transactions in cash and in person. These transactions involve paying suppliers. Each business owner pays multiple suppliers (an average of three to four). Payments to some suppliers are made more than once a week. The volume per month ranges from KN100,000 to KN5,000,000 (\$12.50 to \$625).

Business owners pay their suppliers on average four times a month in order to restock their shop. Few of them have a bank account, and those that do almost never use it for business-related payments. Moreover, accessing a bank account is a costly affair. The money that they get from sales is kept either in the shop or at home. They recognize that the unavailability of a safe place to keep their money exposes them to huge risks. And, if they can access banks easily, they use them to make business payments.

When DFS were explained to them, small-business owners recognized that these services could be of great help to them. The attributes which were most appreciated by them were security and the fact that they would save huge amounts of time. Furthermore, they mentioned that DFS products could help them reduce the following:

- Risk of saving money at home
- Time taken to travel to a bank branch
- Costs incurred while travelling to a bank branch
- Risk of carrying cash to a bank.

### 3.1.C Migrant workers

Migrant workers are those who migrate to cities/provinces in search of work. Through interactions with respondents, it became clear that practically every family has a family member who has left their village to work as a migrant worker. It is important to note that internal migration has increased in Lao PDR significantly due to the boom in the economy. People move to work on construction projects, such as roads, dams and mining, or to work in factories and manufacturing units. The Vientiane national capital region is one of the top migration destinations. Migrant workers support their family in their village by sending money home. Migrant workers in Vientiane reported earning KN800,000 (\$100) per month during an average month.

One of the major expenses for migrant workers is remitting money to their family. While the frequency of sending money home varies, the means of doing so does not: most migrant workers use informal means for fund transfers (i.e., friends or relatives). Some migrant workers save money with their employer, with the provision that a family member can withdraw money from the company unit close to where the family lives. When they were introduced to the concept of DFS, migrant workers immediately liked the idea of money transfers through agents. They mentioned that such services would make it more convenient for them to remit money and for their family to receive money.

There is no discussion of migrant workers who go to Thailand in this section, as DFS could not serve this customer segment. Many of these migrants go to Thailand informally and do not have required permits, thus they cannot use any formal channel (such as a transfer from a bank account in Thailand to a bank account in Lao PDR) for money transfers.

### 3.1.D Students

Students from villages migrate to province capitals or to Vientiane for higher studies. Like for migrant workers, almost every respondent mentioned having a child from their family living in a city for educational purposes. Parents generally bear the educational expenses of their children. Students receive money from their parents/guardians through various channels, such as banks, post offices, bus drivers and relatives. Amongst these, banks are preferred as it is easy to withdraw money using ATMs. Amounts of money received by students range from KN300,000 to KN500,000 (\$37.50 to \$62.50) per month.

Students were extremely keen to use DFS for mobile recharges and internet recharges. They mentioned that the decision to send money through DFS channels would depend on their parents. However, it is important to mention that this segment is one of the information sources for households and hence can play a critical role in decision-making; they could be early adopters of DFS products and support DFS providers as key sources of information.

*DFS provides a value proposition to the identified customer segments.*

*For farmers, small-business owners and salaried employees, savings facilities will address their respective financial management challenges.*

*For all segments but particularly for students and migrant workers, money transfer facilities will result in a more cost-effective process.*

### 3.1.E Salaried employees

Most salaried employees are on government payroll and include teachers, police and doctors in government hospitals. In each village, around 5 percent of the population belongs to this category. To receive their salary, they have to visit a departmental office in the district or province, where they get their salary in cash. Salaried employees face a multitude of challenges in this process. First, roads are not in good condition, which makes travelling to the office difficult. Second, public transport is scarce. The cost of salary collection ranges from KN15,000 to KN25,000 (\$2 to \$3). Some departments arrange for salary payments in cash, which incur considerable costs for the departments. A principal in Savannakhet Province mentioned that the education department incurs up to KN50,000 (\$6.25) every time they disburse teachers' salaries. This expense is primarily for the principal's travel to the province to get his/her staff's salaries.

As well as the challenge of travelling to a distant office to receive their payments, salaried employees reported that they have to take all of their salary in cash even if they do not spend it, so that they are forced to keep cash at home. It is to be noted that salaried employees have other sources of income that cover their household expenses.

When they were presented with the DFS concept, salaried employees mentioned that DFS could help them store their salary until it is required. While the presence of this segment in villages is less than other segments, it holds huge potential for proliferation of DFS in rural Lao PDR. The reason is that their income is regular and the cash is collected upfront. If there are suitable opportunities for them, this segment will be amongst the first to use DFS.

Each customer segment described may have specific product needs. These needs can be addressed by modifications in product design, but DFS can certainly start with the basic minimum features demanded by all segments. These features are discussed in the next section.

## 3.2 Insights on product and service delivery design

Respondents were asked to rank the products that they want to be delivered through DFS. They ranked the products based on immediacy of need, ranging from products they require immediately to products that can wait. The results of this exercise were analysed to classify the products into three categories—immediate, medium term and long term. Respondents put products into different categories primarily based on challenges they face in using the products and frequency of use.

Savings, money transfers and bill payments were identified as products which, if offered through DFS, would be taken up immediately. In the medium term, products like salary payouts and international money transfers (primarily to and from Thailand, referred to as international money transfer in **figure XIII**) were prioritized. Products like credit, school fee payments and MFI repayments fell into the long-term category (see **figure XIV** for a summary of these priorities).

Respondents were further asked about the features that they would like to have in the products that will be delivered through DFS. It is important to note that respondents presented their views based on their experience of using existing financial services and with no experience of using DFS. In the following sections the findings are presented.

Figure XIII  
Preference for first product offered through digital financial services

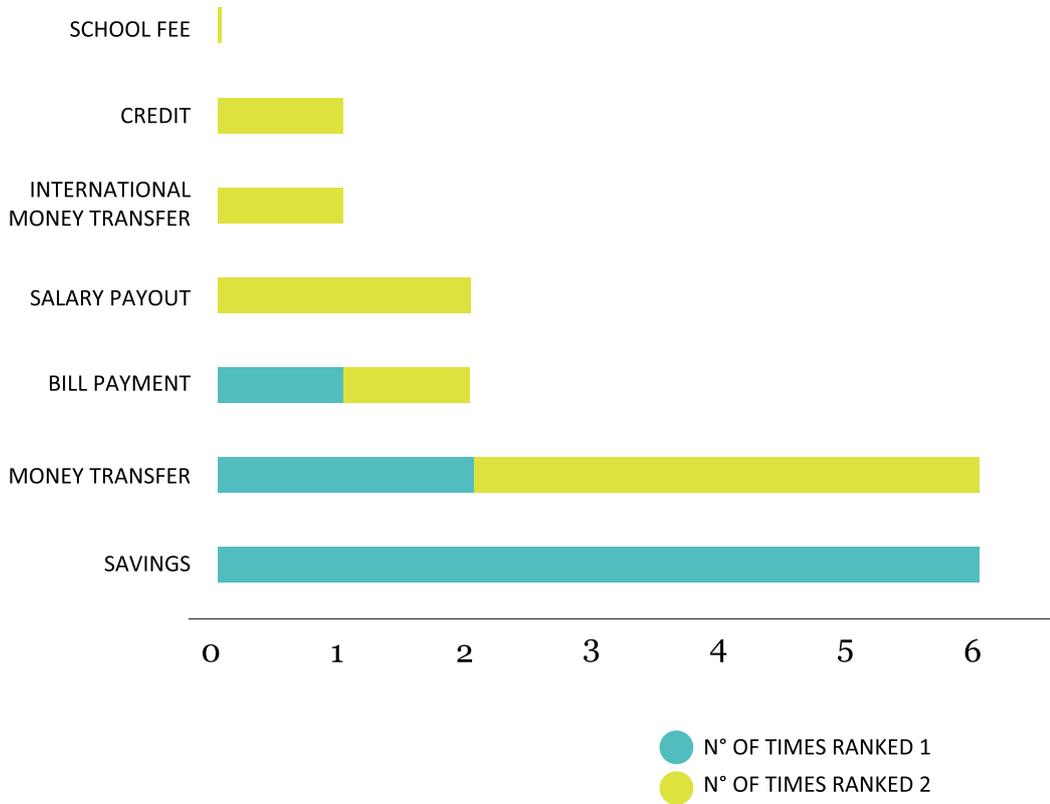
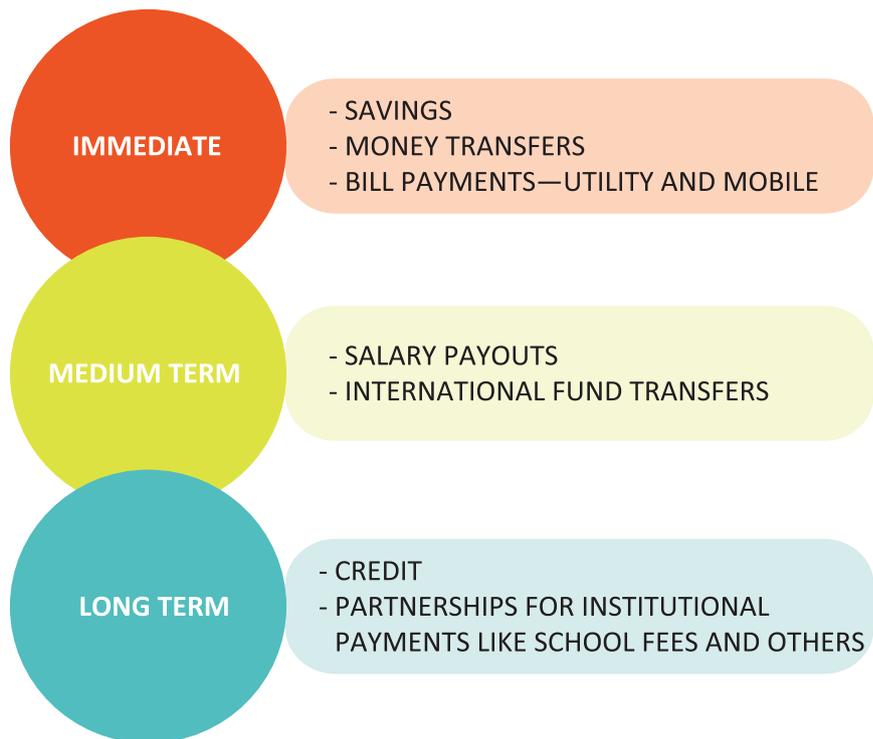


Figure XIV  
Product ranking

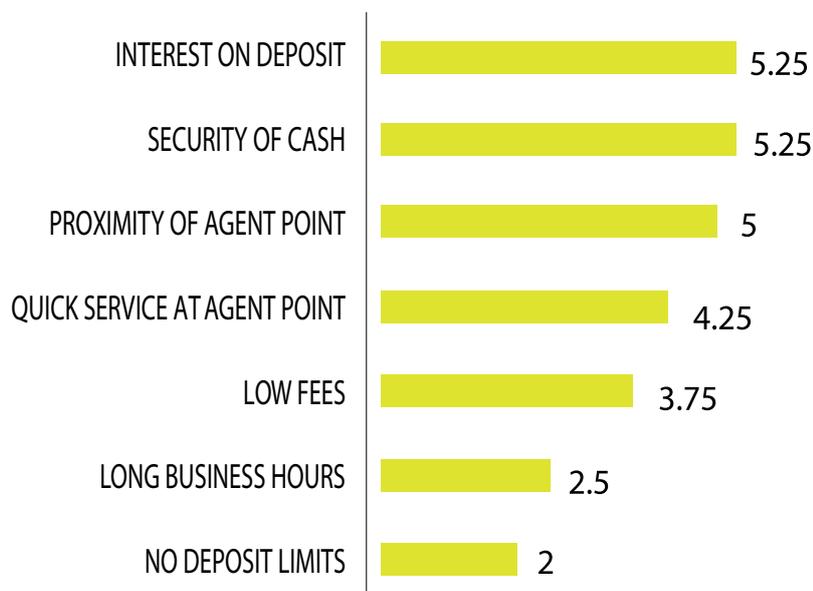


### 3.2.A Desired features in a savings product

**Interest on the deposit and security of the deposit are two important features desired in a savings product** (as illustrated in **figure XV** that shows the average rank of each feature). Respondents mentioned that one of the reasons they save in banks and with VDFs is the interest earned on savings. Before they use a DFS product to save their money, respondents want to be sure that agent locations are secure and that their money will be safe. They mentioned that promotional activities of the service provider, involving their village committee, would be important in reassuring them. In addition, respondents wanted an agent to be located near their village so that they can save small sums of money with them. They said it would be fine if an agent took 5 to 10 minutes to conduct a transaction, but they would mind waiting longer than that. Small-business owners noted in particular that withdrawal limits might be a deterrent, preventing them from adopting the services. Long business hours and low fees are discussed in detail later in this section.

Figure XV

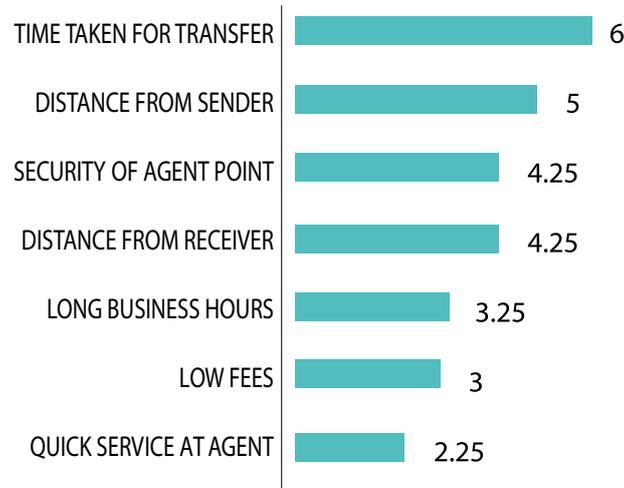
Savings product: Desired features



### 3.2.B Desired features in a fund transfer product

Respondents want a quick and easy fund transfer facility that is readily accessible (see **figure XVI** for summary of desired features). Respondents mentioned that proximity to sender is an important feature of a DFS product. Correspondingly, respondents ranked distance of agent point from sender higher than distance of agent point from receiver. They explained that, while family members could adjust to prescribed business hours and manage to reach an agent point, long-distance travel to reach a deposit point would be a loss to them. In addition, they said instant fund transfer is one of their prime requirements in the product.

Figure XVI  
Money transfer product: Desired features



### 3.2.C Pricing

The current costs of financial services shaped people's perspectives on product pricing. They used their bank's current pricing as a benchmark to compare pricing of financial services and to decide if the charge was suitable. Many respondents mentioned that product price would not be the sole criterion when deciding whether or not to use a DFS product. When asked whether they would pay additional charges for using DFS, most respondents replied affirmatively. There were of course detailed discussions on how much products should cost, and most discussions ended with an agreement that the service provider should charge a reasonable fee.

DFS providers need to understand price ranges for various services and use that understanding as the basis for pricing DFS products. **Table 6** illustrates pricing structures for various products and services.

Table 6  
Costs of digital financial services

Service/Channel	Transaction cost	Travel cost	Time to complete transaction
Money transfer at bank	KN10,000–KN15,000 (\$1.25–\$2.00)	KN5,000–KN50,000 (\$0.60–\$6.25)	1–5 hours
Informal money transfer (Self)	None	KN5,000–KN50,000 (\$0.60–\$6.25)	Up to 2 days
Informal money transfer (Bus)	KN10,000 (\$1.25)	None	Up to 1 day
Informal cross-border money transfer (Middleman)	2%–5% of remittance amount	None	Up to 2 days
International money transfer (MoneyGram/Western Union)	5%–10%	KN5,000–KN50,000 (\$0.60–\$6.25)	1–5 hours
Electricity/Water payment	No fee or commission to bill collector	None	Not applicable
Savings at bank	None	KN5,000–KN50,000 (\$0.60–\$6.25)	1–5 hours
Informal savings	None	None	15–30 minutes

*Many respondents mentioned that the price of the product will not be the sole criterion for deciding whether or not to use a DFS product.*

Respondents in focus groups were asked about prices they would be willing to pay for DFS. Most respondents agreed to pay a fee for opening an account; they accepted a cost is usually incurred when opening a bank account. It must be noted that banks do not charge any account opening fee in Lao PDR other than a minimum deposit of KN100,000 (\$12.50), but there was a general perception that there is a charge for opening a bank account—other than the minimum balance requirement. For a product like an OTC money transfer, many respondents mentioned that, if additional charges were more than

KN3,000–KN5,000 (\$0.40 to \$0.60) so that they exceeded KN15,000 (\$2.00) in total, they would prefer to go to service units, as they would then be able to carry out other tasks in the city in addition to transferring money.

Discussions on pricing revealed that, if service providers explained incremental charges at agent points in terms of benefits to customers and in terms of costs that agents and service providers incur, customers would be better able to understand and accept product pricing.

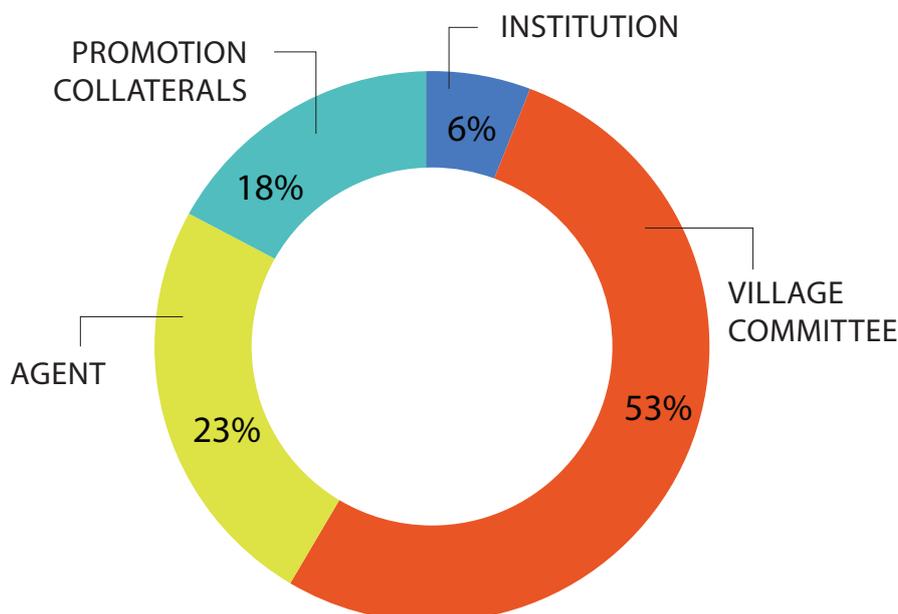
### 3.2.D Promotion

People have immense faith in their village committee members. In more than 50 percent of the sessions, respondents mentioned that their village committee should be involved in the promotion of DFS in the village (see **figure XVII**).

Respondents also mentioned that their village committee should be involved from the beginning of agent selection in order to build better trust with consumers. Newspaper circulation is not good in rural areas. Respondents said it would be good if the service provider conducted marketing/informational activities in nearby market areas to promote their services.

Figure XVII

Promotion of digital financial services

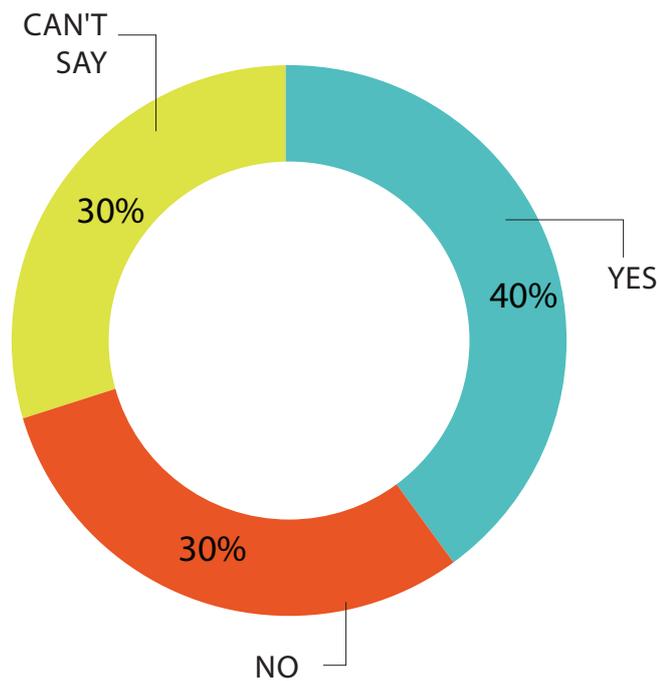


### 3.2.E Proof of transaction

Respondents were asked if an SMS would be sufficient proof of transaction. Only 40 percent of respondents replied in the affirmative (see **figure XVIII**). Those who disagreed or were unable to decide mentioned that they did not use SMS. Many MNOs send SMS in English, due to the unavailability of handsets that support the Lao language, and these SMS remain unread.

In the absence of SMS as proof of transaction, respondents liked the idea of printed slips<sup>12</sup> and a passbook issued by the service provider, which they could update at a service unit/branch while visiting city/district markets.

Figure XVIII  
Is SMS sufficient proof of transaction?



<sup>12</sup> Most DFS products do not provide proof of transaction in hard copy. Even when they do, it is usually on thermal paper printouts, the print on which fades in three to five days.

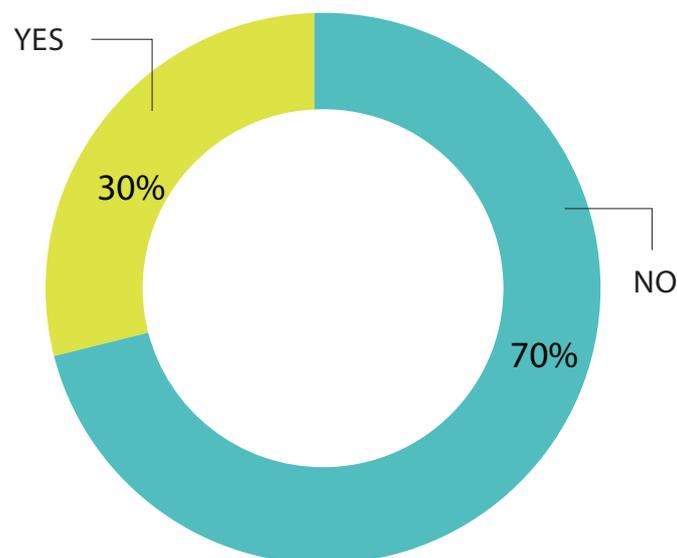
### 3.2.F Place of transaction

A convenient place of transaction would be a major factor in the success of DFS. Respondents were asked about the type of shop and the distance to the agent point, primarily in the context of place.

When asked whether an agent should work from an existing shop if they had one, respondents mentioned that they would like separate agent points (see **figure XIX**) and added that, if an agent wanted to operate from an existing shop, there should be separate counters for banking. It was felt that the shops must be well branded, in addition to being in convenient locations. Respondents mentioned that these features would add to the feeling of safety and security.

Figure XIX

Shall the agent operate from an existing shop?



Respondents also preferred the agent location to be within the village, preferably in the centre of the village or in the village committee office. The maximum distance they were willing to travel to reach an agent was 5 kilometres. Respondents expressed preference for an agent point to be available for transactions beyond traditional working hours so that they could access agents before and after working hours. The most recommended working hours for agent points were between 6 a.m. and 5 p.m.

### 3.2.G Agent characteristics

Respondents were asked to list key features they would recommend in an agent. The list below summarizes their responses.

- The agent should live in the village or in a nearby village.
- The agent should be an educated and respected person.
- The agent should have complete knowledge of the product suite.
- The agent should be properly trained to ensure a respectful and hassle-free experience at the agent point.
- The agent should be appointed by the village committee and/or involved in the village committee.
- The agent should make it a point to be respectful to customers and deliver good customer service.

### 3.2.H Potential agents

Twenty prospective agents were interviewed to gain insight into their characteristics and expectations of the work involved in being DFS agents. All the agents interviewed were educated up to the secondary level and had a bank account. Based on the characteristics of their occupation/business, they can be segregated into three categories: retailers, dealers and influential individuals. They are described below, and the first two are summarized in **table 7**.

**Table 7**  
Key operational figures of retailers and dealers

Factors	Retailers	Dealers
Average cash flow/month	KN5 million–KN10 million (\$625–\$1,250)	KN300 million (\$37,500)
Income/month	KN2 million–KN4 million (\$250–\$500)	KN40 million–KN50 million (\$5,000–\$6,250)
Footfall/day	30–60 people	20–30 people
Average inventory maintained	KN10 million–KN50 million (\$1,250–\$6,250)	KN400 million–KN500 million (\$50,000–\$62,500)
No. of working hours/day	12–16 hours	12–13 hours
Willingness to invest in agency business	KN5 million–KN10 million (\$625–\$1,250)	KN20 million–KN30 million (\$2,500–\$3,750)
Expected income from agency business	Same margin as refill card	KN2 million–KN3 million/month (\$250–\$375)
Existing association network	Non exclusive	Major mobile network operators, Beerlao

### ***High-turnover stores as distributors***

*Some dealers in urban areas could become distributors, aggregators of electronic float or rebalancing points for agents. A number of prospective retailers have an existing relationship with these dealers.*

*It would be more convenient for retailer agents to refill their accounts from dealers. In many cases, agents can do so during their regular visits to dealers to stock up on their supplies. In addition, waiting periods would be less than they would have in a bank, and agents would have to invest less time in submitting cash and refilling their mobile-money accounts.*

**RETAILERS:** They are mostly present in rural areas, and they serve customers from their village and neighbouring villages. They sell household products and are respected in their cluster of villages.

**DEALERS:** They are essentially present in urban areas. Their customers include end consumers and retailers in rural areas. They are mostly linked to national chain stores that sell products like Beerlao (a Lao Brewery Company brand), building materials and other fast moving consumer goods.

**INFLUENTIAL INDIVIDUALS:** They are village leaders or village committee members who enjoy the trust of the people in the village. They do have a secondary income-generating activity (e.g., a farm or a shop). While people place a great deal of trust in these individuals, the individuals themselves may not have enough time to devote to running an agency business.

The prospective agents who were interviewed mentioned that additional income is their biggest motivation to become an agent. Furthermore, they realize that becoming an agent would ensure steady returns, more cross-sales and better use of idle cash in the shop. A key motivation for influential individuals is also the opportunity to serve people, as well as creating an additional source of income.

All three agent types that were interviewed also shared some reservations about becoming an agent. The biggest was the financial investment required, though they were fine with investing an amount in the new business that matched their current investment (average figures: KN5 million [\$625] in rural areas, KN20 million [\$2,500] in urban areas). They were also apprehensive about their ability to use technology for transactions, about losing cash and about having no prior experience with providing banking services. The prospective agents that were interviewed also mentioned that poor support from banks would dissuade them from going into this business.

### **3.2.1 Potential agent model**

Low population density (25 people per square kilometre) is an impediment that must be considered when developing agent models. If an agent serves an area of 5 kilometres with a population of only 125 households, the business would not be economically viable. However, if an agent could serve two to three villages in an area of 5 kilometres, then that would give the agent an initial target market of 300 to 400 individuals. In high-density areas such as Vientiane, Savannakhet and other southern provinces, the agent would have more customers to target.

In very remote areas, managing the financial liquidity of agents will also be a challenge, as agents will not be able to refill their accounts very often. In such cases, service providers will have to come up with strategies for rebalancing, such as allowing transfers of float amounts amongst agents or setting up an aggregator for agents.

In initial phases of building a DFS ecosystem, it would not make sense for DFS providers to create multiple layers in agent models or outsource agent businesses; however, as they expand with time, they will have to explore options.<sup>13</sup> These options could include the following: using mobile agents, using third-party managers to manage agent operations or using a three-tier model consisting of bank-distributor-agents to ensure financial liquidity throughout the system.

Various partners could use a shared agent network system, which means that agents would not be recruited by a service provider but rather by a third party who would manage the whole system, while banks and other service providers would have their branded products and technology at agent points. Instead of every bank or non-bank player creating their own channels, they would use existing networks. A shared agent network would necessitate better coordination amongst different players, such as DFS providers, agent service providers and BoL.

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<sup>13</sup> In the initial phase/pilot phase, DFS partners must be recruited in areas of higher population density. This approach will allow them to develop an understanding of agent management. Directly interacting with agents will help them to reduce initial capital costs and short-term operating costs.



While an agent network and a well-designed product suite is the first step, whether DFS initiatives have real scope for growth depends on their ability to create high volume driver products and also on their ability to create and sustain a variety of partnerships. These two key factors are discussed in this section.

## 4.1 High volume driver products

High volume driver refers to the frequency of payments and the average amount per payment for specific products. Such products will help DFS providers reach out to a large customer base and increase revenue for DFS providers and their agents.

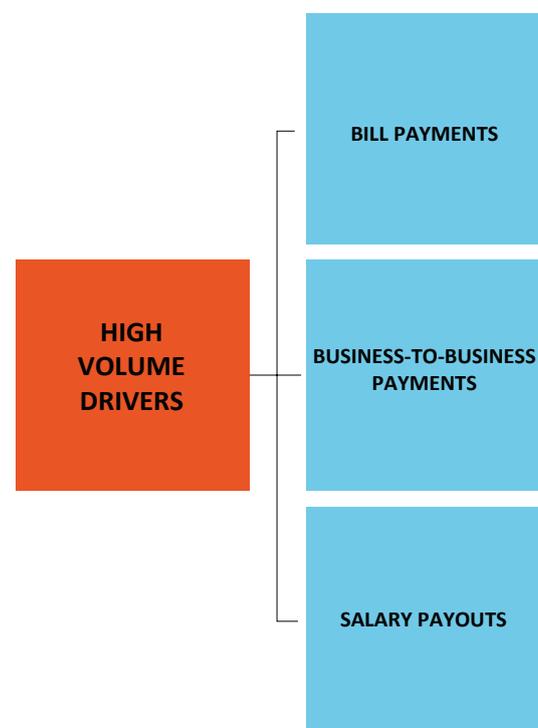
Based on the findings of this research, the following three products have been identified as high volume drivers:

- Bill payments
- Business-to-business payments
- Salary payouts

In order to grow, service providers will need to build relationships with partners and develop products and services that meet customer needs in the three categories identified.

### 4.1.A Bill payments

Research indicates that a high percentage of the population makes bill payments, which are regular and unavoidable. Almost 87 percent of respondents stated that payment of utility bills is one of their primary types of payments—especially electricity bills. Utility bills (electricity and water) are paid monthly. Though challenges to payment are currently minimal, many respondents expressed their preference for paying bills using DFS service points. (Please refer to sections 2.2 and 3.2 for more details.)



Bill payments could be the entry point for DFS providers in Lao PDR. It would require partnering with institutions such as Electricite du Laos and major MNOs. To ensure successful partnerships, service providers will have to address the following issues (not an exhaustive list):

- Integration of providers' systems to ensure robust payment information systems
- Finalization of costs and product pricing between service providers
- Good customer interface (e.g., instant confirmation of transactions)
- Good customer service for these payments—roles and responsibilities defined amongst the partners to ensure good customer service

A high-level estimation of the potential revenue from bill payments, salary payouts and business-to-business payments per month for one village is the following: an agent can earn up to KN145,000 (\$18) per month, while the service provider can earn up to KN116,000 (\$15) per month from operations in one village. **Table 8** provides additional estimates and details.

**Table 8**  
Potential high volume drivers

	Bill payments per month	Salary payouts per month	Business-to-business payments per month
Average transaction size (from research figures)	KN178,000 (\$22.25)	KN2,000,000 (\$250)	KN500,000 (\$62.50)
No. of transactions	20	5	5
Values	KN3,560,000 (\$445)	KN10,000,000 (\$1,250)	KN2,500,000 (\$313)
Agent revenue	KN80,000 (\$10)	KN25,000 (\$3)	KN40,000 (\$5)
Service provider revenue	KN71,200 (\$9)	KN25,000 (\$3)	KN20,000 (\$2.50)
Total value mobilized	KN16,060,000 (\$2000)		
Assumption 1: Use of product	20 customers using digital financial services to pay bills	5 salary payouts	5 retailers paying through digital financial services
Assumption 2: Revenue	KN4000 (\$0.50) flat fee per transaction to agent, 3% to service provider	0.5% of withdrawal to both agent and service provider, assuming 50% withdrawal	KN12,000 (\$1.50) flat overall charge, KN8,000 (\$1.00) to agent, KN4,000 (\$0.50) to service provider

#### 4.1.B Business-to-business payments

Generally, distributors of retail chains receive payments from retailers in cash upon delivery of goods. For retail chains, DFS offer value as they make the channel 'cash lite' by reducing the risk inherent in carrying physical cash. In addition, as payments are directly transferred into bank accounts, there is quicker reconciliation of accounts. Since there will be DFS agents in place, resellers/retailers will not have to travel far to recharge their bank accounts.

Taking these value propositions into consideration, brands like Beerlao, Pepsi, Coca-Cola and other national and regional networks of retailers in the field of fast moving consumer goods could be prime targets for service providers.

In order to begin digitizing the complete payment chain, manufacturers will have to push distributors to stop accepting cash payments. As retailers start paying into distributors' accounts, they will find benefits in using DFS products. As distributors receive money in their accounts, manufacturers can begin to demand no cash payments from distributors too.

DFS providers could support the national chains by providing additional services like salary accounts for their employees and training facilities for their truck drivers, so that their employees can use agent networks/ATMs in order to withdraw their salaries and to make deposits when they have cash. DFS providers will have to motivate retailers to adapt to DFS payments and other products, as not using cash for payments will require a behavioural shift.

#### **4.1.C Salary payouts**

Salaries are paid in cash in Lao PDR, as are other types of payment. Most of the salaried employees who were interviewed had additional sources of income. Linking VDFs with DFS will provide a large, receptive customer base for DFS partners. (See section 3.1.E for challenges faced by salaried employees in receiving cash payments.)

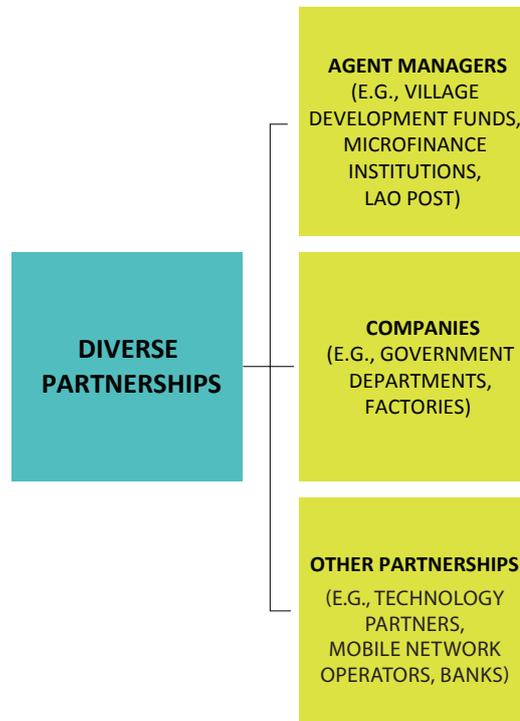
DFS providers can partner with various government organizations and factories to provide their employees with salary accounts. This service will help the providers immensely as the cash will be held in the system at the source. And, as the e-cash will be in the system, it will encourage customers to use it for other purposes. More products can also be added at later stages of DFS development to encourage cross-sales.

### ***Building a digital financial services ecosystem***

*DFS growth depends on the network effect. If big distribution network channels can be persuaded to offer DFS payments through their small retailers, an ecosystem for DFS can be developed. In addition to domestic fund transfers, business-to-business payments hold real growth potential for DFS.*

## 4.2 Partnerships

As the DFS ecosystem develops, DFS providers will have to form strategic partnerships. The potential partners discussed in this section could either be excellent partners or strong competitors for DFS in the future. While there are opportunities for win-win situations, the strategies that partners choose to follow could affect the growth of DFS positively or negatively.



### 4.2.A Agent managers

Organizations that have the potential to become agent managers for DFS providers include VDFs, MFIs and the Lao Post. These organizations have significant presence and customer bases in the country. Due to the nature of their businesses, these organizations have a great deal of customer interaction.

These prospective agent managers and the DFS provider will need to strategically think through the product suite in order to avoid potential conflicts of interest (e.g., those that might emerge while offering products to the customer or while explaining to a customer differences between the DFS provider's and their products), to help the partnership flourish and to serve the best interests of both partners.

For example, linking DFS to VDFs/MFIs can help fulfil its potential of increasing the value and volume of deposits while, at the same time, overcoming challenges such as limited days of operation and limits on savings/credit. In addition, VDFs/MFIs would be able to provide additional services like fund transfers and bill payments for their members through DFS. Another value to VDFs/MFIs of DFS partnerships would be the commission on sales of the DFS products.

Another option could be agent network managers, organizations that specifically offer agent recruitment and management services to DFS providers. There are none in Lao PDR at present. As the DFS landscape begins to develop in the country, they will become crucial partners in supporting the expansion of DFS to remote areas. Agent network managers will benefit from revenue-sharing with DFS providers.

#### 4.2.B Companies

Various government departments, manufacturers and factories that pay salaries in cash could be excellent partners for DFS providers. As previously mentioned, allowing for salary payouts results in an increase in agents' and DFS providers' revenue—just from direct payouts. These customers will also use DFS for payments and savings, thereby increasing average revenue from such customers. And, in the process, companies will also address many challenges that the employees face when they receive salaries in cash.

#### 4.2.C Other partnerships

DFS providers can explore partnerships with MNOs, banks and technology partners. These partnerships, while providing value propositions for all the partners, would also help to develop the DFS ecosystem in the country. While the key propositions differ by partner, generally the DFS providers will benefit from extended product suites, improved outreach and better client interface. And, the other partners will benefit from increased airtime sales, improved client retention and revenue-sharing.

*MFIs and VDFs may have to rethink their business strategy to avoid potential conflicts between existing products and DFS products that they would offer through partnership with a DFS provider.*



# 5

## Concerns for growth

This section addresses the key growth concerns for a DFS ecosystem in Lao PDR and concludes the report.

## 5.1 Sustained motivation

Through DFS, providers will focus on the people who have not received any formal financial services. Bringing all the segments of the population on board will take some time, and in addition, regular use of the services will involve a learning curve. Service providers will have to keep customers and agents motivated through this period to ensure that they keep using the channel. The key practices to sustain motivation are building staff capacity, designing viable product suites and supporting agents. Service providers may also test different agent management models.

## 5.2 Regulatory clarity

The regulatory framework for financial payments that could support DFS in Lao PDR is largely unformed, although it is in the process of development. It must come out in time to support the implementation plans of service providers.

Due to a lack of clarity in the current regulations, service providers cannot make informed decisions on the product suites and product features they could offer, the potential partnerships they could enter into or the type of agents/agent network they could use. In addition, they do not know what else they might have to comply with.

## 5.3 Conclusion

In conclusion, there are immense opportunities for developing DFS in Lao PDR. At the same time, as with any other developing industry, the DFS sector will need a great deal of support and handholding. The onus of developing a DFS ecosystem must also be borne by supporting institutions. Their contribution in the following areas will help DFS providers and regulators to build DFS in the country:

- 1. Support in expanding product suites:** DFS will greatly benefit from targeted products, such as business-to-business payments, salary payouts and other products identified through future market research.
- 2. Support in creating awareness:** DFS concepts need to be communicated to prospective customers by using behavioural change tools within a framework of financial education. This approach will enable customers to easily adapt to using DFS as part of their daily lives.
- 3. Support in expanding networks/partnerships:** As agent network models begin to evolve in the country, DFS providers will benefit if there are agent network managers/partners who can support them in managing and monitoring agent networks.
- 4. Support in creating a favourable regulatory framework:** Regulations that support DFS providers in establishing agent networks more quickly than is currently possible and that allow for a wide range of products and partnerships will be crucial to the initial implementation and sustained success of DFS in Lao PDR.



# 6

## Annexes

## 6.1 Annex A: Sample demographic

In the sample, the majority of the respondents were more than 45 years old. In most cases, they were also the household decision-makers. Farmers constituted 51 percent of the total respondents. All the respondents possessed mobile phones, showing that there is a good level of mobile penetration.

Table A.1  
Characteristics of the research sample

Characteristics	Percentage of total respondents (218)
<b>Gender</b>	
Male	52%
Female	48%
<b>Age group</b>	
Less than 20	6%
20-30	8%
31-45	35%
More than 45	51%
<b>Have a bank account?</b>	
Yes	44%
No	56%
<b>Employment</b>	
Farmer	58%
Trader	22%
Salaried employee	5%
Student	5%
Migrant worker	10%
<b>Education</b>	
No formal education	6%
Primary school	50%
Middle school	28%
High school	13%
Specialised course/Graduate	3%
<b>Monthly household income</b>	
Less than KN500,000	17%
KN500,000—KN999,999	19%
KN1 million—KN2,999,999	28%
KN3 million—KN5 million	15%
More than KN5 million	21%
<b>Possess a mobile phone?</b>	
Yes	100%

## 6.2 Annex B: Research methodology

*MicroSave* used participatory rapid appraisal tools during the research to gather feedback from the targeted low-income population segment. These tools place an emphasis on generating quality discussion amongst the respondents in order to understand their views on different financial products in general use. In addition, in-depth interviews were conducted with village leaders and individuals from other segments of the population in order to understand their views on ease of access to financial products in their community.

In-depth interviews were also conducted with potential agents in order to understand their views on DFS and what would motivate them to become agents.

More information about the tools used is shared below:

- **Focus-group discussions with target segments.** These were held with respondents to understand current financial services, their needs in terms of financial services and their expectations of DFS.
- **Cost of access.** This tool was used to understand current costs of access for different banking and non-banking products. Respondents deliberated on the resources (financial and non-financial) that they have to put in when using existing financial services. The tool also helped ascertain respondents' preferences (i.e., on paying cash to access a service).
- **Product roadmap.** This tool was used to help respondents rank the products offered through DFS. The ranking also helped to examine the challenges they face in accessing financial products and their willingness to get these products through DFS.
- **Product attribute ranking.** This tool was used to understand customers' preference for different features in a product. Respondents ranked the product features according to their requirements. It is a very effective tool for product design.
- **In-depth agent interviews.** These interviews were conducted with a group of potential agents, mainly composed of small traders and business owners. The primary objective of these interviews was to analyse which types of people would be interested in becoming agents and to identify their modus operandi. The interviews were conducted at their shops/ places of work in order to obtain this information.
- **Segment-wise interviews.** After initial research and market analysis, focus was mainly on farmers, small traders, dealers operating medium- to large-sized businesses, students and migrant workers. These in-depth interviews focused on documenting their payment and remittance behaviour in order to analyse business potential for DFS.

## 6.3 Annex C: Major semi-formal financial institutions in the country

### 6.3.A Village development funds

The VDF was set up nationwide in 1997 as part of government policy to provide financial services to the poor. The fund aimed to enhance income-generating activities and contribute to poverty alleviation. It is the largest informal financial sector in the country. Local VDFs provide small-scale financial services to people. VDFs are formed by villagers and are composed of members' properties and assets, which may be in the form of cash or produce (rice, animals or other products). Members contribute to their VDF. The contribution can be on a voluntary basis or by collective agreement.

A microfinance survey in 2009 reported 4,113 VDFs with a total of 365,608 members, or 87 members per VDF on average.<sup>a</sup> These numbers have increased significantly since the survey.

There are two kinds of VDFs: deposit-taking VDFs and non-deposit-taking VDFs. The latter only provide credit and rely solely on external funding. Deposit-taking VDFs have grown rapidly in the last few years and they are the major source of microfinance in Lao PDR.

### 6.3.B Regulated microfinance institutions

MFIs<sup>b</sup> can be grouped into the following three categories:

- **SCUs:** SCUs can be single local units or have branches and offices nationwide. Ten founding members together with 100 initial members, or 250 members with voluntary deposits of KN300 million (\$37,500), can establish an SCU. The minimum capital requirement is KN100 million (\$12,500). SCUs are only allowed to provide financial services to members. With regard to credit, regulation does not explicitly restrict SCUs to microloans.
- **Non-deposit-taking MFIs:** Non-deposit-taking MFIs that do not exceed voluntary deposits of KN200 million (\$25,000) or revenues of KN1 billion (\$125,000) are required to register with BoL and relevant government authorities. There is no minimum size below which registration would not be required. Within this framework, non-deposit-taking MFIs are authorized to mobilize savings from their members and grant microloans up to KN10 million (\$1,250). They have to apply BoL's provisioning rules and submit annual reports using BoL's chart of accounts.
- **Deposit-taking MFIs:** Deposit-taking MFIs can be single local units or have branches and offices nationwide. Establishing a deposit-taking MFI requires five shareholders and one major shareholder with at least 20 percent of registered capital, a total registered capital of KN1 billion (\$125,000) divided into shares, and a five-year business plan demonstrating sustainability. Voting is by simple share majority. Deposit-taking MFIs may provide financial services to the general public, but at least 80 percent of their portfolio must comprise microloans not exceeding KN10 million (\$1,250).

a GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH), [Microfinance in the Lao PDR, 2009](#), 2009.

b For further reading, please see Banking with the Poor Network's [Microfinance Industry Report: Lao People's Democratic Republic](#); BoL's [Final Draft of the Microfinance Regulation for the Lao PDR](#); and BoL's [Annual Report](#).

## 6.4 Annex D: About the organizations involved

### **About UNCDF**

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyse larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals. For more information, visit <http://www.uncdf.org/>

### **About MAFIPP**

MAFIPP is a joint UNCDF-UNDP sector support programme, in partnership with BoL, which seeks to improve access of poor rural households to a variety of financial services and markets, improving rural household incomes. MAFIPP is funded primarily by the Australian Department of Foreign Affairs and Trade. For more information, visit <http://mafipp.org/>

### **About MM4P**

MM4P is a global programme funded by UNCDF, The MasterCard Foundation, Bill & Melinda Gates Foundation, Swedish International Development Cooperation Agency (Sida) and Australian Department of Foreign Affairs and Trade (DFAT). The programme provides support to branchless and mobile financial services in a select group of LDCs to demonstrate how the correct mix of financial, technical and policy support can build a robust branchless and mobile financial services ecosystem that reaches low income people in LDCs. For more information, visit <http://www.uncdf.org/mm4p>.

### **About MicroSave**

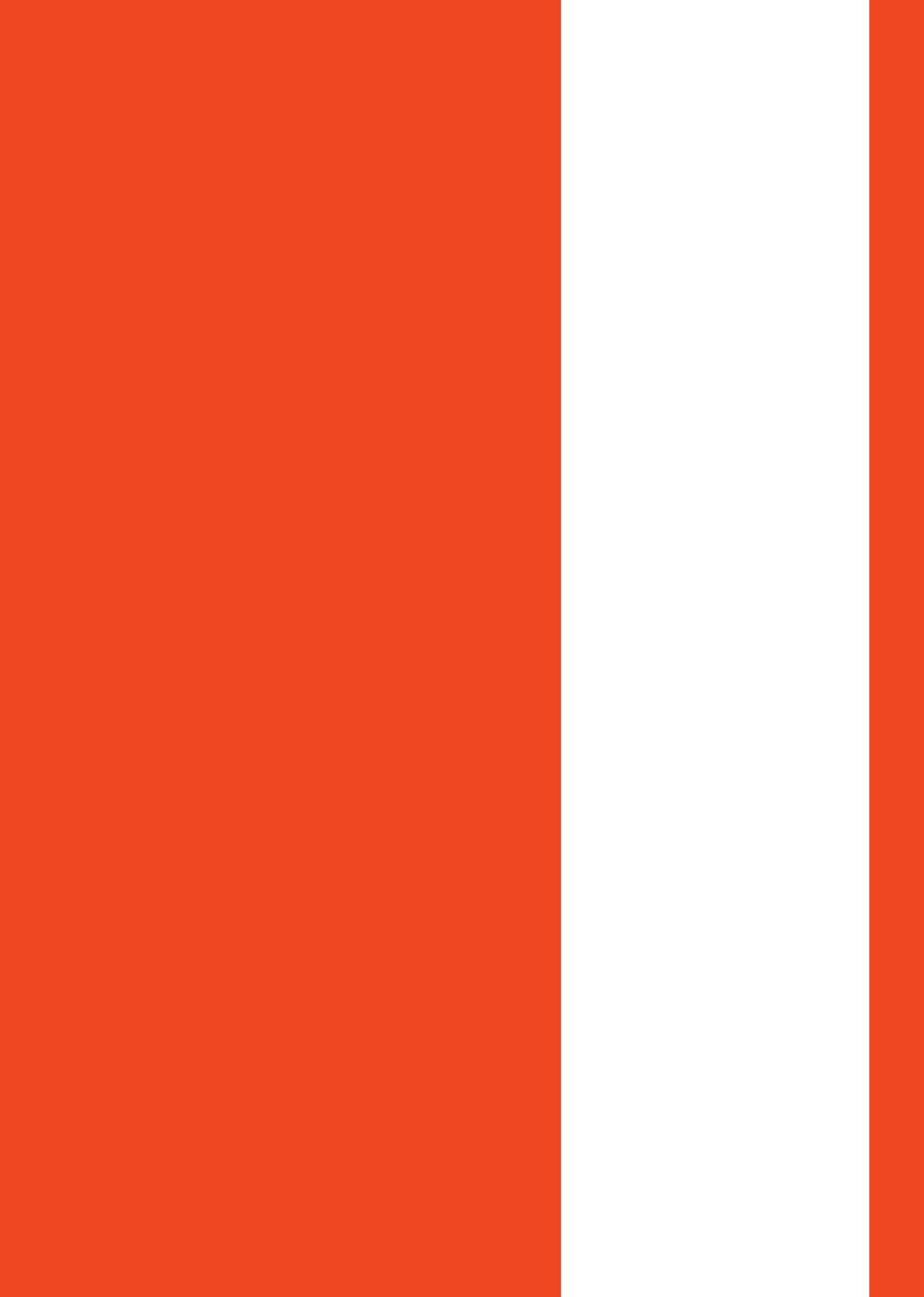
*MicroSave*<sup>a</sup> is a leading financial inclusion consultancy firm that offers practical, market-led solutions to financial institutions and corporations focused on bringing value to the base of the pyramid. The market-led approach focuses on putting the customers at the centre of the business – thus gaining loyal customers, establishing more profitable organizations and ensuring greater developmental impact.

With 15 years of experience, 10 offices around the world, 100 staff, managing projects in ~ 40 developing countries *MicroSave* offers consulting services in the domain areas of Microfinance & Banking, Digital Financial Services, Micro, Small and Medium Enterprises Financing, Private Sector Development and Responsible Finance.

*MicroSave* works with investors, donors, financial institutions, private foundations, corporate businesses and regulators such as UN, IFC, and the Gates Foundation and rural or regional MFIs, banks, central banks, and MNOs to enable them to deliver the high quality, affordable financial services that are essential for sustainable and inclusive growth.

In Lao PDR, *MicroSave* is working with MAFIPP to support its mission of extending formal financial services to rural or remote areas of the country.

<sup>a</sup> *MicroSave* is an international consulting firm in the field of financial inclusion. For more information, please visit [www.microsave.net](http://www.microsave.net)





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