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DIGITAL CASH TRANSFERS IN LAO PDR

A scoping exercise

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Digital Cash Transfers in Lao PDR: a scoping exercise

I. Background and introduction

The use of cash as a modality for delivering humanitarian and social protection assistance in Lao PDR is nascent. Humanitarian agencies, including WFP, only started to mount cash-based responses around 2018. Until recently, the Government of LAO (GOL) has delivered social assistance predominantly using in-kind rather than cash transfers. In early 2021 however the GOL with international support, was gearing to launch two pilot cash transfers as instruments of the emerging social protection system.

Up until recently, cash in hand has been the only feasible way to deliver cash transfers to targeted recipients in the country. The Digital Financial Service (DFS) ecosystem in Lao PDR is in the early stages of development, the economy is predominantly rural and cash-dominated, there are limited banking and mobile phone options available, and digital literacy levels are low. These are among the key factors that have made alternative options to direct cash in hand - such as digital cash transfers like mobile money, electronic vouchers, ATM cards, others - almost impossible for cash actors to explore until now.

However, there are positive signs of change. The DFS ecosystem is growing, and digital solutions are increasingly on offer. In line with global trends that see a greater use of digital technology to deliver cash to recipients (e.g. card-based or mobile phone-based systems), there is now growing appetite among cash actors in the country, including WFP, to exploring how to best leverage emerging digital solutions, mobile money in particular, as alternative delivery channels to cash in hand in this context.

II. Aim, scope and methodology

This scoping exercise was commissioned by WFP Country Office in Lao PDR (WFP) to gain an initial understanding of the digital financial landscape and related services in the country and provide a preliminary exploration of the opportunities and challenges surrounding digitalization of humanitarian cash transfers, mobile money transfers in particular.

Data for this report came from both primary and secondary sources. Primary data collection was carried out between January and February 2021 through qualitative semi-structured interviews with a limited number of stakeholders (see Annex I) conducted remotely. Secondary data collection was carried out between January and March 2021.¹ Documents were gathered through a search of literature focused on cash transfers in Lao PDR, existing and emerging DFS, and cash transfer initiatives implemented by national and international agencies that have used or were planning to use DFS. The documents were retrieved both through electronic sources (i.e. websites, online newspaper articles) and expert recommendations (WFP's and other agencies' staff).

¹ Since data collection was carried out at the beginning of 2021 and this report was published in mid-2021, some of the data and information included here might have changed or be slightly outdated.

III. Country context

Lao PDR is a developing rural country with virtually all of its land area (89%) classified as mountainous (FAO, 2019). The bulk of banking and financial services is concentrated in the capital Vientiane, with the rest of the country, particularly rural areas, unserved or underserved. Similar to other contexts worldwide, some of the factors that hinder the expansion of financial institutions include low and variable demand for savings and credit in rural areas (resulting from low levels and seasonality of economic activities and low population density), high information and transaction costs (linked to poor infrastructure such as roads, telecommunications), limited client information (lack of personal identification documents, functioning asset registries) (UNCDF, 2015; CGAP, 2003).

The limited physical outreach of banks and other Financial Service Providers (FSP) coupled with the rural, mountainous nature of the country means that most of the Lao population do not live close to formal FSPs. In 2015, a study of the United Nations Capital Development Fund (UNCDF) estimated that on average the distance between people and a formal financial institution (e.g. a bank branch) was 14.4 kilometres, and the average cost of transport to reach it was 22,000 LAK (3 USD) (UNCDF, 2015). Post Offices operate in both rural and urban areas and offer financial services such as money transfers, utility payments, cash withdrawals and deposits. However, their outreach is also limited: the number of Post Office branches per population (2.2 per 100,000 people) is significantly lower than the regional average of 5.3 (WFP Lao PDR, 2019a).

Against this background it is not surprising that the economy is (hard) cash dominated. The Asian Development Bank (ADB) conducted a study in 2019 which found that cash is by far the most common form of payment in the country: virtually all respondents (more than 99%) used cash to pay for goods and services and make money transfers (Morgan and Trinh, 2019). Also, only 29% of the Lao adult population owns a bank account (The Global Findex Database 2017 in WFP Lao PDR, 2020).²

Starting from 2013, the GOL has spearheaded the development of communication infrastructure and has supported the deployment of 4G, 3G and 2G network coverage across the country (UNCTAD, 2018). Since then, Lao PDR has experienced a rapid expansion and coverage in mobile phones and mobile broadband penetration. It is however still lagging behind its neighbours and there are disparities between rural and urban areas. In 2020, Lao PDR had around 5.68 million mobile phone connections, representing a mobile phone penetration of 79%, which is lower than the regional average of 99%.³ The same 2019 ADB survey found that more than 80% of respondents had a phone, but only 30% had a smartphone.⁴ The digital divide between rural and urban areas is significant: according to the same survey, one fifth of rural respondents did not use a telephone, which is twice as high as for urban residents, and 47.3% of smartphone users were in urban areas (Morgan and Trinh, 2019; see also World Bank, 2018). In 2019 Lao PDR, scored only 57.8 out of 100 points for

² This is the latest report available at <https://globalfindex.worldbank.org/>

³ <https://datareportal.com/reports/digital-2020-global-digital-overview> in WFP Lao PDR, 2020

⁴ This figure is in line with the GSMA Mobile Connectivity Index according to which 73.7% of the population in Lao owns a mobile
<https://www.mobileconnectivityindex.com/#year=2019&zoneISOcode=AFG,LAO&analysisView=LAO>

network coverage – one of the key enablers of mobile internet adoption of the GSMA Mobile Connectivity Index.⁵ The bulk of network coverage is also 2G,⁶ which means that downloading data and browsing internet is generally slow, and considerably less secure than when using 3G, 4G and 5G networks (Morgan and Trinh, 2019).

While as indicated above, digital connectivity, that is access to reliable and affordable internet services, has been increasing for mobile broadband, the same cannot be said for fixed broadband internet. According to a World Bank study, in 2018 mobile broadband rates in Lao PDR were around 35% while fixed broadband internet at only 3%, also all lower than in most neighbouring countries (World Bank, 2018). The same study also noted that Lao PDR was one of the countries with the most expensive fixed broadband services in the Asia-Pacific region, and that fixed broadband was not sufficient to cope with increasing e-commerce transactions and coverage remained limited or not available in rural areas (World Bank, 2018; see also UNCTAD, 2018).

In general, people in Lao PDR are not very familiar with technology and DFS. A 2017 WFP study found that 58% of mobile phone owners in Lao PDR did not know how to send or receive text messages, the main reason was low literacy levels and limited familiarity with technology (WFP Lao PDR, 2017). Similarly, according to the 2019 ADB study, only 30.7% of respondents had heard of DFS, with men, urban residents and younger persons more likely to be aware of DFS than women, rural residents and older persons (Morgan and Trinh, 2019).

Limited outreach of FSPs, poor quality and low affordability of internet services, limited digital literacy all underpin the underdeveloped nature of the DFS sector in the country (Morgan and Trinh, 2019; World Bank, 2018). As discussed below however, there are encouraging signs of change and in the past few years the GOL with international support has made important strides in developing the communication infrastructure and the enabling regulatory environment for DFS. As discussed below, good progress has also been made in establishing digital products, such as branchless banking and mobile money.

IV. Country priorities and regulatory framework

In recent years, the GOL has committed to jump-start the development of the DFS ecosystem and build the foundation of a much-needed policy and regulatory framework. International agencies, UNCDF in particular, have provided sustained technical and financial support to the GOL in this regard.

Since 2013, UNCDF has focused on developing digital finance in the country from scratch. Under the umbrella of three programmes - Making Access to Finance more Inclusive for Poor People (MAFIPP), Mobile Money for the Poor (MM4P), and Making Access Possible (MAP) - UNCDF has carried out a

⁵ The GSMA Mobile Connectivity Index measures the performance of 170 countries – representing 99% of the global population – against key enablers of mobile internet adoption: infrastructure, affordability, consumer readiness, and content and services.

⁶ <https://www.mobileconnectivityindex.com/#year=2019&secondaryMenu=about&id=abouttheindex>

⁶ <https://www.mobileconnectivityindex.com/#year=2019&zonelocode=AFG,LAO&analysisView=LAO>

wide range of activities in support of the GOL and the development of the digital financial sector.⁷ These include conducting a wealth of studies and research on digital finance (see UNCDF, 2015, 2016, 2017, 2017a; Naidoo and Loots, 2020);⁸ supporting the development and implementation of the national regulatory framework to enable digital finance, including mobile money and agent banking; assisting in the establishment of the BOL operating licensing for players in the sector (see below); supporting the first branchless banking and the first mobile money pilot (see Section 5).⁹

The GOL and the BOL in particular, have promoted financial inclusion as one pathway to accelerate socioeconomic development and spur financial growth (UNCDF, 2015).¹⁰ In the lead to the development of the National Financial Inclusion Strategy 2018-2025 for example,¹¹ UNCDF and FinMark Trust One jointly developed a Financial Inclusion Roadmap for implementation by the BOL (UNCDF, 2016).¹² One of the five priorities of the Roadmap related to the improvement of the payments ecosystem through mobile money, digital financial services, and enhanced payments infrastructure (UNCDF, 2016).

More recently, country priorities have focused on boosting the digital financial ecosystem and related services and products. This was one of the objectives of the 8th National Social Economic Development Plan (NSED) 2016-2020, which included the promotion of mobile and electronic banking services as one priority action to increase access to financial services for small and medium-sized enterprises in rural areas (Outcome 1, Output 1: Ensuring Sustained and Inclusive Economic Growth) (NSED, 2016).

Digitalization linked to public governance features prominently in the 9th NSED 2021–2025. Modernizing public governance to assure a more streamlined, responsive, transparent and efficient public service delivery is one of the 9th NSED's six overall directions. In particular, greater internet connectivity and use of mobile payments (Outcome 5) are included as pathways to modernize governance.¹³

The BOL has also recently focused on developing a much-needed regulatory framework to support the expansion of electronic payment instruments in the country. The Law on Payment System No. 32/NA (Law on Payment System) enacted in November 2017 was the first legislative step towards the regulation of activities in the sector. Among other issues, this law mandated the creation of a payments department within the BOL in charge of issuing an operating licence to payment service

⁷ <https://www.uncdf.org/laopdr>

⁸ Several other resources are available at <https://www.uncdf.org/laopdr>

⁹ <https://www.uncdf.org/mm4p/lao-pdr>

¹⁰ See also <http://www.oecd.org/finance/financial-education/Lao%20PDR%202018%20Summary%20Record.pdf>

¹¹ A draft of the National Financial Inclusion Strategy was available in 2018, see <http://www.oecd.org/finance/financial-education/Lao%20PDR%202018%20Summary%20Record.pdf>. However, no final Strategy document was found online and it is unclear whether the draft has not yet been approved.

¹² The Financial Inclusion Roadmap was drafted as part of the UNCDF-led Making Access Possible (MAP) initiative to support financial inclusion through a process of evidence-based stakeholder dialogue.

¹³ Outcome 5 focuses on "Robust infrastructure development, utilization of the country's potentials and strategic location, and active engagement in the regional and international cooperation and integration"

providers and operators wanting to engage in the sector.¹⁴ However, the Law on Payment System failed to clearly outline the process and the specific requirements needed to obtain the licence.¹⁵

To redress this shortcoming, in April 2019 the BOL issued a Decision on Minor Payment Settlement System No. 293/BOL (Decision 293) to clarify the process for multinational enterprises and banks (e.g. operating payment card networks). Decision 293 however, only partially addressed the problem since it left out e-money service operators who continued to lack clarity on what was needed to comply with the operating licence requirement.¹⁶

In April 2020, the BOL eventually enacted the Decision on Payment Services No. 288/BOL (Decision 288) to clarify the process also for e-money service operators. Decision 288 categorized these operators into three groups depending on the scale and impact of their operations on the market: large scale enterprises with extensive market impacts, both domestically and internationally, need to apply for an operation licence; those with limited impacts on domestic markets need to apply for a certificate; those with minor impacts only need to notify the BOL of their incorporation and operations.¹⁷

In January 2020, the BOL also launched the Lao QR Code Standard for Payments (QR Code Standard) to regulate activities, address issues related to the poor integration between QR-code enabled merchant payments and other domestic and international payments, as well as incentivize banks to develop their QR code applications to drive wider uptake.¹⁸

The roll out of these initiatives is a welcome and important step forward in the establishment of a DFS ecosystem in the country. Moving forward, a more comprehensive and organic approach to regulation development would be best suited to regulate this fast-moving industry.¹⁹

V. Digital Financial Services in Lao PDR

Until 2015, Lao PDR was one of the last greenfield environments for DFS in Asia: there were “no agents, no services and no customers using DFS in a country of 6.5 million people”.²⁰ Today however, the country is experiencing a gradual expansion of electronic payment systems. This scoping exercise has pointed to the development and growing use of three digital financial services in Lao PDR, which are described here below.

Branchless Banking: Following a competitive selection process, the BOL identified BCEL - the largest bank in the country in terms of balance sheet, retail customers, branches and ATM network- to develop the first branchless banking transaction in the country through a new product suite: BCEL

¹⁴ <https://www.unctf.org/article/3302/10th-digital-finance-working-group-in-lao-pdr-is-a-clarion-call-for-digital-finance>

¹⁵ <https://www.zicolaw.com/resources/alerts/new-license-requirement-in-lao-payment-services-sector/>

¹⁶ <https://www.zicolaw.com/resources/alerts/new-license-requirement-in-lao-payment-services-sector/>

¹⁷ <https://www.zicolaw.com/resources/alerts/new-license-requirement-in-lao-payment-services-sector/>

¹⁸ http://www.china.org.cn/world/Off_the_Wire/2020-01/30/content_75658762.htm

¹⁹ <https://www.zicolaw.com/resources/alerts/new-license-requirement-in-lao-payment-services-sector/s>

²⁰ <https://www.unctf.org/article/1974/the-dawn-of-digital-financial-services-in-lao-pdr>

Community Money Express (BCOME).²¹ BCOME was launched in 2015 to boost financial inclusion through facilitating over the counter transactions (cash to cash), payments (cash to other bank account) and deposits (cash to own bank account) and operating through a network of agents across the country, including grocery stores, Beer Lao resellers, and construction companies (LADLF, 2015). In 2017, BCEL had established a target of 150,000 customers to be served annually by BCOME through a network of 410 agents across the country (UNCDF, 2017). This exercise did not find evidence of whether these targets have been reached. However, according to one WFP staff, BCEL is trying to expand its network of agents and there are currently around 400 BCOME agents across the country. The same staff noted that this number was still too low to ensure sufficient coverage and cash out points for humanitarian programmes and in turn reduce the accessibility constraints discussed in Section 6.

Mobile Money: Also following a competitive selection process, the BOL selected UNITEL, the largest private telecom company and Mobile Network Operator (MNO) in Lao PDR, to develop the first mobile money pilot in the country: U-Money Mobile Wallet (U-Money) (LADLF, 2015). U-Money is a platform that facilitates mobile money transactions (e.g. money transfers and withdrawals) via mobile phones at UNITEL service centres (or transfer agents) (LADLF, 2015). The pilot was launched in September 2018 and in 2015 the BOL granted UNITEL the first official licence in the country as e-wallet service provider.²² As of December 2020, UNITEL had set up more than 10,000 U-Money service centres across 148 areas of the country.²³ According to UNITEL's estimates, 80% of mobile service subscribers in the country will use U-Money by 2025, and UNITEL aims to set up 1-3 service centres in each village.²⁴ In early 2021, Lao Mobile Money Company sole Limited, a joint venture operating under Lao Telecom, launched a new mobile money platform, m-Money Consumer App. An online search revealed virtually no information on the actual services that are on offer, but it appears that services and registered transfer agents are predominantly found in urban areas.

In July 2020, UNITEL signed a Memorandum of Understanding (MOU) with BCEL to promote cooperation and interconnectivity between the two digital financial services. Among other issues, this MOU seeks to guide the joint development of a mechanism to connect U-Money with BCEL One (the BCEL online banking app) to enable users to make transfers from their U-money account to a BCEL account and vice versa. Importantly, since the U-money platform can be used via mobile phone networks without the need for an internet connection, this mechanism is expected to greatly

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